Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operations of Tornado Global Hydrovacs Ltd. ("TGHL" or the "Company") is supplemental to, and should be read in conjunction with the audited financial statements of TGHL for the fiscal year ended December 31, 2016.

The audited financial statements and accompanying notes of the Company for the year ended December 31, 2016 have been prepared in conformity with International Financial Reporting Standards ("IFRS") and require management to make estimates and assumptions that affect amounts reported and disclosed in such financial statements and related notes. Unless otherwise indicated, a reference to a year relates to TGHL's fiscal year ended December 31. All amounts are reported in Canadian dollars unless specifically stated otherwise. Financial information disclosed in this MD&A is presented in thousands (000's) except for percentages and per share data.

Disclosure contained in this document is current to April 27, 2017, unless otherwise stated.

Additional information on TGHL is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Business Description

The Company manufactures hydrovac trucks for excavation service providers to the oil and gas industry and the municipal market. It operates through a leased production facility in Stettler, AB and a sales office located in Calgary, AB. TGHL is also in the early stages of commencing similar operations in China.

TGHL maintains its head office in Calgary, AB.

Full Year Financial Results

Periods ended December 31	**Twelve months ended**			**Quarter ended**		
	2016	**2015**	**Variance**	**2016**	**2015**	**Variance**
($000's, except for percentages)	**$**	**$**	**$**	**$**	**$**	**$**
Operating Results:						
Revenues	17,049	20,178	(3,129)	4,975	5,151	(176)
Adjusted gross margin	1,142	2,237	(1,095)	536	475	61
Adjusted gross margin %	6.7%	11.1%	(4.4%)	10.8%	9.2%	1.6%
Adjusted EBITDA	(2,088)	(126)	(1,962)	(528)	4	(532)
Adjusted EBITDA %	(12.3%)	(0.6%)	(11.7%)	(10.6%)	0.1%	(10.7%)
Adjusted EBIT	(2,808)	(453)	(2,355)	(901)	(190)	(711)
Adjusted EBIT %	(16.5%)	(2.2%)	(14.3%)	(18.1%)	(3.7%)	(14.4%)
Net income	**(2,751)**	**(887)**	**(1,864)**	**(929)**	**(370)**	**(559)**

Comparative Financial Information

The operational results for the Hydrovac Business for the period of January 1, 2016 to June 28, 2016 prior to the acquisition as well as the 2015 operational results have been included in these consolidated financial statements to present complete information about the acquired entity.

A breakdown of the 2016 Operating Results between the pre-acquisition and post-acquisition periods is outlined in the table below:

2016 Operating Results (presented in $000's)	**Pre-Acquisition $**	**Post-Acquisition $**	**2016 $**
Operating Results:			
Revenues	9,146	7,903	17,049
Cost of sales excluding depreciation and amortization	(8,781)	(7,126)	(15,907)
Adjusted gross margin	**365**	**777**	**1,142**
Selling, general and administrative expenses	(1,086)	(2,144)	(3,230)
Adjusted EBITDA	**(721)**	**(1,367)**	**(2,088)**
Depreciation and amortization	(196)	(524)	(720)
Adjusted EBIT	**(917)**	**(1,891)**	**(2,808)**
Finance costs	(9)	(54)	(63)
Finance income	-	44	44
Fair value changes in derivative financial instruments	-	(27)	(27)
Management fees	(200)	-	(200)
Net loss before taxes	(1,126)	(1,928)	(3,054)
Current and deferred tax recovery	303	**-**	**303**
Comprehensive loss	**(823)**	**(1,928)**	**(2,751)**

2016 Overview

Revenues for TGHL decreased 15.5% over 2015 to $17.0 million in 2016. The decrease in revenue was attributed to the continued decline in demand for hydrovac trucks caused by low oil prices and the corresponding reduction in oil production and associated capital expenditures.

Adjusted Gross Margin percentage declined 4.4% compared to 2015. This decrease was driven by price pressures arising from the drop in overall demand for hydrovac trucks and fewer cost efficiencies at lower production volumes.

Selling and administrative expenses increased by $0.9 million compared to 2015 as TGHL has begun its expansion into China and operating as a stand-alone public company.

Adjusted EBITDA decreased by $2.0 million as a result of factors discussed above. TGHL's depreciation and amortization expense was $0.4 million higher than the prior year and thus the decrease in Adjusted EBIT of $2.4 million is also explained by the factors outlined above. The increased depreciation and amortization expense resulted from certain items of property and equipment and intangible assets being marked to fair value because of the acquisition of the assets and liabilities of Tornado Trucks.

