



Tornado Global Hydrovacs Ltd.

# **Unaudited Condensed Consolidated Interim Financial Statements**

For the three and nine month periods ended September 30, 2019

## 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, 2019	December 31, 2018
(In \$000's CAD)			(Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and equivalents		\$ 1,176	\$ 2,228
Accounts receivable		4,499	3,945
Inventory	4	12,078	8,363
Prepaid expenses and other assets		301	160
<b>Total current assets</b>		<b>18,054</b>	<b>14,696</b>
<b>Non-current assets</b>			
Tax recoverable		211	200
Finance lease receivable		—	778
Property and equipment, net	10	5,975	5,558
Goodwill and intangible assets, net	11	3,535	3,861
Right-of-use assets, net	14	350	—
<b>Total non-current assets</b>		<b>10,071</b>	<b>10,397</b>
<b>Total assets</b>		<b>\$ 28,125</b>	<b>\$ 25,093</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 7,381	\$ 5,788
Term loans	12	375	758
Customer deposits	13	223	242
Current portion of finance lease obligation	15	362	234
Current portion of operating lease liabilities	16	145	—
Current tax payable		297	155
<b>Total current liabilities</b>		<b>8,783</b>	<b>7,177</b>
<b>Non-current liabilities</b>			
Deferred tax		388	263
Finance lease obligation	15	854	700
Operating lease liabilities	16	254	—
<b>Total liabilities</b>		<b>10,279</b>	<b>8,140</b>
<b>Shareholders' Equity</b>			
Share capital	17	20,903	20,893
Common share purchase warrants	18	144	144
Contributed surplus		526	469
Deficit		(3,945)	(4,830)
Accumulated other comprehensive income		218	277
<b>Total shareholders' equity</b>		<b>17,846</b>	<b>16,953</b>
<b>Total liabilities and equity</b>		<b>\$ 28,125</b>	<b>\$ 25,093</b>

Related party transactions - see Note 21

See accompanying notes to condensed consolidated financial statements

On behalf of the Board of Directors:

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

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

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

	Notes	Three Months ended		Nine Months ended	
		September 30 2019	September 30 2018	September 30 2019	September 30 2018
(In \$000's CAD, except per share amounts)					
<b>Revenues</b>					
Revenue	6	\$ 16,183	\$ 11,432	\$ 46,917	\$ 26,460
Other income (loss) - foreign exchange		54	(32)	(25)	(16)
		16,237	11,400	46,892	26,444
Cost of sales (1)	7	13,383	9,281	39,801	21,901
Gross Profit		2,854	2,119	7,091	4,543
Selling and general administrative expenses	8	1,686	1,572	4,475	4,045
Income before depreciation, amortization and other items		1,168	547	2,616	498
Depreciation of property and equipment		187	149	570	442
Amortization of intangible assets		148	138	442	396
Loss on disposal of fixed assets		—	—	—	4
		335	287	1,012	842
Income (loss) before the undernoted		833	260	1,604	(344)
Stock based compensation		21	69	61	205
Finance income		(13)	(4)	(60)	(37)
Finance costs		80	7	224	36
Change in fair value of derivative financial instruments		62	(86)	—	13
		150	(14)	225	217
<b>Income (loss) before tax</b>		<b>683</b>	<b>274</b>	<b>1,379</b>	<b>(561)</b>
Income tax recovery (expense)					
Current		(101)	(199)	(371)	(175)
Deferred		(82)	(13)	(125)	(57)
		(183)	(212)	(496)	(232)
<b>Net income (loss)</b>		<b>500</b>	<b>62</b>	<b>883</b>	<b>(793)</b>
Other comprehensive income (loss)					
Translation of foreign subsidiaries		(28)	(143)	(57)	43
<b>Comprehensive income (loss)</b>		<b>\$ 472</b>	<b>\$ (81)</b>	<b>\$ 826</b>	<b>\$ (750)</b>
<b>Net loss per share</b>					
Basic	5	\$nil	\$nil	\$ 0.01	\$ (0.01)
Diluted	5	\$nil	\$nil	\$ 0.01	\$ (0.01)

(1) Depreciation of right-of-use assets included in cost of sales was \$24 and \$72 for the three and nine month periods ended September 30, 2019 respectively. (2018 - \$nil and \$nil respectively).

