



Tornado Global Hydrovacs Ltd.

# Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2017

## Notice to Reader

These interim condensed 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 | September 30, 2017 | December 31, 2016 |
|--|-------|--------------------|-------------------|
| (In \$000's CAD)                                 |       |                    |                   |
| <b>ASSETS</b>                                    |       |                    |                   |
| <b>Current assets</b>                            |       |                    |                   |
| Cash and equivalents                             |       | \$ 5,373           | \$ 4,444          |
| Accounts receivable                              |       | 1,679              | 1,500             |
| Inventory  | 3     | 8,173              | 6,662             |
| Fair value of foreign currency forward contracts |       | 110                | —                 |
| Prepaid expenses and other assets                |       | 251                | 142               |
| <b>Total current assets</b>                      |       | <b>15,586</b>      | <b>12,748</b>     |
| <b>Non-current assets</b>                        |       |                    |                   |
| Property and equipment, net                      |       | 2,512              | 2,754             |
| Goodwill and intangible assets, net              |       | 3,667              | 4,037             |
| <b>Total non-current assets</b>                  |       | <b>6,179</b>       | <b>6,791</b>      |
| <b>Total assets</b>                              |       | <b>\$ 21,765</b>   | <b>\$ 19,539</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>      |       |                    |                   |
| <b>Current liabilities</b>                       |       |                    |                   |
| Accounts payable and accrued liabilities         |       | \$ 3,530           | \$ 3,354          |
| Current portion of note payable                  | 8     | —                  | 268               |
| Current portion of finance leases obligation     | 9     | 110                | —                 |
| Fair value of foreign currency forward contracts |       | —                  | 27                |
| <b>Total current liabilities</b>                 |       | <b>3,640</b>       | <b>3,649</b>      |
| <b>Non-current liabilities</b>                   |       |                    |                   |
| Note payable                                     | 8     | —                  | 2,535             |
| Finance leases obligation                        | 9     | 314                | —                 |
| <b>Total liabilities</b>                         |       | <b>3,954</b>       | <b>6,184</b>      |
| <b>Shareholders' Equity</b>                      |       |                    |                   |
| Share capital                                    | 10    | 20,418             | 15,283            |
| Common share purchase warrants                   | 11    | 144                | —                 |
| Deficit  |       | (2,708)            | (1,928)           |
| Accumulated other comprehensive loss             |       | (43)               | —                 |
| <b>Total shareholders' equity</b>                |       | <b>17,811</b>      | <b>13,355</b>     |
| <b>Total liabilities and equity</b>              |       | <b>\$ 21,765</b>   | <b>\$ 19,539</b>  |

Subsequent event (note 15)

