## INTERIM CONDENSED CARVE-OUT STATEMENT OF COMPREHENSIVE LOSS
(unaudited)

| | | 3 months | | 6 months | |
|---|---|---|---|---|---|
| For the periods ended June 30 | Notes | 2016 | 2015 | 2016 | 2015 |
| (In $000's CAD, except per-share amounts) | | $ | $ | $ | $ |
| **Revenues** *(1)* | | **5,764** | **6,686** | **9,146** | 11,311 |
| Cost of sales, excluding depreciation and amortization *(2)* | **7** | **(5,488)** | **(5,881)** | **(8,781)** | (9,923) |
| Gross Profit, excluding depreciation and amortization | | **276** | **805** | 365 | 1,388 |
| Selling and administrative expenses | **8** | **(561)** | **(675)** | **(1,085)** | (1,395) |
| Result before depreciation, amortization and other items | | **(285)** | **130** | **(720)** | (7) |
| Depreciation of property, plant and equipment | | **(69)** | **(44)** | **(138)** | (89) |
| Amortization of intangible assets | | **(29)** | **—** | **(58)** | — |
| Result before other items of income | | **(383)** | **86** | **(916)** | (96) |
| Finance costs | | **(4)** | **(7)** | **(9)** | (18) |
| Management fees | | **(100)** | **(180)** | **(200)** | (360) |
| | | **(104)** | **(187)** | **(209)** | (378) |
| **Net (loss) before tax** | | **(487)** | **(101)** | **(1,125)** | (474) |
| Income tax recovery (expense) | | | | | |
| Current | | **132** | **—** | **300** | 88 |
| Deferred | | **—** | **26** | **3** | 39 |
| | | **132** | **26** | **303** | 127 |
| **Comprehensive loss** | | **(355)** | **(75)** | **(822)** | **(347)** |

*(1)* Included in revenue are foreign exchange gains of $31 for the three month period ended June 30, 2016 (2015 - foreign exchange losses of $12)
Included in revenue are foreign exchange gains of $61 for the six-month period ended June 30, 2016 (2015 - foreign exchange losses of $36)

*(2)* Cost of sales including depreciation and amortization was ($5,565) for the three month period ended June 30, 2016 (2015 - ($5,925))
Cost of sales including depreciation and amortization was ($8,936) for the six-month ended June 30, 2016 (2015 - ($10,012))

*See accompanying notes*

## INTERIM CONDENSED CARVE-OUT STATEMENT OF FINANCIAL POSITION (unaudited)

| As at | Notes | 30-Jun-16 | 31-Dec-15 |
|---|---|---|---|
| (In $000's CAD) | | | $ |
| **ASSETS** | | | |
| **Current assets** | | | |
| Share proceeds held in trust | **6** | **6,954** | — |
| Accounts receivable | **5** | **995** | 1,609 |
| Inventory | **5** | **4,571** | 4,650 |
| Prepaid expenses and other assets | **5** | **111** | 87 |
| **Total current assets** | | **12,631** | 6,346 |
| **Non-current assets** | | | |
| Property, plant and equipment, net | **5** | **1,910** | 2,024 |
| Goodwill and intangible assets, net | **5** | **5,157** | 312 |
| **Total non-current assets** | | **7,067** | 2,336 |
| **Total assets** | | **19,698** | **8,682** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | **5** | **1,455** | 1,526 |
| Current portion of finance leases | **5** | **65** | 67 |
| **Total current liabilities** | | **1,520** | 1,593 |
| **Non-current liabilities** | | | |
| Finance leases | | **—** | 35 |
| Note payable | **5** | **2,895** | — |
| **Total non-current liabilities** | | **2,895** | 35 |
| **Total liabilities** | | **4,415** | **1,628** |
| **EQUITY** | | | |
| Former owner's net investment | | **—** | 7,054 |
| Share capital | **6** | **15,283** | — |
| **Total equity attributable to owners** | | **15,283** | 7,054 |
| **Total liabilities and equity** | | **19,698** | **8,682** |

Contingencies *[note 12]*

*See accompanying notes* — —

On behalf of the Board of Directors:

