



**HORIZON NORTH**  
**Logistics Inc**

**ANNUAL REPORT 2008**

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### **INFORMATION ON ANNUAL GENERAL MEETING**

The Annual General Meeting of the Shareholders of Horizon North Logistics Inc. will be held on Wednesday, May 6, 2009 at 3:00 p.m. (local time) in the Royal Room, Metropolitan Conference Centre, 333-4<sup>th</sup> Avenue SW., Calgary, Alberta.

Shareholders are encouraged to attend and those unable to do so are requested to complete and submit the Instrument of Proxy at their earliest convenience.

## MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") YEAR ENDED DECEMBER 31, 2008

This Management's Discussion and Analysis, prepared as at February 25, 2009, 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>  | Year ended<br>December 31, 2008 | Year ended<br>December 31, 2007 | Six months ended<br>December 31, 2006 |
|--|---------------------------------|---------------------------------|---------------------------------------|
| Revenue  | \$ 180,779                      | \$ 95,846                       | \$ 23,120                             |
| EBITDAS <sup>(1)</sup>   | 45,143                          | 23,054                          | 4,014                                 |
| Operating earnings <sup>(1)</sup>  | 20,086                          | 7,764                           | 203                                   |
| Earnings before goodwill impairment loss (net of associated \$4,373,000 tax recovery) <sup>(2)</sup> | 12,588                          | 6,080                           | 526                                   |
| Earnings before goodwill impairment loss per share - diluted   | \$ 0.11                         | \$ 0.07                         | \$ 0.01                               |
| Goodwill impairment loss (net of associated \$4,373,000 tax recovery)                                | 110,537                         | -                               | -                                     |
| Goodwill impairment loss per share - diluted   | \$ (1.00)                       | \$ -                            | \$ -                                  |
| Net (loss) earnings  | (97,949)                        | 6,080                           | 526                                   |
| Net (loss) earnings per share - diluted  | \$ (0.89)                       | \$ 0.07                         | \$ 0.01                               |
| Total assets   | 246,667                         | 321,413                         | 223,517                               |
| Total long-term financial liabilities <sup>(3)</sup>   | 47,946                          | 23,387                          | 10,344                                |
| Funds from operations <sup>(4)</sup>   | 36,356                          | 14,872                          | 3,306                                 |
| Capital spending   | 56,174                          | 32,104                          | 7,336                                 |
| Proceeds from issuance of common shares  | -                               | 56,950                          | 143,970                               |
| Business acquisitions, net of cash acquired  | 581                             | 59,170                          | 110,288                               |

(1) EBITDAS (Earnings before interest, taxes, depreciation, amortization, gain/loss on disposal of property, plant and equipment and stock based compensation) and operating earnings (loss) 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 (loss) 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 (loss) 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 (loss) may differ from other entities and accordingly, EBITDAS and operating earnings (loss) may not be comparable to measures used by other entities. For a reconciliation of EBITDAS and operating earnings (loss) to net earnings, please refer to page 5 of the Management's Discussion and Analysis.

(2) Earnings before goodwill impairment loss is not a recognized measure under GAAP. Horizon's method of calculating earnings before goodwill impairment loss may differ from other entities and accordingly, earnings before goodwill impairment loss may not be comparable to measures used by other entities. For a reconciliation of earnings before goodwill impairment loss to net earnings, please refer to page 5 of the Management's Discussion and Analysis.

(3) Long-term financial liabilities include operating lines of credit, the current and long-term portions of long-term debt, the current and long-term portions of capital lease obligations, and exclude deferred financing costs.

(4) 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.

### Overview of Horizon's Objectives, Strategies and Outlook

Horizon's results for 2008 reflect the impact of initiatives undertaken since inception of the Corporation in June 2006 through 2008. On start up, the Corporation's objective was to build a profitable, growth-oriented company to provide services to remote resource development projects in Canada. The strategy established to achieve this objective had the following elements:

- Acquire full-cycle businesses that provide services required by projects located in remote regions of Canada;
- Establish safety standards that meet and exceed the high expectations of customers that work in remote locations;
- Diversify the revenue stream so as not to be overly exposed to any one industry, in any one location and to minimize seasonality;
- Establish and maintain relationships with the aboriginal communities on whose land we work, the basis for which is meaningful participation in projects undertaken by the Corporation;

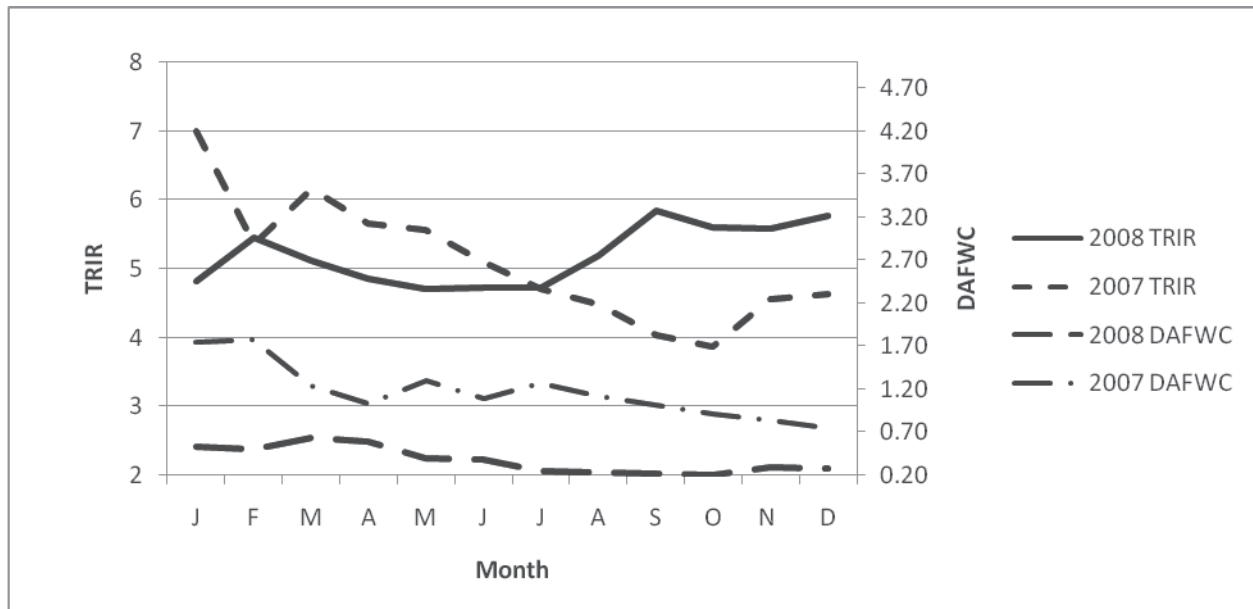
- Maintain a conservative balance sheet to allow the continued pursuit of growth opportunities whether they be in the form of additional acquisitions or internal growth projects; and
- Focus on maintaining and strengthening the team of employees and management to ensure the continued success and longevity of the organization.

Much of the Corporation's acquisition and investment activity has focused on establishing and growing the Camps & Catering operation. With manufacturing facilities in Grande Prairie, Alberta and Kamloops, British Columbia and catering operations headquartered in Sherwood Park, Alberta, the Corporation now has the capacity to compete for workforce housing projects with top-tier service providers in Western Canada. The prime example of the success of these initiatives is the opening of the 500-bed BlackSand Executive Lodge near Fort McMurray, Alberta in the third quarter of 2008. This facility, which is fully contracted to a major operator in the area, will operate year-round, moderating the seasonality of our traditional oil and gas drilling focused camp business. The Northern Trailer Ltd. ("Northern") acquisition in late 2007 expanded manufacturing capacity in a different labour market and diversified the revenue stream into the mining sector.

The Matting operation has proven its ability to adjust to the changing needs of its customers. The revenue mix in this segment changed significantly from being heavily weighted to rentals in 2007 to a larger percentage of sales in 2008. This impacted profitability as mat sales have a lower margin than mat rentals, however service revenue increased in conjunction with the increase in the number of customer owned mats that we manage on their behalf. Management also responded to the shift in customer demand by selling used mats from the rental fleet, thus reducing the investment in the segment and supporting rental fleet utilization rates.

The Marine Services operation saw increased activity relative to 2007 with the continued work associated with a customer's drilling program in the Mackenzie Delta region of the Northwest Territories. Although small, this operation is contributing to the Corporation's cash flow while we await further progress on northern development projects such as the Mackenzie Gas Project and offshore oil and gas development.

Operating safely has been a key focus for the Corporation and the following chart illustrates the successes we have had at improving our safety record.



The potential impact of these activities, however, will be significantly dampened in 2009 by the worldwide economic situation which has had a significant negative impact on the key drivers of our business, being crude oil, natural gas and mineral prices. Our customers are primarily in the upstream and downstream oil and gas industry and the mining industry and many projects that were planned, or in their early phases of construction, are now uneconomic at current commodity prices. Further exacerbating the situation is the lack of access to capital to fund growth projects even for the largest of our customers. These factors have combined to force existing and potential customers to live within their means by significantly curtailing capital spending plans to match reduced operating cash flow.

Horizon's results for 2008 and 2009 have been and will be negatively impacted by these market developments. In the fourth quarter of 2008, the Corporation recognized a goodwill impairment loss in the amount of \$110,537,000 (\$1.00 per share) after tax. The goodwill being carried on our balance sheet arose from the acquisitions undertaken

in 2006 and 2007 when market conditions and industry outlooks were much stronger. Current business prospects and related equity market valuations have resulted in a sustained deficiency of the fair market value of Horizon's common shares relative to the Corporation's net book value, thus necessitating this write-down.

Activity levels and asset utilization rates will be significantly lower in 2009 than they were in 2008. We are working with all our customers, including those with which we have asset utilization contracts, to explore ways to realize efficiencies and cost reductions for them and ourselves. Controlling and reducing expenditures will be at the forefront in 2009. Salaried employees will be subject to salary reductions, led by a 20% rollback in the senior management ranks. Budgeted capital expenditures for 2009 have been set at \$12 million, a level that should allow for the continued repayment of debt throughout the year. However, all capital expenditures will be examined on an item by item basis to ensure they are justified in the prevailing circumstances. Staffing levels across all our business units will be monitored and adjusted as necessary to match anticipated activity levels while at the same time attempting to maintain our core capabilities, particularly at our manufacturing facilities.

These pre-emptive actions are being taken to maintain the strength of the Corporation's balance sheet to be in a position to continue our growth when economic conditions improve. Having said that, management is of the view that such a turnaround will not occur until 2010 at the earliest.

## Description of Horizon's Business Segments

### *Camps & Catering*

The primary assets of the Camps & Catering segment as at December 31, 2008 are as follows:

|  |                        |
|--|------------------------|
| Beds in rental fleet   | 4,263                  |
| Space rental fleet   | 322,000 sq. ft.        |
| Beds in northern base camp in Tuktoyaktuk, Northwest Territories                           | 280                    |
| Beds in northern base camp at Swimming Point, Northwest Territories (50% owned by Horizon) | 80                     |
| Camp manufacturing plant in Grande Prairie, Alberta  | 32,000 sq. ft.         |
| Primary camp manufacturing plant in Kamloops, British Columbia                             | 52,000 sq. ft.         |
| Secondary camp manufacturing plant in Kamloops, British Columbia                           | 26,000 sq. ft.         |
| <b>Total camp manufacturing facilities</b>   | <b>110,000 sq. ft.</b> |

Horizon utilizes its camp manufacturing facilities to build-up its rental fleet and build camps for resale. Horizon provides a variety of camp-related services to its customers including camp transportation, installation, and service. Horizon also provides catering services throughout Alberta, British Columbia, the Northwest Territories, the Yukon and Nunavut.

The Camps & Catering segment provides services primarily to customers in the oil and gas and mining sectors in western and northern Canada. In 2008, Horizon completed the installation of a 500-bed executive lodge for use by oil sands developers in the Fort McMurray region of northern Alberta. Horizon further diversified its customer base in late 2007 through the acquisition of Northern which has long-standing relationships within the mining industry. The acquisition of Northern and a focus on oil sands development has helped reduce the impact on Horizon's business of the seasonal conventional oil and gas exploration and production sector.

Horizon's Camps & Catering segment employed an average workforce of 688 in 2008 as compared to 326 in 2007, as a result of the acquisition of Northern in late 2007 and the start-up of BlackSand Executive Lodge in Fort McMurray in June 2008. With the addition of Northern and an increase in long-term projects such as the executive lodge in Fort McMurray, the headcount of this segment will become less cyclical as it moves away from the seasonal nature of the winter drilling season.