4Q16 Overview

Revenues declined by 3.4% to $5.0 million in 4Q16 as compared to the same period in the prior year. Adjusted Gross Margin increased by 1.6% to 10.8% in 4Q16 as compared to the same period in the prior year.

Selling and administrative expenses increased by $0.6 million compared to the same period in 2015 as TGHL has begun its expansion into China and operating as a stand-alone public company.

TGHL posted an Adjusted EBITDA loss of $0.5 million in 4Q16 versus a break-even Adjusted EBITDA in 4Q15 as a result of the factors discussed above. Adjusted EBIT decreased by $0.7 million to a loss of $0.9 million compared to the same period in 2015. Depreciation of plant and equipment and amortization of intangible assets increased by $0.2 million compared to the same period in 2015 resulting from certain items of property, equipment and intangible assets being marked to fair value because of the acquisition of the assets and liabilities of Tornado Trucks.

Significant Events

- On June 28, 2016 TGHL acquired substantially all of the tangible and intangible assets and liabilities of Tornado Trucks, a division of a wholly owned subsidiary of Empire Industries Ltd. (the "Former Parent") in exchange for an interest bearing note payable of $2.9 million and 32,417,056 common shares of TGHL valued at $8.3 million that were immediately transferred by dividend to the shareholders of record of the Former Parent at 1:8 ratio. Concurrently a private placement with unrelated shareholders of $7.0 million for 27,063,787 common shares was completed. The proceeds of the private placement will be used to establish the hydrovac business of TGHL in China and continue the hydrovac business in North America.

Subsequent Significant Events

- On January 1, 2017, TGHL completed a re-organization and transferred its tangible assets and liabilities and employees (except for officers) into Tornado Global Hydrovac (North America) Inc. a wholly-owned subsidiary of TGHL.
- On January 19, 2017, TGHL incorporated Tornado Global Hydrovacs (Beijing) Limited which will carry out the Chinese expansion of TGHL.

Selected Annual and Quarterly Financial Information

Annual Financial Information			
For the years ended	**2016**	**2015**	**2014**
(presented in $000's)	**IFRS**	**IFRS**	**IFRS**
Sales	17,049	20,178	35,674
Profit (loss)	(2,751)	(887)	1,766
Total Assets	19.539	8,682	16,334
Total long-term financial liabilities	2,535	35	143
Cash dividends declared per common share	-	-	-

Quarterly Financial Information For the quarters ended (presented in $000's)	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1
Sales	4,975	2,928	5,764	3,382	5,152	3,715	6,686	4,625
Adjusted EBITDA	(528)	(840)	(285)	(435)	5	(122)	130	(138)
Loss	(929)	(999)	(355)	(468)	(370)	(222)	(63)	(232)
Loss per share	(0.015)	(0.015)	-	-	-	-	-	-

Liquidity and Capital Resources

Liquidity

For the year ended December 31, 2016, TGHL's operations used $1.4 million of cash, compared with $0.4 million of cash used in 2015 excluding the impact of changes in non-cash working capital amounts.

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 individual geographic locations, those being China and North America. 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 December 31, 2016, TGHL had $2 million free cash in North America and $2.4 million in China available for the Chinese expansion. These levels met the budgeted requirements for the next 12 months.

Shareholder's Equity

On June 28, 2016, TGHL 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 immediately distributed to the shareholders of the Former Parent and were valued at $8.3 million. Also on June 28, 2016, TGHL issued 27,063,787 common shares to a shareholder in connection with the private placement for proceeds of $7.0 million.

	December 31, 2016
Common shares (issued and outstanding – no par value)	59,480,843
	$
Share capital – opening balance	-
Issuance of common shares – plan of arrangement	8,329,000
Issuance of common shares - private placement	6,954,000
	15,283,000

TGHL's shareholder's equity reduced by $1.9 million from June 28, 2016 through December 31, 2016 because of the net comprehensive loss incurred during the period. No dividends were declared during the period. TGHL does not have any stock options outstanding at December 31, 2016.

The market capitalization of the TGHL's 59,480,843 issued and outstanding common shares at April 21, 2016 was $4.8 million or $0.08 per share, which is less than TGHL's book value per share of $0.22 at December 31, 2016.

