



Tornado Global Hydrovacs Ltd.

# Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2018

## 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, 2018	December 31, 2017
(In \$000's CAD)			
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and equivalents		\$ 3,023	\$ 5,633
Accounts receivable		2,624	2,538
Inventory	3	9,710	6,490
Prepaid expenses and other assets		334	210
<b>Total current assets</b>		<b>15,691</b>	<b>14,871</b>
<b>Non-current assets</b>			
Finance lease receivable		—	335
Property and equipment, net	8	2,551	3,194
Goodwill and intangible assets, net	9	4,218	3,662
<b>Total non-current assets</b>		<b>6,769</b>	<b>7,191</b>
<b>Total assets</b>		<b>\$ 22,460</b>	<b>\$ 22,062</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		4,202	3,329
Fair value of foreign currency forward contracts		13	—
Current portion of finance lease obligation	10	196	151
Current tax payable		232	57
<b>Total current liabilities</b>		<b>4,643</b>	<b>3,537</b>
<b>Non-current liabilities</b>			
Deferred tax		145	88
Finance lease obligation	10	364	584
<b>Total liabilities</b>		<b>5,152</b>	<b>4,209</b>
<b>Shareholders' Equity</b>			
Share capital	11	20,893	20,893
Common share purchase warrants	12	144	144
Contributed surplus		418	213
Deficit		(4,300)	(3,507)
Accumulated other comprehensive income		153	110
<b>Total shareholders' equity</b>		<b>17,308</b>	<b>17,853</b>
<b>Total liabilities and equity</b>		<b>\$ 22,460</b>	<b>\$ 22,062</b>

*Related party transaction - see Note 16*

*See accompanying notes to condensed consolidated interim financial statements*

On behalf of the Board of Directors:

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

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

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

	Notes	Three Months ended		Nine Months ended	
		September 30 2018	September 30 2017	September 30 2018	September 30 2017
(In \$000's CAD, except per share amounts)					
<b>Revenues</b>					
Revenue		\$ 11,432	\$ 7,578	\$ 26,460	\$ 20,214
Other income - foreign exchange		(32)	41	(16)	127
		<b>11,400</b>	<b>7,619</b>	<b>26,444</b>	<b>20,341</b>
Cost of sales (1)	5	9,281	6,397	21,901	17,348
Gross Profit		<b>2,119</b>	<b>1,222</b>	<b>4,543</b>	<b>2,993</b>
Selling and general administrative expenses	6	1,572	1,148	4,045	3,302
Income (Loss) before depreciation, amortization and other items		<b>547</b>	<b>74</b>	<b>498</b>	<b>(309)</b>
Depreciation of property and equipment		86	117	363	349
Depreciation of inventory	3	63	—	79	—
Amortization of intangible assets		138	123	396	369
Loss on disposal of fixed assets		—	—	4	—
		<b>287</b>	<b>240</b>	<b>842</b>	<b>718</b>
Income (Loss) before the undernoted		<b>260</b>	<b>(166)</b>	<b>(344)</b>	<b>(1,027)</b>
Gain on shares issued for debt		—	(151)	—	(151)
Stock based compensation		69	—	205	—
Finance income		(4)	(6)	(37)	(25)
Finance costs		7	22	36	78
Change in fair value of derivative financial instruments		(86)	(110)	13	(149)
		<b>(14)</b>	<b>(245)</b>	<b>217</b>	<b>(247)</b>
<b>Income before tax</b>		<b>274</b>	<b>79</b>	<b>(561)</b>	<b>(780)</b>
Income tax recovery (expense)					
Current		(199)	—	(175)	—
Deferred		(13)	—	(57)	—
		<b>(212)</b>	<b>—</b>	<b>(232)</b>	<b>—</b>
<b>Net income (loss)</b>		<b>62</b>	<b>79</b>	<b>(793)</b>	<b>(780)</b>
Other comprehensive income (loss)					
Translation of foreign subsidiaries		(143)	(21)	43	(43)
<b>Comprehensive income (loss)</b>		<b>\$ (81)</b>	<b>\$ 58</b>	<b>\$ (750)</b>	<b>\$ (823)</b>
<b>Net loss per share</b>					
Basic	4	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.01)
Diluted	4	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.01)

(1) Cost of sales including depreciation and amortization was \$9,551 and \$22,694 for the three and nine month periods ended September 30, 2018 respectively (2017 - \$6,637 and \$18,091 respectively).