## INTERIM CONDENSED CARVE-OUT STATEMENT OF CHANGES IN EQUITY AND OWNER'S INTEREST (unaudited)

**As at June 30, 2016**

| | Common shares | | Former Parent's net investment | Total equity |
|---|---|---|---|---|
| (In $000's CAD except number of shares) | # | $ | $ | $ |
| **As at December 31, 2015** | **—** | **—** | **7,054** | **7,054** |
| Comprehensive loss for the period | **—** | **—** | **(822)** | **(822)** |
| Change in Former Parent's net investment | **32,417,056** | **8,329** | **(6,232)** | **2,097** |
| Private placement of shares | **27,063,787** | **6,954** | **—** | **6,954** |
| **As at June 30, 2016** | **59,480,843** | **15,283** | **—** | **15,283** |

**As at June 30, 2015**

| | Common shares | | Former Parent's net investment | Total equity |
|---|---|---|---|---|
| (In $000's CAD except number of shares) | # | $ | $ | $ |
| **As at December 31, 2014** | **—** | **—** | **6,640** | **6,640** |
| Comprehensive loss for the period | **—** | **—** | **(347)** | **(347)** |
| **As at June 30, 2015** | **—** | **—** | **6,293** | **6,293** |

*See accompanying notes*

## INTERIM CONDENSED CARVE-OUT STATEMENTS OF CASH FLOWS
(unaudited)

| (In $000's CAD, except per-share amounts) | 3 months | | 6 months | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $ | | | $ |
| **OPERATING ACTIVITIES** | | | | |
| Net comprehensive (loss) | — | — | — | — |
| *Add (deduct) items not affecting cash* | | | | |
| Hydrovac business pre-acquisition net loss | **(355)** | **(75)** | **(822)** | (347) |
| Depreciation of property, plant and equipment | **69** | **44** | **138** | 89 |
| Amortization of intangible assets | **29** | — | **58** | — |
| Deferred income taxes | **(132)** | **(26)** | **(302)** | (127) |
| **Cash flow from (used in) operations** | **(389)** | **(57)** | **(928)** | **(385)** |
| Change in non-cash working capital prior to acquisition date | **798** | **18** | **598** | (2,018) |
| **Cash flow used in operating activities** | **409** | **(39)** | **(330)** | **(2,403)** |
| **INVESTING ACTIVITIES** | | | | |
| Acquisition of property, plant and equipment | **(23)** | **(44)** | **(24)** | (213) |
| Acuisition of intangible assets | **(101)** | — | **(101)** | — |
| **Cash flow used in investing activities** | **(124)** | **(44)** | **(125)** | **(213)** |
| **FINANCING ACTIVITIES** | | | | |
| Proceeds received from finance leases | — | — | — | **32** |
| Repayment of finance leases | **(19)** | — | **(37)** | **(19)** |
| Proceeds from private placement held in trust | **6,954** | — | **6,954** | — |
| Contributions by former parent | **(266)** | **83** | **492** | **2,603** |
| **Cash flow used in financing activities** | 6,669 | 83 | 7,409 | 2,616 |
| **Net decrease in cash and equivalents during the period** | 6,954 | — | 6,954 | — |
| Cash and cash equivalents, beginning of period including funds in trust | — | — | — | — |
| **Cash and cash equivalents, end of period including funds in trust** | **6,954** | — | **6,954** | — |

## 1. Corporate information

Tornado Global Hydrovacs Inc. (the "Company") designs, fabricates, manufactures and sells hydrovac trucks in Canada and the United States. The Spin-Out is located at 7105 McLeod Trail, SW, Suite 510, Calgary, Alberta, T2H 2K6.

Prior to June 28, 2016 the Hydrovac business of the Company was a division of Empire Iron Works Ltd. a wholly owned subsidiary of Empire Industries Ltd. (the "Former Parent"). The hydrovac business represented a portion of the Former Parent's business and did not constitute a separate legal entity.