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   |                      | Nine Months ended    |                      |
|---|-------|----------------------|----------------------|----------------------|----------------------|
|   |       | September 30<br>2017 | September 30<br>2016 | September 30<br>2017 | September 30<br>2016 |
| (In \$000's CAD, except per share amounts)                      |       |                      |                      |                      |                      |
| <b>Revenues</b>   |       |                      |                      |                      |                      |
| Revenue   |       | \$ 7,578             | \$ 2,940             | \$ 20,214            | \$ 12,025            |
| Other income (loss) - foreign exchange                          |       | 41                   | (12)                 | 127                  | 49                   |
|   |       | <b>7,619</b>         | <b>2,928</b>         | <b>20,341</b>        | <b>12,074</b>        |
| Cost of sales   | 5     | 6,397                | 2,687                | 17,348               | 11,468               |
| Gross Profit  |       | <b>1,222</b>         | <b>241</b>           | <b>2,993</b>         | <b>606</b>           |
| Selling and general administrative expenses                     | 6     | 1,148                | 1,081                | 3,302                | 2,166                |
| Income (loss) before depreciation, amortization and other items |       | <b>74</b>            | <b>(840)</b>         | <b>(309)</b>         | <b>(1,560)</b>       |
| Depreciation of property and equipment                          |       | 117                  | 135                  | 349                  | 273                  |
| Amortization of intangible assets                               |       | 123                  | 16                   | 369                  | 74                   |
| Loss before the undernoted                                      |       | <b>(166)</b>         | <b>(991)</b>         | <b>(1,027)</b>       | <b>(1,907)</b>       |
| Finance income  |       | (6)                  | —                    | (25)                 | —                    |
| Finance costs   |       | 22                   | 8                    | 78                   | 18                   |
| Management fees   |       | —                    | —                    | —                    | 200                  |
| Change in fair value of derivative financial instruments        |       | (110)                | —                    | (149)                | —                    |
| Gain on shares issued for debt                                  | 8     | (151)                | —                    | (151)                | —                    |
|   |       | <b>(245)</b>         | <b>8</b>             | <b>(247)</b>         | <b>218</b>           |
| <b>Income (Loss) before tax</b>                                 |       | <b>79</b>            | <b>(999)</b>         | <b>(780)</b>         | <b>(2,125)</b>       |
| Income tax recovery   |       |                      |                      |                      |                      |
| Current   |       | —                    | —                    | —                    | 300                  |
| Deferred  |       | —                    | —                    | —                    | 3                    |
|   |       | —                    | —                    | —                    | 303                  |
| <b>Net income (loss)</b>  |       | <b>79</b>            | <b>(999)</b>         | <b>(780)</b>         | <b>(1,822)</b>       |
| Other comprehensive loss  |       |                      |                      |                      |                      |
| Translation of foreign subsidiary                               |       | (21)                 | —                    | (43)                 | —                    |
| <b>Comprehensive income (loss)</b>                              |       | <b>\$ 58</b>         | <b>\$ (999)</b>      | <b>\$ (823)</b>      | <b>\$ (1,822)</b>    |
| <b>Net income (loss) per share</b>                              |       |                      |                      |                      |                      |
| Basic   | 4     | \$ -                 | \$ (0.02)            | \$ (0.01)            | \$ (0.03)            |
| Diluted   | 4     | \$ -                 | \$ (0.02)            | \$ (0.01)            | \$ (0.03)            |

See accompanying notes to condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

**As at September 30, 2017**

|  | Common Shares | Common Share<br>Purchase Warrants | Deficit    | Accumulated Other<br>Comprehensive Loss | Total Equity |
|--|---------------|-----------------------------------|------------|---|--------------|
| (In \$000's CAD)                         |               |                                   |            |   |              |
| <b>As at December 31, 2016</b>           | \$ 15,283     | \$ -                              | \$ (1,928) | \$ -                                    | \$ 13,355    |
| Issue of shares - private placement      | 2,500         | -                                 | -          | -                                       | 2,500        |
| Issue of shares - debt conversion        | 2,566         | -                                 | -          | -                                       | 2,566        |
| Issue of shares - unit private placement | 135           | -                                 | -          | -                                       | 135          |
| Issue of common share purchase warrants  | -             | 144                               | -          | -                                       | 144          |
| Share issue costs                        | (66)          | -                                 | -          | -                                       | (66)         |
| Loss for the period                      | -             | -                                 | (780)      | -                                       | (780)        |
| Other comprehensive loss for the period  | -             | -                                 | -          | (43)                                    | (43)         |
| <b>As at September 30, 2017</b>          | \$ 20,418     | \$ 144                            | \$ (2,708) | \$ (43)                                 | \$ 17,811    |

**As at September 30, 2016**

|                                   | Common Shares | Common Share<br>Purchase Warrants | Former Parent's net<br>Investment | Deficit  | Total Equity |
|-----------------------------------|---------------|-----------------------------------|-----------------------------------|----------|--------------|
| (In \$000's CAD)                  |               |                                   |                                   |          |              |
| <b>As at December 31, 2015</b>    | \$ -          | \$ -                              | \$ 7,054                          | \$ -     | \$ 7,054     |
| Pre-acquisition loss              | -             | -                                 | (822)                             | -        | (822)        |
| Distribution to Former Parent     | -             | -                                 | (6,232)                           | -        | (6,232)      |
| Comprehensive loss for the period | -             | -                                 | -                                 | (999)    | -            |
| Acquisition of Hydrovac Business  | 8,329         | -                                 | -                                 | -        | 8,329        |
| Private placement of shares       | 6,954         | -                                 | -                                 | -        | 6,954        |
| <b>As at September 30, 2016</b>   | \$ 15,283     | \$ -                              | \$ -                              | \$ (999) | \$ 15,283    |