See accompanying notes to condensed consolidated interim financial statements

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

	Notes	Nine Months ended	
		September 30 2018	September 30 2017
(In \$000's CAD)			
<b>OPERATING ACTIVITIES</b>			
Net loss		\$ (793)	\$ (780)
<i>Add (deduct) items not affecting cash:</i>			
Depreciation of property and equipment		363	349
Depreciation of inventory		79	—
Amortization of intangible assets		396	369
Change in fair value of foreign currency forward contracts		13	(137)
Interest settled in debt conversion		—	43
Gain on shares issued for debt		—	(151)
Loss on disposal of fixed assets		4	—
Stock based compensation		205	—
Deferred income taxes		57	—
		<b>324</b>	<b>(307)</b>
Change in non-cash working capital	18	<b>(2,382)</b>	(1,622)
Proceeds from sale of leased truck		398	—
<b>Cash flow used in operating activities</b>		<b>(1,660)</b>	<b>(1,929)</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of fixed assets		2	—
Acquisition of property and equipment	8	(120)	(104)
Additions of intangible assets	9	(950)	—
<b>Cash flow used in investing activities</b>		<b>(1,068)</b>	<b>(104)</b>
<b>FINANCING ACTIVITIES</b>			
Net proceeds from finance leases	17	328	292
Proceeds from unit private placement		—	279
Proceeds from private placement of shares		—	2,500
Share issue costs		—	(66)
<b>Cash flow from financing activities</b>		<b>328</b>	<b>3,005</b>
Effect of exchange rate changes on cash and cash equivalents		(210)	(43)
<b>Net decrease in cash and equivalents during the year</b>		<b>(2,610)</b>	<b>929</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>5,633</b>	<b>4,444</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 3,023</b>	<b>\$ 5,373</b>

See accompanying notes to condensed consolidated interim financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

<b>As at September 30, 2018</b>						
	Common Shares	Common Share Purchase Warrants	Deficit	Accumulated Other Comprehensive Income	Contributed Surplus	Total Equity
(In \$000's CAD)						
<b>As at December 31, 2017</b>	\$ 20,893	\$ 144	\$ (3,507)	\$ 110	\$ 213	\$ 17,853
Stock based compensation	-	-	-	-	205	205
Loss for the period	-	-	(793)	-	-	(793)
Other comprehensive income for the period	-	-	-	43	-	43
<b>As at September 30, 2018</b>	\$ 20,893	\$ 144	\$ (4,300)	\$ 153	\$ 418	\$ 17,308

<b>As at September 30, 2017</b>						
	Common Shares	Common Share Purchase Warrants	Deficit	Accumulated Other Comprehensive Income	Contributed Surplus	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

See accompanying notes to condensed consolidated interim financial statements

# Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018

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 MacLeod 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 7, 2018.

## 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"). Except as discussed below, 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, 2017. TGHL's 2017 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.

### Adoption of new accounting standards

Effective January 1, 2018, the Company adopted the following standards, interpretations and/or amendments thereto, which had no material impact on the Company's financial statements:

#### IFRS 9 Financial instruments

Effective January 1, 2018, the Company retrospectively adopted IFRS 9, as well as consequential amendments to IFRS 7 Financial Instruments: Disclosures. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The adoption of IFRS 9 did not result in any adjustments to the amounts recognized in the Company's consolidated financial statements for the year ended December 31, 2017.

#### Classification and Measurement of Financial Instruments

The Company measures its financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification which in the case of financial assets, is determined by the context of the Company's business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into two categories: (1) measured at amortized cost and (2) fair value through profit and loss ("FVTPL"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive income ("OCI"). The Company does not employ hedge accounting for its risk management contracts currently in place.