On February 1, 2016, the Former Parent 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 the Former Parent. The Former Parent also 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 CAD (which consisted of $3,521 USD and 11,946 Chinese Yuan/RMB). 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 Arrangement Agreement was approved by the Board of Directors of the Former Parent on May 20, 2016 and by the Former Parent's shareholders on June 21, 2016 and the Arrangement closed on June 28, 2016, the effective date. Upon the effective time of the Arrangement, the Former Parent spun out the assets and liabilities of Tornado Trucks Business to Tornado Global Hydrovacs Inc. in exchange for common shares. The Former Parent then distributed the common shares in Tornado Global Hydrovacs Inc. to its shareholders, such that the Former Parent's shareholders received one common share of Tornado Global Hydrovacs Inc. for every eight common shares held of the Former Parent.

The transaction was conducted under the terms of a Plan of Arrangement. These terms include the purchase of all Holdco shares from the Former Parent and the wind-up of Holdco into the Company, the issuance of shares in the Company equaling no less than 54.5% of the total issued and outstanding shares to the existing shareholders of the Former Parent and an interest bearing promissory note to be issued to the Former Parent in exchange for the transfer of the of assets and liabilities to the Company.

## 2. Basis of preparation

### Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its annual financial statements as at and for the year ending December 31, 2016. These condensed interim consolidated financial statements were approved by the Board of Directors on August 26, 2016.

### Basis of presentation

The operational results for the Hydrovac Business for the pre-acquisition period of January 1, 2016 to June 27, 2016 have been included in these condensed interim consolidated financial statements to present complete information about the acquired entity. The pre-acquisition cash flows have been included in the current period condensed interim consolidated statements of cash flows. No net income (loss) per share has been included as the operating results shown in these condensed interim consolidated financial statements were realized under the ownership of the Former Parent.

For comparative purposes, the pre-acquisition operational results of the Hydrovac Business have been included in the condensed interim consolidated financial statements. The comparative condensed interim consolidated financial

statements have been prepared on a combined "carve-out" basis from the books and records of the Former Parent and purport to represent the historical results of operations, financial position and cash flows of the Hydrovac Business as if it had existed as a separate standalone entity for the periods presented under the Former Parent's management. Upon completion of the Arrangement, Tornado Hydrovacs will cease to be part of a wholly owned subsidiary of the Former 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 June 30, 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 Former Parent. These allocated expenses have been recorded in management fees.
- The Company did not have its own banking facility and relied on the facility of the Former 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 Former Parent within the Former Parent's owner's interest account. The Former Parent's owner's interest account represents the cumulative owner's interest by the Former 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.

### Functional and presentation currency

The condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's function currency.

### 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 June 30, 2016.

## 3. Summary of significant accounting policies

### Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments and liabilities incurred or assumed at the date of exchange. Acquisition costs for business combinations are expensed and included in selling, general and administrative expenses. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition.

In situations where the initial accounting for a business combination is incomplete prior to the finalization of the consolidated financial statements, the Company records provisional amounts for those items for the accounting is incomplete. Such provisional amounts are subsequently adjusted to reflect new financial information obtained about the facts and circumstances that existed as of the acquisition date and, if know would have affected the amounts recognized as of that date.

### Foreign currency transactions

Monetary items are translated at the Canadian dollar spot rate as of the reporting date. Exchange differences from monetary items are recognized in comprehensive (loss) income. Non-monetary items that are not carried at fair value are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

### Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the Company, and when the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discounts, volume rebates, and amounts collected on behalf of a third party.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer, usually when the products are completed and accepted by the customer, and collection is reasonably assured.

### Income taxes

While the Company is not a taxable entity the Carve-Out financial statements reflect the impact of tax on the Company as though it had been a stand-alone taxable entity for the periods presented using the following accounting policies for income taxes:

Tax expense is comprised of two components; current tax expense and deferred tax expense.

#### *Current tax*

Recoverable tax assets or current tax liabilities represent the tax authorities' obligations or claims for prior or current periods which are not received or paid at the end of the reporting period. Current tax is based on taxable income which differs from accounting income by definition. Recoverable tax assets or current tax liabilities are measured using the tax rates that have been enacted or substantially enacted by the end of the reporting period.