## Matting

The primary assets of the Matting segment as at December 31, 2008 are as follows:

|  |                |
|--|----------------|
| Rental mats <sup>(1)</sup>                         | 13,764         |
| Rig mats   | 22             |
| New mats <sup>(1)</sup>                            | 666            |
| <b>Total mats</b>                                  | <b>14,452</b>  |
| Mats managed for customers                         | 45,000         |
| Semi-trucks & trailers                             | 15             |
| Loaders  | 25             |
| Mat manufacturing plant in Grande Prairie, Alberta | 17,500 sq. ft. |

*(1) New mats are newly manufactured mats which have not yet been rented. Once a mat has been rented, it is categorized as a rental mat.*

Horizon's mat manufacturing facility operates year-round. In 2008, mat manufacturing capacity was directed more towards mat sales demand from customers, while in 2007 manufacturing capacity was directed primarily towards increasing the rental fleet. Mats are used to provide a temporary structural surface over unstable ground to facilitate the movement and operation of heavy equipment. Mat sales are typically concentrated in the first and fourth quarters of the year while rentals occur throughout the year, depending on customer demand.

Horizon's Matting segment employed an average workforce of 80 in 2008 as compared to 68 in 2007. The segment employed an average of 88 employees in the first six months of 2008. In July of 2008, the secondary manufacturing plant near Fort McMurray was shut down, resulting in the number of employed workforce dropping to an average of 73.

## Marine Services

The primary assets of the Marine Services segment as at December 31, 2008 are as follows:

|                             |    |
|-----------------------------|----|
| Barges                      | 10 |
| Tugs                        | 5  |
| Barge camps                 | 2  |
| Construction and barge camp | 1  |

Horizon's barges and tugs are used primarily to move fuel and equipment on the Mackenzie River between Hay River and Tuktoyaktuk between mid-June and mid-September. Horizon also provides rental of the barge camps and construction and barge camp, complete with catering services provided through Horizon's 50% joint venture, Arctic Oil & Gas Services Inc.

Horizon's Marine Services segment employed an average workforce of 31 in 2008 as compared to 19 in 2007, with the peak during the summer months at 56 as a significant amount of maintenance was being performed on the marine equipment.

## Financial Results

| (000's)  | Year ended December 31, 2008 |           |                 |            |                            |             |
|--|------------------------------|-----------|-----------------|------------|----------------------------|-------------|
|  | Camps & Catering             | Matting   | Marine Services | Corporate  | Inter-segment Eliminations | Total       |
| Revenue  | \$ 137,025                   | \$ 36,166 | \$ 10,447       | \$ -       | \$ (2,859)                 | \$ 180,779  |
| Expenses   |                              |           |                 |            |                            |             |
| Cost of goods sold   | 23,138                       | 12,850    | 218             | -          | (193)                      | 36,013      |
| Operating  | 69,456                       | 14,481    | 7,288           | -          | (2,356)                    | 88,869      |
| General & administrative                                     | 2,413                        | 494       | -               | 7,799      | -                          | 10,706      |
| Foreign exchange loss (gain)                                 | -                            | 179       | -               | (131)      | -                          | 48          |
| EBITDAS  | \$ 42,018                    | \$ 8,162  | \$ 2,941        | \$ (7,668) | \$ (310)                   | \$ 45,143   |
| Stock based compensation                                     | 809                          | 196       | 19              | 738        | -                          | 1,762       |
| Depreciation & amortization                                  | 16,037                       | 6,060     | 1,075           | 174        | (64)                       | 23,282      |
| Loss (gain) on disposal of property, plant & equipment       | 30                           | (17)      | -               | -          | -                          | 13          |
| Operating earnings (loss)                                    | \$ 25,142                    | \$ 1,923  | \$ 1,847        | \$ (8,580) | \$ (246)                   | \$ 20,086   |
| Interest income  |                              |           |                 |            |                            | (39)        |
| Interest expense on operating lines of credit                |                              |           |                 |            |                            | 647         |
| Interest expense on long-term debt                           |                              |           |                 |            |                            | 1,657       |
| Earnings on equity investments                               |                              |           |                 |            |                            | (589)       |
| Income tax expense   |                              |           |                 |            |                            | 5,822       |
| Earnings before goodwill impairment loss                     |                              |           |                 |            |                            | 12,588      |
| Goodwill impairment loss                                     |                              |           |                 |            |                            | 114,910     |
| Income tax recovery associated with goodwill impairment loss |                              |           |                 |            |                            | (4,373)     |
| Net loss   |                              |           |                 |            |                            | \$ (97,949) |

| (000's)  | Year ended December 31, 2007 |           |                 |            |                            |           |
|--|------------------------------|-----------|-----------------|------------|----------------------------|-----------|
|  | Camps & Catering             | Matting   | Marine Services | Corporate  | Inter-segment Eliminations | Total     |
| Revenue  | \$ 59,483                    | \$ 32,019 | \$ 5,850        | \$ 2       | \$ (1,508)                 | \$ 95,846 |
| Expenses   |                              |           |                 |            |                            |           |
| Cost of goods sold                                     | 8,707                        | 6,272     | -               | -          | (57)                       | 14,922    |
| Operating  | 34,580                       | 12,611    | 4,163           | -          | (1,451)                    | 49,903    |
| General & administrative                               | 1,590                        | 505       | -               | 5,619      | -                          | 7,714     |
| Foreign exchange loss (gain)                           | 4                            | (18)      | -               | 267        | -                          | 253       |
| EBITDAS  | \$ 14,602                    | \$ 12,649 | \$ 1,687        | \$ (5,884) | \$ -                       | \$ 23,054 |
| Stock based compensation                               | 958                          | 362       | 35              | 1,606      | -                          | 2,961     |
| Depreciation & amortization                            | 7,240                        | 4,995     | 931             | 139        | -                          | 13,305    |
| (Gain) loss on disposal of property, plant & equipment | (993)                        | 17        | -               | -          | -                          | (976)     |
| Operating earnings (loss)                              | \$ 7,397                     | \$ 7,275  | \$ 721          | \$ (7,629) | \$ -                       | \$ 7,764  |
| Interest income  |                              |           |                 |            |                            | (160)     |
| Interest expense on operating lines of credit          |                              |           |                 |            |                            | 773       |
| Interest expense on long-term debt                     |                              |           |                 |            |                            | 24        |
| Bridge financing fee                                   |                              |           |                 |            |                            | 650       |
| Earnings on equity investments                         |                              |           |                 |            |                            | (636)     |
| Income tax expense                                     |                              |           |                 |            |                            | 1,033     |
| Net earnings   |                              |           |                 |            |                            | \$ 6,080  |

## Camps & Catering

Camps & Catering revenue is comprised of camp, catering and service revenue, camp and space sales, and space rental revenue as follows:

|   | Three months ended |           |                |               | Year ended    |
|---|--------------------|-----------|----------------|---------------|---------------|
|   | March 2008         | June 2008 | September 2008 | December 2008 | December 2008 |
| <i>(000's except rental days and mandays)</i> |                    |           |                |               |               |
| Camps, catering & service revenue             | \$ 18,787          | \$ 17,969 | \$ 27,288      | \$ 32,380     | \$ 96,424     |
| Camp sales revenue                            | 6,197              | 3,430     | 6,563          | 10,245        | 26,435        |
| Space sales revenue                           | 2,723              | 1,680     | 2,787          | 2,048         | 9,238         |
| Space rental revenue                          | 1,100              | 1,473     | 1,084          | 1,271         | 4,928         |
| Total revenue                                 | \$ 28,807          | \$ 24,552 | \$ 37,722      | \$ 45,944     | \$ 137,025    |
| EBITDAS                                       | \$ 8,776           | \$ 6,141  | \$ 12,527      | \$ 14,574     | \$ 42,018     |
| Operating earnings                            | \$ 5,398           | \$ 2,372  | \$ 7,779       | \$ 9,593      | \$ 25,142     |
| Bed rental days <sup>(1)</sup>                | 148,775            | 115,854   | 154,682        | 168,311       | 587,622       |
| Catering mandays                              | 122,188            | 85,909    | 117,959        | 137,839       | 463,895       |

|   | Three months ended |           |                |               | Year ended    |
|---|--------------------|-----------|----------------|---------------|---------------|
|   | March 2007         | June 2007 | September 2007 | December 2007 | December 2007 |
| <i>(000's except rental days and mandays)</i> |                    |           |                |               |               |
| Camps, catering & service revenue             | \$ 21,161          | \$ 8,364  | \$ 8,053       | \$ 9,740      | \$ 47,318     |
| Camp sales revenue                            | 2,286              | 7,055     | 675            | 2,149         | 12,165        |
| Total revenue                                 | \$ 23,447          | \$ 15,419 | \$ 8,728       | \$ 11,889     | \$ 59,483     |
| EBITDAS                                       | \$ 8,534           | \$ 4,495  | \$ 1,368       | \$ 205        | \$ 14,602     |
| Operating earnings (loss)                     | \$ 6,767           | \$ 3,065  | \$ (342)       | \$ (2,093)    | \$ 7,397      |
| Bed rental days <sup>(1)</sup>                | 137,600            | 42,260    | 56,920         | 66,560        | 303,340       |
| Catering mandays                              | 139,109            | 42,782    | 57,358         | 65,075        | 304,324       |

*(1) One bed rental day equals the rental of one bed for one day.*

The Camps & Catering segment earned \$137,025,000 of revenue and generated \$42,018,000 of EBITDAS and \$25,142,000 operating earnings in the year ended December 31, 2008 as compared to \$59,483,000 of revenue, \$14,602,000 of EBITDAS and \$7,397,000 of operating earnings in the year ended December 31, 2007.

The increases in revenue and EBITDAS of \$77,542,000 and \$27,416,000 respectively for the year ended December 31, 2008 are a result of the acquisition of Northern in late 2007 and the installation and completion of the BlackSand Executive Lodge. The acquisition of Northern and the BlackSand Executive Lodge contributed to the increased revenues by \$44,139,000 and \$10,661,000 respectively.

The pre-existing operations of the Camps & Catering segment which excluded Northern and the BlackSand Executive Lodge contributed to the increased revenues by \$22,742,000. Bed rental days for the pre-existing operations increased from 303,340 in the year ended December 31, 2007 to 415,255 in the year ended December 31, 2008 primarily as a result of the increase in oil sand activity near Fort McMurray. The increase in rental days correlated to increased camps, catering and service revenues of \$27,827,000. Countering this increase was a decrease in camp sales revenue of \$5,085,000 as the manufacturing facilities of the pre-existing operations were used to build the BlackSand Executive Lodge in the year ended December 31, 2008 as opposed to building camps for sale as they had been in the year ended December 31, 2007.

The \$17,745,000 increase in operating earnings is a result of the above, countered by an increase in depreciation and amortization of \$8,797,000 as a result of the Northern acquisition and the new BlackSand Executive Lodge.



## Matting

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

| <i>(000's except rental days and mats)</i>              | Three months ended |                 |                  |                 | Year ended       |
|---|--------------------|-----------------|------------------|-----------------|------------------|
|   | March 2008         | June 2008       | September 2008   | December 2008   | December 2008    |
| Mat rental revenue                                      | \$ 1,926           | \$ 840          | \$ 1,303         | \$ 1,394        | \$ 5,463         |
| Mat sales revenue                                       | 2,805              | 145             | 7,387            | 4,447           | 14,784           |
| Installation, transportation, service and other revenue | 5,275              | 2,802           | 4,187            | 3,655           | 15,919           |
| <b>Total revenue</b>                                    | <b>\$ 10,006</b>   | <b>\$ 3,787</b> | <b>\$ 12,877</b> | <b>\$ 9,496</b> | <b>\$ 36,166</b> |
| EBITDAS   | \$ 3,129           | \$ 456          | \$ 2,926         | \$ 1,651        | \$ 8,162         |
| Operating earnings (loss)                               | \$ 1,613           | \$ (1,102)      | \$ 1,322         | \$ 90           | \$ 1,923         |
| Mat rental days   | 620,605            | 259,329         | 434,441          | 442,130         | 1,756,505        |
| Average mats in rental fleet                            | 17,189             | 18,222          | 18,398           | 14,953          | 17,029           |
| Mats sold   | 3,324              | 369             | 9,449            | 6,951           | 20,093           |

| <i>(000's except rental days and mats)</i>              | Three months ended |                 |                 |                 | Year ended       |
|---|--------------------|-----------------|-----------------|-----------------|------------------|
|   | March 2007         | June 2007       | September 2007  | December 2007   | December 2007    |
| Mat rental revenue                                      | \$ 681             | \$ 2,193        | \$ 4,185        | \$ 2,729        | \$ 9,788         |
| Mat sales revenue                                       | 7,238              | 201             | 156             | 1,116           | 8,711            |
| Installation, transportation, service and other revenue | 3,527              | 2,760           | 4,030           | 3,203           | 13,520           |
| <b>Total revenue</b>                                    | <b>\$ 11,446</b>   | <b>\$ 5,154</b> | <b>\$ 8,371</b> | <b>\$ 7,048</b> | <b>\$ 32,019</b> |
| EBITDAS   | \$ 3,165           | \$ 1,970        | \$ 4,217        | \$ 3,297        | \$ 12,649        |
| Operating earnings                                      | \$ 2,104           | \$ 803          | \$ 2,870        | \$ 1,498        | \$ 7,275         |
| Mat rental days   | 192,546            | 665,159         | 1,227,611       | 953,349         | 3,038,665        |
| Average mats in rental fleet                            | 6,280              | 8,763           | 14,842          | 16,608          | 11,880           |
| Mats sold   | 7,622              | 184             | 200             | 1,172           | 9,178            |

The Matting segment earned revenues of \$36,166,000, EBITDAS of \$8,162,000 and operating earnings of \$1,923,000 in the year ended December 31, 2008 as compared to \$32,019,000 of revenue, \$12,649,000 of EBITDAS and \$7,275,000 of operating earnings the year ended December 31, 2007. In 2008, the Matting segment experienced a shift in its revenue generating activities from those of 2007 as customers purchased mats for their own use instead of renting them. This is consistent with non-conventional, year-round oil drilling programs compared to conventional, seasonal oil and gas programs. This shift resulted in a decrease of 1,282,160 mat rental days and \$4,325,000 mat rental revenues and an increase of 10,915 mats sold and \$6,073,000 in mat sales revenue. In addition, there was an increase of \$2,399,000, or 18%, in installation, transportation, service and other revenue in 2008 as compared to 2007 as a result of the increase of 7,500, or 20%, mats managed for customers. This shift in revenues also resulted in the \$4,487,000 decrease in EBITDAS as mat rentals generate a higher margin than mat sales.

