



Tornado Global Hydrovacs Ltd.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six month periods ended June 30, 2017

Notice to Reader

These interim consolidated financial statements have been prepared by the Management of Tornado Global Hydrovacs Ltd. and have not been audited or reviewed by the external auditor.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

	Notes	June 30, 2017	December 31, 2016
(In \$000's CAD)			
ASSETS			
Current assets			
Cash and equivalents		\$ 3,663	\$ 4,444
Accounts receivable		1,386	1,500
Inventory	3	7,749	6,662
Fair value of foreign currency forward contracts		12	—
Prepaid expenses and other assets		168	142
Total current assets		12,978	12,748
Non-current assets			
Property and equipment, net		2,590	2,754
Goodwill and intangible assets, net		3,790	4,037
Total non-current assets		6,380	6,791
Total assets		\$ 19,358	\$ 19,539
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 3,783	\$ 3,354
Current portion of note payable	8	240	268
Current portion of finance leases obligation	9	83	—
Fair value of foreign currency forward contracts		—	27
Total current liabilities		4,106	3,649
Non-current liabilities			
Note payable	8	2,415	2,535
Finance leases obligation	9	363	—
Total liabilities		6,884	6,184
Shareholders' Equity			
Share capital	10	15,283	15,283
Deficit		(2,787)	(1,928)
Accumulated other comprehensive loss		(22)	—
Total shareholders' equity		12,474	13,355
Total liabilities and equity		\$ 19,358	\$ 19,539

Subsequent event (note 13)

See accompanying notes to condensed consolidated financial statements

On behalf of the Board of Directors:

"Guy Nelson"
Non-Executive Chairman
Tornado Global Hydrovac Ltd.

"Darrick Evong"
Chair of Audit Committee
Tornado Global Hydrovac Ltd.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(unaudited)

	Notes	Three Months ended		Six Months ended	
		June 30 2017	June 30 2016	June 30 2017	June 30 2016
(In \$000's CAD, except per share amounts)					
Revenues					
Revenue		\$ 6,669	\$ 5,733	\$ 12,636	\$ 9,085
Other income - foreign exchange		64	31	86	61
		6,733	5,764	12,722	9,146
Cost of sales	5	5,842	5,488	10,951	8,781
Gross Profit		891	276	1,771	365
Selling and general administrative expenses	6	1,181	561	2,154	1,085
Loss before depreciation, amortization and other items		(291)	(285)	(384)	(720)
Depreciation of property and equipment		116	69	232	138
Amortization of intangible assets		123	29	246	58
Loss before other items of income		(530)	(383)	(862)	(916)
Finance income		(6)	—	(19)	—
Finance costs		26	4	56	9
Management fees		—	100	—	200
Change in fair value of derivative financial instruments		(12)	—	(39)	—
		8	104	(3)	209
Loss before tax		(537)	(487)	(859)	(1,125)
Income tax recovery					
Current		—	132	—	300
Deferred		—	—	—	3
		—	132	—	303
Net loss		(537)	(355)	(859)	(822)
Other comprehensive loss					
Translation of foreign subsidiary		(26)	—	(22)	—
Comprehensive loss		\$ (563)	\$ (355)	\$ (881)	\$ (822)
Net loss per share					
Basic and diluted	4	\$ -		\$ (0.01)	

See accompanying notes to condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

As at June 30, 2017					
	Common Shares	Deficit	Accumulated Other Comprehensive Loss	Total equity	
(In \$000's CAD)					
As at December 31, 2016	\$ 15,283	\$ (1,928)	\$ -	\$	13,355
Loss for the period	-	(859)	-		(859)
Other comprehensive loss for the period	-	-	(22)		(22)
As at June 30, 2017	\$ 15,283	\$ (2,787)	\$ (22)	\$	12,474

As at June 30, 2016					
	Common Shares	Former Parent's net investment	Accumulated Other Comprehensive Loss	Total equity	
(In \$000's)					
As at December 31, 2015	\$ -	\$ 7,054	\$ -	\$	7,054
Loss for the period	-	(822)	-		(822)
Change in Former Parent's net investment	8,329	(6,232)	-		2,097
Private placement of shares	6,954	-	-		6,954
As at June 30, 2016	\$ 15,283	\$ -	\$ -	\$	15,283

See accompanying notes to condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