#### *Deferred tax*

Deferred tax is determined based on differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable income. Deferred tax assets or liabilities are measured based on tax rates that have been enacted or substantially enacted by the end of the reporting period, and that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets or liabilities are recognized for all deductible or taxable temporary differences arising if it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference(s) can be utilized.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Property, plant and equipment**

Property, plant and equipment are stated at cost, net of any accumulated depreciation, impairment losses and subsequent reversals (if any). Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Machinery and equipment ("M&E") | 3 to 15 years |
| Office furniture and equipment ("Office Equip.") | 3 to 10 years |
| Leasehold improvements ("Leaseholds") | Over the term of the lease |
| Vehicles | 1 to 7 years |

The assets' useful lives, residual values and methods of depreciation of assets are reviewed annually, and adjusted prospectively, if appropriate.

**Leases**

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of comprehensive (loss) income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the statement of comprehensive (loss) income on a straight-line basis over the lease term.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time, which the Company considers to be 12 months or more, to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Intangible assets**

Intangible assets are initially recognized when the recognition criteria outlined in IAS 38 – Intangible Assets are met. IAS 38 outlines the recognition criteria as well as the nature of the amounts to be recognized.

Internally generated intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible

asset with a finite useful life is reviewed at least annually. Change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the statement of comprehensive (loss) income.

Finite life intangible assets are amortized on a straight-line basis over the estimated useful lives of the related assets as follows:

| | |
|---|---|
| Internally developed product designs | 3 - 7 years |
| Internally generated patents | 5 - 7 years |

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive (loss) income when the asset is derecognized.

### Impairment of non-financial assets

At the end of each reporting period, the Company assesses whether there is any indication that the non-current assets have been impaired. If any such indication exists, the recoverable amount of the asset is determined. An impairment loss is recognized in profit or loss when the carrying amount of the asset exceeds its recoverable amount.

If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In the measurement of the value in use, estimates of future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of cash flows have not been adjusted.

### Cash and cash equivalents

All highly liquid temporary cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

### Inventory

Inventory is comprised of raw materials, work in progress and finished goods. Inventory is valued at the lower of cost and net realizable value, using an average cost basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write down previously recorded is reversed.

### Financial instruments

Financial assets and liabilities are initially recognized at fair value and subsequently recognized according to their classification. The classification depends on the intention with which the financial instruments were acquired and their characteristics. Unless specific circumstances permitted under IFRS are present, the classification is not modified after initial recognition.

### Hierarchy of fair value measurements

The Company classifies its financial assets and liabilities measured at fair value into three levels according to the observability of the inputs used in their measurement.

### Level 1

Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

### Level 2

Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

### Level 3

Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

### Financial assets

Financial assets are classified into the following specified categories:

Financial assets at fair value through profit or loss ["FVTPL"] - Financial assets classified as assets held for trading are recognized at fair value at each reporting period date, and any change in the fair value is reflected in profit or loss in the period during which these changes take place.

Loans and receivables - Financial assets classified as loans and receivables are accounted for at amortized cost using the effective interest rate method. Interest income is included in profit or loss over the expected life of the financial asset.

Held-to-maturity investments - Bonds with fixed or determinable payments and fixed maturity dates where the Company has a positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

Available for sale assets - Financial assets classified as available-for-sale are recorded at fair value, and the gains/losses resulting from the revaluation at the end of each period are recognized in other comprehensive (loss) income. Upon derecognition, all cumulative gains or losses previously recognized in accumulated other comprehensive income are reflected in comprehensive (loss) income.

### Impairment of financial assets

Financial assets, other than FVTPL, are assessed for indicators of impairment at the end of each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amounts of all financial assets are reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognized directly in equity.

**Derecognition of financial assets**

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds receivables.

**Financial liabilities and equity instruments**

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

**Financial liabilities**

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. Financial liabilities are classified as at fair value through profit or loss if the financial liability is either held for trading or it is designated as such upon initial recognition.

**Other financial liabilities**

Accounts payable and accrued liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost, where applicable, using the effective interest method, with interest expense recognized on an effective yield basis.