## 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 |           |                |               | Year ended    |
|---------------------------|--------------------|-----------|----------------|---------------|---------------|
|                           | March 2008         | June 2008 | September 2008 | December 2008 | December 2008 |
| Tug revenue               | \$ -               | \$ 351    | \$ 3,281       | \$ 83         | \$ 3,715      |
| Barge revenue             | 196                | 212       | 178            | 15            | 601           |
| Barge camp revenue        | 2,575              | 539       | 185            | 1,273         | 4,572         |
| Rental and other revenue  | 608                | 269       | 335            | 347           | 1,559         |
| Total revenue             | \$ 3,379           | \$ 1,371  | \$ 3,979       | \$ 1,718      | \$ 10,447     |
| EBITDAS                   | \$ 2,150           | \$ 96     | \$ 428         | \$ 267        | \$ 2,941      |
| Operating earnings (loss) | \$ 1,890           | \$ (170)  | \$ 151         | \$ (24)       | \$ 1,847      |

| (000's)                   | Three months ended |           |                |               | Year ended    |
|---------------------------|--------------------|-----------|----------------|---------------|---------------|
|                           | March 2007         | June 2007 | September 2007 | December 2007 | December 2007 |
| Tug revenue               | \$ -               | \$ 112    | \$ 1,440       | \$ 544        | \$ 2,096      |
| Barge revenue             | -                  | 18        | 128            | 359           | 505           |
| Barge camp revenue        | -                  | 27        | 885            | 1,061         | 1,973         |
| Rental and other revenue  | 265                | 221       | 395            | 395           | 1,276         |
| Total revenue             | \$ 265             | \$ 378    | \$ 2,848       | \$ 2,359      | \$ 5,850      |
| EBITDAS                   | \$ (48)            | \$ (611)  | \$ 1,107       | \$ 1,239      | \$ 1,687      |
| Operating (loss) earnings | \$ (280)           | \$ (851)  | \$ 861         | \$ 991        | \$ 721        |

The waterways in the far north are frozen from mid-October through to mid-June. Prior to the fourth quarter of 2007, the Marine Services segment would typically earn the majority of its revenues in the third quarter when the waterways were not frozen. However, the barges and barge camps can also be used to facilitate winter projects by loading them with equipment, moving them close to the work location and freezing them in over the winter months from mid-October to mid-March to provide a base of operations. This kind of planning provides an extended winter work season as operators do not have to wait for thick ice to form on the waterways in order to transport equipment to the work site. Horizon has provided this service in the winter drilling seasons for 2007/2008 and 2008/2009, resulting in higher revenues in the year ended December 31, 2008 as it has two quarters of the associated revenues and earnings in 2008 compared to only one quarter in 2007. Horizon also utilized its tugs more in the summer of 2008 than 2007, resulting in increased tug revenues. Countering this increase in revenues are repair and maintenance costs incurred to get the barge camps prepared for the fourth quarter of 2008 marine work.

## Corporate

Corporate costs are the costs of the head office which include the Chief Executive Officer, President, Chief Financial Officer, Vice President of Safety, Corporate Secretary, Corporate Accounting staff, and associated costs of supporting a public company. The increase in corporate costs to \$7,799,000 in the year ended December 31, 2008 from \$5,619,000 in the year ended December 31, 2007 is a result of the addition of corporate employees required to support Horizon's growing operations. Also, corporate costs in the fourth quarter of 2008 were increased by \$475,000 in connection with the departure of a Senior Executive. As a percentage of revenues, corporate costs decreased to 4.3% in the year ended December 31, 2008 as compared to 5.9% in the year ended December 31, 2007.

## Other Items

### Foreign exchange loss

Foreign exchange loss decreased for the year ended December 31, 2008 to \$48,000 as compared to \$253,000 in the year ended December 31, 2007. The loss in the year ended December 31, 2008 is a result of the impact the weakening Canadian dollar has on accounts payable associated with lumber purchases from the U.S. The loss in the year ended December 31, 2007 was largely as a result of the refund of a U.S. dollar deposit associated with the cancellation of a barge construction contract, and is offset by slight gains associated with lumber purchases from the U.S.

### Interest income

Interest income of \$39,000 was earned on related party loans provided in 2008 and deposits held as guarantees. In the year ended December 31, 2007, interest income of \$160,000 was earned on the refunded deposit associated with a cancelled barge construction contract.

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

Interest on operating lines of credit and long-term debt increased to \$2,304,000 in the year ended December 31, 2008 from \$797,000 in the year ended December 31, 2007. The increase in interest expense is attributable to the increase in the average amount of debt held of \$42,819,000 in the year ended December 31, 2008 as compared to \$15,430,000 in the year ended December 31, 2007.

### Bridge financing fee

In the year ended December 31, 2007, a one-time \$650,000 bridge financing fee was incurred as a result of a \$65,000,000 bridge credit facility which was arranged for the Northern acquisition.

### Earnings on equity investments

The earnings on equity investments of Kitikmeot Caterers Ltd. ("Kitikmeot"), Sakku Caterers Limited ("Sakku"), Mackenzie Valley Logistics Inc. ("Mackenzie Valley"), and Mackenzie Delta Integrated Oilfield Services ("MDIOS") decreased to \$589,000 in the year ended December 31, 2008 from \$636,000 in the year ended December 31, 2007. Activity in the Northwest Territories has decreased in 2008 as compared to 2007, resulting in a loss on equity investments of \$191,000 in the year ended December 31, 2008 for Mackenzie Valley, MDIOS and Beaufort Logistics Inc. as compared to earnings of \$636,000 in the year ended December 31, 2007. This loss is offset by earnings on equity investments of \$780,000 from Kitikmeot and Sakku which were acquired at the end of 2007 and had no earnings in the comparative period.

### Income taxes

Income tax expense increased to \$1,449,000, an effective tax rate of 1.5%, in the year ended December 31, 2008 from \$1,033,000, an effective tax rate of 14.5%, in the year ended December 31, 2007. Included in the December 31, 2008 tax expense is approximately \$4,373,000 of tax recovery attributable to the goodwill impairment loss. If tax expense is adjusted for this recovery, it results in an adjusted tax expense of \$5,822,000. If loss before income taxes is adjusted for the goodwill impairment loss to arrive at adjusted earnings before income taxes of \$18,410,000, the effective tax rate is 31.6% as compared to 14.5% in 2007. The year over year increase in the effective tax rate is attributable to the effective rate of 2007 being low due to the impact of tax rate reductions on future tax balances.

## Liquidity and Capital Resources

The Corporation has a strong working capital position and borrowing capacity as set out below:

| (000's)   | December 2008 | December 2007 |
|---|---------------|---------------|
| Current assets  | \$ 49,951     | \$ 37,945     |
| Operating lines of credit                               | 8,834         | 20,990        |
| Current liabilities excluding borrowings <sup>(1)</sup> | 18,177        | 18,699        |
| Current portion of long-term debt                       | 488           | 871           |
| Current portion of capital leases                       | -             | 109           |
| Current liabilities                                     | 27,499        | 40,669        |
| Working capital (deficiency) <sup>(2)</sup>             | 22,452        | (2,724)       |
| Bank borrowings   |               |               |
| Operating lines of credit                               | 8,834         | 20,990        |
| Senior secured revolving term facility                  | 38,400        | -             |
| Total bank borrowings                                   | 47,234        | 20,990        |
| Available bank lines <sup>(3)</sup>                     | 80,500        | 25,500        |
| Borrowing capacity <sup>(4)</sup>                       | 33,266        | 4,510         |

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

(2) Calculated as current assets less current liabilities.

(3) Includes \$80,000,000 available to Horizon (December 31, 2007 - \$25,000,000) and \$1,000,000 (Horizon's 50% portion - \$500,000) available to Horizon's joint venture, Arctic Oil & Gas Services Inc.

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

At December 31, 2008, Horizon's working capital position of \$22,452,000 is significantly improved from the \$2,724,000 working capital deficiency at December 31, 2007. In 2008, Horizon renegotiated its senior secured

revolving term facility, resulting in the classification being long-term as opposed to current. At December 31, 2007, the balance of the senior secured revolving term facility was \$10,000,000 and was included in current liabilities. In addition, Horizon's funds from operations were \$36,356,000 in the year ended December 31, 2008 as compared to \$14,872,000 in the year ended December 31, 2007. This increase has also contributed to the improvement of working capital.

In 2008, Horizon increased its operating line of credit from \$15,000,000 to \$20,000,000 and its senior secured revolving term facility from \$10,000,000 to \$60,000,000. Subsequent to December 31, 2008, Horizon renewed its operating line of credit and senior secured revolving term credit facilities. The credit facilities were renewed for an additional year, extending the maturity date on the senior secured revolving term facility to February 1, 2010.

During the year ended December 31, 2008, the Corporation spent \$56,174,000 on capital asset additions. The Camps & Catering segment added 500 beds through the completion of the BlackSand Executive Lodge near Fort McMurray, Alberta, land for a second proposed executive lodge, and additional beds and space to its rental fleet. The Matting segment replenished some of the mats sold through the addition of 3,804 mats to its rental fleet. The remainder of the capital additions included vehicles, leasehold improvements, camp & catering supplies, and other miscellaneous additions.

The Corporation's contractual obligations for the next five years are as follows:

| (000's)   | Total            | 1 year or less   | 2 – 3 years      | 4 – 5 years      |
|---|------------------|------------------|------------------|------------------|
| Operating lines of credit                           | \$ 8,834         | \$ 8,834         | \$ -             | \$ -             |
| Long-term debt (excluding deferred financing costs) | 39,112           | 488              | 16,220           | 22,404           |
| Operating leases                                    | 5,651            | 1,805            | 2,826            | 1,020            |
| <b>Total obligations</b>                            | <b>\$ 53,597</b> | <b>\$ 11,127</b> | <b>\$ 19,046</b> | <b>\$ 23,424</b> |

## Quarterly Summary of Results

| (000's except per share amounts)        | Three months ended |              |                   |                  | Year ended       |
|---|--------------------|--------------|-------------------|------------------|------------------|
|   | March<br>2008      | June<br>2008 | September<br>2008 | December<br>2008 | December<br>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 (loss)                     | 4,535              | (1,150)      | 5,004             | (106,338)        | (97,949)         |
| Net earnings (loss) 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)         |

| (000's except per share amounts) | Three months ended |              |                   |                  | Year ended       |
|----------------------------------|--------------------|--------------|-------------------|------------------|------------------|
|                                  | March<br>2007      | June<br>2007 | September<br>2007 | December<br>2007 | December<br>2007 |
| Revenue                          | \$ 34,884          | \$ 20,698    | \$ 19,277         | \$ 20,987        | \$ 95,846        |
| EBITDAS                          | 10,317             | 4,069        | 5,199             | 3,469            | 23,054           |
| Operating earnings (loss)        | 6,741              | 711          | 1,511             | (1,199)          | 7,764            |
| Net earnings                     | 4,504              | 754          | 605               | 217              | 6,080            |
| Net earnings per share           | \$0.05             | \$0.01       | \$0.01            | \$0.00           | \$0.07           |
| Net earnings per share - diluted | \$0.05             | \$0.01       | \$0.01            | \$0.00           | \$0.07           |

As a result of the acquisition of Northern on November 30, 2007 and the completion of the BlackSand Executive Lodge in the third quarter of 2008, results for the year ended December 31, 2008 are substantially different than results for the year ended December 31, 2007. The seasonality of the Corporation's operations, which were previously weighted toward the conventional winter drilling season, was also moderated by these activities.