	Six Months ended	
	June 30 2017	June 30 2016
(In \$000's CAD)		
OPERATING ACTIVITIES		
Net comprehensive loss	\$ (881)	\$ (822)
<i>Add (deduct) items not affecting cash:</i>		
Depreciation of plant and equipment	232	138
Amortization of intangible assets	246	58
Change in fair value of foreign currency forward contracts	(39)	—
Deferred income taxes	—	(302)
	(442)	(928)
Change in non-cash working capital	(570)	598
Cash flow used in operating activities	(1,012)	(330)
INVESTING ACTIVITIES		
Acquisition of property and equipment	(67)	(24)
Acquisition of intangible assets	—	(101)
Cash flow used in investing activities	(67)	(125)
FINANCING ACTIVITIES		
Repayment of finance leases	(32)	(37)
Proceeds from private placement, held in trust	—	6,954
Proceeds from finance lease	450	—
Contributions by former parent	—	492
Repayment of note payable	(120)	—
Cash flow used in financing activities	298	7,409
Net decrease in cash and equivalents during the period	(781)	6,954
Cash and cash equivalents, beginning of period	4,444	—
Cash and cash equivalents, end of period	\$ 3,663	\$ 6,954

See accompanying notes to condensed consolidated financial statements

Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017

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

1. Corporate information

Tornado Global Hydrovacs Ltd. ("TGHL") is incorporated in Canada and through its subsidiaries, designs, fabricates, manufactures and sells hydrovac trucks to excavation service providers in the oil and gas and municipal markets in North America and is in the process of expanding into China. TGHL is located at 7105 McLeod Trail, SW, Suite 510, Calgary, Alberta, T2H 2K6, and was incorporated under the Business Corporations Act (Alberta) on April 27, 2016. Since July 8, 2016 TGHL's shares have been traded on the TSX-V under the symbol "TGH".

These financial statements were recommended for approval by the audit committee and were approved and authorized for issue by the Board of Directors on August 16, 2017.

2. Summary of significant accounting policies

The interim condensed consolidated 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 condensed consolidated financial statements as disclosed in the TGHL's consolidated financial statements for the year ended December 31, 2016. TGHL's 2016 annual consolidated 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 consolidated financial statements.

Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as issued by the International Accounting Standards Board ("IASB").

Basis of presentation

These interim condensed consolidated financial statements are prepared for the three and six-month periods ended June 30, 2017 and include the results for the comparative periods in 2016. The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as disclosed. Included in these condensed consolidated financial statements are the accounts of TGHL and its subsidiaries. These condensed consolidated financial statements have been prepared in Canadian dollars which is the functional currency of TGHL. TGHL has two operating subsidiaries including Tornado Global Hydrovacs (Beijing) Ltd. and Tornado Global Hydrovacs (North America) Inc. The functional currencies for each subsidiary are Chinese RMB and Canadian dollars respectively.

The interim condensed consolidated financial statements are prepared in accordance with a financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for carveout financial statements.

For comparative purposes, the pre-acquisition operational results of the Hydrovac Business have been included in the condensed consolidated financial statements. The comparative condensed 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. The comparative net loss per share has been included on a proforma basis for the comparative period.

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 consolidated financial statements include all adjustments of

Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017

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

a normal recurring nature to present fairly, the condensed consolidated financial position of the TGHL as at June 30, 2017.

3. Inventory

Inventory comprises:

	June 30, 2017	December 31, 2016
Work-in-process	\$ 2,257	\$ 2,629
Raw materials	2,788	2,291
Finished goods	2,255	571
Rental inventory	450	1,171
	\$ 7,749	\$ 6,662

Work-in-process inventory contains the cost of direct material, direct labour, and factory overhead placed into the unfinished hydrovac trucks. Finished goods inventory consists of two demo hydrovac trucks completed for TGHL's Chinese operation and other hydrovac trucks and equipment for sale in North America. Rental inventory consists of one leased hydrovac truck that is currently being rented to a third-party customer on a month to month basis.

4. Loss per share

Six months ended June 30, 2017			
Net loss	Weighted average number of shares	Net loss per share	
\$ (881)	59,480,843	\$	(0.01)
Three months ended June 30, 2017			
Net loss	Weighted average number of shares	Net loss per share	
\$ (563)	59,480,843	\$	-

The Company was not a public traded company for the periods in 2016 and therefore comparative information is not applicable.

The Company has no dilutive instruments and therefore basic and diluted loss per share is the same.