See accompanying notes to condensed consolidated financial statements

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

	Notes	Nine Months ended	
		September 30 2019	September 30 2018
(In \$000's CAD)			
<b>OPERATING ACTIVITIES</b>			
Net income (loss)		\$ 883	\$ (793)
<i>Add (deduct) items not affecting cash:</i>			
Depreciation of property and equipment		570	442
Amortization of intangible assets		442	396
Depreciation of right-of-use assets		72	—
Change in fair value of foreign currency forward contracts		—	13
Loss on disposal of fixed assets		—	4
Stock based compensation		61	205
Cost of sold leased trucks transferred from property and equipment	10	1,130	—
Deferred income taxes		125	57
		<b>3,283</b>	<b>324</b>
Change in non-cash working capital	23	(2,490)	(2,382)
Income taxes paid	23	(204)	—
Proceeds from equipment buyback option		—	398
Change in tax recoverable		(11)	—
<b>Cash flow from (used) in operating activities</b>		<b>578</b>	<b>(1,660)</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	10	(1,411)	(120)
Proceeds from disposal of fixed assets		—	2
Additions of intangible assets	11	(116)	(950)
<b>Cash flow used in investing activities</b>		<b>(1,527)</b>	<b>(1,068)</b>
<b>FINANCING ACTIVITIES</b>			
Net proceeds of finance leases	22	296	328
Net repayment of term loans	22	(383)	—
Proceeds from exercise of stock options	22	6	—
<b>Cash flow from financing activities</b>		<b>(81)</b>	<b>328</b>
Effect of exchange rate changes on cash and cash equivalents		(22)	(210)
<b>Net decrease in cash and equivalents during the year</b>		<b>(1,052)</b>	<b>(2,610)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>2,228</b>	<b>5,633</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 1,176</b>	<b>\$ 3,023</b>

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
(unaudited)

<b>As at September 30, 2019</b>							
	Common Shares	Common Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Equity	
(In \$000's CAD)							
<b>As at December 31, 2018</b>	\$ 20,893	\$ 144	\$ 469	\$ (4,830)	\$ 277	\$ 16,953	
Exercise of stock options	10	-	(4)	-	-	6	
Stock based compensation	-	-	61	-	-	61	
Income for the period	-	-	-	883	-	883	
Other comprehensive income (loss) for the year	-	-	-	-	(57)	(57)	
<b>As at September 30, 2019</b>	\$ 20,903	\$ 144	\$ 526	\$ (3,947)	\$ 220	\$ 17,846	

<b>As at September 30, 2018</b>							
	Common Shares	Common Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Equity	
(In \$000's CAD)							
<b>As at December 31, 2017</b>	\$ 20,893	\$ 144	\$ 213	\$ (3,507)	\$ 110	\$ 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	\$ 418	\$ (4,300)	\$ 153	\$ 17,308	

See accompanying notes to condensed consolidated financial statements

# Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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 municipal and oil and gas and markets in North America. In China, the Company's subsidiary is used principally to source certain parts to the Company's North America operations. TGHL's corporate office is located at Suite 510, 7015 MacLeod Trail, SW, Calgary, Alberta, T2H 2K6, and was incorporated under the Business Corporations Act (Alberta) on April 27, 2016. TGHL's shares trade 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 15, 2019.

## 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, 2018. TGHL's 2018 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.

### Leases

Effective January 1, 2019, the Company applied IFRS 16. The following accounting policy is applicable from January 1, 2019:

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

### As Lessee

Leases are recognized as a right-of-use ("ROU") asset and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to net earnings over the lease term.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company,

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in the consolidated statement of earnings if the carrying amount of the ROU asset has been reduced to zero.

# Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

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The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located less any lease payments made at or before the commencement date.

The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses.

Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the consolidated statement of earnings on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net earnings that reflects the proportionate decrease in scope.

## As Lessor

As a lessor, the Company assesses at inception whether a lease is a finance or operating lease. Leases where the Company transfers substantially all of the risk and rewards incidental to ownership of the underlying asset are classified as financing leases. Under a finance lease, the Company recognizes a receivable at an amount equal to the net investment in the lease which is the present value of the aggregate of lease payments receivable by the lessor. If substantially all the risks and rewards of ownership of an asset are not transferred the lease is classified as an operating lease. The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as other income.

When the Company is an intermediate lessor, it accounts for its interest in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the ROU asset from the head lease not with reference to the underlying assets. If the head lease is a short-term lease to which the Company applies the exemption for lease accounting, the sublease is classified as an operating lease.