Interest-bearing overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Spin-Out's accounting policy for borrowing costs.

**Derecognition of financial liabilities**

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

**Transaction costs**

Transaction costs related to financial instruments that are not classified as assets and liabilities at fair value through profit and loss, are recognized on the statement of financial position as an adjustment to the cost of the financial instrument upon initial recognition and amortized using the effective interest rate method.

**Post-retirement benefit plans**

The Company contributes to retirement savings plans subject to maximum limits per employee. The Company accounts for such defined contributions as an expense in the period in which the contributions are required to be made. The Company does not have any defined benefit plans.

## 4. Significant accounting judgement, estimates and assumptions

The preparation of the Carve-Out financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and the disclosure of contingent liabilities.

Actual results could differ from those judgements, estimates and assumptions. The items whose actual results could differ significantly from those judgements, estimates and assumptions are described below.

## Critical judgements made in applying the Spin-Out's accounting policies

### Cash generating units

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. Management determines which groups of assets are capable of generating cash inflows that are largely independent of other operations.

### Business combinations

Accounting for business combinations requires the allocation of the Company's purchase price to the various assets and liabilities of the acquired business at their respective fair values. The Company uses all available information to make these fair value determinations.

In some instances, assumptions with respect to the timing and amount of future revenues and expenses associated with an asset or group of assets may be used to determine fair value. Actual timing and amount of net cash flows from revenues and expenses related to that asset over time may differ materially from those initial estimates, and if the timing is delayed significantly or if the net cash flows decline significantly, the asset could become impaired.

### Allowance for doubtful accounts

Given the nature of business and the credit terms provided to customers, estimates and judgements are inherent in the on-going assessment of the recoverability of some accounts receivable. The Company maintains an allowance for doubtful accounts to reflect expected credit losses. The Company is not able to predict changes in the financial conditions of its customers and the Company's judgement related to the recoverability of accounts receivable may be materially impacted if the financial condition of the Company's customers deteriorates.

### Valuation of inventory

Estimates and judgements are inherent in the determination of the net realizable value of inventories. The cost of inventories may not be fully recoverable if they are damaged or if the selling price of the inventory is less than its cost. The Company regularly reviews its inventory quantities and reduces the cost attributed to inventory no longer deemed to be fully recoverable. Estimates related to the determination of net realizable value may be impacted by a number of factors including market conditions.

### Intangible assets

Expenditures of research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product of process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset.

### Impairment of non-financial assets

The Company's impairment test is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the forecast and do not include restructuring activities that the Company is not yet committed to or significant future investments that may enhance the performance of the cash generating unit being tested. The calculation is sensitive to the discount rate applied as well as the expected future cash inflows.

### Useful lives of key property, plant and equipment, and intangible assets

Estimated useful lives of property, plant and equipment and intangible assets are based on management's judgment and experience. When management identifies that the actual useful lives for these assets differ materially from the estimates used to calculate depreciation and amortization, that change is adjusted prospectively. Asset lives, depreciation and amortization methods, and residual values are reviewed periodically.

The Company periodically assesses the recoverability of values assigned to long-lived assets after considering potential impairment indicated by such factors as significant changes in technological, market, economic or legal environment, business and market trends, future prospects, current market value and other economic factors. In performing its review of recoverability, management estimates either the value in use or fair value less costs to sell.

### Deferred Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on deductible or taxable temporary differences between the carrying amounts and tax bases of the assets and liabilities. Deferred tax assets and liabilities are measured using substantially enacted tax rates expected to apply in the years in which the temporary differences are expected to reverse. If the estimates and assumptions are modified in the future, the Company may be required to reduce or increase the value of deferred tax assets or liabilities resulting in, where applicable, an income tax expense or recovery. The Company regularly evaluates deferred tax assets and liabilities.

## 5. Acquisition of assets and liabilities of Tornado Trucks

On June 28, 2016, the Company completed terms of the arrangement and acquired the assets and liabilities of Tornado Trucks for gross proceeds of $11,224. The gross proceeds consisted of 32,417,056 common shares of the Company valued at $8,329 and a note payable to EIL of $2,895.

