Tornado Hydrovacs,

a division of Empire Iron Works Ltd.

Interim Condensed

Carve-out Financial Statements

For the 3 month period ended
March 31, 2016

Unaudited

INTERIM CONDENSED CARVE-OUT STATEMENT OF COMPREHENSIVE LOSS

		Unaudited	Unaudited
For the three months ended March 31	**Notes**	**2016**	**2015**
(In $000's CAD, except per-share amounts)		$	$
Revenues *(1)*		**3,382**	4,625
Cost of sales, excluding depreciation and amortization *(2)*	**3, 4**	**(3,293)**	(4,042)
Gross Profit, excluding depreciation and amortization		**89**	583
Selling and administrative expenses	**5**	**(524)**	(720)
Result before depreciation, amortization and other items		**(435)**	(137)
Depreciation of property, plant and equipment		**(69)**	(45)
Amortization of intangible assets		**(29)**	—
Result before other items of income		**(533)**	(182)
Finance costs		**(5)**	(11)
Management fees		**(100)**	(180)
		(105)	(191)
Net (loss) before tax		**(638)**	(373)
Income tax recovery (expense)			
Current		**168**	88
Deferred		**3**	13
		171	101
Comprehensive loss		**(467)**	**(272)**

(1) Included in revenue are foreign exchange gains of $30 for the period ended March 31, 2016 (2015 - foreign exchange losses of $24)
(2) Cost of sales including depreciation and amortization was ($3,368) for the year ended March 31, 2016 (2015 - ($4,072))

See accompanying notes

INTERIM CONDENSED CARVE-OUT STATEMENT OF FINANCIAL POSITION

As at	Notes	Unaudited 31-Mar-16	31-Dec-15
(In $000's CAD)			$
ASSETS			
Current assets			
Accounts receivable		**1,052**	1,609
Intercompany receivable		**4,517**	4,631
Inventory	**3**	**5,815**	4,650
Prepaid expenses and other assets		**98**	87
Total current assets		**11,482**	10,977
Non-current assets			
Property, plant and equipment, net		**1,956**	2,024
Intangible assets, net		**283**	312
Total non-current assets		**2,239**	2,336
Total assets		**13,721**	**13,313**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness		**2,713**	2,235
Accounts payable and accrued liabilities		**2,114**	1,526
Current portion of finance leases		**74**	67
Total current liabilities		**4,901**	3,828
Non-current liabilities			
Finance leases		**10**	35
Deferred income tax liability		**244**	416
Payable to related parties		**3,280**	3,281
Total non-current liabilities		**3,534**	3,732
Total liabilities		**8,435**	**7,560**
EQUITY			
Owner's interest		**7,792**	7,792
Retained deficit		**(2,506)**	(2,039)
Total equity attributable to owners		**5,286**	5,753
Total liabilities and equity		**13,721**	13,313

Contingencies *[note 8]*
See accompanying notes

On behalf of the Board of Directors:

INTERIM CONDENSED CARVE-OUT STATEMENT OF CHANGES IN EQUITY AND OWNER'S INTEREST

As at March 31, 2016

	Owner's Interest	Deficit	Total equity
(In $000's CAD)	$	$	$
As at December 31, 2015	**7,792**	**(2,039)**	**5,753**
Comprehensive loss for the period	**—**	**(467)**	**(467)**
As at March 31, 2016	**7,792**	**(2,506)**	**5,286**

As at March 31, 2015

	Owner's Interest	Retained deficit	Total equity
(In $000's CAD)	$	$	$
As at December 31, 2014	**7,792**	**(1,152)**	**6,640**
Comprehensive loss for the period	**—**	**(272)**	**(272)**
As at March 31, 2015	**7,792**	**(1,424)**	**6,368**

See accompanying notes

INTERIM CONDENSED CARVE-OUT STATEMENTS OF CASH FLOWS

(In $000's CAD, except per-share amounts)	Three months ended March 31 2016	 2015
	$	$
OPERATING ACTIVITIES		
Net comprehensive (loss)	**(467)**	**(272)**
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	**69**	45
Amortization of intangible assets	**29**	—
Deferred income taxes	**(3)**	(13)
Cash flow from (used in) operations	**(372)**	**(240)**
Net change in non-cash working capital balances	**(200)**	(2,036)
Cash flow used in operating activities	**(572)**	**(2,276)**
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	**(1)**	(169)
Increase amounts due to related parties	**113**	240
Cash flow used in investing activities	**112**	**71**
FINANCING ACTIVITIES		
Proceeds received from finance leases	—	**32**
Repayment of finance leases	**(18)**	**(19)**
Increase in bank indebtedness	**478**	—
Cash flow used in financing activities	460	13
Net decrease in cash and equivalents during the period	—	(2,192)
Cash and cash equivalents, beginning of period	—	3,909
Cash and cash equivalents, end of period	—	1,717