#### Amortized Cost

The Company classifies its cash and equivalents, accounts receivable, accounts payable and accrued liabilities as measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest

# Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018

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

method. The carrying values of the Company's cash and equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values.

## *FVTPL NTD*

The Company classifies its risk management contracts as measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the statements of income. The adoption of IFRS 9 has resulted in changes to the classification of some of the Company's financial assets but did not change the classification of the Company's financial liabilities. There is no difference in the measurement of these instruments under IFRS 9 due to the short-term and liquid nature of these financial assets. The following table summarizes the classification categories for the Company's financial assets and liabilities by financial statement line item under the superseded IAS 39 standard and the newly adopted IFRS 9.

<b>Financial Assets</b>	<b>IAS 39</b>	<b>IFRS 9</b>
Cash and equivalents	Loans and receivables (Amortized cost)	Amortized cost
Accounts receivable	Loans and receivables (Amortized cost)	Amortized cost
Risk management assets	Held-for-trading (FVTPL)	FVTPL
<b>Financial Liabilities</b>	<b>IAS 39</b>	<b>IFRS 9</b>
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Risk management liabilities	Held-for-trading (FVTPL)	FVTPL

## *Impairment of Financial Assets*

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Company's accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime expected credit loss ("ECL") is measured at the date of initial recognition of the accounts receivable. ECL allowances have not been recognized for cash and cash equivalents and deposits due to the virtual certainty associated with their collectability.

The Company's trade and other receivables are subject to the expected credit loss model under IFRS 9. For the trade and other receivables, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Company considered historical industry default rates as well as credit ratings of major customers.

There were no material adjustments to the carrying value of any of the Company's financial instruments following the adoption of IFRS 9.

## **IFRS 15 Revenue from contracts with customers**

Effective January 1, 2018, the Company adopted IFRS 15 on a modified retrospective basis. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Company principally generates revenue from the sale of hydrovac trucks. Revenue is recognized when control is transferred from the Company to its customers. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the truck to the buyer;
- The Company has transferred significant risks and rewards of ownership of the asset to the buyer; and
- The Company has the present right to payment.

# Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018

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

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However, if the sale of the truck is combined with residual value commitment and there is a significant economic incentive for the customer to exercise the option, the control has not been transferred to the customer and the transaction is accounted for as an operating lease transaction in accordance with IAS 17. Revenue, in these transactions, is recognized over the residual value commitment period.

Revenue is measured based on the consideration specified in a contract with the customer.

The Company enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand-alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

In its modified retrospective adoption of IFRS 15, the Company applied a practical expedient that allows the Company to avoid re-considering the accounting for any sales contracts that were completed prior to January 1, 2018 and were previously accounted for under its previous revenue accounting policy.

The adoption of IFRS 15 did not result in any adjustments to the amounts recognized in the Company's consolidated financial statements for the year ended December 31, 2017.

## 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, 2018 and includes the results for the comparative periods in 2017. The condensed consolidated financial statements include the accounts of Tornado Global Hydrovac's Ltd. and its direct and indirect wholly owned subsidiaries Tornado Global Hydrovac's (North America) Inc., Tornado Hydrovac's Asia Pacific Holdings Ltd. and its subsidiary Tornado Global Hydrovac's (Beijing) Ltd.

Subsidiaries are fully consolidated from the date of acquisition, being the date of incorporation or the date which TGHL obtains control and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as TGHL, using consistent accounting policies. All inter-company balances, income and expenses and unrealized gains and losses resulting from inter-company transactions are eliminated.

## 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 a normal recurring nature to present fairly, the condensed consolidated financial position of the TGHL as at September 30, 2018. Except as described below, there have been no changes to the Company's significant accounting estimates and judgments as of September 30, 2018.



## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018

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

The Company may enter into contracts which provide for an option for the customer to sell back the truck to the Company at an agreed price. The Company assesses the likelihood of such option being exercised when determining the appropriate accounting treatment.

Hydrovac trucks induced in finished goods and rental inventory are depreciated over their estimated useful lives.

