Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of the consolidated operations of Tornado Global Hydrovacs Ltd. ("TGHL" or the "Company") and its wholly-owned subsidiaries Tornado Global Hydrovacs (North America) Inc. ("Tornado NA" or the "North American Operation(s)"), Tornado Global Hydrovacs (Beijing) Ltd. ("Tornado China") and Tornado Hydrovacs Asia Pacific Holdings Ltd. ("Tornado Asia") and together with Tornado China are referred to as the ("China Operation(s)") is supplemental to, and should be read in conjunction with the Company's consolidated financial statements and related notes as at December 31, 2019 and for the years ended December 31, 2019 and 2018.

The audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2019 and 2018 have been prepared in conformity with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared by management and approved by TGHL's Board of Directors. These statements require management to make estimates and assumptions that affect amounts reported and disclosed in such financial statements and related notes. Actual results may differ materially. See "Forward-Looking Information".

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.

This MD&A contains forward-looking information and statements. At the end of this MD&A is an advisory on forward-looking information and statements.

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

Disclosure contained in this document is current to June 11, 2020, unless otherwise stated.

Non-IFRS Methods

In this MD&A, the Company uses four financial management metrics that are not in accordance with IFRS, namely "EBITDAS" (earnings (loss) before interest, tax, depreciation and amortization, impairment write-down and stock-based compensation) "Gross Margin", "EBIT" (earnings before interest and taxes) and "funds from operating activities". Because these terms are not defined by IFRS they cannot be formally presented in the interim unaudited condensed consolidated financial statements. The definition of EBITDAS does not take into account gains and losses on the disposal of assets, fair value changes in foreign currency forward contracts and non-cash components of stock-based compensation. EBIT is the result of the Company's EBITDAS less depreciation and amortization expenses, gains and losses on the disposal of assets, impairment write-down and stock-based compensation. Gross Margin is the result of revenues less cost of sales, excluding depreciation of property, plant and equipment. Funds from operating activities is calculated from cash from operating activities adjusted for change in tax recoverable, income taxes paid and changes in non-cash working capital. It should be noted that the Company's definition of EBITDAS, EBIT and Gross Margin may differ from those definitions used by other companies.

While not IFRS measures, EBITDAS, EBIT, Gross Margin and funds from operating activities 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.

Business Description

TGHL designs, manufactures and sells hydrovac trucks for excavation service providers to the municipal market and the oil and gas industry. It operates through a leased production facility located in Stettler, Alberta and a sales office located in Calgary, Alberta. In China, the Company's subsidiary is principally used to source certain parts for the Company's North America Operations.

TGHL maintains its head office in Calgary, Alberta.

2019 Overview

- Revenue of $60,387, increased 55.4% compared to $38,850 in 2018. The increase in revenue was due to the improvement during 2019 in hydrovac equipment demand with increased interest coming out of the municipal sector in both Canada and the United States ("US").

- As a result of increased revenue, gross profit of $9,305 in 2019, increased by $3,501 compared to $5,804 in 2018. The Gross Margin, however, was negatively impacted by lower margins on outsourced production to third parties to meet increased demand. The Gross Margin was positively impacted by the increased benefits from cost savings on parts sourced from China during the year.

- EBITDAS of $3,230, comprising North America - $4,916, China - negative $1,032 and Corporate - negative $654, improved by $2,844 compared to EBITDAS of $386 in 2018, due to increased revenues and gross profit in North America, offset by increased selling, general and administrative expenses. For the North American Operations, EBITDAS during 2019 of $4,916 increased significantly compared to $2,337 in 2018, due to increased activity levels and cost savings from utilizing parts sourced from China.

- An aggregate impairment write-down of $2,242 which principally relates to the Company's property and equipment located in China and the related development costs was recorded as at December 31, 2019 following an impairment assessment. This impairment write-down negatively impacted EBIT resulting in a decrease of $91 to negative EBIT of $868 in 2019 compared to negative EBIT of $777 in 2018.

- Net loss of $1,634, increased by $311 in 2019 compared to a net loss of $1,323 in 2018. This was due to the factors discussed above, plus an increase in selling and general administrative expense of $657 and an increase in income tax expense related to the Company's North American Operations of $221 to a total of $494.

- During 2019, hydrovac truck parts sourced by Tornado China were sent to Canada for the production of hydrovac trucks.

Q4/2019 Overview

- Revenue increased by 8.8% to $13,495 in Q4/2019 compared to $12,406 in Q4/2018. Gross Margin of $2,142 increased by 69.9% in Q4/2019 compared to $1,261 in Q4/2018. The margin, however, was negatively impacted by lower margins on outsourced production to third parties to meet growing demand. The margin was positively impacted by the increased benefits from cost savings on parts sourced from China.

- Selling and administrative expenses of $1,600 increased by $227 compared to $1,373 in Q4/2018, principally due to a VAT tax receivable write off relating to the Company's China Operations of $201.

- EBITDAS of $614, increased by $726 in Q4/2019 compared to EBITDAS of negative $112 in Q4/2018, as a result of the factors discussed above. EBIT of negative $2,472 decreased by $2,039 in Q4/2019 compared to negative $433 in Q4/2018 principally due to impairment write-down of $2,242.

- During Q4/2019, an aggregate impairment write-down of $2,242 which principally relates to the Company's property and equipment located in China and the related intangible development costs was recorded.

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

- As a result of these factors, a net loss of $2,517 for Q4/2019 was recorded compared to a net loss of $530 in Q4/2018.