See accompanying notes to condensed consolidated financial statements

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

|   | Nine Months ended    |                      |
|---|----------------------|----------------------|
|   | September 30<br>2017 | September 30<br>2016 |
| (In \$000's CAD)  |                      |                      |
| <b>OPERATING ACTIVITIES</b>                                   |                      |                      |
| Net loss  | \$ (780)             | \$ (1,822)           |
| <i>Add (deduct) items not affecting cash:</i>                 |                      |                      |
| Depreciation of plant and equipment                           | 349                  | 273                  |
| Amortization of intangible assets                             | 369                  | 74                   |
| Change in fair value of foreign currency forward contracts    | (137)                | —                    |
| Interest settled in debt conversion                           | 4 43                 | —                    |
| Gain on shares issued for debt                                | 8 (151)              | —                    |
| Deferred income taxes   | —                    | (303)                |
|   | (307)                | (1,778)              |
| Change in non-cash working capital                            | (1,622)              | (92)                 |
| <b>Cash flow used in operating activities</b>                 | <b>(1,929)</b>       | <b>(1,870)</b>       |
| <b>INVESTING ACTIVITIES</b>                                   |                      |                      |
| Increase / (decrease) in amounts due to related parties       | —                    | (4)                  |
| Acquisition of property and equipment                         | (104)                | (318)                |
| Acquisition of intangible assets                              | —                    | (101)                |
| <b>Cash flow used in investing activities</b>                 | <b>(104)</b>         | <b>(423)</b>         |
| <b>FINANCING ACTIVITIES</b>                                   |                      |                      |
| Net proceeds (repayment) from finance leases                  | 292                  | (55)                 |
| Proceeds from private placement of shares                     | 4 2,500              | 6,954                |
| Proceeds from unit private placement                          | 4 279                | —                    |
| Repayment of note payable                                     | 4 —                  | (60)                 |
| Share issue costs   | 4 (66)               | —                    |
| Advance from former parent                                    | —                    | 492                  |
| <b>Cash flow from financing activities</b>                    | <b>3,005</b>         | <b>7,331</b>         |
| Effect of exchange rate changes on cash and cash equivalents  | (43)                 | —                    |
| <b>Net increase in cash and equivalents during the period</b> | <b>929</b>           | <b>5,038</b>         |
| <b>Cash and cash equivalents, beginning of period</b>         | <b>4,444</b>         | <b>—</b>             |
| <b>Cash and cash equivalents, end of period</b>               | <b>\$ 5,373</b>      | <b>\$ 5,038</b>      |

See accompanying notes to condensed consolidated financial statements

# Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2017

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

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## 1. Corporate information

Tornado Global Hydrovac Ltd. ("TGHL" or the "Company") is incorporated in Alberta, 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's corporate office is located at Suite 510, 7105 McLeod Trail, SW, 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 Venture Exchange under the symbol "TGH".

These financial statements were recommended for approval by the Company's audit committee and were approved and authorized for issue by the Board of Directors on November 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 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 nine-month periods ended September 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 Hydrovac (Beijing) Ltd. and Tornado Global Hydrovac (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 nine months ended September 30, 2017

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

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

## 3. Inventory

Inventory comprises:

|                  | September 30, 2017 | December 31, 2016 |
|------------------|--------------------|-------------------|
| Work-in-process  | \$ 1,677           | \$ 2,629          |
| Raw materials    | 3,019              | 2,291             |
| Finished goods   | 1,971              | 571               |
| Rental inventory | 1,506              | 1,171             |
|                  | <b>\$ 8,173</b>    | <b>\$ 6,662</b>   |

Work-in-process inventory contains the cost of direct material, direct labour, and factory overhead charged to unfinished hydrovac trucks. Finished goods inventory consists of two demonstration hydrovac trucks for TGHL's Chinese operation and other hydrovac trucks and equipment for sale in North America. Rental inventory consists of four hydrovac trucks that are currently rented to third-party customers on a month to month basis.