In the year ended December 31, 2007, prior to the acquisition of Northern and the completion of the BlackSand Executive Lodge, the Corporation's Camp & Catering segment derived a substantial portion of its 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" had 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.

Northern is much less seasonal than the traditional Camps & Catering operations as it derives most of its revenues from industries which operate year-round. The BlackSand Executive Lodge derives its revenues from oil sands developments which also operate year-round. The addition of Northern for the duration of 2008 and the addition of the BlackSand Executive Lodge in the third quarter of 2008 significantly reduced the seasonality which previously affected the Camps & Catering 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 typically between spring breakup and winter freeze up. In 2007, the Matting segment saw a shift in its traditional revenue generating activities. Utilization of the rental fleet remained strong in the second half of the year due primarily to increased work on in situ oil sands projects which tend to have more year-round activity. Mat sales, which have traditionally occurred in the first quarter after Christmas and before spring break-up, also got off to an early start with some sizable orders being filled in the fourth quarter of 2007. In 2008, the revenue mix shifted again, resulting in mat rentals which were relatively consistent in each of the quarters, but reduced from the previous year and mat sales were significant in the third and fourth quarters of 2008.

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. As a result, the Corporation's marine transportation services revenue will typically be concentrated in this period of each year. However, the barges and barge camps were used to facilitate winter projects in the winter drilling seasons for 2007 and 2008, resulting in higher revenues in the fourth quarters of both 2007 and 2008 and the first quarter of 2008.

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

The level of activity in the oil and gas and mineral exploration and production industries is volatile. No assurance can be given that expected trends in oil and 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 gas and mineral production levels and therefore affect the demand for services to oil and gas and mining customers. A material decline in oil or 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 is positioning its business to participate in northern development projects that currently have not received final regulatory approval. One such prominent project is the Mackenzie Valley gas project which is currently in the affected community public hearing stage of the approval process with final approval decisions not expected to be received until 2010. No assurance can be given that this and other large development projects will ultimately receive approval to proceed.

### *Seasonal Operations*

Each of Horizon's businesses have slightly different seasonal aspects. Camps & Catering is exposed to the seasonality of the western Canadian oil and 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 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 and reputation for safety 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 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 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 in the north. 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, reputation for safety 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.

### *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.

### *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*

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse gases emission reduction requirements for various industrial activities, including oil and gas exploration and production. Future federal legislation, together with provincial emission reduction requirements may require the reduction of emissions or emissions intensity from Horizon's operations and facilities. Mandatory emissions reductions 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. The mandatory emissions reductions may also impair Horizon's ability to provide its services economically. Management is unable to predict the impact of the Kyoto Protocol or other provincial emissions targets on Horizon and it is possible that it will adversely affect Horizon's business, financial condition and results of operations.

The Alberta Provincial Government has recently introduced regulations to govern and accelerate the reclamation of tailings ponds used in the operations of oilsands mining facilities. These regulations will likely result in higher operating costs for our customers in the region, putting further pressure on project economics.

### *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. The Corporation's significant accounting policies are discussed in Note 4 of its audited consolidated financial statements for the year ended December 31, 2008. 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. During the fourth quarter of the year ended December 31, 2008, Horizon completed its goodwill assessment. Through the analysis of goodwill, it was determined that the entire carrying value of goodwill was impaired and therefore, a goodwill impairment loss was recorded in the fourth quarter of 2008. During the fourth quarter of 2008, Horizon also completed its intangible assets and property, plant and equipment assessment and concluded that the carrying values of the intangible assets and property, plant and equipment of the Corporation are not impaired.

### *Depreciation & Amortization*

Horizon's property, plant and equipment and its intangible assets are depreciated and amortized based upon estimates of useful lives and salvage values. These estimates may change as more experience is gained, market conditions shift or new technological advancements are made.

### *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 business and operations are complex and the Corporation executed a number of significant financings, business combinations and acquisitions, specifically in 2006 and 2007. The computation of income taxes payable as a result of the 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**

Effective January 1, 2008, the Corporation adopted the new Canadian accounting standards for financial instruments – presentation and disclosures, capital disclosures and inventories.

### (a) Financial instruments – presentation and disclosures:

This new standard requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

### (b) Capital disclosures:

This new standard requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

### (c) Inventories

This new standard provides guidance on the method of determining the cost of a Company's materials and supplies and also requires inventory to be valued on a first-in, first-out, or weighted average basis. In addition, the standard requires any impairment to net realizable value of inventory to be written down at each reporting period, with subsequent reversals when applicable. The adoption of this new standard did not impact the Corporation's financial statements.

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

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to International Financial Reporting Standards ("IFRS") from Canadian Generally Accepted Accounting Principles ("GAAP") will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators ("CSA") has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS. The eventual changeover to IFRS represents changes due to new accounting standards. The transition from current GAAP to IFRS is a significant undertaking that may materially affect the Corporation's reported financial position and results of operations.



In the fourth quarter of 2008, the Corporation retained an independent accounting firm to assess the differences between current GAAP and IFRS which will impact the Corporation. The Corporation is in the process of using that assessment to complete its IFRS changeover plan, which will include project structure and governance, resourcing and training and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Corporation hopes to complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, by the second quarter of 2009.

## Financial Instruments and Risk Management

Financial instruments of the Corporation consist of accounts receivable, operating lines of credit, accounts payable and accrued liabilities and long-term debt. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and income taxes recoverable approximate their fair value due to the relatively short period to maturity of the instruments. The fair value of the operating lines of credit approximates their carrying values as they bear interest at floating rates.

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.

### (a) 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)                          | December 2008 |               | December 2007 |               |
|----------------------------------|---------------|---------------|---------------|---------------|
| Neither impaired nor past due    | \$            | 16,513        | \$            | 8,251         |
| Impaired                         |               | 548           |               | 655           |
| Outstanding 31-60 days           |               | 7,481         |               | 6,270         |
| Outstanding 61-90 days           |               | 5,122         |               | 2,133         |
| Outstanding more than 90 days    |               | 6,111         |               | 2,199         |
| <b>Total</b>                     | <b>\$</b>     | <b>35,775</b> | <b>\$</b>     | <b>19,508</b> |
| Allowance for doubtful accounts  |               | (548)         |               | (655)         |
| Accrued revenue                  |               | 2,315         |               | 1,705         |
| Other receivables                |               | 331           |               | 929           |
| <b>Total accounts receivable</b> | <b>\$</b>     | <b>37,873</b> | <b>\$</b>     | <b>21,487</b> |

In the year ended December 31, 2008, the Corporation provided an allowance for \$269,000 of receivables aged greater than 90 days and also collected \$2,000 on amounts which had previously been allowed for. The Corporation also applied \$374,000 of allowance for doubtful accounts against the associated receivable balance. As at February 25, 2009 the Corporation has collected \$5,136,000 on amounts outstanding more than 90 days.

(b) 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 increased its credit facilities in the third quarter of 2008 to 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 0.25% (3.75% at December 31, 2008). Subsequent to December 31, 2008 this credit facility has been renewed with interest payable at the bank prime rate plus 1.00%.
- \$60,000,000 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 0.75% (4.25% at December 31, 2008). Subsequent to December 31, 2008 this credit facility has been renewed with interest payable at the bank prime rate plus 1.50%.

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

| (000's)         | December 2008                           |                            | December 2007                           |                            |
|-----------------|---|----------------------------|---|----------------------------|
|                 | Trade and other payables <sup>(1)</sup> | Funded debt <sup>(2)</sup> | Trade and other payables <sup>(1)</sup> | Funded debt <sup>(2)</sup> |
| Within one year | \$ 18,177                               | \$ 9,322                   | \$ 18,699                               | \$ 21,970                  |
| 2 to 3 years    | -                                       | 16,220                     | -                                       | 1,047                      |
| 4 to 5 years    | -                                       | 22,404                     | -                                       | 278                        |
| Over 5 years    | -                                       | -                          | -                                       | 92                         |
|                 | \$ 18,177                               | \$ 47,946                  | \$ 18,699                               | \$ 23,387                  |

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

(2) Funded debt includes operating lines of credit, long-term debt and capital leases, and excludes deferred financing costs. Horizon's senior secured revolving term facility reached its term on February 1, 2009. The facility was renewed and extended to its next renewal date of February 1, 2010 and has been assumed to be termed out on the next renewal date.

(c) 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 year ended December 31, 2008 by approximately \$65,000. This assumes that the quantity of USD raw material purchases in the year ended December 31, 2008 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 0.25% and prime plus 0.75%, respectively. If interest rates were to have been 1% higher, it is estimated that the Corporation's earnings before taxes would have decreased by approximately \$430,000 for the year ended December 31, 2008. This assumes that the amount and mix of fixed and floating rate debt in the year ended December 31, 2008 remained unchanged and that the change in interest rates was effective from the beginning of the year.

## **Outstanding Shares**

Horizon has 110,400,363 voting common shares issued and outstanding with a book value of \$257,505,000 as at February 25, 2009.

## **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 year ended December 31, 2008.

## **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, 2008, 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 effective 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.

### *Internal Control Over Financial Reporting*

Internal control over financial reporting (ICFR) is a process 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 our transactions and disposition of our assets; and are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our annual and interim consolidated financial statements.

Because of its 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.

Management, under the supervision of the CEO and the CFO, evaluated 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 effective as of December 31, 2008.

### Changes in Internal Control over Financial Reporting

During the year ended December 31, 2008, Horizon made to following changes that improved the internal controls over financial reporting:

- A designated Controller was hired for the Grande Prairie, Alberta based Camp Manufacturing business;
- A designated Controller was hired for the Grande Prairie, Alberta based Matting business;
- A chartered accountant was hired to assist with internal and external financial reporting;
- Several phases of an integrated enterprise resource planning (ERP) system were designed and implemented in the Camp Manufacturing businesses located in both Grande Prairie, Alberta and Kamloops, British Columbia; including detailed and comprehensive reviews of the underlying business processes as a component of the project.

In the first quarter of 2009, the Corporation hired a chartered accountant as Controller for its camp and catering operations in Sherwood Park, Alberta, who also has experience in the industry.

### Transactions with related parties

| Description of related party   |   | December 2008 | December 2007 |
|--|---|---------------|---------------|
| Corporation of which a director of Horizon is an officer   | Purchases                                   | \$ 45,000     | \$ 532,000    |
|  | Sales                                       | 176,000       | 1,114,000     |
|  | Included in trade accounts receivable       | 94,000        | 343,000       |
| Corporation of which a director of Horizon is an officer and an officer of Horizon is a director | Purchases                                   | 381,000       | 528,000       |
|  | Sales                                       | 81,000        | 505,000       |
|  | Included in trade accounts receivable       | 33,000        | 4,000         |
|  | Included in trade accounts payable          | 7,000         | 16,000        |
| Corporation which is a significantly influenced investee   | Purchases                                   | -             | 47,000        |
|  | Included in trade accounts receivable       | 161,000       | 161,000       |
|  | Included in trade accounts payable          | 14,000        | 14,000        |
| Corporation which is a significantly influenced investee   | Purchases                                   | 137,000       | 106,000       |
|  | Sales                                       | 6,270,000     | 3,510,000     |
|  | Recovery of administrative overhead charged | 152,000       | -             |
|  | Included in trade accounts receivable       | 992,000       | 1,419,000     |
|  | Included in trade accounts payable          | 25,000        | 15,000        |
| Corporation which is a significantly influenced investee   | Purchases                                   | 47,000        | -             |
|  | Sales                                       | 3,000         | -             |
|  | Included in trade accounts receivable       | 461,000       | -             |
|  | Included in trade accounts payable          | 24,000        | -             |
| Corporation which is a significantly influenced investee   | Sales                                       | 28,000        | -             |
|  | Interest earned                             | 7,000         | -             |
|  | Included in trade accounts receivable       | 227,000       | -             |
| Corporation which is a significantly influenced investee   | Purchases                                   | 57,000        | 578,000       |
|  | Sales                                       | 281,000       | 41,000        |
|  | Included in trade accounts receivable       | -             | 380,000       |
|  | Included in trade accounts payable          | -             | 42,000        |
| Corporation which is a jointly controlled investee   | Purchases                                   | 260,000       | 51,000        |
|  | Sales                                       | 7,000         | 155,000       |
|  | Rent charged                                | 93,000        | 64,000        |
|  | Recovery of administrative overhead charged | 132,000       | 33,000        |
|  | Included in trade accounts receivable       | 83,000        | 21,000        |
|  | Included in trade accounts payable          | -             | 13,000        |
| Corporation which is jointly controlled by one of the directors of Horizon                       | Rent paid                                   | 58,000        | 53,000        |

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 “Overview of Horizon's Objectives, Strategies and Outlook”, the following:

- a) “The potential impact of these activities, however, will be significantly dampened in 2009 by the worldwide economic situation which has had a significant negative impact on the key drivers of our business, being crude oil, natural gas and mineral prices. Our customers are primarily in the upstream and downstream oil and gas industry and the mining industry and many projects that were planned, or in their early phases of construction, are now uneconomic at current commodity prices. Further exacerbating the situation is the lack of access to capital to fund growth projects even for the largest of our customers. These factors have combined to force existing and potential customers to live within their means by significantly curtailing capital spending plans to match reduced operation cash flow.”
- b) “Horizon's results for 2008 and 2009 have been and will be negatively impacted by these market developments.”
- c) “Activity levels and asset utilization rates will be significantly lower in 2009 than they were in 2008.”
- d) “Controlling and reducing expenditures will be at the forefront in 2009. Staffing levels across all our business units will be monitored and adjusted as necessary to match anticipated activity levels while at the same time attempting to maintain our core capabilities, particularly at our manufacturing facilities. These pre-emptive actions are being taken to maintain the strength of the Corporation's balance sheet to be in a position to continue our growth when economic conditions improve. Having said that, management is of the view that such a turnaround will not occur until 2010 at the earliest.”