Selected Financial Information

	Three Months ended December 31			Year ended December 31		
	2019	2018	2017	**2019**	2018	2017
Revenue	**$ 13,495**	$ 12,406	$ 9,440	**$ 60,387**	$ 38,850	$ 29,781
Cost of sales	**11,353**	11,145	7,945	**51,082**	33,046	25,293
Gross Profit	**2,142**	1,261	1,495	**9,305**	5,804	4,488
Selling and general administrative expenses	**1,600**	1,373	1,516	**6,075**	5,418	4,818
Depreciation of property and equipment	**345**	143	149	**915**	585	498
Amortization of intangible assets	**166**	178	126	**608**	574	495
Depreciation of right-of-use assets	**261**	-	-	**333**	-	-
Impairment write-down	**2,242**	-	-	**2,242**	-	-
Stock-based compensation	**68**	51	213	**129**	256	213
Finance income	**(80)**	4	1	**-**	(33)	(24)
Finance costs	**60**	14	22	**144**	50	100
Gain on shares issued for debt	**-**	-	-	**-**	-	(151)
Change in fair value of derivative financial instruments	**(1)**	(13)	122	**(1)**	-	(27)
Loss on disposal of fixed assets	**-**	-	-	**-**	4	-
Loss before tax	**(2,519)**	(489)	(654)	**(1,140)**	(1,050)	(1,434)
Income tax recovery (expense)	**2**	(41)	(145)	**(494)**	(273)	(145)
Net loss	**$ (2,517)**	$ (530)	$ (799)	**$ (1,634)**	$ (1,323)	$ (1,579)
Comprehensive loss	**$ (2,924)**	$ (406)	$ (646)	**$ (2,098)**	$ (1,156)	$ (1,469)
Net loss per share - basic and diluted	**$ (0.02)**	$ (0.00)	$ (0.02)	**($0.01)**	$ (0.01)	$ (0.02)
Total non-current financial liabilities	**$ 808**	$ 700	$ 584	**$ 808**	$ 700	$ 584
Total assets	**$ 23,830**	$ 25,093	$ 22,062	**$ 23,830**	$ 25,093	$ 22,062

Segmented Information

Year ended December 31, 2019	**North America**	**China**	**Corporate**	**Total**
Revenue	$ 60,387	$ -	$ -	$ 60,387
Cost of sales	51,082	-	-	51,082
Selling and general administrative	4,389	1,032	654	6,075
	4,916	(1,032)	(654)	3,230
Depreciation and amortization	1,120	119	617	1,856
Impairment write-down	14	1,642	586	2,242
Income (loss) before other items	$ 3,782	$ (2,793)	$ (1,857)	$ (868)

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

Year ended December 31, 2018	North America	China	Corporate	Total
Revenue	$ 38,850	$ -	$ -	$ 38,850
Cost of sales	33,046	-	-	33,046
Selling and general administrative	3,467	1,337	614	5,418
	2,337	(1,337)	(614)	386
Depreciation and amortization	524	63	572	1,159
Loss on disposal of assets	4	-	-	4
Income (loss) before other items of income	$ 1,809	$ (1,400)	$ (1,186)	$ (777)

Operating Results

	Three Months ended December 31		Year ended December 31	
	2019	**2018**	**2019**	2018
Revenues	**$ 13,495**	$ 12,406	**$ 60,387**	$ 38,850
Gross margin	**2,142**	1,261	**9,305**	5,804
Gross margin %	**15.87%**	10.16%	**15.4%**	14.9%
EBITDAS	**614**	(112)	**3,230**	386
EBITDAS %	**4.55%**	-0.90%	**5.3%**	1.0%
EBIT	**(2,472)**	(433)	**(868)**	(777)
EBIT %	**-18.32%**	-3.49%	**-1.4%**	-2.0%
Net loss	**$ (2,517)**	$ (530)	**$ (1,634)**	$ (1,323)

The Gross Margin relates to the North American Operations. For the year ended December 31, 2019, Gross Margin of $9,305 increased 60.3% compared to the same period in 2018. This increase was due to increased revenue resulting from the increase in overall demand for hydrovac trucks and the increasing benefits from cost savings on parts sourced from China. The margin however was negatively impacted by lower margins on outsourced production to third parties to meet growing demand.

Outlook

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

In December 2019, a novel coronavirus ("COVID-19") surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020 with respect to the outbreak, which was subsequently characterized as a pandemic on March 11, 2020, leading many countries to take drastic measures to manage the spread of the virus. As a result of the (i) spread of the coronavirus in all relevant jurisdictions to the Company's supply chain and customer base; (ii) impact of government measures imposed to help manage the spread of the virus; (iii) actions undertaken by the Company to ensure the well-being and safety of its employees; and (iv) uncertainty over the duration of business disruptions as a result of COVID-19, management expects that the Company's consolidated financial results in the fiscal year 2020, including its financial performance and liquidity will be negatively impacted by this event.

The Company continues to evaluate its business operations in the context of COVID-19, with a focus on health and safety of its employees, current company operations, business continuity and managing liquidity. As permitted by current government regulations, the Company continues to operate its manufacturing facility with strict cleaning protocols and social distancing measures in place. In April 2020, the Company has reduced truck production and put in place an aggressive program to conserve cash. The Company was outsourcing approximately 1/3 of its production before the pandemic and this has been discontinued entirely. Production at the Company's manufacturing facility in Stettler, Alberta has also been reduced by approximately 60% for the months of April, May and June of 2020.

In specific, approximately 65% of the Company's employees were temporarily laid off. In addition, the Chief Executive Officer, Chief Financial Officer and two other head office employees took a significant salary reduction. These measures are intended to allow the Company to conserve cash and maintain its workforce through a period of lower production. The cost savings generated by the temporary layoffs and salary reductions are intended to protect the Company's balance sheet and to allow the Company to quickly ramp-up production once the pandemic has passed. The service and parts team are expected to remain unaffected so they can continue to assist customers.

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

Management recognizes that while it continues to respond to and navigate the impacts of COVID-19 on the Company's business, the COVID-19 situation continues to evolve. At this point, the Company expects to have access to debt and potentially other forms of government support to be made available to businesses impacted by the pandemic. To the extent the situation in Canada and US continues to worsen, the degree to which the Company's operations could be affected may increase.