## Statement of compliance

These interim 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 months ended September 30, 2019 and includes the results for the comparative periods in 2018. The interim condensed consolidated financial statements include the accounts of Tornado Global Hydrovacs Ltd. and its direct and indirect wholly owned subsidiaries Tornado Global Hydrovacs (North America) Inc., Tornado Hydrovacs Asia Pacific Holdings Ltd. and Tornado Global Hydrovacs (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.

# Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

## 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, 2019. There have been no changes to the Company's significant accounting estimates and judgments as of September 30, 2019. With respect to leases, in determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

## 3. Adoption of new accounting standards

Effective January 1, 2019, the Company adopted IFRS 16, "Leases" ("IFRS 16"). The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company's consolidated statement of financial position, consolidated statements of comprehensive loss, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity have not been restated.

On adoption, Management elected to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics.
- Account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases. Account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of a low dollar value.
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

The impacts of the adoption of IFRS 16 as at January 1, 2019 are as follows:

	As Reported at December 31, 2018		Adjustments	Balance on Adoption as at January 1, 2019	
<b>Assets</b>					
Right-of-use assets, net	\$	-	\$ 423	\$	423
<b>Liabilities and Shareholders' Equity</b>					
Current portion of lease liabilities	\$	-	\$ (169)	\$	(169)
Non-current lease liabilities	\$	-	\$ (254)	\$	(254)

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, "Leases" ("IAS 17"). Under the principles of the new standard these leases have been measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 7%, at January 1, 2019. Leases with a remaining term of less than twelve months and low-value leases were excluded. Total lease liabilities of \$423 were recorded as at January 1, 2019, of which \$169 is the current portion.

The associated ROU assets are measured at the amount equal to the lease liability on January 1, 2019, adjusted for any prepaid and accrued lease payments relating to the leases recognized in the statement of financial position immediately before the date of transition, with no impact on retained earnings.



## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

The following table provides a reconciliation of the commitments as at December 31, 2018 to the Company's lease liabilities as at January 1, 2019:

Commitments as at December 31, 2018	\$	775
Less: Short-Term Leases		(190)
Impact of discounting		(162)
Present value of lease liabilities as at January 1, 2019	\$	423

As a lessor, there was no significant impact to lessor accounting from the adoption of IFRS 16.

#### 4. Inventory

Inventory comprises:

	September 30, 2019	December 31, 2018
Work-in-process	\$ 4,096	\$ 1,960
Raw materials	7,359	4,959
Finished goods	623	1,444
	\$ 12,078	\$ 8,363

Finished goods inventory consists hydrovac equipment for sale in North America and China.

#### 5. Net income (loss) per share

Basic:			Diluted:		
Three months ended September 30, 2019			Three months ended September 30, 2019		
Net income	Weighted average number of shares	Net loss per share	Net income	Weighted average number of shares	Loss per share
\$500	126,771,121	\$ -	\$500	129,463,613	\$ -

  

Three Months ended September 30, 2018			Three Months ended September 30, 2018		
Net income	Weighted average number of shares	Net loss per share	Net income	Weighted average number of shares	Net loss per share
\$62	126,716,519	\$ -	\$62	126,716,519	\$ -

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

Basic:			Diluted:		
Nine months ended September 30, 2019			Nine months ended September 30, 2019		
Net income	Weighted average number of shares	Net loss per share	Net income	Weighted average number of shares	Net loss per share
\$883	126,740,920	\$0.01	\$883	129,463,613	\$0.01

  

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	Shares	Net loss per share
(\$793)	126,716,519	(\$0.01)	(\$793)	126,716,519	(\$0.01)

The effects of dilution from 7,445,400 stock options and 3,100,000 warrants were included in the calculation of weighted average shares outstanding for diluted earnings per share for the three months ended September 30, 2019 as they are dilutive.

### 6. Revenue

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	2019	2018
Revenues	\$ 16,183	\$ 11,432	\$ 46,917	\$ 26,460

Revenue for the nine months ended September 30, 2019 comprised truck sales \$43,795 (2018 - \$25,496), parts and services \$1,227 (2018 - \$716) and rental income \$753 (2018 - \$248). During the nine months ended September 30, 2019, 28.8% (2018 – 16.3%) of truck sales was attributable to one customer.