### 3. Inventory

Inventory comprises:

	<b>September 30, 2018</b>	December 31, 2017
Work-in-process	\$ 2,204	\$ 2,180
Raw materials	4,570	3,093
Finished goods	1,894	1,217
Rental inventory	1,042	-
	<b>\$ 9,710</b>	<b>\$ 6,490</b>

Finished goods inventory consists of three demonstration hydrovac trucks with respect to China and other hydrovac trucks and equipment for sale in North America. Rental inventory consists of hydrovac trucks that are currently rented to third-party customers on a month to month basis. Finished goods and rental inventory which is available for sale is net of depreciation of \$79.

### 4. Net loss per share

<b>Basic:</b>				<b>Diluted:</b>			
<b>Three Months ended September 30, 2018</b>				<b>Three Months ended September 30, 2018</b>			
	Net loss	Weighted average number of shares	Net loss per share		Net Loss	Weighted average number of shares	Net loss per share
	\$ 62	126,716,519	\$ 0.00		\$ 62	126,716,519	\$ 0.00

  

<b>Three Months ended September 30, 2017</b>				<b>Three Months ended September 30, 2017</b>			
	Net loss	Weighted average number of shares	Net loss per share		Net Loss	Weighted average number of shares	Net loss per share
	\$ 79	69,436,819	\$ 0.00		\$ 79	69,436,819	\$ 0.00

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018

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

Basic:				Diluted:			
Nine Months ended September 30, 2018				Nine Months ended September 30, 2018			
	Net loss	Weighted average number of shares	Net loss per share		Net Loss	Weighted average number of shares	Net loss per share
\$	(793)	126,716,519	\$ (0.01)	\$	(793)	126,716,519	\$ (0.01)
Nine Months ended September 30, 2017				Nine Months ended September 30, 2017			
	Net loss	Weighted average number of shares	Net loss per share		Net Loss	Weighted average number of shares	Net loss per share
\$	(780)	62,835,971	\$ (0.01)	\$	(780)	62,835,971	\$ (0.01)

The effects of dilution from 8,400,000 stock options and 3,100,000 warrants were excluded in the calculation of weighted average shares outstanding for diluted earnings per share for the three and nine month periods ended September 30, 2018 as they are anti-dilutive.

### 5. Cost of sales

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
Direct manufacturing costs	\$ 7,655	\$ 5,620	\$ 18,356	\$ 15,004
Indirect salaries and benefits	309	109	803	318
Indirect production costs	1,317	668	2,742	2,026
	\$ 9,281	\$ 6,397	\$ 21,901	\$ 17,348

### 6. Selling and general administrative expenses

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
Salaries and benefits	\$ 1,146	\$ 579	\$ 2,715	\$ 1,648
Selling, general and administrative expense	426	569	1,330	1,654
	\$ 1,572	\$ 1,148	\$ 4,045	\$ 3,302

### 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 the three and nine month periods ended September 30, 2018 and the comparative periods.

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018

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

The tables below show the North America, China and Corporate segments for the three and nine month periods ended September 30, 2018 and 2017 respectively (presented in \$'000's):

Three months ended September 30, 2018	North America		China		Corporate		Total
Revenue	\$	11,400	\$	-	\$	-	\$ 11,400
Cost of sales		9,281		-		-	9,281
Selling and administrative expenses		1,089		334		149	1,572
		1,030		(334)		(149)	547
Depreciation and amortization expense		122		27		138	287
Income (loss) before other items of income	\$	908	\$	(361)	\$	(287)	\$ 260
Total assets (1)	\$	14,937	\$	3,215	\$	4,308	\$ 22,460
Capital Expenditures	\$	-	\$	2	\$	396	\$ 398

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	\$	12,831	\$	4,743	\$	4,191	\$ 21,765
Capital Expenditures	\$	37	\$	-	\$	-	\$ 37