The outbreak of COVID-19 may also further impact customer demand. Notwithstanding the impact of COVID-19, management believes the underlying fundamentals of the Company's business remain strong and over the long term expects the Company's production and sales of hydrovac trucks in North America to recover and return to and eventually exceed the level achieved in 2019 for the following reasons:

- Continued spending on infrastructure by both the Canadian and the US governments is anticipated to support the market demand of hydrovac trucks in North America.
- The Company introduced a newly designed hydrovac truck in 2018 which management believes has compelling advantages over hydrovac trucks currently offered in the market, including having a lighter weight and more debris capacity making it easier to comply with the road weight laws of Canada and the US.
- The Company's newly designed skid mounted unit was introduced to the North American market at trade shows in Toronto and Indianapolis in Q1/2019. The skid mounted units received positive feedback from prospective customers. The skid mounted units will be produced in China which management anticipates will allow the Company to offer competitively priced skid mounted units for both the North American and the Chinese markets.
- In 2018, the Company entered into an exclusive sales agreement with a US strategic partner who has an integrated network of 23 locations across North America.

Prior to COVID -19, the Company was facing sales demand greater than its manufacturing capability. To address this and plan for the expiry of the Company's lease of its production facility in Stettler, Alberta in June 2021, the Company made the strategic decision to acquire a manufacturing facility in Red Deer, Alberta, Canada. This acquisition closed on February 3, 2020.

Through its presence in China, the Company has established a strategic supply chain from China for certain hydrovac truck parts. This has had a positive impact by reducing the Company's production costs in North America and this benefit is expected to continue to positively impact the financial results of the Company. The COVID-19 outbreak has resulted in the temporary shutdown of certain businesses throughout China. Because the Company's Chinese suppliers are operating again and with the slower pace of sales activities, and the Company's build up of inventory before the pandemic started, absent any negative impact from general trade relations between North America and China (as discussed in the risk section of this MD&A), management does not think that the Company will have any challenges ramping up its supply chain in the future, as sales activity picks up.

The Company expects that the weak Canadian dollar will continue to positively impact profit margins because a significant number of the Company's hydrovac trucks are sold in US dollars while manufactured in Canada.

The Company has refocused its business in China resulting in a significantly reduced cost structure for its China Operations. The Company's China office is now being used to negotiate and source certain high quality, low cost hydrovac truck parts for North American truck production. The Company anticipates that the steps it has taken to refocus its business opportunities in China and the resulting reduction in cost structure is expected to positively impact the Company's 2020 financial results.

Revenue

	Three Months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Revenues	**$ 13,495**	$ 12,406	**$ 60,387**	$ 38,850

During the year ended December 31, 2019, revenues were $60,387 compared to $38,850 in the same period of 2018. The increase over 2018 reflects the improvement in the hydrovac market equipment demand with increased interest coming out of the municipal sector in both Canada and the US.

During the three months ended December 31, 2019, revenues were $13,495 compared to $12,406 in the same period of 2018. The increase over the same period in 2018 was due to the same factors discussed above.

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

The table below shows the geographical sales:

	Three Months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Canada	**$ 5,422**	$ 5,920	**$ 32,851**	$ 25,908
United States	**8,073**	6,486	**27,536**	12,942
China	**-**	-	**-**	-
	$ 13,495	$ 12,406	**$ 60,387**	$ 38,850

Cost of sales

	Three Months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Cost of Sales	**$ 11,353**	$ 11,145	**$ 51,082**	$ 33,046

For the year ended December 31, 2019, cost of sales was $51,082 compared to $33,046 in the same period of 2018. The increase in cost of sales was principally due to an increase in the number of hydrovac trucks manufactured and sold.

For the three months ended December 31, 2019, cost of sales of $11,353 was comparable to $11,145 in the same period of 2018.

Gross Profit

	Three Months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Gross Profit	**$ 2,142**	$ 1,261	**$ 9,305**	$ 5,804

Gross profit relates to the North American Operations and includes benefits from cost savings on parts sourced from China. For the year ended December 31, 2019, gross profit was $9,305 compared to $5,804 in the same period of 2018. The increase in gross profit was principally due to the increase in overall demand for hydrovac trucks, improved cost efficiencies at higher production volumes and increasing benefits from cost savings on parts sourced from China.

For the three months ended December 31, 2018, the gross profit was $2,142 compared to $1,261 in the same period of 2018. The increase in gross profit was due to the same factors discussed above.

Selling, General and Administrative Expenses ("S,G&A")

	Three Months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Selling and General and Administrative expense	**$ 1,600**	$ 1,373	**$ 6,075**	$ 5,418

For the year ended December 31, 2019, S,G&A expenses were $6,075 (comprising of $4,389 in North America, $1,032 in China and $654 in Corporate) compared to $5,418 (comprising of $3,467 in North America, $1,337 in China and $614 in Corporate) in the same period of 2018. The overall increase was principally due to increased SG&A expense in North America due to an increase in activity and in China due to a $201 VAT tax receivable write-off as a result of restructuring.

For the three months ended December 31, 2019, S,G&A expenses were $1,600 (comprising of $1,126 in North America, $312 in China and $162 in Corporate) compared to $1,373, (comprising of $882 in North America, $383 in China and $108 in Corporate) in the same period of 2018. The overall increase was principally due to the same factors discussed above, offset by reduced costs in China.

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

Depreciation of property and equipment

	Three Months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Depreciation	**$ 345**	$ 143	**$ 915**	$ 585

For the year ended December 31, 2019, depreciation of property and equipment was $915 compared to $585 for the same period of 2018. The increase was due to depreciation on additional rental hydrovac trucks acquired in Q4 2018 and 2019 in North America, additional machinery and leasehold improvements acquired in 2019 in North America and three rental hydrovac equipment reclassed from inventory in China.

During the three months ended December 31, 2019, depreciation was $345 compared to $143 for the same period of 2018 due to the factors discussed above.