## 4. Net income (loss) per share

| Basic:                                |                                   |                    |  | Diluted:                              |                                   |                |  |
|---------------------------------------|-----------------------------------|--------------------|--|---------------------------------------|-----------------------------------|----------------|--|
| Nine months ended September 30, 2017  |                                   |                    |  | Nine months ended September 30, 2017  |                                   |                |  |
| Net income (loss)                     | Weighted average number of shares | Net loss per share |  | Net income (loss)                     | Weighted average number of shares | Loss per share |  |
| \$ (823)                              | 62,835,971                        | \$ (0.01)          |  | \$ (823)                              | 63,006,300                        | \$ (0.01)      |  |
| Three months ended September 30, 2017 |                                   |                    |  | Three months ended September 30, 2017 |                                   |                |  |
| Net income (loss)                     | Weighted average number of shares | Net loss per share |  | Net income (loss)                     | Shares                            | Loss per share |  |
| \$ 58                                 | 69,436,819                        | \$ 0.00            |  | \$ 58                                 | 69,942,254                        | \$ 0.00        |  |
| Nine months ended September 30, 2016  |                                   |                    |  | Nine months ended September 30, 2016  |                                   |                |  |
| Net loss                              | Weighted average number of shares | Net loss per share |  | Net Loss                              | Weighted average number of shares | Loss per share |  |
| \$ (1,822)                            | 59,480,843                        | \$ (0.03)          |  | \$ (1,822)                            | 59,480,843                        | \$ (0.03)      |  |
| Three months ended September 30, 2016 |                                   |                    |  | Three months ended September 30, 2016 |                                   |                |  |
| Net loss                              | Weighted average number of shares | Net loss per share |  | Net Loss                              | Shares                            | Loss per share |  |
| \$ (999)                              | 59,480,843                        | \$ (0.02)          |  | \$ (999)                              | 59,480,843                        | \$ (0.02)      |  |

# Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2017

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

## 5. Cost of sales

|                                | Three Months ended September 30 |          | Nine Months ended September 30 |           |
|--------------------------------|---------------------------------|----------|--------------------------------|-----------|
|                                | 2017                            | 2016     | 2017                           | 2016      |
| Direct manufacturing costs     | \$ 5,620                        | \$ 2,481 | \$ 15,004                      | \$ 10,356 |
| Indirect salaries and benefits | 109                             | 53       | 318                            | 202       |
| Indirect manufacturing costs   | 668                             | 153      | 2,026                          | 910       |
|                                | \$ 6,397                        | \$ 2,687 | \$ 17,348                      | \$ 11,468 |

## 6. Selling and general administrative expenses

|  | Three Months ended September 30 |          | Nine Months ended September 30 |          |
|--|---------------------------------|----------|--------------------------------|----------|
|  | 2017                            | 2016     | 2017                           | 2016     |
| Salaries and benefits                        | \$ 579                          | \$ 440   | \$ 1,648                       | \$ 1,201 |
| General, selling and administrative expenses | 569                             | 641      | 1,654                          | 965      |
|  | \$ 1,148                        | \$ 1,081 | \$ 3,302                       | \$ 2,166 |

## 7. Operating segments

TGHL has two geographic operating segments; its North American manufacturing and sales operations and its China operation. It also has a Corporate segment which comprises expenses incurred at its head office in Calgary. The China operating segment is in the early stage phase with only selling, general and administrative expenses incurred during three and nine months ended September 30, 2017 and minimal activity in the comparative periods.

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

| Three months ended September 30, 2017      | North America |          | China    |      | Corporate |      | Total    |
|--|---------------|----------|----------|------|-----------|------|----------|
| Revenue                                    | \$ 7,619      | \$ -     | \$ -     | \$ - | \$ -      | \$ - | \$ 7,619 |
| Cost of sales                              | 6,397         | -        | -        | -    | -         | -    | 6,397    |
| Selling and administrative expenses        | 661           | 272      | 215      |      |           |      | 1,148    |
|  | 561           | (272)    | (215)    |      |           |      | 74       |
| Depreciation and amortization expense      | 116           | 1        | 123      |      |           |      | 240      |
| Income (loss) before other items of income | \$ 445        | \$ (273) | \$ (338) | \$ - | \$ -      | \$ - | (166)    |
| Total assets (1)                           | \$ 12,831     | \$ 4,743 | \$ 4,191 | \$ - | \$ -      | \$ - | 21,765   |
| Capital Expenditures                       | \$ 37         | \$ -     | \$ -     | \$ - | \$ -      | \$ - | 37       |