Segment Reporting

Since the acquisition of the assets and liabilities of Tornado Trucks on June 28, 2016, TGHL has established a separate operating segment for its emerging Chinese operations. The tables below outline the break down for the full year and quarter ended December 31, 2016:

For the 12 months ended December 31, 2016:

2016 (presented in $000's)	North America $	China $	Total $
Revenues	17,049	-	**17,049**
Cost of sales excluding depreciation and amortization	(15,907)	-	**(15,907)**
	1,142	-	**1,142**
Selling and administrative expenses	(2,678)	(552)	**(3,230)**
	(1,536)	(552)	**(2,088)**
Depreciation and amortization expense	(401)	(123)	**(524)**
	(1,937)	(675)	**(2,612)**

For the three months ended December 31, 2016

2016 (presented in $000's)	North America $	China $	Total $
Revenues	4,975	-	**4,975**
Cost of sales excluding depreciation and amortization	(4,439)	-	**(4,439)**
	536	-	**536**
Selling and administrative expenses	(766)	(298)	**(1,064)**
	(230)	(298)	**(528)**
Depreciation and amortization expense	(250)	(123)	**(373)**
	(480)	(421)	**(901)**

No comparative segment information has been provided as TGHL did have a second operating segment until August 2016.

Other Matters

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS necessitates the use of management estimates, assumptions and judgment that affect reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Although management reviews its estimates on an ongoing basis, actual results may differ from these estimates as confirming events occur. The following components of the financial statements depend most heavily on such management estimates, assumptions and judgment, any changes in which may have a material impact on the Company's financial condition or results of operations. For more information about certain assumptions and risks that may affect these estimates, assumptions and judgments, please see the "Forward Looking Information" section of this MD&A.

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.

Cash generating assets

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 within the Company.

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, and equipment investment property and intangible assets

Estimated useful lives of property 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 Income 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.

Risks and Uncertainties

Operating Results

TGHL's business requires significant financial resources, and there is no assurance that future revenues will be sufficient to generate the funds required to continue TGHL's business development and marketing activities. In certain markets, the Company competes with local, regional, national and international companies for sales. With the experience of the Company's management, management believes it has developed systems, policies, and procedures to mitigate this risk.

Liquidity Requirements

The Company requires significant amounts of working capital in order to be able to operate. The Company's sales are primarily based upon firm prices and while customer deposits are sometimes obtained, billing is generally performed upon delivery of the finished truck. In order to satisfy customer demand in a timely manner, TGHL endeavors to have stock trucks available for immediate purchase, which is a capital intensive endeavor.

The Company's ability to obtain additional capital is a significant factor in achieving its strategy of expansion in the North American market. There can be no assurance that the current working capital of TGHL will be sufficient to enable it to implement all of its objectives. Furthermore, the current credit contraction in the world's financial markets may limit the Company's ability to access credit in the event that it identifies a potential acquisition or some other business opportunity that would require a significant investment in resources. There can be no assurance that if and when TGHL seeks equity or debt financing, it will be able to obtain the required funding on favorable commercial terms, or at all. Any such future financing may also result in additional dilution to existing shareholders.

TGHL requires sufficient financing to fund its operations. Failure to obtain financing on a timely basis could cause missed acquisition opportunities, delays in expansion and may also impact ongoing operations.

Credit Risk

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their commitments to the Company. Notwithstanding the Company's current credit policies and practices, there can be no assurance that customers will remain able to fulfill their commitments to the Company which may have an adverse effect on the Company's financial performance.

Interest Rate Risk

Fluctuations in interest rates will affect that portion of the Company's debt that is subject to variable interest rates, and will also affect the prices for other financial instruments. Such fluctuations could have an adverse effect on the Company's financial performance.

Foreign Exchange Risk

Rapid currency fluctuations can have a significant impact on un-hedged non-Canadian dollar denominated sales and raw material costs. While the Company does not have its own hedging facility, it had worked with professional foreign exchange agency on. forward contracts to sell US dollars. To mitigate this risk in the future, the Company will need to implement a hedging program of its own.

Cost of Raw Material

The principal cost of raw material is chassis, mechanical components, and tanks and other steel components. These supply and pricing arrangements are negotiated directly with vendors in supply agreements of varying duration. TGHL mitigates its risk, to the extent possible, through contracted buying arrangements or limitations on the length of time that bids can remain outstanding prior to acceptance. Volatility in raw material costs may negatively impact margins and therefore the company's future results of operations or financial position.

Competitive Market

Due to the competitive nature of the business in North America, TGHL must compete on price and quality of its hydrovac trucks. Delivery time is also an important consideration for customers, meaning that having a finished goods inventory of hydrovac trucks gives a competitive advantage. There can be no assurance that TGHL will have the financial capacity to maintain a sufficient finished goods inventory in North America.