Amortization of intangible assets

	Three Months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Amortization of intangible assets	**$ 166**	$ 178	**$ 608**	$ 574

During the year ended December 31, 2019, amortization of intangible assets was $608 (2018 - $574). The increase was the result of an increase in intangible assets resulted from capitalized development costs relating to new equipment designs in 2019.

During the three months ended December 31, 2019, amortization of intangible assets was $166 (2018 - $178).

Depreciation of right-of-use assets

	Three Months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Depreciation	**$ 261**	$ -	**$ 333**	$ -

During the year ended December 31, 2019, depreciation of right-of-use assets was $333 (2018 - $nil). The right of use asset relates to the Company's leased production facility in Stettler, leased office and production facility in Calgary and leased photocopiers in Canada.

During the three months ended December 31, 2019, depreciation of right-of-use assets was $261 (2018 - $nil).

Impairment write-down

	Three Months ended December 31		Year ended December 31	
	2019	**2018**	**2019**	2018
Impairment write-down	**$ 2,242**	**$ -**	**$ 2,242**	$ -

Effective December 31, 2019, an impairment assessment was performed with respect to the Company's property and equipment located in China ("PE in China") and the related development costs. The assessment considered, among other things, the Company's historical success in marketing its equipment, historical cash flows, market assessment of the Company's products, the impact of COVID-19, and the likelihood of recovering costs from future cash flows. The conclusion was reached that an impairment write-down was required and as a result, an impairment write-down was recorded on PE in China of $1,656 (2018 - $nil) and on intangible assets of $586 (2018 - $nil).

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

Stock based compensation

	Three Months ended December 31		Year ended December 31	
	2019	**2018**	**2019**	2018
Stock Based Compensation	**$ 68**	**$ 51**	**$ 129**	$ 256

For the quarter and year ended December 31, 2019, stock-based compensation expense were $68 and $129 respectively compared to $51 and $256 respectively in the same period of 2018. The change in stock-based compensation resulted from expensing the Company's outstanding stock options granted in 2017 over the vesting period which ranges from immediate to two years after the grant date. No stock options were granted in 2019 or 2018.

Income tax expense (recovery)

	Three Months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Current income tax expense (recovery)	**$ 57**	$ (77)	**$ 428**	$ 98
Deferred income tax expense (recovery)	**(59)**	118	**66**	175
	$ (2)	$ 41	**$ 494**	$ 273

For the year ended December 31, 2019, the Company recorded income tax expense of $494 compared to $273 in the same period of 2018 relating to the Company's North American Operations.

For the three months ended December 31, 2019, the Company recorded income tax recovery of $2 compared to $41 income tax expense in the same period of 2018 relating the Company's North American Operations.

Net loss

	Three Months ended December 31		Year ended December 31	
	2019	2018	**2018**	2017
Net loss	**$ (2,517)**	$ (530)	**$ (1,634)**	$ (1,323)

For the year ended December 31, 2019, net loss was $1,634 compared to a net loss of $1,323 in the same period of 2018. The increase in net loss reflects the increased gross profit in North America, offset by an increase in selling and general administrative expense of $657, an increase in income tax expense relating to the Company's North America Operations of $221 and the aggregate impairment write-down of $2,242 relating to the PE in China and the related intangible property.

For the three months ended December 31, 2019, the net loss was $2,517 compared to a net loss of $530 in the same period of 2018. The increase in net loss was due to the same factors discussed above.

Inventory

	Year ended December 31	
	2019	2018
Work-in-process	**$ 4,863**	$ 1,960
Raw materials	**6,014**	4,959
Finished goods	**506**	1,444
	$ 11,383	$ 8,363

As at December 31, 2019, inventory increased to $11,383 compared to inventory of $8,363 as at December 31, 2018. The increase in raw materials and work-in-process was due to stocking up to meet increased activity level. Finished goods inventory consists of hydrovac equipment and one hydrovac truck in North America.

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

Quarterly Financial Information

	2019	2019	2019	2019	2018	2018	2018	2018
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	$	$	$	$	$	$	$	$
Revenue	$ 13,495	$ 16,237	$ 16,853	$ 13,802	$ 12,406	$ 11,400	$ 10,213	$ 4,831
EBITDAS	614	1,168	1,033	415	(112)	547	307	(356)
Net income (loss)	(2,517)	500	501	(118)	(530)	62	(220)	(635)
Comprehensive income (loss)	(2,924)	472	444	(90)	(406)	(81)	(322)	(347)
Net income (loss) per share - basic and diluted	$ (0.02)	$nil	$nil	$nil	$nil	$nil	$nil	$nil

Notes:

(1) Quarterly information has been prepared in conformity with IFRS.
(2) Due to rounding, year to date numbers may round differently.

Factors That Have Caused Variations over the Quarters

In Q4/2019, revenue decreased as a result of reduced hydrovac trucks production and delivery in December 2019 due to holiday closures. Quarterly revenue increased sequentially from Q1/2018 to Q2/2019 due to the continuing improvement in the hydrovac market equipment demand in North America. Revenue was low in Q1/2018 due to a delay in production and delivery of hydrovac trucks caused by the development of a new demonstration hydrovac truck and equipment for the China Operations.

In Q4/2019, EBITDAS decreased due to a year-end inventory count adjustment and write-off of VAT tax receivable in China. From Q1/2019 to Q3/2019 EBITDAS increased each quarter in comparison to Q1/2018 to Q4/2018 EBITDAS due to increased revenue and gross profit in North American Operations. The Q4/2018 EBITDAS was low in comparison to the Q3/2018 and Q2/2018 EBITDAS due to year-end adjustments comprising principally a provision for obsolete inventory and a year-end inventory count adjustment.

Net income decreased in Q4/2019 due to the factors discussed above, plus an impairment write-down of $2,242. Net income (loss) for Q1/2019, Q2/2019 and Q3/2019 improved in comparison to the same quarters in 2018 due to increased revenue and gross profit in the North American Operations. The greater net loss in Q4/2018 was due to the factors discussed above together with increased stock-based compensation and income tax expense. Net income (loss) in Q3/2018 and Q2/2018 improved due to increased revenue and gross margin for the North American Operations, offset by stock-based compensation and income tax expense.