All of the foregoing statements are based on the assumption that the widespread severe economic downturn will continue through 2009 or longer. That assumption is subject to the risks that the general and local downturn could get worse than currently anticipated, which could further reduce Horizon's business activities. Those risks are further described under the section of MD&A headed “Risks and Uncertainties”.

The Corporation believes the expectations reflected in the forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. The forward-looking statements contained in this MD&A, are expressly qualified by this cautionary statement.

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying consolidated financial statements of Horizon North Logistics Inc. ("Horizon") have been approved by the Board of Directors (the "Board") of Horizon and have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. Financial information contained throughout the annual report is consistent with these financial statements.

Management has overall responsibility for internal controls and maintains accounting systems designed to provide reasonable assurance that transactions are properly authorized, assets safeguarded and that the financial records form a reliable base for the preparation of accurate and timely financial information. The policy of Horizon is to maintain the highest standard of ethics in all its activities and it has a written business conduct and ethics practice. The CEO and CFO have evaluated the effectiveness of disclosure controls and procedures and internal controls over financial reporting and have concluded that they were effective as at December 31, 2008.

The Board of Directors oversees the management of the business and affairs of Horizon, including ensuring management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee, which consists of three independent directors.

The Audit Committee has reviewed the consolidated financial statements with management and the external auditor. An independent firm of chartered accountants, appointed as external auditor by the shareholders, has audited the consolidated financial statements and its report is included herein.



Ric Peterson  
Chairman of the Board and  
Chief Executive Officer



Bob German  
Vice President Finance and  
Chief Financial Officer

February 25, 2009

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Horizon North Logistics Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and (deficit) retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The letters are written in a cursive, slightly slanted style.

Chartered Accountants  
Calgary, Canada

February 25, 2009

# HORIZON NORTH LOGISTICS INC.

Consolidated Balance Sheets

December 31, 2008 and 2007

| (000's)                                     | December 2008 | December 2007 |
|---|---------------|---------------|
| <b>Assets</b>                               |               |               |
| Current assets:                             |               |               |
| Cash  | \$ -          | \$ 1,220      |
| Accounts receivable (Note 6)                | 37,873        | 21,487        |
| Inventory (Note 7)                          | 9,960         | 14,432        |
| Prepaid expenses                            | 1,168         | 806           |
| Income tax receivable (Note 15)             | 950           | -             |
|   | 49,951        | 37,945        |
| Property, plant and equipment, net (Note 8) | 147,924       | 111,241       |
| Goodwill (Note 9)                           | -             | 114,549       |
| Intangible assets, net (Note 10)            | 43,032        | 51,999        |
| Long-term investments (Note 11)             | 5,760         | 5,679         |
|   | \$ 246,667    | \$ 321,413    |

## Liabilities and Shareholders' Equity

|  |            |            |
|--|------------|------------|
| Current liabilities:                                   |            |            |
| Bank indebtedness                                      | \$ 1,776   | \$ -       |
| Operating lines of credit (Note 12)                    | 8,834      | 20,990     |
| Accounts payable and accrued liabilities               | 14,234     | 13,899     |
| Deferred revenue                                       | 2,167      | 2,859      |
| Current portion of long-term debt (Note 13)            | 488        | 871        |
| Current portion of capital lease obligations (Note 14) | -          | 109        |
| Income taxes payable (Note 15)                         | -          | 1,941      |
|  | 27,499     | 40,669     |
| Long-term debt (Note 13)                               | 38,110     | 1,019      |
| Capital lease obligations (Note 14)                    | -          | 398        |
| Future income tax liability (Note 15)                  | 11,456     | 13,528     |
|  | 77,065     | 55,614     |
| Shareholders' equity:                                  |            |            |
| Share capital (Note 16)                                | 257,505    | 257,515    |
| Contributed surplus (Note 16)                          | 5,564      | 3,802      |
| (Deficit) retained earnings                            | (93,467)   | 4,482      |
|  | 169,602    | 265,799    |
| Segmented information (Note 19)                        |            |            |
| Subsequent events (Note 24)                            |            |            |
|  | \$ 246,667 | \$ 321,413 |

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



Roderick W. Graham  
Director



Ric E. Peterson  
Director



# HORIZON NORTH LOGISTICS INC.

Consolidated Statements of Operations and (Deficit) Retained Earnings

Years ended December 31, 2008 and 2007

| (000's)  | December 2008 | December 2007 |
|--|---------------|---------------|
| Revenue  | \$ 180,779    | \$ 95,846     |
| Expenses:  |               |               |
| Cost of goods sold                                       | 36,013        | 14,922        |
| Operating  | 88,869        | 49,903        |
| General and administrative                               | 10,706        | 7,714         |
| Stock based compensation                                 | 1,762         | 2,961         |
| Depreciation of property, plant and equipment            | 14,315        | 7,534         |
| Amortization of intangible assets                        | 8,967         | 5,771         |
| Loss (gain) on disposal of property, plant and equipment | 13            | (976)         |
| Foreign exchange loss                                    | 48            | 253           |
|  | 160,693       | 88,082        |
| Operating earnings                                       | 20,086        | 7,764         |
| Goodwill impairment loss                                 | 114,910       | -             |
| Interest income  | (39)          | (160)         |
| Interest expense on operating lines of credit            | 647           | 773           |
| Interest expense on long-term debt                       | 1,657         | 24            |
| Bridge financing fee                                     | -             | 650           |
| Earnings on equity investments                           | (589)         | (636)         |
| (Loss) earnings before income taxes                      | (96,500)      | 7,113         |
| Income taxes (Note 15):                                  |               |               |
| Current income tax expense                               | 3,654         | 6,547         |
| Future income tax reduction                              | (2,205)       | (5,514)       |
|  | 1,449         | 1,033         |
| Net (loss) earnings and comprehensive (loss) income      | (97,949)      | 6,080         |
| Retained earnings (deficit), beginning of period         | 4,482         | (1,598)       |
| (Deficit) retained earnings, end of period               | \$ (93,467)   | \$ 4,482      |
| (Loss) earnings per share:                               |               |               |
| Basic  | \$ (0.89)     | \$ 0.07       |
| Diluted  | \$ (0.89)     | \$ 0.07       |

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

# HORIZON NORTH LOGISTICS INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

| (000's)  | December 2008 | December 2007 |
|--|---------------|---------------|
| Cash provided by (used in):                            |               |               |
| Operating activities:                                  |               |               |
| Net (loss) earnings                                    | \$ (97,949)   | \$ 6,080      |
| Items not involving cash:                              |               |               |
| Depreciation of property, plant and equipment          | 14,315        | 7,534         |
| Amortization of intangible assets                      | 8,967         | 5,771         |
| Future income tax reduction                            | (2,205)       | (5,514)       |
| Stock based compensation                               | 1,762         | 2,961         |
| Goodwill impairment loss                               | 114,910       | -             |
| Earnings on equity investments                         | (589)         | (636)         |
| Gain on sale of property, plant and equipment          | (2,855)       | (1,324)       |
|  | 36,356        | 14,872        |
| Changes in non-cash working capital items (Note 22)    | (16,237)      | 248           |
|  | 20,119        | 15,120        |
| Investing activities:                                  |               |               |
| Purchase of property, plant and equipment              | (56,174)      | (32,104)      |
| Proceeds on sale of property, plant and equipment      | 8,572         | 3,625         |
| Refund of deposit upon cancellation of barge contract  | -             | 5,049         |
| Return of capital from equity investments              | 334           | 1,344         |
| Business acquisitions                                  | (581)         | (59,170)      |
|  | (47,849)      | (81,256)      |
| Changes in non-cash working capital items (Note 22)    | 914           | (3,074)       |
|  | (46,935)      | (84,330)      |
| Financing activities:                                  |               |               |
| Issuance of share capital (Note 16)                    | -             | 56,950        |
| Proceeds from bank indebtedness                        | 1,776         | -             |
| Share issuance costs                                   | (15)          | -             |
| (Repayment of) proceeds from operating lines of credit | (12,156)      | 12,130        |
| Payment of deferred financing costs                    | (622)         | -             |
| Proceeds from long-term debt                           | 43,800        | 1,143         |
| Repayment of long-term debt                            | (6,578)       | (3,131)       |
| Repayment of capital lease obligations                 | (507)         | (9)           |
| Items not involving cash:                              |               |               |
| Amortization of deferred financing costs               | 108           | -             |
|  | 25,806        | 67,083        |
| Changes in non-cash working capital items (Note 22)    | (210)         | 149           |
|  | 25,596        | 67,232        |
| Decrease in cash position                              | (1,220)       | (1,978)       |
| Cash, beginning of period                              | 1,220         | 3,198         |
| Cash, end of period                                    | \$ -          | \$ 1,220      |
| Supplementary information:                             |               |               |
| Income taxes paid                                      | \$ 7,009      | \$ 4,927      |
| Interest paid  | 2,197         | 721           |
| Interest received                                      | 39            | 160           |

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

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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## 1. Basis of Presentation

### (a) General:

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("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. Actual results could differ from these estimates.

### (b) Nature of business:

Horizon North Logistics Inc. ("Horizon" or the "Corporation") provides camp and 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 throughout Canada's northern regions.

## 2. Changes in Accounting Policies

Effective January 1, 2008, the Corporation adopted new Canadian accounting standards for financial instruments – presentation and disclosures, capital disclosures and inventories.

### (a) Financial instruments – presentation and disclosures:

This new standard requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

### (b) Capital disclosures:

This new standard requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

### (c) Inventories:

This new standard provides guidance on the method of determining the cost of a Company's materials and supplies and also requires inventory to be valued on a first-in, first-out, or weighted average basis. In addition, the standard requires any impairment to net realizable value of inventory to be written down at each reporting period, with subsequent reversals when applicable. The adoption of this new standard did not impact the Corporation's financial statements.

## 3. Future Accounting Policies

The Corporation will adopt the new Canadian accounting standards for goodwill and intangible assets which establish standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. These standards are effective for the Corporation beginning October 1, 2008 and will be applied to future acquisitions.

The Corporation will also adopt the new Canadian accounting standards for business combinations which will harmonize the Canadian accounting standards with international financial reporting standards. These standards are effective for the Corporation beginning January 1, 2011 and will be applied to business combinations on a prospective basis at that time.

## 4. Significant Accounting Policies

### (a) Principles of consolidation:

These consolidated financial statements include the accounts of Horizon North Logistics Inc. and its wholly owned subsidiaries and the accounts of the incorporated joint venture Arctic Oil & Gas Services Inc. to the extent of the Corporation's 50% proportionate interest in its respective assets, liabilities, revenues, and expenses. All inter-company transactions and balances have been eliminated upon consolidation.

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 2

Years ended December 31, 2008 and 2007

## 4. Significant Accounting Policies (continued)

### (b) Financial Instruments:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the consolidated balance sheet at the time the Corporation becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value and, for the purpose of subsequent measurement, financial instruments are allocated into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities.

The Corporation's financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and long-term debt. The Corporation has designated its financial instruments as follows:

| Financial Instrument                     | Category                    | Measurement Method |
|--|-----------------------------|--------------------|
| Cash and cash equivalents                | Held-for-trading            | Fair value         |
| Accounts receivable                      | Loans and receivables       | Amortized cost     |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost     |
| Long-term debt                           | Other financial liabilities | Amortized cost     |

Held-for-trading instruments are financial assets and liabilities typically acquired with the intention of generating revenues in the short-term. However, an entity is allowed to designate any financial instruments as held-for-trading on initial recognition even if it would otherwise not satisfy the definition. As at December 31, 2008, the Corporation does not hold any financial instruments that do not satisfy the definition. Financial assets and financial liabilities required to be classified or designated as held-for-trading are measured at fair value, with gains and losses recorded in net earnings for the period in which the change occurs. The Corporation uses trade-date accounting for its held-for-trading financial assets.

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments and fixed maturity, which an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. As at December 31, 2008, the Corporation does not have any financial assets classified as held-to-maturity.

Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method.

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to the short-term nature of the instruments.