The table below shows the geographical sales:

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	2019	2018
Canada	\$ 10,206	\$ 6,555	\$ 27,454	\$ 11,073
United states	5,977	4,877	19,463	15,387
	\$ 16,183	\$ 11,432	\$ 46,917	\$ 26,460

### 7. Cost of sales

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	2019	2018
Direct manufacturing costs	\$ 10,925	\$ 7,655	\$ 32,479	\$ 18,356
Indirect salaries and benefits	467	309	1,390	803
Indirect production costs	1,991	1,317	5,932	2,742
	\$ 13,383	\$ 9,281	\$ 39,801	\$ 21,901

# Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

## 8. Selling and general administrative expenses

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	2019	2018
Salaries and benefits	\$ 1,201	\$ 1,146	\$ 2,906	\$ 2,715
Selling, general and administrative expense	485	426	1,569	1,330
	\$ 1,686	\$ 1,572	\$ 4,475	\$ 4,045

## 9. 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 used principally to source certain parts to the North America segment.

The tables below show the North America, China and Corporate segments for the three and nine months ended September 30, 2019 and 2018 with all intercompany transactions eliminated:

Three months ended September 30, 2019	North America	China	Corporate	Total
Revenue	\$ 16,237	\$ -	\$ -	\$ 16,237
Cost of sales	13,383	-	-	13,383
Selling and administrative expenses	1,232	321	133	1,686
	1,622	(321)	(133)	1,168
Depreciation and amortization expense	160	31	144	335
Income (loss) before other items of income	\$ 1,462	\$ (352)	\$ (277)	\$ 833
Total assets	\$ 21,006	\$ 3,484	\$ 3,635	\$ 28,125
Total liabilities	\$ 9,749	\$ 295	\$ 235	\$ 10,279
Capital Expenditures	\$ 169	\$ -	\$ 144	\$ 313

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	\$ 14,937	\$ 3,215	\$ 4,308	\$ 22,460
Total liabilities	\$ 4,781	\$ 137	\$ 234	\$ 5,152
Capital Expenditures	\$ -	\$ 2	\$ 396	\$ 398

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

Nine Months ended September 30, 2019	North America		China		Corporate		Total	
Revenue	\$	46,892	\$	-	\$	-	\$	46,892
Cost of sales		39,801		-		-		39,801
Selling and general administrative		3,263		720		492		4,475
		3,828		(720)		(492)		2,616
Depreciation and amortization		492		88		432		1,012
Loss on disposal of assets		-		-		-		-
Income (loss) before other items of income	\$	3,336	\$	(808)	\$	(924)	\$	1,604
Total assets	\$	21,006	\$	3,484	\$	3,635	\$	28,125
Total liabilities	\$	9,749	\$	295	\$	235	\$	10,279
Capital Expenditures	\$	1,383	\$	-	\$	144	\$	1,527

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
Total liabilities	\$	4,781	\$	137	\$	234	\$	5,152
Capital Expenditures	\$	151	\$	7	\$	912	\$	1,070

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

### 10. Property and equipment

Cost	M&E	Office Equip	Leaseholds	Rental Equipment and Vehicles	Total
Balance, December 31, 2018	\$ 1,804	\$ 230	\$ 1,119	\$ 3,705	\$ 6,858
<b>Additions</b>	<b>194</b>	<b>59</b>	<b>-</b>	<b>1,158</b>	<b>1,411</b>
Reclassification from finance lease receivable (1)				748	748
Reclassification to inventory (2)				(1,172)	(1,172)
<b>Balance, September 30, 2019</b>	<b>\$ 1,998</b>	<b>\$ 289</b>	<b>\$ 1,119</b>	<b>\$ 4,439</b>	<b>\$ 7,845</b>

#### Accumulated Depreciation

Balance, December 31, 2018	\$ 456	\$ 155	\$ 534	\$ 155	\$ 1,300
<b>Depreciation for the period</b>	<b>147</b>	<b>53</b>	<b>168</b>	<b>244</b>	<b>612</b>
Reclassification to inventory (2)				(42)	(42)
<b>Balance, September 30, 2019</b>	<b>\$ 603</b>	<b>\$ 208</b>	<b>\$ 702</b>	<b>\$ 357</b>	<b>\$ 1,870</b>

#### Net book value

Balance, December 31, 2018	\$ 1,348	\$ 75	\$ 585	\$ 3,550	\$ 5,558
<b>Balance, September 30, 2019</b>	<b>\$ 1,395</b>	<b>\$ 81</b>	<b>\$ 417</b>	<b>\$ 4,082</b>	<b>\$ 5,975</b>

(1) During 2019, two hydrovac trucks(2018 - nil) that were previously sold under guaranteed purchase options and recorded as finance lease receivable were returned by customers and then tested for impairment and reclassified as property and equipment.