Funds from Operating Activities (1)

	Year ended December 31	
	2019	2018
Cash from operating activities	**$ 3,549**	$ 64
Change in tax recoverable	**(3)**	200
Income taxes paid	**204**	-
Changes in non-cash working capital	**294**	431
Funds from operating activities	**$ 4,044**	$ 695

Notes:

(1) Funds from operating activities is a non IFRS measure and is calculated from cash from operating activities adjusted for change in tax recoverable, income taxes paid and changes in non-cash working capital.

For the year ended December 31, 2019, the Company generated $4,044 of funds from operating activities compared to $695 in the same period of 2018. The increase was principally due to an increase in EBITDAS, from $386 in 2018 to $3,230 in 2019 principally resulting from increased revenue and gross profit from the North American Operations, offset by increased employee costs incurred by the North American Operations.

Liquidity and Capital Resources

Liquidity

The Company had working capital of $8,556 as at December 31, 2019 compared to working capital of $7,519 as at December 31, 2018. Included in the working capital as at December 31, 2019 is $2,417 of cash and $11,383 of inventory (which includes $711 for hydrovac equipment and parts in China).

For the year ended December 31, 2019, TGHL's operations generated $4,044 of cash, compared to $695 in 2018, excluding the impact of change in tax recoverable, income taxes paid and changes in non-cash working capital amounts. The increase was principally due to an increase in EBITDAS, from $386 in 2018 to $3,230 in 2019, principally resulting from increased revenue and gross profit in the North America, offset by increased employee costs of the North American Operations and decrease overhead costs of the China Operations.

TGHL does not have any externally imposed restrictions on its capital. TGHL manages its capital based on the projected needs of its individual geographic locations, being China and North America. TGHL monitors these amounts to ensure there is adequate cash to support the North American Operations and the ongoing planned expansion into China. Should the projected requirements not be satisfied from cash on hand at the Company or cash flow from operations, TGHL would need to raise additional cash.

As discussed above in the "Outlook" section, in response to the COVID-19 pandemic, the Company has taken steps to conserve cash and maintain its workforce through a period of lower production including, but not limited to: (i) temporary layoffs of 65% of the Company's employees; (ii) eliminating the outsourcing of the Company's production; and (iii) the Chief Executive Officer, Chief Financial Officer and two other head office employees took a significant salary reduction. Notwithstanding the foregoing, management has concluded that as of the date of this report, as a result of the impact of COVID-19, uncertainties exist which may cast doubt regarding the Company's ability to meet its obligations as they come due over the next 12 months.

If required, management anticipates that it could raise additional funds, both in the short term and in the long term, on terms satisfactory to TGHL through either the issuance of additional equity, acquisition of additional debt, or a combination thereof.

Subsequent Event

Subsequent to December 31, 2019, the Company executed a $1,000,000 operating line of credit that it has not drawn on and also secured an equipment financing loan of $950,000.

Capital Expenditures

During the year ended December 31, 2019, the Company incurred capital expenditures of $2,274 (comprising of $1,870 in property and equipment and $404 in intangible assets) compared to $4,150 (comprising of $3,377 in property and equipment and $773 in intangible assets) in the same period of 2018. The increase was relating principally to hydrovac trucks and equipment for rental market acquired in North America.

On February 3, 2020 the Company closed the purchase of an approximately 63,500 square foot facility built on approximately 17 acres of land located in Red Deer, Alberta (the "New Facility") for $6,500 (the "Purchase Price") from an arm's length third party vendor (the "Vendor"). The Company paid an aggregate of $500 toward the Purchase Price at closing and the Vendor provided a non-interest bearing vendor take-back mortgage secured against the New Facility for the balance of the Purchase Price with a $500 principal reduction due on February 1, 2021 and the balance of the principal due on July 1, 2021. The acquisition of the New Facility was necessary as the Company's lease for its current production facility located in Stettler, Alberta (the "Existing Facility") will expire on June 30, 2021 and the Company's long term production demands have out-grown the capacity of the Existing Facility and demand for even more production capacity is expected to be needed going forward.

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

Contractual Obligations and Commitments

Lease Obligation

As at December 31, 2019, the Company had three (2018 – three) hydrovac truck leases, one equipment lease (2018 – nil) and two computer equipment leases (2018 - one), repayable in monthly installments totalling of $27 (2018 - $27) with final installments totalling $27 (2018 - $47), bearing interest at rates between 2% and 7%.

	Year ended December 31	
	2019	2018
Finance leases obligation	**$ 894**	$ 934
Less: current portion of finance lease obligations	**(329)**	(234)
	$ 565	$ 700

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

2020	**$ 319**
2021	**307**
2022	**243**
2023	**92**
2024	**46**
Total minimum lease payments	**1,007**
Amount representing interest	**(113)**
	894
Less current portion of finance lease	**(329)**
	$ 565

These leases will be funded from ongoing operations over the next five years.

Lease Commitments

The Company rents premises in Stettler, Alberta, under operating leases that requires annual total payments of $254 which expire between February 28, 2020 and June 30, 2021. The Company also rents office space in Calgary, Alberta, under an operating lease which expires on July 31, 2024 that requires annual payments from $17 to $30. The Company also rents premises in Calgary, Alberta, under an operating lease that requires annual payments of $78, which expires on July 30, 2021.

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

	2020	**2021**	**2022**	**2023**	**2024 And Beyond**
Stettler	$ 237	$ 117	$ -	$ -	$ -
Calgary Office	17	19	24	30	18
Calgary Other	78	46	-	-	-
	$ 332	**$ 182**	**$ 24**	**$ 30**	**$ 18**

In the ordinary course of business, the Company and its subsidiaries may enter into contracts which contain indemnification provisions, such as service agreements, leasing agreements, asset purchase and sale agreements, joint venture agreements, operating agreements, land use agreements, etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement-by-agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that would trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

Off Balance Sheet Arrangements

As of the date hereof, the Company does not have any off balance sheet arrangements.