| Three months ended September 30, 2016      | North America |          | China    |      | Corporate |      | Total  |
|--|---------------|----------|----------|------|-----------|------|--------|
| Revenue                                    | \$ 2,928      | \$ -     | \$ -     | \$ - | \$ -      | \$ - | 2,928  |
| Cost of sales                              | 2,687         | -        | -        | -    | -         | -    | 2,687  |
| Selling and administrative expenses        | 474           | 359      | 248      |      |           |      | 1,081  |
|  | (233)         | (359)    | (248)    |      |           |      | (840)  |
| Depreciation and amortization expense      | 151           | -        | -        |      |           |      | 151    |
| Income (loss) before other items of income | \$ (384)      | \$ (359) | \$ (248) | \$ - | \$ -      | \$ - | (991)  |
| Total assets                               | \$ 10,582     | \$ -     | \$ 9,009 | \$ - | \$ -      | \$ - | 19,591 |
| Capital Expenditures                       | \$ 124        | \$ -     | \$ -     | \$ - | \$ -      | \$ - | 124    |



# Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2017

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

| Nine months ended September 30, 2017       | North America |               | China | Corporate    |    | Total        |
|--|---------------|---------------|-------|--------------|----|--------------|
| Revenue                                    | \$            | 20,341        | \$    | -            | \$ | 20,341       |
| Cost of sales                              |               | 17,348        |       | -            |    | 17,348       |
| Selling and administrative expenses        |               | 1,921         |       | 808          |    | 3,302        |
|  |               | 1,072         |       | (808)        |    | (309)        |
| Depreciation and amortization expense      |               | 346           |       | 2            |    | 718          |
| Income (loss) before other items of income | \$            | 726           | \$    | (810)        | \$ | (1,027)      |
|  |               |               |       | (943)        |    |              |
| <b>Total assets (1)</b>                    | \$            | <b>12,831</b> | \$    | <b>4,743</b> | \$ | <b>4,191</b> |
| <b>Capital Expenditures</b>                | \$            | <b>90</b>     | \$    | <b>14</b>    | \$ | <b>104</b>   |

| Nine months ended September 30, 2016       | North America |         | China | Corporate |    | Total   |
|--|---------------|---------|-------|-----------|----|---------|
| Revenue                                    | \$            | 12,074  | \$    | -         | \$ | 12,074  |
| Cost of sales                              |               | 11,468  |       | -         |    | 11,468  |
| Selling and administrative expenses        |               | 1,559   |       | 359       |    | 2,166   |
|  |               | (953)   |       | (359)     |    | (1,560) |
| Depreciation and amortization expense      |               | 347     |       | -         |    | 347     |
| Income (loss) before other items of income | \$            | (1,300) | \$    | (359)     | \$ | (1,907) |
|  |               |         |       | (248)     |    |         |
| Total assets                               | \$            | 10,582  | \$    | -         | \$ | 9,009   |
| Capital Expenditures                       | \$            | 423     | \$    | -         | \$ | 423     |

Note 1 – Assets in China consist of two demonstration hydrovac trucks of \$1,235, cash of \$3,458 and other assets of \$50. Assets in Corporate consist of intangible assets of \$3,667, cash of \$376 and other assets of \$148.

## 8. Note payable

|   | September 30, 2017 | December 31, 2016 |
|---|--------------------|-------------------|
| Note payable – Empire Industries Ltd. (“Former Parent”) | \$ -               | \$ 2,775          |
| Less: current portion of note payable                   | -                  | 240               |
| <b>Long-term portion of note payable</b>                | <b>\$ -</b>        | <b>\$ 2,535</b>   |

On September 15, 2017, the amount payable with respect to principal (\$2,635) and accrued interest (\$82) was converted into 30,185,544 Common Class “A” shares at an agreed upon conversion price of \$0.09 per share. The fair value of the shares on the date of transaction was \$0.085 and a gain on debt extinguishment of \$151 was recorded in accordance with IFRIC 19.

# Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2017

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

## 9. Finance Lease

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

|   | <b>2017</b>   |
|---|---------------|
| 2017                                    | \$ 26         |
| 2018                                    | 108           |
| 2019                                    | 108           |
| 2020                                    | 108           |
| 2021                                    | 144           |
| Total minimum lease payments            | 494           |
| Amount representing interest            | (80)          |
| Present value of minimum lease payments | 414           |
| Less current portion of principal       | (100)         |
|   | <b>\$ 314</b> |

Interest paid on the leased truck during the period was \$6.