Available-for-sale financial assets are non-derivative assets that are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or held-for-trading. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in other comprehensive income until such gains or losses are realized or an other than temporary impairment is determined to have occurred. Available-for-sale assets are measured at fair value, except for assets that do not have a readily determinable fair value which are recorded at cost. As at December 31, 2008, the Corporation does not have any financial assets classified as available-for-sale.

Other financial liabilities are measured at amortized cost using the effective interest method and include all liabilities or liabilities that have been identified as held-for-trading.

The Corporation will assess at each reporting period whether there is any objective evidence that a financial asset, other than those classified as held-for-trading, is impaired.

The Corporation defers any transaction costs incurred in relation to the acquisition of financial assets and liabilities.

### (c) Cash and cash equivalents:

Cash and cash equivalents consist of cash and short-term investments with maturities of less than 90 days.

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 3

Years ended December 31, 2008 and 2007

## 4. Significant Accounting Policies (continued)

(d) Inventory:

Inventory consists of raw materials used to manufacture mats and camp facilities, work-in-progress including partially completed mats and camp facilities, finished goods including mats and camps held for sale, camp catering supplies, food and fuel, all of which are carried at the lower of cost and net realizable value on a first in, first-out basis.

(e) Property, plant and equipment:

Property, plant and equipment is recorded at cost less accumulated depreciation. Depreciation is provided taking into consideration the estimated useful lives of the assets, using the following methods and annual rates:

| Assets                                  | Method        | Rate          |
|---|---------------|---------------|
| Camp facilities                         | Straight-line | 20 years      |
| Tugs, barges & other marine equipment   | Straight-line | 20 years      |
| Buildings                               | Straight-line | 20 years      |
| Automotive & trucking equipment         | Straight-line | 4 to 8 years  |
| Mats                                    | Straight-line | 6 years       |
| Fuel supply & camp & catering equipment | Straight-line | 2 to 10 years |
| Furniture & fixtures & other equipment  | Straight-line | 5 years       |
| Leasehold improvements                  | Straight-line | Term of lease |
| Computer hardware & software            | Straight-line | 3 to 5 years  |

(f) Long-lived assets:

Management assesses the carrying value of long-lived assets, which include property, plant and equipment and intangible assets, on a periodic basis for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology. 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 realized to reduce the asset's carrying value to its estimated fair value.

(g) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized and is tested for impairment at least annually, by a two-step test. Under the first step, the book value of each reporting unit is compared to its fair value using a cash flow model. If the book value of the reporting unit is greater than the fair value a second step is required which calculates goodwill as a residual, after allocating the fair value of the business units to the assets and liabilities, based on their fair values.

(h) Intangible assets:

Intangible assets, which are comprised primarily of customer relationships and non-compete agreements, are recorded at cost and amortized using the straight-line method over their useful lives ranging from 3 to 7 years. The weighted average amortization period is 7 years, and amortization over the next five years is anticipated to average \$8,030,000 per year.

(i) Investments:

Long-term investments in which the Corporation exerts significant influence over the investee are accounted for by the equity method. Under this method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Corporation's pro rata share of post acquisition earnings (loss) of the investee. When there has been a decline in the value of an investment that is other than temporary, the investment is written down to estimated net realizable value.

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 4

Years ended December 31, 2008 and 2007

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## 4. Significant Accounting Policies (continued)

(j) Revenue recognition:

The Corporation's services are generally provided based upon purchase orders or contracts with its customers that include fixed or determinable prices based upon monthly, daily, or hourly rates. Revenue is recognized when services and equipment rentals are rendered and only when collectability is reasonably assured.

The Corporation's sales of manufactured camps are based upon contracts with its customers that include fixed prices. Revenue is recognized upon completion of the manufacturing process and shipment to the customer. Deposits received prior to the completion of a camp are deferred until the manufacturing process is complete and the camp has been shipped to the customer.

(k) Stock-based compensation plan:

The Corporation has an equity incentive plan which is described in Note 16. The fair value of common share purchase options is calculated at the date of grant using the Black-Scholes option pricing model and that value is recorded as compensation expense on a straight-line basis over the grant's vesting period with an offsetting credit to contributed surplus. Upon exercise of the common share purchase option, the associated amount will be reclassified from contributed surplus to share capital. Consideration paid by employees upon exercise of equity purchase options will be credited to share capital.

(l) Income taxes:

The Corporation follows the asset and liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the accounting and income tax bases of assets and liabilities, measured using the substantively enacted income tax rates and laws that will be in effect when the differences are expected to reverse. Changes to these balances are recognized in earnings in the period in which they occur. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(m) Employee benefit plan:

At December 31, 2008, approximately 58% (December 31, 2007 – 33%) of the employees of the Corporation were enrolled in defined contribution retirement plans. Employer contributions to defined contribution plans are expensed as employees earn the entitlement and contributions are made.

(n) Per share amounts:

Basic per share amounts are calculated using the weighted average number of common shares outstanding for the year. Diluted per share amounts are calculated following the treasury stock method assuming that proceeds obtained upon the exercise of options would be used to purchase common shares at the average market price during the period.

(o) 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, Page 5

Years ended December 31, 2008 and 2007

## 5. Acquisitions

### For the year ended December 31, 2008:

- (a) On January 31, 2008, Horizon acquired all of the common shares of Arctic Portable Buildings Inc. ("Arctic") for cash of \$541,000. Arctic rents portable building solutions to customers located in western Canada in the mining, construction, forestry and oil and gas sectors. The purchase price and its allocation to assets and liabilities was as follows:

| (000's)                         | Amount        |
|---------------------------------|---------------|
| Property, plant and equipment   | \$ 541        |
| Goodwill                        | 151           |
| Future income tax liabilities   | (151)         |
| <b>Total cash consideration</b> | <b>\$ 541</b> |

### For the year ended December 31, 2007:

- (a) On December 21, 2007, Horizon acquired all of the common shares of Pioneer Site Services Ltd. ("Pioneer") for cash of \$2,743,000. Pioneer has a 49% interest in Kitikmeot Caterers Ltd. ("Kitikmeot") and a 49% interest in Sakku Caterers Limited ("Sakku"). Kitikmeot and Sakku provide camp catering services throughout Nunavut.
- (b) On November 30, 2007, Horizon acquired all of the operating assets and liabilities of the group of companies operating as Northern Trailer ("Northern") for 3,865,385 common shares of Horizon valued at \$3.29 per share and cash of \$56,497,000. Northern designs, manufactures, sells and rents portable building solutions for use in a variety of industries. Northern primarily serves customers located in western Canada in the mining, construction, forestry and oil and gas sectors.
- (c) On September 28, 2007, Horizon acquired all of the common shares of Ready Oilfield Services Inc. ("Ready") for 96,470 common shares of Horizon valued at \$3.08 per share and cash of \$733,000. Ready assembles and rents transportable power generation units to be used on remote locations throughout northern Alberta and British Columbia and into the Northwest Territories and the Yukon.
- (d) On August 15, 2007, Horizon acquired all of the common shares of Multicultural Alliance Corporation ("MAC") for cash of \$507,000. MAC holds a land lease in northern Alberta near Fort McMurray.

The purchase prices and their allocation to assets and liabilities were as follows:

| (000's)                                | Pioneer         | Northern         | Ready           | MAC           | Total            |
|--|-----------------|------------------|-----------------|---------------|------------------|
| Acquired cash                          | \$ 1            | \$ 1,260         | \$ 62           | \$ -          | \$ 1,323         |
| Current assets                         | 42              | 11,071           | 63              | -             | 11,176           |
| Property, plant and equipment          | -               | 19,386           | 683             | -             | 20,069           |
| Goodwill                               | -               | 29,434           | 589             | 145           | 30,168           |
| Intangible assets                      | -               | 22,756           | -               | 480           | 23,236           |
| Equity investments                     | 2,687           | -                | -               | -             | 2,687            |
| Current liabilities                    | -               | (9,557)          | (58)            | (1)           | (9,616)          |
| Long-term debt                         | -               | (2,195)          | (199)           | -             | (2,394)          |
| Capital leases                         | -               | (515)            | -               | -             | (515)            |
| Future income tax assets (liabilities) | 13              | (2,426)          | (110)           | (117)         | (2,640)          |
| <b>Total purchase price</b>            | <b>\$ 2,743</b> | <b>\$ 69,214</b> | <b>\$ 1,030</b> | <b>\$ 507</b> | <b>\$ 73,494</b> |
| Cash                                   | \$ 2,743        | \$ 56,497        | \$ 733          | \$ 507        | \$ 60,480        |
| Common shares                          | -               | 12,717           | 297             | -             | 13,014           |
| <b>Total consideration</b>             | <b>\$ 2,743</b> | <b>\$ 69,214</b> | <b>\$ 1,030</b> | <b>\$ 507</b> | <b>\$ 73,494</b> |

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 6

Years ended December 31, 2008 and 2007

## 6. Financial 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)                         | December 2008 | December 2007 |
|---------------------------------|---------------|---------------|
| Neither impaired nor past due   | \$ 16,513     | \$ 8,251      |
| Impaired                        | 548           | 655           |
| Outstanding 31-60 days          | 7,481         | 6,270         |
| Outstanding 61-90 days          | 5,122         | 2,133         |
| Outstanding more than 90 days   | 6,111         | 2,199         |
| Total                           | \$ 35,775     | \$ 19,508     |
| Allowance for doubtful accounts | (548)         | (655)         |
| Accrued revenue                 | 2,315         | 1,705         |
| Other receivables               | 331           | 929           |
| Total accounts receivable       | \$ 37,873     | \$ 21,487     |

In the year ended December 31, 2008, the Corporation provided an allowance for \$269,000 of receivables aged greater than 90 days and also collected \$2,000 on amounts which had previously been allowed for. The Corporation also applied \$374,000 of allowance for doubtful accounts against the associated receivable balance. As at February 25, 2009 the Corporation has collected \$5,136,000 on amounts outstanding more than 90 days.



# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 7

Years ended December 31, 2008 and 2007

## 6. Financial Risk Management (continued)

### (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 increased its credit facilities in the third quarter of 2008 to 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 0.25% (December 31, 2008 - 3.75%).
- \$60,000,000 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 0.75% (December 31, 2008 - 4.25%).

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

| (000's)         | December 2008                           |                            | December 2007                           |                            |
|-----------------|---|----------------------------|---|----------------------------|
|                 | Trade and other payables <sup>(1)</sup> | Funded debt <sup>(2)</sup> | Trade and other payables <sup>(1)</sup> | Funded debt <sup>(2)</sup> |
| Within one year | \$ 18,177                               | \$ 9,322                   | \$ 18,699                               | \$ 21,970                  |
| 2 to 3 years    | -                                       | 16,220                     | -                                       | 1,047                      |
| 4 to 5 years    | -                                       | 22,404                     | -                                       | 278                        |
| Over 5 years    | -                                       | -                          | -                                       | 92                         |
|                 | \$ 18,177                               | \$ 47,946                  | \$ 18,699                               | \$ 23,387                  |

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

(2) Funded debt includes operating lines of credit, long-term debt and capital leases, and excludes deferred financing costs. Horizon's senior secured revolving term facility reached its term on February 1, 2009. The facility was renewed and extended to its next renewal date of February 1, 2010 and has been assumed to be termed out on the next renewal date.

### (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 year ended December 31, 2008 by approximately \$65,000. This assumes that the quantity of USD raw material purchases in the year ended December 31, 2008 remains unchanged and that the change in the USD/CAD exchange rate is effective from the beginning of the year.

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 8

Years ended December 31, 2008 and 2007

## 6. Financial Risk Management (continued)

(d) Market risk (continued):

### 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 0.25% and prime plus 0.75%, respectively. If interest rates were to have been 1% higher, it is estimated that the Corporation's earnings before taxes would have decreased by approximately \$430,000 for the year ended December 31, 2008. This assumes that the amount and mix of fixed and floating rate debt in the year ended December 31, 2008 remained unchanged and that the change in interest rates was effective from the beginning of the year. The fair value of the Corporation's variable-rate long-term debt approximates its carrying value as it is at a floating market rate of interest.