Shareholders' Equity

Share Capital

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

As at December 31, 2019 and June 11, 2020, there were 126,771,119 Common Shares outstanding compared to 126,716,519 Common Shares outstanding as at December 31, 2018. During the year ended December 31, 2019, 54,600 shares were issued as a result of the exercise of stock options.

No dividends were declared during 2019.

Common Share Purchase Warrants

As of December 31, 2019 and June 11, 2020 there were 3,100,000 warrants outstanding, which are exercisable into 3,100,000 Common Shares at an exercise price of $0.12 per warrant and expire on September 15, 2022. No warrants were exercised during 2019.

Stock Options

As of December 31, 2019 and June 11, 2020, there were 7,445,400 stock options outstanding with a weighted average exercise price of $0.11 and weighted average remaining contractual life of 2.7 years. 7,445,400 stock options were exercisable at a weighted average exercise price of $0.11. No stock options were granted during 2019. During the three months ended March 31, 2019, 900,000 stock options were cancelled. During the nine months ended September 30, 2019, 54,600 stock options were exercised.

Related Party Transactions

Transactions between the Company and related parties comprised the following:

(a) During the year ended December 31, 2019, legal fees of $10 (2018 - $10) 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.

(b) During the year ended December 31, 2019, the Company's wholly-owned subsidiary 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 2019, the Company sold raw materials of $106 to ShanghaiCo. for manufacturing of hydrovac equipment and parts in China for its North American

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

Operations and purchased raw materials of $537 from ShanghaiCo for manufacturing hydrovac trucks in Canada. As at December 31, 2019, the Company had a payable of $270 owing to ShanghaiCo.

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

(c) During the year ended December 31, 2018, Tornado China purchased inventory (the "Transaction") in the amount of $234 (the "Transaction Amount") on behalf of Dynamic Attractions Ltd. ("Dynamic"), a subsidiary of Empire Industries Ltd. ("Empire") that has operations in China. Until December 12, 2019, Empire was a "control person" of the Company pursuant to Empire's ownership or control over an aggregate of 30,185,544 Common Shares of the Company, representing approximately 25.03% of the issued and outstanding Common Shares of the Company. In addition, Guy Nelson and James Chui are directors of both the Company and Empire.

The Transaction constituted a "related party transaction" under Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* ("MI 61-101"). The Company relied on the exemption from the formal valuation requirement provided under Section 5.5(a) of MI 61-101 and the exemption from the minority approval requirement provided under Section 5.7(a) of MI 61-101 in both instances on the basis that the fair market value of the Transaction did not exceed 25% of the Company's market capitalization, calculated in accordance with MI 61-101.

The Transaction Amount was repaid to Tornado China on commercially acceptable terms in April 2019.

Reconciliation of Loss before taxes to EBITDAS

Reconciliation of loss to EBITDAS

	Year ended December 31	
	2019	2018
Loss before taxes	**$ (1,140)**	$ (1,050)
Add: Depreciation and amortization	**1,856**	1,159
Add: Impairment write-down	**2,242**	-
Deduct: Finance income	**-**	(33)
Add: Finance costs	**144**	50
Add: Changes in fair value in derivatives	**(1)**	-
Add: Stock based compensation	**129**	256
Deduct: Gain on disposal of fixed assets	**-**	4
EBITDAS	**$ 3,230**	$ 386
% of revenue	**5.35%**	0.99%

Calculation of EBIT

	Year ended December 31	
	2019	2018
EBITDAS	**$ 3,230**	$ 386
Less: Depreciation and amortization	**(1,856)**	(1,159)
Less: Loss on disposal of fixed assets	**-**	(4)
Less: Impairment write-down	**(2,242)**	-
EBIT	**$ (868)**	$ (777)
% of revenue	**-1.44%**	-2.00%

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

Calculation of Gross Margin

	Year ended December 31	
	2019	2018
Revenues	**$ 60,387**	$ 38,850
Cost of sales	**51,082**	33,046
Gross margin	**$ 9,305**	$ 5,804
% of revenue	**15.41%**	14.94%

Financial Instruments and Risk Management

The Company's financial instruments recognized in the consolidated balance sheet consist of cash and cash equivalents, accounts receivable, finance leases, tax recoverable, accounts payable, accrued liabilities, loans payable and income taxes payable. The carrying value of these balance sheet items approximates their fair market value due to their short-term nature.

The risks associated with these financial instruments, including foreign currency risk, credit risk, interest rate risk, liquidity risk and commodity price risk, are discussed under "Risks and Uncertainties".

The Company may use foreign exchange contracts to hedge its US dollar ("USD") revenues. As at December 31, 2019, the Company had USD forward contracts in the amount of $150 USD.

Significant Judgements and Estimates

The preparation of the Company's financial statements requires management to adopt accounting policies that involve the use of significant estimates and assumptions. These estimates and assumptions are developed based on the best available information and are believed by management to be reasonable under the existing circumstances. New events or additional information may result in the revision of these estimates over time. A summary of the critical estimates and judgements used by the Company can be found in Note 3 to the December 31, 2019 consolidated audited annual financial statements for the year ended December 31, 2019.

Significant Accounting Policies

The Company adopted IFRS 16, Leases effective January 1, 2019. Refer to Note 4 "Adoption of new accounting standards" in the Company's consolidated audited financial statements for the year ended December 31, 2019, for further discussion. Other standards, amendments and interpretations, which are effective for the financial year beginning on January 1, 2019, have been assessed and do not have a material impact to the Company.