The note payable to the Former Parent is repayable over 84 months at an interest rate of 2.7% per annum. The Company is required to make payments of $20 per month for the first 60 months and then pay the remaining balance outstanding in two payments on the 72nd and 84th month.

The assets acquired and liabilities assumed of Tornado Trucks on the date of acquisition have been preliminarily recorded in the unaudited interim condensed consolidated financial statements at their estimated fair values as follows:

| | $ |
|---|---|
| Accounts receivable | 995 |
| Inventory – raw materials | 2,261 |
| Inventory – work-in-progress | 1,206 |
| Inventory – finished goods | 1,104 |
| Prepaid expenses | 111 |
| Property, plant & equipment | 1,910 |
| Intangible assets acquired | 328 |
| Goodwill | 4,829 |
| Accounts payable and accrued liabilities | (1,455) |
| Finance leases | (65) |
| **Purchase consideration** | **11,224** |

The goodwill of $4,829 comprises the value of the assembled workforce and the knowledge base to introduce this technology to China, which is one of the longer-term goals of the business plan.

## 6. Shareholder's equity

### Share capital

### Authorized

The authorized capital of the Company consists of an unlimited number of common shares. Each common share of the Company entitles its holder to one vote at all meetings of shareholders subject to certain restrictions with respect to the voting rights.

Each common share of the Company is also entitled to receive dividends if, as and when declared by the Board of Directors. Holders of common shares will participate in any distribution of net assets of the Company upon liquidation, dissolution or winding up of the Company on an equal basis per share.

### Issuance of common shares

59,480,843 common shares (2015 – nil)

On June 28, 2016, the Company issued 32,417,056 common shares to the Former Parent as partial consideration of the assets and liabilities acquired under the plan of arrangement which were distributed to the shareholder's of the Former Parent. Also on June 28, 2016, the Company issued 27,063,787 common shares to shareholders in connection with a private placement for proceeds of $6,954. The private placement funds were released from trust on July 8, 2016 and thus shown as proceeds held in trust at June 30, 2016

## 7. Cost of sales

| | 3 Months | | 6 Months | |
|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| | $ | $ | $ | $ |
| Direct construction costs | (4,904) | (5,335) | (7,875) | (8,642) |
| Indirect salaries and benefits | (58) | (64) | (149) | (246) |
| Indirect production costs | (526) | (482) | (757) | (1,035) |
| | **(5,488)** | **(5,881)** | **(8,781)** | **(9,923)** |

## 8. Selling and administrative expenses

| | 3 Months | | 6 Months | |
|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| | $ | $ | $ | $ |
| Salaries and benefits | (401) | (427) | (761) | (829) |
| General, selling and administrative expenses | (160) | (248) | (324) | (566) |
| | **(561)** | **(675)** | **(1,085)** | **(1,395)** |

## 9. Operating segments

The Company operates as one operating segment. The table below shows the geographical sales performance for the three-month and six month periods ended June 30:

| | 3 Months | | 6 Months | |
|---|---|---|---|---|
| | June 30, 2016 $ | June 30, 2015 $ | June 30, 2016 $ | June 30, 2015 $ |
| Canada | 4,101 | 5,850 | 7,098 | 10,000 |
| United states | 1,663 | 836 | 2,048 | 1,311 |
| | **5,764** | **6,686** | **9,146** | **11,311** |

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

## 10. Capital disclosure and management

The Company'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 Company sets the amount of capital in proportion to risk. The Company 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 Company may issue new shares, sell redundant or non-core assets or borrow through the issue of long-term debt.

## 11. Contingencies

### Director and officer indemnification

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company 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 Company 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 Company from making a reasonable estimate of the maximum potential amount it could incur. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

### Other contingencies

The Company 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 Corporate.

## 12. Related party transactions

The Company had purchases from an affiliate in the period in the amount of $299 (2015 - $738), as well as sales to an affiliate in the period of $20 (2015 - $nil). In addition to that, the Company was charged management fees from its parent Company in the period of $200 (2015 - $360). 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.