Global Economic Environment

The current economic downturn has demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, events seemingly unrelated to TGHL may adversely affect TGHL over the course of time. For example, a credit contraction in financial markets, combined with reduced economic activity, may adversely affect economic activity of businesses in North America that collectively are expected to constitute a significant portion of TGHL's customer base. As a result, these customers may need to reduce their purchases of TGHL's products or services, or TGHL may experience greater difficulty in receiving payment for the products or services that these customers purchase from TGHL. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on TGHL's business, operating results, and financial condition.

Oil & Gas Related Production Activity and Municipal Market

Particularly in western Canada, demand for TGHL's products and services tends to fluctuate directly with oil and gas related production and construction activity. This in turn strongly correlates with the price of oil. A decline in the demand for TGHL's products can occur if deteriorating economic conditions reduce these economic activities, which would have an adverse effect on TGHL's business, results of operations, and financial condition. TGHL has largely expanded its business into the municipal market in both Canada and United States. A decrease in demand from the infrastructure development could negatively impacted its business and performance.

Reliance on Key Personnel

The business activities of TGHL involve a certain degree of risk that even a combination of experience, knowledge and diligence may not be able to overcome. Shareholders must rely on the ability, expertise, judgment, direction and integrity of the management of TGHL. Success will be dependent on the services of a number of key personnel, including its executive officers and other key employees, the loss of any one of whom could have an adverse effect on its operations and business prospects. TGHL feels that by being a publicly traded company it will have more flexibility than its private competitors to implement attractive incentive plans for key employees to attract and retain the necessary employees.

Safety (Reputation and Financial Results Could be Harmed in the Event of Accidents or Incidents)

TGHL is exposed to liabilities that are unique to the services that TGHL provides. Such liabilities may relate to an accident or incident involving one of TGHL's hydrovacs or damage to equipment or property caused by one of TGHL's hydrovacs, and could result in damage claims against the Company. The amount of TGHL's insurance coverage may not be adequate to cover potential claims or liabilities and TGHL may be forced to bear substantial costs as a result of one or more accidents. Substantial claims resulting from mechanical failure, in excess of its related insurance coverage, could harm TGHL's financial condition and operating results. Moreover, any accident or incident involving TGHL, even if TGHL is fully insured or not held liable, could negatively affect TGHL's reputation among customers and the public, thereby making it more difficult for TGHL to compete effectively, and could significantly affect the cost and availability of insurance in the future. Due to the magnitude of insurance premiums, TGHL decided to self-insure against any physical damage it could incur on the hydrovac units. This decision will be re-evaluated periodically as circumstances change.

Environment/Regulatory

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. No assurance can be given that environmental laws will not result in an increase in the costs of TGHL's activities or otherwise adversely affect the its financial condition, results of operations or prospects.

TGHL maintains insurance consistent with industry practice to protect against losses due to sudden and accidental environmental contamination, accidental destruction of assets, and other operating accidents or disruption. TGHL also has operational and emergency response procedures, and safety and environmental programs in place to reduce potential loss exposure. TGHL believes that it is in substantial compliance, in all material respects, with all current environmental legislation and is taking such steps as it believes are prudent to ensure that compliance will be maintained.

Litigation

Legal proceedings may arise from time to time in the course of TGHL's business. All industries, including the hydrovac industry, are subject to legal claims, with and without merit. Such legal claims maybe brought against TGHL or one or more of its subsidiaries in the future from time to time. Defense and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, such process could take away from management time and effort and the resolution of any particular legal proceeding to which TGHL may become subject could have a material effect on TGHL's financial position and results of operations.

Forward Looking Information

This MD&A contains certain "forward-looking statements." All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding financial and business prospects and financial outlook) are forward looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company, based on information currently available to the Company. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in general economic and market conditions, changes to regulations affecting the Company's activities, and uncertainties relating to the availability and costs of financing needed in the future. Any forward-looking statement speaks only as at the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.

Outlook

In addition to other sections of the Company's report, this section contains forward-looking information and actual outcomes may differ materially from those expressed or implied therein. For more information, see the section titled "Forward- Looking Information" in this MD&A.

Management believes that 2017 will be a better year compared to 2016, for its North America operation and a building year for its Chinese operation. The North American improvement was evidenced in the Fourth Quarter of 2016, when the operating costs for establishing in China are removed to show the results for North America alone. The North American operations have continued to see improvements in the first quarter of 2017 and this momentum is anticipated to continue throughout 2017.

In North America, we have experienced a recent improvement in the hydrovac market equipment purchase demand with increased interest coming out of the municipal sector. There are three primary reasons for this increased demand for hydrovacs;

- there have been a number of announcements from both the US and Canadian governments calling for a material increase to infrastructure spending going forward.
- Tornado Global Hydrovac's new, patent pending design, has compelling advantages over our competitors' trucks and this new truck only went to market in the fourth quarter of 2016.
- there continues to be thousands of utility "line-strikes" in the gas, fiber-optics and electrical underground infrastructure market every year in North America which is driving the need for non-destructive excavation products and technology, such as TGHL's hydrovacs.