New Accounting Standards Not Yet Adopted

The Company has not yet applied the following new standard, interpretation and amendment to the standard that was issued as at December 31, 2019 but is not yet effective. Unless otherwise stated, the Company does not plan to early adopt the new or amended standard and interpretation.

Amendments to IFRS 3 – definition of a business

In October 2018, the International Accounting Standards Board issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. The Company does not expect the amendments to have a significant impact on the consolidated financial statements upon adoption.

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. Management believes it has developed systems, policies, and procedures to mitigate this risk in the North American market. The Company currently has no revenue in the Chinese market, and there is no assurance that any will develop.

Liquidity Requirements

The Company requires significant amounts of working capital in order to be able to operate. The Company's sales in North America are primarily based upon negotiated prices and while customer deposits are sometimes obtained, payment is generally received upon delivery of the finished hydrovac truck. In order to satisfy customer demand on a timely manner, TGHL endeavors to have stock hydrovac trucks available for immediate purchase, which requires an investment of capital.

The Company's ability to obtain additional capital is a significant factor in achieving its strategy of expansion in the North American and Chinese markets. 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 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. To mitigate this risk the Company may enter into forward contracts to sell USD. See also, "*Risks Associated with Sales to the US and Operations in China – Currency Risk*".

Cost of Raw Materials

The principal cost of raw materials 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 in North America

Due to the competitive nature of the business in North America, the Company 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 the Company a competitive advantage. There can be no assurance that the Company will have the financial capacity to maintain a sufficient finished goods inventory in North America.

Global Economic Environment – Pandemic

In December 2019, COVID-19 surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020 with respect to the outbreak and then characterized it as a pandemic on March 11, 2020. The outbreak has spread throughout the world including Canada and the US, causing companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be estimated at this time with any reasonable certainty. At this point, the extent to which the COVID-19 may impact the Company's results is uncertain, however, it is possible that the Company's consolidated results in 2020 and thereafter may be negatively impacted by this event. The impacts of the outbreak are unknown and rapidly evolving.

The Company sources certain components for its hydrovac trucks from suppliers and manufacturers in China. This pandemic has resulted in the extended shutdown of certain businesses throughout China, which may in turn result in disruptions or delays to the Company's supply chain. These may include disruptions from the temporary closure of third-party supplier and manufacturer facilities, interruptions in product supply or restrictions on the export or shipment of our products. Any disruption of the Company's suppliers and their contract manufacturers will likely impact the Company's ability to manufacture the Company's products as cost-effectively as possible and will likely impact operating results. The outbreak of COVID-19 may also impact customer demand, the availability of components sourced from China, logistics flows and the availability of other resources to support operations in the Asia Pacific region.

A local, regional, national or international outbreak of a contagious disease, including, but not limited to, COVID-19, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu or any other similar illness, or a fear of any of the foregoing, could adversely impact the Company by causing operating, manufacturing supply chain, and project development delays and disruptions, labour shortages, travel and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). If the Company is unable to mitigate the impacts of the COVID-19 outbreak on its operations, it may be unable to fulfill its product delivery obligations to customers, its costs may increase, and its revenue and margins could decrease. It is unknown whether and how the Company may be affected if such an epidemic persists for an extended period of time. A widespread health crisis could adversely affect the global economy, resulting in an economic downturn that could impact demand for the Company's products.

In 2020, COVID-19 has had a material adverse impact on the Company's operations. However, the future impact of the outbreak is highly uncertain and cannot be predicted, and there is no assurance that the outbreak will not have a material adverse impact on the future results of the Company. The extent of the impact, if any, will depend on future developments, including actions taken to contain COVID-19.

Other Global Economic Environment Risks

Economic downturns have 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 the 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 the world financial markets, may have a material adverse effect on TGHL's business, operating results, and financial condition.

Change in Demand

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 the US. A decrease in demand from the infrastructure development could negatively impact TGHL's 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, judgement, 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

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 hydrovac trucks or damage to equipment or property caused by one of TGHL's hydrovac trucks 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.

Environment/Regulatory

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increasing 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 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 may be brought against TGHL or one or more of its subsidiaries in 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 to could have a material effect on TGHL's financial position and results of operations.

Lease Agreements with Customers

From time to time the Company may enter into agreements to lease certain equipment in the Company's inventory to customers or to sublease certain equipment to customers that the Company has leased from third parties. Such lease arrangements will be subject to terms and conditions negotiated by the Company and the customer which may include short lease termination provisions. Any such lease arrangements may, depending on the number of leases and the value of such leases, be material to the Company's financial performance. To the extent that such leases are terminated with short notice to the Company, the Company's financial performance may be materially negatively impacted. As at the date hereof, the Company is not reliant on any agreement for the lease of vehicles to a customer for a material amount of the Company's cash flow and no such lease agreements are otherwise material to the Company's operations.

Risks Associated with Sales to the US and Operations in China

General Description

The Company conducts business on an international basis, with sales from its Stettler, Alberta, Canada manufacturing facility to customers in the US and operations in China, which have inherent unique risks and uncertainties including:

- burdens to comply with multiple and potentially conflicting foreign laws and regulations, including export requirements, tariffs and other barriers, environmental health and safety requirements and unexpected changes in any of these laws and regulations;
- to the extent cash is held outside of North America, the Company's repatriation of such cash may be subject to the approval of foreign governments and to the potentially adverse impact of foreign and domestic tax laws as well as changes in foreign exchange or capital controls;

- political and economic instability and disruptions, including the imposition of political and economic sanctions that could adversely affect the profitability of sales into the US and the operations in China;
- disadvantages of competing against companies that are not subject to Canadian laws and regulations, including the *Corruption of Foreign Officials Act* (Canada);
- increased complexity and costs of managing operations in China due to time zone differences and local language capabilities;
- increased challenges in protecting and enforcing intellectual property rights, particularly in China;
- potentially adverse tax consequences due to overlapping or differing tax structures or changes in tax rates; and
- fluctuations in currency exchange rates.