(2) During 2019, three hydrovac trucks (2018 - nil) were reclassified from property and equipment to inventory and then subsequently sold to customers.

### 11. Goodwill and intangible assets

Cost	Goodwill	Patents	Development	Computer Software	Total
Balance, December 31, 2018	833	3,529	678	136	5,176
<b>Additions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>116</b>	<b>116</b>
<b>Balance, September 30, 2019</b>	<b>\$ 833</b>	<b>\$ 3,529</b>	<b>\$ 678</b>	<b>\$ 252</b>	<b>\$ 5,292</b>

#### Accumulated Amortization

Balance, December 31, 2018	-	1,232	65	18	1,315
<b>Amortization for the period</b>	<b>-</b>	<b>-</b>	<b>420</b>	<b>22</b>	<b>442</b>
<b>Balance, September 30, 2019</b>	<b>\$ -</b>	<b>\$ 1,232</b>	<b>\$ 485</b>	<b>\$ 40</b>	<b>\$ 1,757</b>

#### Net book value

Balance, December 31, 2018	\$ 833	\$ 2,297	\$ 613	\$ 118	\$ 3,861
<b>Balance, September 30, 2019</b>	<b>\$ 833</b>	<b>\$ 2,297</b>	<b>\$ 193</b>	<b>\$ 212</b>	<b>\$ 3,535</b>

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

### 12. Term loans

	September 30, 2019	December 31, 2018
Term loans	\$ 375	\$ 758

As at September 30, 2019, the Company had two term loans classified as current as they are due on demand bearing interest at rates between 5.75% and 5.85%, repayable in monthly blended instalments between \$7 and \$8, maturing between September 2021 and December 2021 and secured by hydrovac trucks in the Company's rental equipment with a total net book value of \$650.

Amounts due on the term loans in the next three years are as follows:

2019	\$ 47
2020	190
2021	167
2022	-
2023	-
Total minimum loan payments	404
Amount representing interest	(29)
	\$ 375

### 13. Customer deposits

	September 30, 2019	December 31, 2018
Customer deposits	\$ 223	\$ 242

Customer deposits relate to cash deposits received from customers for hydrovac trucks that were not sold as at the reporting date.

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

### 14. Right-of-use assets, net

<b>Cost</b>	
As at January 1, 2019 (Note 3)	\$ 423
Additions	-
<b>As at September 30, 2019</b>	<b>\$ 423</b>

<b>Accumulated depreciation</b>	
As at January 1, 2019 (Note 3)	\$ -
Depreciation	73
<b>As at September 30, 2019</b>	<b>\$ 73</b>

<b>Net book value</b>	
As at January 1, 2019 (Note 3)	\$ 423
<b>As at September 30, 2019</b>	<b>\$ 350</b>

The right of use asset relates to the Company's leased production facility in Stettler, Canada.

### 15. Finance lease obligation

As at September 30, 2019, the Company had four hydrovac truck leases, a vehicle lease and two computer equipment leases, repayable in monthly installments totaling of \$33 and bearing interest at rates between 2% and 7%.

	<b>September 30, 2019</b>	December 31, 2018
Finance leases obligation	<b>\$ 1,216</b>	\$ 934
Less: current portion of finance lease obligations	<b>(362)</b>	(234)
	<b>\$ 854</b>	\$ 700

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

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

2019	\$	99
2020		395
2021		384
2022		313
2023		136
Total minimum lease payments		1,327
Amount representing interest		(111)
		1,216
Less current portion of finance lease		(362)
		\$ 854

### 16. Lease liabilities

As at September 30, 2019, the Company had \$399 lease liabilities relating to the Company's facility lease in Stettler, which consists \$145 current portion and \$254 non-current portion.

### 17. Share capital

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

The following table indicates issuances of Common Shares over the past 2 years:

	Shares	Amount
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
Issued by way of rights offering, October 31, 2017	6,172,354	525
Share issue costs	-	(116)
Outstanding common shares, December 31, 2017 and 2018	126,716,519	20,893
Exercise of stock options	54,600	10
<b>Outstanding common shares, September 30, 2019</b>	<b>126,771,119</b>	<b>\$20,903</b>

As at September 30, 2019 there were 126,771,119 Common Shares outstanding. During the nine months ended September 30, 2019, 54,600 shares were issued as a result of the exercise of stock options.