Nine Months ended September 30, 2018	North America		China		Corporate		Total
Revenue	\$	26,444	\$	-	\$	-	\$ 26,444
Cost of sales		21,901		-		-	21,901
Selling and general administrative		2,585		954		506	4,045
		1,958		(954)		(506)	498
Depreciation and amortization		388		54		396	838
Loss on disposal of assets		4		-		-	4
Income (loss) before other items of income	\$	1,566	\$	(1,008)	\$	(902)	\$ (344)
Total assets	\$	14,937	\$	3,215	\$	4,308	\$ 22,460
Capital Expenditures	\$	151	\$	7	\$	912	\$ 1,070

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 general administrative		1,921		808		573	3,302
		1,072		(808)		(573)	(309)
Depreciation and amortization		346		2		370	718
Income (loss) before other items of income	\$	726	\$	(810)	\$	(943)	\$ (1,027)
Total assets	\$	12,831	\$	4,743	\$	4,191	\$ 21,765
Capital Expenditures	\$	90	\$	14	\$	-	\$ 104

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018

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

Note 1 – Assets relating to China consist of demonstration hydrovac trucks of \$1,669, cash of \$1,067 and other assets of \$479. Assets in Corporate consist of intangible assets of \$4,169, cash of \$136 and other assets of \$3.

### 8. Property and equipment

Cost	M&E	Office Equip	Leaseholds	Rental Equipment and Vehicles	Total
Balance, December 31, 2017	\$ 1,723	\$ 211	\$ 1,066	\$ 893	\$ 3,893
<b>Additions</b>	<b>75</b>	<b>15</b>	<b>30</b>	<b>-</b>	<b>120</b>
Disposals	-	-	-	(7)	(7)
Reclassification to inventory	-	-	-	(405)	(405)
<b>Balance, September 30, 2018</b>	<b>\$ 1,798</b>	<b>\$ 226</b>	<b>\$ 1,096</b>	<b>\$ 481</b>	<b>\$ 3,601</b>

#### Accumulated Depreciation

Balance, December 31, 2017	\$ 268	\$ 84	\$ 311	\$ 36	\$ 699
<b>Depreciation for the period</b>	<b>138</b>	<b>45</b>	<b>159</b>	<b>19</b>	<b>361</b>
Disposals	-	-	-	(3)	(3)
Reclassification to inventory	-	-	-	(7)	(7)
<b>Balance, September 30, 2018</b>	<b>\$ 406</b>	<b>\$ 129</b>	<b>\$ 470</b>	<b>\$ 45</b>	<b>\$ 1,050</b>

#### Net book value

Balance, December 31, 2017	\$ 1,455	\$ 127	\$ 755	\$ 857	\$ 3,194
<b>Balance, September 30, 2018</b>	<b>\$ 1,392</b>	<b>\$ 97</b>	<b>\$ 626</b>	<b>\$ 436</b>	<b>\$ 2,551</b>

### 9. Goodwill and intangible assets

Cost	Goodwill	Research and Development	Computer Software	Total
Balance, December 31, 2017	\$ 833	\$ 3,529	\$ 41	\$ 4,403
<b>Additions</b>	<b>-</b>	<b>886</b>	<b>64</b>	<b>950</b>
<b>Balance, September 30, 2018</b>	<b>\$ 833</b>	<b>\$ 4,415</b>	<b>\$ 105</b>	<b>\$ 5,353</b>

#### Accumulated Amortization

Balance, December 31, 2017	\$ -	\$ 739	\$ 2	\$ 741
<b>Amortization for the period</b>	<b>-</b>	<b>392</b>	<b>2</b>	<b>394</b>
<b>Balance, September 30, 2018</b>	<b>\$ -</b>	<b>\$ 1,131</b>	<b>\$ 4</b>	<b>\$ 1,135</b>

#### Net book value

Balance, December 31, 2017	\$ 833	\$ 2,790	\$ 39	\$ 3,662
<b>Balance, September 30, 2018</b>	<b>\$ 833</b>	<b>\$ 3,284</b>	<b>\$ 101</b>	<b>\$ 4,218</b>

# Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018

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

## 10. Finance lease obligation

As at September 30, 2018, the Company had two hydrovac truck leases and a computer equipment lease, repayable in monthly installments totalling of \$18, bearing interest at rates between 2% and 6%.