As a consequence, the Company is seeing an improvement in its financial performance in 2017 with this increase in market demand and specific demand for its patent pending design.

In China, we continue to execute our plan to develop and penetrate this significant market. The highlights of both what we have achieved to date and are targeting to achieve in 2017 include:

- We expect to be in a position to manufacture our hydrovac trucks in China early in 2018.

- We currently have seven employees in the Beijing office which will continue to grow once production begins in early 2018. We anticipate a growing market for our trucks once we establish our presence and prove up the needs for hydrovac trucks in China.
- We have designed and manufactured three hydrovac trucks for use in China out of our Canadian manufacturing plant. We anticipate that they will land in China before the end of second quarter and be used for market demonstration in China.
- We are in the final stages of completing the required inspections from the Chinese authorities for manufacturing hydrovac trucks in China.
- We incurred $0.6 million of operating costs in the second half of 2016 with the vast majority being incurred in the Fourth Quarter.

Having completed its spin-out of its former parent company, management believes the medium and long term outlook for TGHL is positive and improving both in North America and China. Management believes that TGHL is now positioned to focus efforts on developing the China market which it views as having significant potential.

Non-IFRS Methods

In this MD&A, the Company uses two financial management metrics that are not in accordance with IFRS "Adjusted earnings (loss) before interest, tax, depreciation and amortization (Adjusted EBITDA)" and "Adjusted Gross Margin". Because these terms are not defined by IFRS they cannot be formally presented in the consolidated financial statements. The definition of Adjusted EBITDA does not take into account the Company's share of profit of an associate investment, gains and losses on the disposal of assets, fair value changes in foreign currency forward contracts and non-cash components of stock based compensation. Adjusted EBIT is the result of the Company's Adjusted EBITDA less depreciation and amortization expenses. The Adjusted Gross Margin metric is the result of revenues less cost of sales, excluding depreciation of property, plant and equipment. It should be noted that the Company's definition of Adjusted EBITDA, Adjusted EBIT and Adjusted Gross Margin may differ from those definitions used by other companies.

While not IFRS measures, Adjusted EBITDA, Adjusted EBIT and Adjusted Gross Margin are used by management, creditors, analysts, investors and other financial stakeholders to assess the Company's performance and management from a financial and operational perspective.

Reconciliation of Profit (loss) to Adjusted EBITDA

Periods ended December 31	Twelve months ended			Quarter ended		
	2016	2015	Variance	2016	2015	Variance
($000's, except for per share amounts)	$	$	$	$	$	$
Profit (loss) –before taxes	(2,751)	(1,200)	(1,551)	(929)	(375)	(554)
Add: Depreciation and amortization	720	328	392	373	194	179
Deduct: Deferred tax recoveries	(303)	-	(303)	-	-	-
Deduct: Finance income	(44)	-	(44)	(44)	-	(44)
Add: Finance costs	63	27	36	45	6	39
Add: Fair value changes in derivatives	27	-	27	27	-	27
Add: Management fees	200	720	(520)	-	180	(180)
Adjusted EBITDA – continuing operations	(2,088)	(125)	(1,963)	(528)	5	(533)

Calculation of Adjusted EBIT

Periods ended December 31	Twelve months ended			Quarter ended		
	2016	2015	Variance	2016	2015	Variance
($000's, except for percentages)	$	$	$	$	$	$
Adjusted EBITDA	(2,088)	(125)	(1,963)	(528)	5	(533)
Less: Depreciation and amortization	(720)	(328)	(392)	(373)	(194)	(153)
Adjusted EBIT	(2,808)	(453)	(2,355)	(901)	(189)	(686)
% of revenue	(16.5%)	(2.2%)	(14.3%)	(18.1%)	(3.5%)	(14.6%)

Calculation of Adjusted Gross Margin

Periods ended December 31	Twelve months ended			Quarter ended		
	2016	2015	Variance	2016	2015	Variance
($000's, except for percentages)	$	$	$	$	$	$
Revenues	17,049	20,178	(3,129)	4,975	5,152	(177)
Cost of sales excluding depreciation and amortization	(15,907)	(17,941)	2,034	(4,439)	(4,676)	237
Adjusted gross margin	1,142	2,237	(1,095)	536	476	60
% of revenue	6.7%	11.1%	(4.4%)	10.8%	9.2%	1.6%