## 10. Share Capital

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

Changes in the Company's share capital during the period are as follows:

|   | <b>Shares</b>      | <b>Amount</b>    |
|---|--------------------|------------------|
| Outstanding common shares, December 31, 2016                | 59,480,843         | \$ 15,283        |
| Issued by way of private placement, September 15, 2017      | 27,777,778         | 2,500            |
| Issued by way of Unit private placement, September 15, 2017 | 3,100,000          | 135              |
| Issued from debt conversion, September 15, 2017             | 30,185,544         | 2,566            |
| Share issue costs   | -                  | (66)             |
| <b>Outstanding common shares, September 30, 2017</b>        | <b>120,544,165</b> | <b>\$ 20,418</b> |

As of September 30, 2017, there were 9.0 million shares held in escrow as a result of the spin-out transaction in 2016. These shares will be released from escrow on January 7, 2018.

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

## 11. Warrants

|                    | <u>Warrants</u> | <u>Amount</u> |
|--------------------|-----------------|---------------|
| September 30, 2017 | 3,100,000       | \$144         |

On September 15, 2017 the Company closed a Unit Private Placement, under which 3,100,000 Units were issued at a price of \$0.09 per Unit for aggregate gross proceeds of \$279. Each Unit comprised one Common Share and one Common Share purchase warrant ("Warrant"). Each Warrant was fair valued at \$0.046 using Black Scholes valuation model, which assumed volatility of 75% and risk-free interest rate of 1.70%. Each Warrant is exercisable at \$0.12 and expires on September 15, 2022. The Units were subscribed for by directors, officers and management.

# Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2017

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

## 12. 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, 2019. 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.

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

|                | Q4 2017       | 2018          | 2019          | 2020          | 2021          |
|----------------|---------------|---------------|---------------|---------------|---------------|
| Calgary Office | \$ 19         | \$ 75         | \$ 44         |               |               |
| Calgary Other  | 20            | 78            | 72            |               |               |
| Stettler       | 59            | 234           | 234           | 234           | 117           |
| Beijing Office | 20            | 79            | 53            |               |               |
| Other          | 11            | 19            | 19            | 5             |               |
|                | <b>\$ 129</b> | <b>\$ 485</b> | <b>\$ 422</b> | <b>\$ 239</b> | <b>\$ 117</b> |

## 13. 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 September 30, 2017, TGHL had \$5,373 cash which is expected to meet the budgeted requirements for the next 12 months.

## 14. Related Party Transactions

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

- During the three and nine months ended September 30, 2017 TGHL had purchases from the Former Parent in the amount of \$99 (2016 - \$Nil) and \$155 (2016 - \$299) respectively and sales to the Former Parent of \$Nil (2016 - \$Nil) and \$Nil (2016 - \$20) respectively. In addition, during the three and nine months ended September 30, 2017 TGHL was charged management fees from its Former Parent Company of \$Nil (2016 - \$Nil) and \$Nil (2016 - \$200) respectively.
- During the three and nine months ended September 30, 2017 TGHL incurred interest on the loan from the Former Parent of \$15 (2016 - \$19) and \$53 (2016 - \$19) respectively. The loan was converted to equity on September 15, 2017.
- During the three and nine months ended September 30, 2017 \$115 (2016 - \$16) and \$122 (2016 - \$16) respectively in legal fees were incurred to a legal firm in which a director of the Company is a former 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.

# Notes to the Condensed Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2017

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

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## 15. Subsequent Event

On October 31, 2017, the Company completed a Rights Offering and issued 6,172,354 Common "A" Shares ("Common Shares") for gross proceeds of \$525. The Company issued to holders of its issued and outstanding Common Shares one Right for each issued and outstanding share held. Each Right entitled the holder to subscribe for one Common Share at a price of \$0.085 per share. 1,620,047 Rights were subscribed for by insiders of the Company. The intention of the Rights Offering was to permit Tornado's shareholders to purchase additional Common Shares at a similar price per share as those issued pursuant to the Common Share Private Placement, Shares for Debt Transaction and the Unit Private Placement.