5. Cost of sales

	Three Months ended June 30		Six Months ended June 30	
	2017	2016	2017	2016
Cost of Sales	\$ 5,842	\$ 5,488	\$ 10,951	\$ 8,781

Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017

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

6. Selling and general administrative expenses

	Three Months ended June 30		Six Months ended June 30	
	2017	2016	2017	2016
Salaries and benefits	\$ 522	\$ 401	\$ 1,069	\$ 761
General, selling and administrative expenses	659	160	1,085	324
	\$ 1,181	\$ 561	\$ 2,154	\$ 1,085

7. Operating segments

TGHL has two operating segments which are separated geographically, its North American manufacturing and sales operation and Corporate head office, and its China operation. The China operating segment was in the preliminary phases with only selling, general and administrative expenses incurred during three and six months ended June 30, 2017 and no activity in the comparative period.

The tables below show the North America and China operating segments, for the three and six months ended June 30, 2017 and 2016 respectively (presented in \$000's):

Three months ended June 30, 2017	North America	China	Total
Revenue	\$ 6,733	\$ -	\$ 6,733
Cost of sales	5,842	-	5,842
Selling and administrative expenses	917	264	1,181
	(27)	(264)	(291)
Depreciation and amortization expense	177	62	239
Loss before other items of income	\$ (204)	\$ (326)	\$ (530)
Total assets (1)	\$ 14,609	\$ 4,749	\$ 19,358
Capital Expenditures	\$ 28	\$ 14	\$ 42

Three months ended June 30, 2016	North America	China	Total
Revenue	\$ 5,764	\$ -	\$ 5,764
Cost of sales	5,488	-	5,488
Selling and administrative expenses	561	-	561
	(285)	-	(285)
Depreciation and amortization expense	98	-	98
Loss before other items of income	\$ (383)	\$ -	\$ (383)
Total assets	\$ 19,698	\$ -	\$ 19,698
Capital Expenditures	\$ 124	\$ -	\$ 124

Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017

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

Revenue	\$	12,722	\$	-	\$	12,722
Cost of sales		10,951		-		10,951
Selling and administrative expenses		1,667		487		2,154
		103		(487)		(384)
Depreciation and amortization expense		354		124		478
Loss before other items of income	\$	(251)	\$	(611)	\$	(862)
Total assets (1)	\$	14,609	\$	4,749	\$	19,358
Capital Expenditures	\$	53	\$	14	\$	67

Six months ended June 30, 2016	North America	China	Total
Revenue	\$ 9,146	\$ -	\$ 9,146
Cost of sales	8,781	-	8,781
Selling and administrative expenses	1,085	-	1,085
	(720)	-	(720)
Depreciation and amortization expense	196	-	196
Loss before other items of income	\$ (916)	\$ -	\$ (916)
Total assets	\$ 19,698	\$ -	\$ 19,698
Capital Expenditures	\$ 125	\$ -	\$ 125

Note 1 – Assets in China consist of two demo hydrovac trucks of \$958, cash of \$2,262, intangible assets of \$1,479 and other assets of \$50.

8. Note payable

	June 30, 2017	December 31, 2016
Note payable – Empire Industries Ltd. (“Former Parent”)	\$ 2,655	\$ 2,775
Less: current portion of note payable	240	240
Long-term portion of note payable	\$ 2,415	\$ 2,535

The note payable bears interest at the prime rate of 2.7% and matures on June 30, 2023. TGHL makes equal monthly principal payments of \$20 for the first 60 months of the term with two annual balloon payments equal to 50% of the outstanding principal and accrued interest balance on the 72nd and 84th month of the term. Interest on the note payable is payable annually. As at June 30, 2017 the note payable balance has accrued interest of \$76 recorded in accounts payable.

The note payable is secured by all present and after-acquired property of TGHL, subordinate to TGHL’s principal lender (if any) and convertible into Class “A” Shares at the choice of the holder and under certain conditions including but not limited to, a default of the terms of the note payable that are not remedied in accordance with the terms of the agreement.

See also Note 13, subsequent event.

Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017

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

9. Finance Lease

The Company has a truck lease, repayable in monthly installments of \$9 with a final installment of \$99, bearing interest at rate 7% as follows:

	2017
2017	\$ 55
2018	108
2019	108
2020	108
2021	143
Total minimum lease payments	522
Amount representing interest	(80)
Present value of minimum lease payments	442
Less current portion of principal	(79)
	\$ 363

Interest paid on the leased truck during the period was \$3.

10. Share Capital

The Company is authorized to issue an unlimited number of Class "A" Common Shares.