To the Company's knowledge, it holds all material permits and licenses and is in compliance with all material applicable laws and regulations in China.

The Company's operations in China and sales into the US are subject to a number of unique risks including trade barriers, exchange controls and restrictions on currency conversion, political risks or increased duties, taxes and tariffs, as well as changes in laws, regulations and policies governing operations in China and sales into the US such as embargos. Despite the activity and progress in developing its legal system, China does not have a system of laws as comprehensive and predictable as in Canada.

China currently imposes foreign exchange controls and restrictions on currency conversion. In order to move money in or out of China, the Company must comply with strict rules and procedures imposed by the Chinese government, including timely reporting requirements and the provision of supporting documentation to the requisite authorities in order to obtain the necessary approvals. To date, the Company has not had to repatriate funds from its operations in China, however, the Company could be adversely affected by changes in foreign exchange, capital control or other laws, regulations or policies, or changes in the interpretation thereof, which could restrict its continued ability to do so. Should there be any unexpected delays in processing these requests or any failure to receive the requisite approvals, this could adversely affect the Company's liquidity and its ability to plan for its future liquidity needs.

Political instability in either China or the US could have a material adverse effect on the Company. The Chinese government exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatment to particular industries or companies. Political instability could result in changes to the laws and regulations affecting the Company and for the reasons noted above, may have a material adverse effect on the Company's operations in China.

Currency Risk

The Company's financial results are reported in Canadian dollars ("CAD"), which is subject to fluctuations in respect of the currencies of the countries in which the Company operates. The Company also holds cash in Renminbi in China. Management expects revenues to continue to be earned in a number of different currencies. Accordingly, fluctuations in the exchange rates of world currencies could have a positive or negative effect on reported results on a consolidated basis. Given the constantly changing currency exposures and the substantial volatility of currency exchange rates, the Company cannot predict the effect of exchange rate fluctuations on the Company's future operating results. There can be no assurance that the Company will not experience losses in the future from currency devaluations or fluctuations in exchange rates, which could have a material adverse effect on the business, revenues, operating results and financial condition of the Company. In the event of a change in the value of the USD relative to the CAD or the Renminbi relative to the CAD, there is no assurance, due to competitive pressure, of a corresponding change in selling prices of the Company's products. The Company exports a significant portion of its products produced in Canada to the US. These exports are invoiced and paid for primarily in USD. The Company from time to time may hedge its USD receivables against the risk of revaluation of the USD.

Changes in Tax Laws

The introduction of new tax laws, regulations or rules, or changes to, or differing interpretation of, or application of, existing tax laws, regulations or rules in Canada, the US or China, could result in an increase in the Company's taxes, or other governmental charges, duties or impositions. In addition, the Company is eligible, from time to time, for certain tax incentives in various jurisdictions in which it operates, which are subject to change and/or expiry. No assurance can be given that new tax laws, rules or regulations will not be enacted or that existing tax laws will not be changed, interpreted or applied in a manner that could result in the Company's profits being subject to additional taxation or that could otherwise have a material adverse effect on the Company.

Conditions in China

General

The Company's subsidiaries, Tornado China and Tornado Asia, operate and have assets in China. As a result the Company is vulnerable to the political, economic and legal and regulatory conditions affecting its business in China. The Chinese economy differs from the economies of most developed countries in a number of respects, including its structure, the level of government involvement, the control of foreign exchange and the allocation of resources.

Government Control

An increasing number of strict regulations exist over the way business can be done in China. While all of the Company's competitors are subject to the same laws and regulations, the enforcement of those compliance regulations may be different for many local competitors. In certain designated industries, for example, multinational companies are required to co-operate with local joint venture partners, which are generally selected by the Chinese government, and governmental orders may be redirected towards local competitors in the future.

Inconsistent Interpretation of Rules and Regulations

The Chinese government has issued a number of laws and regulations relating to taxes, such as corporate income tax law and transfer pricing. However, certain detailed implementation guidelines for these laws and regulations are still not pronounced, even though the respective laws and regulations may have taken effect. In addition, local authorities retain the right to interpret existing laws and regulations, resulting in a lack of consistency between individual provinces and jurisdictions.

Concerns about Intellectual Property

China's intellectual property laws are not as well developed as the intellectual property laws in many other first world countries with a more mature intellectual property protection regime. There is no assurance that the Company will be able to protect its intellectual property in China in the manner, with the same effect, or as on a timely basis, as it would have in such other countries.

Uncertainty Regarding Chinese Withholding Tax on Indirect Transfers of Chinese Enterprises by Non-Chinese Residents

The Company and its shareholders face uncertainties with respect to taxes imposed by Chinese authorities on previous and potential future indirect transfers of equity interests in enterprises resident in China or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies, such as the Company's operations in China.

Corporate Chop

Each of Tornado China and Tornado Asia relies on a corporate chop (physically similar to a corporate seal) to be able to enter into contracts, conduct banking activities and undertake day-to-day corporate and business activities. Misappropriation or misuse of the corporate chops could materially and adversely affect business operations in China and allow unauthorized access to the Company's bank account(s) in China. Tornado China and Tornado Asia's corporate chops are each only accessible by authorized personnel, who are members of senior management based in China. The Company may also adopt other measures from time to time to protect the corporate chop. Although the Company monitors the authorized personnel and the use of the corporate chops, there is no assurance that such procedures will prevent all instances of abuse or negligence. Accordingly, if any of the Company's authorized personnel misuse or misappropriate the corporate chops, the bank account(s) for Tornado China and Tornado Asia may be compromised, and the Company may experience significant disruption to its China Operations until the applicable corporate chop is replaced.

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. Such forward-looking statements may be identified by words such as "anticipate", "will", "intend", "could", "should", "may", "expect", "forecast", "plan", "potential", "project", "estimate", "assume", "believe", "shall", "target", "forward looking to", and similar terms or the negatives thereof or other comparable terminology. 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 forward-looking statements due to the inherent uncertainty therein.