## 7. Inventory

| (000's)          | December 2008 | December 2007 |
|------------------|---------------|---------------|
| Raw materials    | \$ 6,217      | \$ 4,842      |
| Work-in-progress | 862           | 4,542         |
| Finished goods   | 2,881         | 5,048         |
|                  | \$ 9,960      | \$ 14,432     |

## 8. Property, Plant and Equipment

| December 31, 2008<br>(000's)            | Cost       | Accumulated<br>Depreciation | Net Book<br>Value |
|---|------------|-----------------------------|-------------------|
| Camp facilities                         | \$ 96,721  | \$ 9,838                    | \$ 86,883         |
| Tugs, barges & other marine equipment   | 18,378     | 3,834                       | 14,544            |
| Buildings                               | 13,683     | 1,789                       | 11,894            |
| Automotive & trucking equipment         | 16,202     | 4,234                       | 11,968            |
| Mats                                    | 9,085      | 2,393                       | 6,692             |
| Land                                    | 8,790      | -                           | 8,790             |
| Fuel supply & camp & catering equipment | 6,374      | 1,567                       | 4,807             |
| Leasehold improvements                  | 1,151      | 301                         | 850               |
| Manufacturing equipment                 | 860        | 300                         | 560               |
| Furniture & fixtures & other equipment  | 625        | 221                         | 404               |
| Computer hardware & software            | 728        | 196                         | 532               |
|   | \$ 172,597 | \$ 24,673                   | \$ 147,924        |
| December 31, 2007<br>(000's)            | Cost       | Accumulated<br>Depreciation | Net Book<br>Value |
| Camp facilities                         | \$ 55,869  | \$ 3,603                    | \$ 52,266         |
| Tugs, barges & other marine equipment   | 16,866     | 2,976                       | 13,890            |
| Buildings                               | 13,369     | 1,009                       | 12,360            |
| Automotive & trucking equipment         | 13,352     | 1,903                       | 11,449            |
| Mats                                    | 10,880     | 1,330                       | 9,550             |
| Land                                    | 5,939      | -                           | 5,939             |
| Fuel supply & camp & catering equipment | 4,226      | 732                         | 3,494             |
| Leasehold improvements                  | 908        | 97                          | 811               |
| Manufacturing equipment                 | 655        | 43                          | 612               |
| Furniture & fixtures & other equipment  | 604        | 146                         | 458               |
| Computer hardware & software            | 491        | 79                          | 412               |
|   | \$ 123,159 | \$ 11,918                   | \$ 111,241        |

At December 31, 2007 property, plant and equipment included assets under capital lease with a cost and net book value of \$579,000 and \$572,000. The Corporation paid out all capital leases in the third quarter of 2008.

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 9

Years ended December 31, 2008 and 2007

## 9. Goodwill

| (000's)                    | Amount     |
|----------------------------|------------|
| Balance December 31, 2006  | \$ 84,243  |
| Acquisitions               | 30,306     |
| Balance December 31, 2007  | \$ 114,549 |
| Purchase price adjustments | 210        |
| Acquisition                | 151        |
| Goodwill impairment loss   | (114,910)  |
| Balance December 31, 2008  | \$ -       |

Horizon performed its annual goodwill impairment test in the fourth quarter of 2008. The fair value of the Corporation's Camps & Catering and Matting units was less than their book value which required application of step two of the goodwill impairment test. Under step two of the test, the fair values of the assets and liabilities of each of the business units exceeded the fair value of the reporting unit and accordingly the recorded goodwill was fully impaired.

## 10. Intangible Assets

| (000's)                 | Cost      | Accumulated<br>Amortization | Net Book Value<br>December 2008 | Net Book Value<br>December 2007 |
|-------------------------|-----------|-----------------------------|---------------------------------|---------------------------------|
| Customer relationships  | \$ 56,194 | \$ 14,317                   | \$ 41,877                       | \$ 49,905                       |
| Non-compete agreements  | 2,375     | 1,491                       | 884                             | 1,675                           |
| Land lease              | 480       | 209                         | 271                             | 419                             |
| Total intangible assets | \$ 59,049 | \$ 16,017                   | \$ 43,032                       | \$ 51,999                       |

## 11. Long-Term Investments

| (000's)   | Kitikmeot &<br>Sakku | Mackenzie<br>Valley | MDIOS    | Beaufort | Total<br>Investments |
|---|----------------------|---------------------|----------|----------|----------------------|
| Balance December 31, 2006                                 | \$ -                 | \$ 1,929            | \$ 1,158 | \$ 438   | \$ 3,525             |
| Earnings (loss) on equity investment                      | -                    | 201                 | 501      | (66)     | 636                  |
| Return of capital   | -                    | (742)               | (231)    | (371)    | (1,344)              |
| Purchase of investments through<br>acquisition of Pioneer | 2,862                | -                   | -        | -        | 2,862                |
| Balance December 31, 2007                                 | \$ 2,862             | \$ 1,388            | \$ 1,428 | \$ 1     | \$ 5,679             |
| Earnings (loss) on equity investment                      | 780                  | 28                  | (219)    | -        | 589                  |
| Return of capital   | -                    | (73)                | (261)    | -        | (334)                |
| Post-closing purchase price adjustment                    | (174)                | -                   | -        | -        | (174)                |
| Balance December 31, 2008                                 | \$ 3,468             | \$ 1,343            | \$ 948   | \$ 1     | \$ 5,760             |

During the first quarter of 2007, the assets and liabilities of Beaufort Logistics Inc. were sold and paid, respectively. The remaining cash was distributed to the shareholders.

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 10

Years ended December 31, 2008 and 2007

## 12. Operating Lines of Credit

Horizon has a \$20,000,000 revolving credit facility which bears interest at a rate of prime plus 0.25% (December 31, 2008 - 3.75%, December 31, 2007 - 6.25%) with a syndicate of Canadian Chartered banks. At December 31, 2008, the Corporation had \$8,544,000 (December 31, 2007 - \$10,990,000) drawn on the revolving credit facility. At December 31, 2007 the Corporation also had \$10,000,000 drawn on the senior secured revolving term facility, which was classified as current. The revolving credit facility is 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 Horizon North Logistics Inc. and its wholly owned subsidiaries.

Arctic Oil & Gas Services Inc. has a \$1,000,000 revolving credit facility with a Canadian Chartered bank which bears interest at a rate of prime plus 0.75% (December 31, 2008 - 4.25%, December 31, 2007 - 6.75%). At December 31, 2008, the Corporation had drawn \$580,000 (Horizon's 50% - \$290,000, December 31, 2007 - nil) on the revolving credit facility. This revolving credit facility is secured by a first ranking security interest in and a floating charge on all personal property of Arctic Oil & Gas Services Inc., a first fixed charge on Swimming Point and other camp facilities.

## 13. Long-Term Debt

| (000's)                                | December 2008 | December 2007 |
|--|---------------|---------------|
| Senior secured revolving term facility | \$ 38,400     | \$ -          |
| Vehicle and equipment financing        | 712           | 1,536         |
| Land and building mortgage             | -             | 354           |
|  | \$ 39,112     | \$ 1,890      |
| Less deferred financing costs          | 514           | -             |
| Less current portion                   | 488           | 871           |
|  | \$ 38,110     | \$ 1,019      |

### Senior Secured Revolving Term Facility

Horizon has a \$60,000,000 senior secured revolving term facility which bears interest at a rate of prime plus 0.75% (December 31, 2008 - 4.25%) with a syndicate of Canadian Chartered banks. The senior secured revolving term facility is 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 Horizon North Logistics Inc. and its wholly owned subsidiaries.

Horizon's senior secured revolving term facility has terms which permit Horizon to extend the revolving facility for a period of 364 days prior to the maturity date. If the option to extend the facility is denied or Horizon requests the facility be converted to a non-revolving term facility, Horizon will commence making monthly payments equal to one twenty-fourth of the balance outstanding at the term out date on the first day of the thirteenth month subsequent to the maturity date. Horizon has incurred financing costs associated with this facility that are being deferred and amortized using the effective interest method.

### Vehicle and Equipment Financing

At December 31, 2008 Horizon had several vehicle and equipment financing contracts which are secured by the specific assets. The loans are repayable in monthly payments ranging from \$770 to \$3,703, including interest ranging from 0% to 4.90%.

### Land and Building Mortgage

As part of the acquisition of Northern, Horizon assumed mortgages for the land and buildings of the head office of Northern. The mortgages were repayable in monthly payments of \$4,210 plus interest at prime plus 1.25% (December 31, 2007 - 7.25%). Horizon paid the remaining balance of these mortgages in January 2008.

Principal repayments are as follows:

| (000's)         | Amount    |
|-----------------|-----------|
| 2009            | \$ 488    |
| 2010            | 173       |
| 2011            | 16,047    |
| 2012            | 19,204    |
| 2013 and beyond | 3,200     |
|                 | \$ 39,112 |

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 11

Years ended December 31, 2008 and 2007

## 14. Capital Lease Obligations

| (000's)  | December 2008 | December 2007 |
|--|---------------|---------------|
| Various equipment leases, maturing between 2009 and 2012, bearing interest at a weighted average rate of 8.23% | \$ -          | \$ 595        |
| Less imputed interest  | -             | 88            |
|  | \$ -          | \$ 507        |
| Less current portion   | -             | 109           |
|  | \$ -          | \$ 398        |

## 15. 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)  | December 2008 | December 2007 |
|--|---------------|---------------|
| (Loss) earnings before income taxes                                | \$ (96,500)   | \$ 7,113      |
| Combined federal and provincial income tax rate                    | 29.50%        | 32.12%        |
| Expected income tax provision                                      | (28,468)      | 2,285         |
| Goodwill impairment loss   | 29,525        | -             |
| Non-deductible stock based compensation                            | 520           | 951           |
| Earnings on equity investments                                     | (174)         | (204)         |
| Change due to substantively enacted tax rate reductions            | -             | (1,653)       |
| Change in estimated timing of realization of temporary differences | 570           | (252)         |
| Other  | (524)         | (94)          |
|  | \$ 1,449      | \$ 1,033      |

The components of net future income tax (asset) liability are as follows:

| (000's)                       | December 2008 | December 2007 |
|-------------------------------|---------------|---------------|
| Property, plant and equipment | \$ 13,793     | \$ 11,588     |
| Intangible assets             | 6,157         | 8,228         |
| Goodwill                      | (4,114)       | -             |
| Income tax losses             | (2,871)       | (4,220)       |
| Share issuance costs          | (1,509)       | (2,068)       |
|                               | \$ 11,456     | \$ 13,528     |

The Corporation has net operating losses for Canadian tax purposes of \$9,876,000 available to reduce future taxable income in Canada, which will expire as follows:

| (000's)         | Amount   |
|-----------------|----------|
| 2009            | \$ -     |
| 2010            | -        |
| 2011            | -        |
| 2012            | 1        |
| 2013 and beyond | 9,875    |
|                 | \$ 9,876 |

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 12

Years ended December 31, 2008 and 2007

## 16. 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, 2006  | 88,238,508  | \$ 186,628     |
| Issued for acquisition of Ready   | 96,470      | 297            |
| Issued for cash through private placement (net of future income taxes of \$923,000)                         | 18,200,000  | 57,873         |
| Issued for acquisition of Northern  | 3,865,385   | 12,717         |
| Balance at December 31, 2007  | 110,400,363 | \$ 257,515     |
| Share issue costs pertaining to November 30, 2007 private placement (net of future income taxes of \$5,000) | -           | (10)           |
| Balance at December 31, 2008  | 110,400,363 | \$ 257,505     |

On November 30, 2007, Horizon completed a private placement transaction through which 18,200,000 Horizon common shares were issued at \$3.30 per share for net cash proceeds of \$56,950,000.

(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, 2007 | 4,267,000           | 3.30   | 814,824             |
| Granted                   | 190,000             | 3.30   | -                   |
| Forfeited                 | (106,000)           | 3.29   | -                   |
| Balance December 31, 2008 | 4,351,000           | 3.30   | 2,183,482           |

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 13

Years ended December 31, 2008 and 2007

## 16. Share Capital (continued)

(c) Stock option plan (continued):

The exercise prices for options outstanding at December 31, 2008 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 \$ |
| \$3.10 to \$3.25         | 2,391,000 | 3.24   | 3.3  | 985,151             | 3.24   |
| \$3.26 to \$3.50         | 1,755,000 | 3.35   | 7.3  | 1,063,331           | 3.35   |
| \$3.51 to \$3.75         | 205,000   | 3.56   | 7.6  | 135,000             | 3.56   |
|                          | 4,351,000 | 3.30   | 5.1  | 2,183,482           | 3.32   |

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 the options and the assumptions used in their determination are as follows: weighted average fair value per option \$1.47 (December 31, 2007 – \$1.48); weighted average expected life of 3.6 years (December 31, 2007 – 3.6), average risk-free interest rate 4.1% (December 31, 2007 – 4.1%), and weighted average volatility 58% (December 31, 2007 – 58%).

For the year ended December 31, 2008, stock-based compensation expense on stock options included in net earnings amounted to \$1,762,000 (December 31, 2007 - \$2,961,000).