The Company's share capital as at June 30, 2017 and December 31, 2016 comprises:

	<u>Shares</u>	<u>Amount</u>
Outstanding common shares	59,480,843	\$15,283

As of June 30, 2017, there was 18.0 million shares held in escrow as a result of the spin-out transaction in 2016. These shares will be released from escrow in two equal instalments on July 7, 2017 and January 7, 2018.

No dividends were declared during the period. TGHL does not have any stock options outstanding at June 30, 2017.

11. Contractual Obligations And Commitments

Operating Lease commitments

The Company rents office space in Calgary, Canada, under a sub-lease which expires on July 31, 2019 that requires annual payments of \$75. The Company also rents premises in Calgary under an operating lease that requires annual payments of \$78 which expires on November 30, 2017. The Company also rents premises in Stettler Canada, under an operating lease that requires annual payments of \$234 expires June 30, 2021. This lease may be canceled upon 6 months' notice. The Company also rents premises in Beijing, China, under an operating lease that requires annual payments of \$79, and the lease is renewable annually.

Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017

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

TGHL has the following lease commitments, which will be funded from ongoing operations over the next 5 years:

	2017	2018	2019	2020	2021
Calgary Office	\$ 37	\$ 75	\$ 44	\$ -	\$ -
Calgary Other	33	-	-	-	-
Stettler	117	234	234	234	117
Beijing Office	40	79	53	-	-
Other	22	19	19	5	-
	\$ 249	\$ 407	\$ 349	\$ 239	\$ 117

12. Capital disclosure and management

TGHL does not have any externally imposed restrictions on its capital. TGHL considers its net free cash to be its capital and manages the amounts based upon the projected needs of its geographic operating segments. TGHL monitors these amounts to ensure there is adequate cash to support the North American operations and the planned expansion in China. Should the projected requirements not be fulfilled, TGHL expects to raise additional cash through either the issuance of additional equity, acquisition of additional debt, or a combination thereof. As at June 30, 2017, TGHL had \$3,663 cash which is expected to meet the budgeted requirements for the next 12 months.

13. Related Party Transactions

Transactions between the Company and related parties during the three and six months ended June 30, 2017 comprised the following:

- During the three and six months six months ended June 30, 2017 TGHL had purchases from Empire Industries Ltd. (the "Former Parent") in the amount of \$Nil (2016 - \$185) and \$56 (2016 - \$299) respectively and sales to the Former Parent of \$Nil (2016 - \$8) and \$Nil (2016 - \$20) respectively. In addition, during the three and six months ended June 30, 2017 TGHL was charged management fees from its Former Parent Company of \$Nil (2016 - \$100) and \$Nil (2016 - \$200) respectively.
- During the three and six months ended June 30, 2017 TGHL incurred interest on the loan from the Former Parent of \$18 (2016 - \$Nil) and \$37 (2016 - \$Nil) respectively.
- During the three and six months six months ended June 30, 2017 \$4 (2016 - \$Nil) and \$7 (2016 - \$Nil) respectively in legal fees were incurred to a legal firm in which a director of the Company is a partner.

These transactions were 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.

14. Subsequent Event

On August 1, 2017, the Company announced it intends to implement a financing arrangement comprising a Rights Offering, a Common Share Private Placement, a Shares for Debt Transaction and a Unit Private Placement.

The Company will issue to holders of its issued and outstanding common shares ("Common Shares") one right for each issued and outstanding Common Share (the "Rights Offering"). Each Right will entitle the holder to subscribe for one Common Share at the subscription price. The intention of the Rights Offering is to permit Tornado's shareholders to purchase additional common shares at the same price per common share as those issued pursuant to the Common Share Private Placement, Shares for Debt transaction and the Unit Private Placement, subject to the rules of the TSX Exchange.

Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017

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

The Common Share Private Placement is intended to be for 27,777,778 Common Shares at a price of \$.09 per Common Share for aggregate gross proceeds of CDN \$2.5 million. The Shares for Debt transaction is intended to result in principal and accrued interest totaling CDN \$2.7 million being converted into 30,185,544 Common Shares of the Company at a price of \$0.09 per Common Share. The Unit Private Placement is intended to comprise the issuance of up to 3,100,000 units at a price of \$0.09 per Unit for aggregate gross proceeds of up to CDN \$279. Each Unit will consist of one Common Share and one Common Share purchase warrant.

The Company intends to close the Common Share Private Placement, Shares for Debt Transaction and the Unit Private Placement on or before September 15, 2017 and intends to complete the Rights Offering as soon as practicable thereafter.