No dividends were declared during the period.



# Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

## 18. Common share purchase warrants

As at September 30, 2019 there were 3,100,000 Warrants outstanding. Each Warrant is exercisable at \$0.12 and expires on September 15, 2022. No warrants were exercised during the nine months ended September 30, 2019.

## 19. Stock options

As at September 30, 2019, there were 7,445,400 stock options outstanding with a weighted average exercise price of \$0.11 and weighted average remaining contractual life of 3.0 years. 5,045,400 options were exercisable at a weighted average exercise price of \$0.11. 54,600 options were exercised during the nine months ended September 30, 2019. No options were granted during the nine months ended September 30, 2019.

The following tables summarize Stock Option activity to September 30, 2019:

	Number of Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2018	8,400,000	\$0.11
Options Cancelled	(900,000)	\$0.11
Options Exercised	(54,600)	\$0.11
Balance, September 30, 2019	7,445,400	\$0.11
Exercisable, September 30, 2019	5,045,400	\$0.11

Option price	Options Outstanding	Contractual Life (years)
\$0.11	7,445,400	3.0

For the nine months ended September 30, 2019, \$nil stock based compensation expense related to the 900,000 options cancelled was recognized.

## 20. 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, 2019, TGHL had \$1,176 cash which is expected to meet the budgeted requirements for the next 12 months.

## 21. Related party transactions and subsequent event

- During the three and nine months ended September 30, 2019, \$nil and \$16 respectively of legal fees were incurred and paid to a China-based office of Dentons, a multinational law firm. Mr. George Tai, a director of the Company, is a Partner of a Canada-based office of Dentons Canada LLP.

## Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019

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

- b) During the three months ended September 30, 2019, the Company's wholly-owned subsidiary Tornado Hydrovac Asia Pacific Holdings Limited ("Tornado Asia") entered into an agency framework agreement with Shanghai World Trade Resources Group Co. Ltd. ("ShanghaiCo.") to assist in the procurement, export and import of certain components used in the manufacture and assembly of its proprietary hydrovac trucks on behalf of Tornado Asia in and from mainland China (the "Agency Framework"). Tornado Asia will pay a service fee to ShanghaiCo. equal to 5% of the value of the components purchased by Shanghai Co. on its behalf under the Agency Framework plus all expenses incurred by ShanghaiCo. for the purchase, export or import of such components. The Agency Framework also contemplates that ShanghaiCo. may fund expenses on behalf of Tornado Asia in connection with its services in consideration for a 12% annual interest charge. In Q3 2019, the Company sold raw materials of \$106 to the ShanghaiCo. for further manufacturing hydrovac equipment and parts in China for its North America operations. This Amount was outstanding as at September 30, 2019. On October 15, 2019, Tornado Asia advanced \$116,606 USD to Shanghai Co. for the purchase of components pursuant to the Agency Framework.

Mr. Chuyu Wu, a director of the Company and Tornado Asia, is a director of ShanghaiCo.

### 22. Cash flow changes from financing activities

Details of changes in financing activities for the nine month ended September 30, 2019 are as follows:

	January 1, 2019	Cash Flows	Non-cash changes		September 30, 2019
			Fair Value / Amortization	Change in Finance Leases	
Finance lease receivable	1,164	-		(1,164)	-
Finance leases obligation	(934)	296	(14)	-	(1,216)
Loan payable	(758)	(383)	-	-	(375)
Share capital	20,893	6	-	4	20,903
<b>Total</b>	<b>\$ 20,365</b>	<b>\$ (81)</b>	<b>\$ (14)</b>	<b>\$ (1,160)</b>	<b>\$ 19,312</b>

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

	Nine Months ended September 30	
	2019	2018
Accounts receivable	\$ (554)	\$ (86)
Inventory	(3,715)	(3,220)
Prepaid expenses and other assets	(141)	(124)
Accounts payable and accrued liabilities	1,593	873
Deferred Revenue	(19)	-
Current tax payable	142	175
	<b>\$ (2,694)</b>	<b>\$ (2,382)</b>
Less: income taxes paid	(204)	-
<b>Total change in non-cash working capital</b>	<b>\$ (2,490)</b>	<b>\$ (2,382)</b>