(d) Contributed surplus:

| (000's)                          | Amount   |
|----------------------------------|----------|
| Balance December 31, 2007        | \$ 3,802 |
| Stock based compensation expense | 1,762    |
| Balance December 31, 2008        | \$ 5,564 |

(e) Per share amounts:

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

|  | December 2008 | December 2007 |
|--|---------------|---------------|
| Weighted average common shares outstanding – basic   | 110,400,363   | 90,137,398    |
| Effect of share purchase options                     | -             | 8,032         |
| Weighted average common shares outstanding – diluted | 110,400,363   | 90,145,430    |

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 14

Years ended December 31, 2008 and 2007

## 17. Contingent Liabilities and Commitments

- (a) Some of the Corporation's facilities are situated on lands leased from the Government of the Northwest Territories. On the termination of the lease, the Corporation is to return the land in a condition satisfactory to the Government, which would include restoration of the land. At this time, the need for or nature of future site restoration costs which may be incurred cannot be determined.
- (b) The Corporation has outstanding bank letters of credits as follows:

| Maturity Date      | Amount (000's) |
|--------------------|----------------|
| January 16, 2009   | \$ 25          |
| June 1, 2009       | 150            |
| September 19, 2009 | 74             |

- (c) The Corporation rents premises and equipment under multiple lease contracts with varying expiration dates. The minimum lease payments under these leases over the next five years are as follows:

| (000's) | Amount   |
|---------|----------|
| 2009    | \$ 1,805 |
| 2010    | 1,567    |
| 2011    | 1,259    |
| 2012    | 883      |
| 2013    | 137      |
|         | \$ 5,651 |

## 18. Employee Benefit Plan

The Corporation has a registered defined contribution pension plan covering a number of its employees. Under the defined contribution plan, the Corporation matches individual contributions to a maximum of 5% of the employee's annual salary. Total expense under the defined contribution plan in the year ended December 31, 2008 was \$707,000 (December 31, 2007 - \$16,000).

## 19. 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 barge and barge camp rental and marine transportation of equipment and supplies in Canada's northern regions.

| Year ended<br>December 31, 2008   | Camps &<br>Catering | Matting   | Marine<br>Services | Corporate | Inter-segment<br>Eliminations | Total      |
|-----------------------------------|---------------------|-----------|--------------------|-----------|-------------------------------|------------|
| Revenue                           | \$ 137,025          | \$ 36,166 | \$ 10,447          | \$ -      | \$ (2,859)                    | \$ 180,779 |
| Operating earnings (loss)         | 25,142              | 1,923     | 1,847              | (8,580)   | (246)                         | 20,086     |
| Depreciation and amortization     | 16,037              | 6,060     | 1,075              | 174       | (64)                          | 23,282     |
| Loss (gain) on disposal of assets | 30                  | (17)      | -                  | -         | -                             | 13         |
| Stock based compensation          | 809                 | 196       | 19                 | 738       | -                             | 1,762      |
| Total assets                      | 184,177             | 36,363    | 19,381             | 6,669     | (163)                         | 246,667    |
| Goodwill                          | -                   | -         | -                  | -         | -                             | -          |
| Intangibles                       | 32,430              | 10,602    | -                  | -         | -                             | 43,032     |
| Capital expenditures              | 49,411              | 5,199     | 1,903              | 247       | (586)                         | 56,174     |

| Year ended<br>December 31, 2007   | Camps &<br>Catering | Matting   | Marine<br>Services | Corporate | Inter-segment<br>Eliminations | Total     |
|-----------------------------------|---------------------|-----------|--------------------|-----------|-------------------------------|-----------|
| Revenue                           | \$ 59,483           | \$ 32,019 | \$ 5,850           | \$ 2      | \$ (1,508)                    | \$ 95,846 |
| Operating earnings (loss)         | 7,397               | 7,275     | 721                | (7,629)   | -                             | 7,764     |
| Depreciation and amortization     | 7,240               | 4,995     | 931                | 139       | -                             | 13,305    |
| (Gain) loss on disposal of assets | (993)               | 17        | -                  | -         | -                             | (976)     |
| Stock based compensation          | 958                 | 362       | 35                 | 1,606     | -                             | 2,961     |
| Total assets                      | 233,624             | 62,731    | 20,061             | 4,976     | 21                            | 321,413   |
| Goodwill                          | 89,243              | 25,306    | -                  | -         | -                             | 114,549   |
| Intangibles                       | 38,974              | 13,025    | -                  | -         | -                             | 51,999    |
| Capital expenditures              | 13,696              | 12,908    | 5,433              | 345       | (278)                         | 32,104    |



# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 15

Years ended December 31, 2008 and 2007

## 20. Related Party Transactions

| Description of related party   |   | December 2008 | December 2007 |
|--|---|---------------|---------------|
| Corporation of which a director of Horizon is an officer   | Purchases                                   | \$ 45,000     | \$ 532,000    |
|  | Sales                                       | 176,000       | 1,114,000     |
|  | Included in trade accounts receivable       | 94,000        | 343,000       |
| Corporation of which a director of Horizon is an officer and an officer of Horizon is a director | Purchases                                   | 381,000       | 528,000       |
|  | Sales                                       | 81,000        | 505,000       |
|  | Included in trade accounts receivable       | 33,000        | 4,000         |
|  | Included in trade accounts payable          | 7,000         | 16,000        |
| Corporation which is a significantly influenced investee   | Purchases                                   | -             | 47,000        |
|  | Included in trade accounts receivable       | 161,000       | 161,000       |
|  | Included in trade accounts payable          | 14,000        | 14,000        |
| Corporation which is a significantly influenced investee   | Purchases                                   | 137,000       | 106,000       |
|  | Sales                                       | 6,270,000     | 3,510,000     |
|  | Recovery of administrative overhead charged | 152,000       | -             |
|  | Included in trade accounts receivable       | 992,000       | 1,419,000     |
|  | Included in trade accounts payable          | 25,000        | 15,000        |
|  |   |               |               |
| Corporation which is a significantly influenced investee   | Purchases                                   | 47,000        | -             |
|  | Sales                                       | 3,000         | -             |
|  | Included in trade accounts receivable       | 461,000       | -             |
|  | Included in trade accounts payable          | 24,000        | -             |
| Corporation which is a significantly influenced investee   | Sales                                       | 28,000        | -             |
|  | Interest earned                             | 7,000         | -             |
|  | Included in trade accounts receivable       | 227,000       | -             |
| Corporation which is a significantly influenced investee   | Purchases                                   | 57,000        | 578,000       |
|  | Sales                                       | 281,000       | 41,000        |
|  | Included in trade accounts receivable       | -             | 380,000       |
|  | Included in trade accounts payable          | -             | 42,000        |
| Corporation which is a jointly controlled investee   | Purchases                                   | 260,000       | 51,000        |
|  | Sales                                       | 7,000         | 155,000       |
|  | Rent charged                                | 93,000        | 64,000        |
|  | Recovery of administrative overhead charged | 132,000       | 33,000        |
|  | Included in trade accounts receivable       | 83,000        | 21,000        |
|  | Included in trade accounts payable          | -             | 13,000        |
|  |   |               |               |
| Corporation which is jointly controlled by one of the directors of Horizon                       | Rent paid                                   | 58,000        | 53,000        |

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.

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 16

Years ended December 31, 2008 and 2007

## 21. Joint Venture

The Corporation's interests in the Arctic Oil & Gas Services Inc. joint venture are as follows:

| (000's)  | December 2008 | December 2007 |
|--|---------------|---------------|
| Current assets                                 | \$ 459        | \$ 658        |
| Property, plant and equipment, net             | 1,390         | 1,543         |
| Current liabilities                            | 397           | 288           |
| Future income tax liability                    | 261           | 269           |
| Revenues                                       | \$ 2,058      | \$ 3,479      |
| Expenses                                       | 2,545         | 3,138         |
| Net (loss) income                              | \$ (487)      | \$ 341        |
| Cash flows resulting from operating activities | (131)         | 234           |
| Cash flows resulting from investing activities | 145           | (170)         |
| Cash flows resulting from financing activities | (19)          | (72)          |

## 22. Supplemental Information

Components of change in non-cash working capital balances related to operating activities:

| (000's)                                  | December 2008 | December 2007 |
|--|---------------|---------------|
| Accounts receivable                      | \$ (17,273)   | \$ 42         |
| Inventory                                | 4,472         | (1,971)       |
| Prepaid expenses                         | (441)         | (43)          |
| Accounts payable and accrued liabilities | 588           | 299           |
| Deferred revenue                         | (692)         | (103)         |
| Income taxes receivable/payable          | (2,891)       | 2,024         |
|  | \$ (16,237)   | \$ 248        |

Components of change in non-cash working capital balances related to investing activities:

| (000's)                                  | December 2008 | December 2007 |
|--|---------------|---------------|
| Accounts receivable                      | \$ 885        | \$ (75)       |
| Inventory                                | -             | 109           |
| Prepaid expenses                         | 78            | (78)          |
| Accounts payable and accrued liabilities | (49)          | (3,030)       |
| Deferred revenue                         | -             | -             |
| Income taxes receivable/payable          | -             | -             |
|  | \$ 914        | \$ (3,074)    |

Components of change in non-cash working capital balances related to financing activities:

| (000's)                                  | December 2008 | December 2007 |
|--|---------------|---------------|
| Accounts receivable                      | \$ -          | \$ -          |
| Inventory                                | -             | -             |
| Prepaid expenses                         | -             | -             |
| Accounts payable and accrued liabilities | (210)         | 149           |
| Deferred revenue                         | -             | -             |
| Income taxes receivable/payable          | -             | -             |
|  | \$ (210)      | \$ 149        |

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements, Page 17

Years ended December 31, 2008 and 2007

## 23. Capital Management

The Corporation's main objective is to build a profitable, growth-oriented company; therefore, the Corporation's primary capital management objective is to maintain a conservative balance sheet to maintain investor, creditor, and market confidence and to sustain future development of the business.

The Corporation monitors capital through two key ratios: total debt to EBITDAS <sup>(1)</sup> and total debt to total debt plus shareholders' equity.

Total debt to EBITDAS <sup>(1)</sup> is calculated as short-term debt plus long-term debt divided by 12 months EBITDAS <sup>(1)</sup>. Total debt to EBITDAS <sup>(1)</sup> is monitored from both a historical and anticipated EBITDAS <sup>(1)</sup> perspective.

Total debt to total debt plus shareholders equity is calculated as short-term debt plus long-term debt divided by short-term debt plus long-term debt plus shareholders' equity.

The Corporation's strategy during the year ended December 31, 2008, which was unchanged from 2007, was to maintain a low level of debt in comparison to EBITDAS <sup>(1)</sup> and total debt plus shareholders' equity.

| (000's)  | December 2008 | December 2007 |
|--|---------------|---------------|
| Balance sheet components of ratios                         |               |               |
| Short-term debt <sup>(2)</sup>                             | \$ 488        | \$ 980        |
| Long-term debt <sup>(2)</sup>                              | 38,110        | 1,417         |
| Total debt   | 38,598        | 2,397         |
| Shareholders' equity                                       | 169,602       | 265,799       |
| Total debt plus shareholders' equity                       | \$ 208,200    | \$ 268,196    |
| Income statement components of ratios (trailing 12 months) |               |               |
| Operating earnings   | \$ 20,086     | \$ 7,764      |
| Depreciation   | 14,315        | 7,534         |
| Amortization   | 8,967         | 5,771         |
| Loss (gain) on disposal of property, plant and equipment   | 13            | (976)         |
| Stock based compensation                                   | 1,762         | 2,961         |
| EBITDAS <sup>(1)</sup>                                     | \$ 45,143     | \$ 23,054     |
| Total debt to EBITDAS <sup>(1)</sup>                       | 0.86          | 0.10          |
| Total debt to total debt plus shareholders equity          | 0.19          | 0.01          |

(1) EBITDAS (Earnings before interest, taxes, depreciation, amortization, 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. Horizon's method of calculating EBITDAS and operating earnings (loss) may differ from other entities and accordingly, EBITDAS may not be comparable to measures used by other entities.

(2) Short and long-term debt includes long-term debt, deferred financing cost and capital lease obligations. The fair value of the Corporation's variable-rate long-term debt approximates its carrying value as it is at a floating market rate of interest.

## 24. Subsequent Events

Subsequent to December 31, 2008, Horizon renewed its revolving credit and senior secured revolving term credit facilities. The credit facilities were renewed for an additional year, extending the maturity date on the senior secured revolving term facility to February 1, 2010. The interest rates on the revolving credit and senior secured revolving term facilities were increased to rates of bank prime plus 1.00% and bank prime plus 1.50% respectively.

## **CORPORATE INFORMATION**

### **DIRECTORS**

Ethel Blondin-Andrew  
Yellowknife, Northwest Territories

Roderick W. Graham<sup>(1)(2)(3)</sup>  
Calgary, Alberta

Steven C. Grant  
Houston, Texas

Bruce W. Mullen<sup>(1)(2)(3)</sup>  
Calgary, Alberta

Russell Newmark<sup>(1)(2)(3)</sup>  
Calgary, Alberta

Ric E. Peterson  
Calgary, Alberta

Shane P.D. Stampe<sup>(4)</sup>  
Calgary, Alberta

Dean S. Swanberg<sup>(4)</sup>  
Grande Prairie, Alberta

- (1) Audit Committee Member
- (2) Compensation Committee Member
- (3) Governance and Nominating Committee Member
- (4) 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  
Chairman, President and Chief Executive Officer

Bob German  
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