	September 30, 2018	December 31, 2017
Finance leases obligation	\$ 560	\$ 735
Less: current portion of finance leases	(196)	(151)
	\$ 364	\$ 584

Amounts due on the hydrovac truck leases and computer equipment lease in the next five years are as follows:

2018	\$ 58
2019	220
2020	202
2021	130
2022	-
Total minimum lease payments	610
Amount representing interest	(50)
Present value of minimum lease payments	560
Less current portion of finance lease	(196)
	\$ 364

The hydrovac truck lease resulted from one sale and leaseback transactions where the Company sold the truck to a third party and leased it back under terms requiring treatment as a finance lease.

## 11. Share capital

The Company is authorized to issue an unlimited number of Class "A" Common Shares ("Common Shares") without nominal or par value.

As at September 30, 2018 there were 126,716,519 Common Shares outstanding. No shares were issued during the period.

As of December 31, 2017, 9.0 million shares were held in escrow as a result of the spin-out transaction in 2016. These shares were released from escrow on January 7, 2018.

No dividends were declared during the period.

## 12. Common share purchase warrants

As at September 30, 2018 there were 3,100,000 Warrants outstanding.

# Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018

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

## 13. Stock options

As at September 30, 2018, there were 8,400,000 stock options outstanding with a weighted average exercise price of \$0.11 and weighted average remaining contractual life of 3.9 years. 2,700,001 options were exercisable at a weighted average exercise price of \$0.11. No options were granted during the period.

## 14. Contractual obligations and commitments

### Operating lease commitments

The Company rents premises in Stettler, Canada, under an operating lease that requires annual payments of \$234 which expires June 30, 2021. The Company also 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 rents premises in Beijing, China, under an operating lease that requires annual payments of \$79 which expires in August 2019.

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

	2018	2019	2020	2021	2022
Stettler	\$ 59	\$ 234	\$ 234	\$ 117	\$ -
Calgary Office	19	44	-	-	-
Calgary Other	20	72	-	-	-
Beijing Office	20	53	-	-	-
	<b>\$ 117</b>	<b>\$ 403</b>	<b>\$ 234</b>	<b>\$ 117</b>	<b>\$ -</b>

## 15. 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, 2018, TGHL had \$3,023 cash which is expected to meet the budgeted requirements for the next 12 months.

## 16. Related party transactions

In Q3 2018, the Company's Beijing operation agreed to purchase inventory in the amount of \$234 (the "Purchase Amount") on behalf of Dynamic Attractions Ltd ("Dynamic"), a subsidiary of Empire Industries Ltd ("Empire"). A director of Tornado is a director and officer of Empire and another director of Tornado is a director of Empire.

The Purchase Amount is being repaid by Dynamic on agreed commercial terms. Dynamic will pay a commercially reasonable fee to the Company for its services. This transaction is measured at the exchange amount, which is the amount of consideration established and agreed to by the parties. As at September 30, 2018 the Company had a receivable of \$89 from Dynamic.

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018

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

### 17. Cash flow changes from financing activities

Details of changes in financing activities for the nine months ended September 30, 2018 are as follows:

	January 1, 2018	Cash Flows	Non-cash changes	September 30, 2018
			Fair Value / Amortization	
Finance lease receivable	503	503	-	-
Finance leases obligation	735	(175)	-	560
Foreign currency forward contracts	-	-	13	13
<b>Total</b>	<b>\$ 1,238</b>	<b>\$ 328</b>	<b>\$ 13</b>	<b>\$ 573</b>

### 18. Changes in non-cash working capital

	Nine Months ended September 30	
	2018	2017
Accounts receivable	\$ (86)	\$ (179)
Inventory	(3,220)	(1,510)
Prepaid expenses and other assets	(124)	(109)
Accounts payable and accrued liabilities	873	176
Current tax payable	175	-
<b>Total change in non-cash working capital</b>	<b>\$ (2,382)</b>	<b>\$ (1,622)</b>