1. Corporate information

Tornado Hydrovacs (the "Spin-Out" or "Company") designs, fabricates, manufactures and sells hydrovac trucks in Canada and the United States. It is a division of Empire Iron Works Ltd. ("Empire" or the "Parent") a wholly owned subsidiary of Empire Industries Ltd. ("EIL"), which trades on the TSX-V as "EIL". The Spin-Out is located at 7105 McLeod Trail, SW, Suite 510, Calgary, Alberta, T2H 2K6.

On February 1, 2016, EIL announced a plan to spin-out (the "Spin-Out Transaction") to a new corporation, its wholly owned hydrovac business including all of the tangible and intangible assets, employees and operations of Tornado Trucks, a division of Empire. EIL announced that, a wholly owned subsidiary holding company, Tornado Global Hydrovacs Inc. ("Holdco") has closed a private placement of subscription receipts for aggregate gross proceeds of $7,500,000. If the Spin-Out Transaction is completed, the aggregate gross proceeds of the subscription receipt private placement will be used as working capital of operating company, Tornado Global Hydrovacs Ltd. ("Tornado"), a wholly-owned subsidiary of Tornado to be organized in China to carry on the hydrovac business of Tornado in China and a wholly-owned subsidiary of Tornado named Tornado Hydrovacs Inc. to carry on the hydrovac business of Tornado in the U.S.A.

The transaction will be conducted under the terms of a Plan of Arrangement. These terms include the purchase of all Holdco shares from EIL and the wind-up of Holdco into Tornado, the issuance of shares in Tornado (which subject to regulatory approval will become listed on the TSXV) equaling no less than 54.5% of the total issued and outstanding shares to the existing shareholders of EIL and an interest bearing promissory note to be issued to EIL in exchange for the transfer of the Spin-Out to Tornado. On June 28, 2016 Empire announced that it had completed the plan of arrangement.

2. Summary of significant accounting policies

The interim financial statements are condensed and have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these condensed interim careve-out financial statements as disclosed in the Spin-Out's carve-out financial statements for the year ended December 31, 2015. The Spin-Out's 2015 annual financial statements include incremental annual IFRS disclosures that may be helpful to readers of the interim results and therefore should be read in conjunction with these interim condensed carve-out financial statements.

Basis of presentation

The financial statements are prepared for the period ended March 31, 2016 and include the results for the comparative period ended March 31, 2015. The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as disclosed. These financial statements have been prepared in Canadian dollars which is the functional currency of the Company.

Basis of preparation

These interim condensed carve-out financial statements have been prepared from the books and records of the Parent and purport to represent the historical results of operations, financial position and cash flows of the Company as if it had existed as a separate standalone entity for the periods presented under the Parent's management. Upon completion of the Arrangement, Tornado Hydrovacs will cease to be a wholly owned subsidiary of the Parent, pursuant to the transactions contemplated by the Arrangement Agreement.

The historical results of operations, financial position and cash flows of the Company may not be indicative of what they would actually have been had the Company been carried out as a separate stand-alone entity, nor are they indicative of what Company results of operations, financial position and cash flows may be in the future.

The following basis of preparation for the interim condensed carve-out financial statements has been applied:

- All assets and liabilities directly related to the Company have been attributed to the Company. These do not include assets and liabilities that are not specifically identifiable with the Company.
- Revenue and expenses directly related to the Company have been entirely attributed to the Company.
- During the periods ended March 31, 2016 and 2015, the Company received services and support functions from the Parent and the operations of the Company were dependent upon the Parent's ability to perform these services and support functions. These administrative and other costs, relating to human resources and finance are used by the Company and are paid by the Parent. These costs have been allocated to the Company based on proportionate aggregated costs of professional services and sales and marketing departments attributed to the Company compared to the aggregated expenses of these departments of the Parent. These allocated expenses have been recorded in management fees.
- The Company did not have its own banking facility and relied on the facility at the Parent who accounted for the transactions through an intercompany account. Any interest income or expense that would have otherwise been incurred with a third party has been recorded as part of the management fee.

Expenses that have been allocated to the Company for the purposes of these condensed interim carve-out financial statements have been recorded as contributions from the Parent within the Parent's owner’s interest account. The Parent's owner’s interest account represents the cumulative owner’s interest by the Parent in the Company through the dates presented and includes cumulative operating results.

Management believes the assumptions and allocations underlying the interim condensed carve-out financial statements are reasonable and appropriate under the circumstances. The expenses and cost allocations have been determined on a basis considered by the Parent to be a reasonable reflection of the utilization of services provided to or the benefit received by the Company during the periods presented. However, these assumptions and allocations are not necessarily indicative of the costs the Company would have incurred if it had operated on a stand-alone basis or as an entity independent of the Parent.

Statement of compliance

These interim condensed carve-out financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Use of estimates

Accounting measurements at interim dates inherently involve a greater reliance on estimates than at year-end. In the opinion of management, the unaudited interim condensed carve-out financial statements include all adjustments of a normal recurring nature to present fairly, the financial position of the Company as at March 31, 2016.

Amounts reported in thousands (000's) except per share amounts

3. Inventories

	March 31, 2016 $	December 31, 2015 $
Raw materials	2,494	2,136
Finished goods	2,644	1,603
Work-in-process	677	911
	5,815	**4,650**

During the period, the Spin-Out recorded inventory write-downs of $nil (2015 - $nil). The amount of inventories recognized as an expense within cost of sales is $2,565 (2015 - $2,753).

4. Cost of sales

	March 31, 2016 $	March 31, 2015 $
Direct construction costs	(2,971)	(3,307)
Indirect salaries and benefits	(91)	(182)
Indirect production costs	(231)	(553)
	(3,293)	**(4,042)**

5. Selling and administrative expenses

	March 31, 2016 $	March 31, 2015 $
Salaries and benefits	(360)	(402)
General, selling and administrative expenses	(164)	(318)
	(524)	**(720)**

6. Operating segments

The Company operates as one operating segment. The table below shows the geographical sales performance:

	March 31, 2016 $	March 31, 2015 $
Canada	2,997	4,150
United States	385	475
	3,382	**4,625**

All of the Company's non-current assets are located in Canada.

Amounts reported in thousands (000's) except per share amounts

7. Capital disclosure and management

The Group's objective when managing its long-term capital structure is to strive for a long-term manageable level of long-term funded debt to total capitalization. The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares, sell redundant or non-core assets or borrow through the issue of long-term debt.

Funded debt is defined as long term debt including finance leases. Tangible net worth includes shareholder's equity, subordinate debt such as subordinate convertible debentures and limited recourse loans less intangible assets and deferred tax assets. The Group's strategy during the period, which was unchanged from the prior period, was to maintain its ability to secure access to financing at a reasonable cost. There are external restrictions to capital as lending limits are based on asset availability and financing agreements that are impacted by covenants. Management actively monitors these limits to ensure compliance.

As at the periods ended	March 31, 2016 $	December 31, 2015 $
Current portion of finance leases	74	67
Long-term portion of finance leases	10	35
Funded debt	84	102
Equity	5,286	5,753
Less: intangible assets (net)	(283)	(312)
Tangible net worth	5,003	5,441
Capitalization	5,087	5,543
Funded debt: Capitalization	1.7%	1.8%

8. Contingencies

Director and officer indemnification

The Parent indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Spin-Out to the extent permitted by law. The Parent has acquired and maintains liability insurance for its directors and officers as well as those of its wholly-owned subsidiaries and certain affiliated companies.

Other indemnification provisions contingencies

From time to time, the Spin-out enters into agreements in the normal course of operations and in connection with business or asset acquisitions and dispositions. By their nature, these agreements may provide for indemnification of counterparties. The varying nature of these indemnification agreements prevents the Spin-Out from making a reasonable estimate of the maximum potential amount it could incur. Historically, the Spin-Out has not made any significant payments in connection with these indemnification provisions.

Other contingencies

The Spin-Out is subject to various product liability or general claims and legal proceedings covering matters that arise in the ordinary course of business. All such matters are adequately covered by insurance or by accruals, or are determined by management to be without merit, or of such kinds or amounts as would not have a material adverse effect on the financial results of the Spin-Out.

9. Related party transactions

The Company had purchases from an affiliate in the period in the amount of $185 (2015 - $525), as well as sales to an affiliate in the period of $8 (2015 - $nil). In addition to the that, the Company was charged management fees from its parent Company in the period of $100 (2015 - $180). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.