Tornado Global Hydrovacs Ltd.

Consolidated Financial Statements

December 31, 2019

Audited

2019

Independent Auditor's Report

To the Shareholders of Tornado Global Hydrovacs Ltd.:

Opinion

We have audited the consolidated financial statements of Tornado Global Hydrovacs Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kenneth H. Kustra.

Winnipeg, Manitoba

MNP LLP

June 11, 2020

Chartered Professional Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Year ended December 31, 2019	December 31, 2018
(In $000's CAD)			
ASSETS			
Current assets			
Cash and cash equivalents		**$ 2,417**	$ 2,228
Accounts receivable	**6**	**1,990**	3,945
Inventory	**8**	**11,383**	8,363
Prepaid expenses and other assets		**468**	160
Fair value of foreign currency forward contracts	**24**	**1**	—
Total current assets		**16,259**	14,696
Non-current assets			
Tax recoverable	**7**	**197**	200
Property and equipment, net	**9**	**3,756**	5,558
Goodwill and intangible assets, net	**10**	**3,071**	3,861
Right-of-use assets, net	**13**	**547**	—
Finance lease receivable	**6**	**—**	778
Total non-current assets		**7,571**	10,397
Total assets		**$ 23,830**	$ 25,093
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	**11**	**$ 6,596**	$ 5,788
Customer deposits	**12**	**110**	242
Current portion of lease liabilities	**15**	**643**	234
Current tax payable		**354**	155
Term loans	**14**	**—**	758
Total current liabilities		**7,703**	7,177
Non-current liabilities			
Deferred tax	**22**	**329**	263
Lease liabilities	**15**	**808**	700
Total liabilities		**8,840**	8,140
Shareholders' Equity			
Share capital	**16**	**20,903**	20,893
Common share purchase warrants	**16**	**144**	144
Contributed surplus		**594**	469
Deficit		**(6,464)**	(4,830)
Accumulated other comprehensive income		**(187)**	277
Total shareholders' equity		**14,990**	16,953
Total liabilities and equity		**$ 23,830**	$ 25,093

Contractual obligations and commitments - see Note 27
Related party transactions - see Note 28
Subsequent events - see Note 32
See accompanying notes to 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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Notes	Year ended December 31 2019	December 31 2018
(In $000's CAD, except per share amounts)			
Revenues			
Revenue	**18**	**$ 60,426**	$ 38,908
Other loss - foreign exchange		**(39)**	(58)
		60,387	38,850
Cost of sales	**8, 19**	**51,082**	33,046
Gross Profit		**9,305**	5,804
Selling and general administrative expenses	**20**	**6,075**	5,418
Income before depreciation, amortization and other items		**3,230**	386
Depreciation of property and equipment	**9**	**915**	585
Amortization of intangible assets	**10**	**608**	574
Depreciation of right-of-use assets	**13**	**333**	—
Impairment write-down	**21**	**2,242**	—
Loss on disposal of fixed assets		**—**	4
		4,098	1,163
Loss before the undernoted		**(868)**	(777)
Stock based compensation	**16**	**129**	256
Finance income		**—**	(33)
Finance costs		**144**	50
Change in fair value of derivative financial instruments	**24**	**(1)**	—
		272	273
Loss before tax		**(1,140)**	(1,050)
Income tax expense			
Current	**22**	**(428)**	(98)
Deferred	**22**	**(66)**	(175)
		(494)	(273)
Net loss		**(1,634)**	(1,323)
Other comprehensive income (loss)			
Translation of foreign subsidiaries		**(464)**	167
Comprehensive loss		**$ (2,098)**	$ (1,156)
Net loss per share			
Basic	**17**	**$ (0.01)**	$ (0.01)
Diluted	**17**	**$ (0.01)**	$ (0.01)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(In $000's CAD)	Notes	Year ended December 31 2019	December 31 2018
OPERATING ACTIVITIES			
Net loss		$ **(1,634)**	$ (1,323)
Add (deduct) items not affecting cash:			
Depreciation of property and equipment	9	**915**	611
Amortization of intangible assets	10	**608**	574
Depreciation of right-of-use assets	13	**333**	—
Impairment loss	21	**2,242**	—
Stock based compensation	16	**129**	256
Cost of sold leased trucks transferred from property and equipment	9	**2,134**	398
Deferred income taxes	22	**66**	175
Change in fair value of foreign currency forward contracts	24	**(1)**	—
Reclassification from lease receivable subsequently reclassified to property and equipment	9	**(748)**	—
Loss on disposal of fixed assets		**—**	4
		4,044	695
Change in non-cash working capital	31	**(294)**	(431)
Income taxes paid		**(204)**	—
Change in tax recoverable		**3**	(200)
Cash flow from operating activities		**3,549**	64
INVESTING ACTIVITIES			
Additions of property and equipment	9	**(1,870)**	(3,377)
Additions of intangible assets	10	**(404)**	(773)
Proceeds from disposal of fixed assets		**—**	2
Cash flow used in investing activities		**(2,274)**	(4,148)
FINANCING ACTIVITIES			
Net repayment of leases	15, 30	**(345)**	(239)
Net repayment of term loans	14, 30	**(758)**	758
Proceeds from exercise of stock options	16, 30	**6**	—
Cash flow (used in) from financing activities		**(1,097)**	519
Effect of exchange rate changes on cash and cash equivalents		**11**	160
Net increase (decrease) in cash and equivalents during the year		**189**	(3,405)
Cash and cash equivalents, beginning of period		**2,228**	5,633
Cash and cash equivalents, end of period		$ **2,417**	$ 2,228

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

As at December 31, 2019

(In $000's CAD)	Common Shares	Common Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Equity
As at December 31, 2018	**$ 20,893**	**$ 144**	**$ 469**	**$ (4,830)**	**$ 277**	**$ 16,953**
Exercise of stock options (Note 16)	**10**	**-**	**(4)**	**-**	**-**	**6**
Stock based compensation (Note 16)	**-**	**-**	**129**	**-**	**-**	**129**
Loss for the year	**-**	**-**	**-**	**(1,634)**	**-**	**(1,634)**
Other comprehensive loss for the year	**-**	**-**	**-**	**-**	**(464)**	**(464)**
As at December 31, 2019	**$ 20,903**	**$ 144**	**$ 594**	**$ (6,464)**	**$ (187)**	**$ 14,990**

As at December 31, 2018

(In $000's CAD)	Common Shares	Common Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Equity
As at December 31, 2017	**$ 20,893**	**$ 144**	**$ 213**	**$ (3,507)**	**$ 110**	**$ 17,853**
Stock based compensation (Note 16)	-	-	256	-	-	256
Loss for the year	-	-	-	(1,323)	-	(1,323)
Other comprehensive income for the year	-	-	-	-	167	167
As at December 31, 2018	**$ 20,893**	**$ 144**	**$ 469**	**$ (4,830)**	**$ 277**	**$ 16,953**

See accompanying notes to consolidated financial statements

1. Corporate information

Tornado Global Hydrovacs 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 markets in North America. In China, the Company's subsidiary is used principally to source certain parts for 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. Since July 8, 2016, TGHL's shares have been traded on the TSX Venture Exchange under the symbol "TGH".

2. Summary of significant accounting policies

Statement of compliance

These 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") as at January 1, 2019.

The consolidated financial statements were authorized for issue by the Board of Directors on June 11, 2020.

Basis of consolidation

The 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 or losses resulting from inter-company transactions are eliminated.

Basis of presentation

These consolidated financial statements are prepared for the year ended December 31, 2019 and include the results for the comparative year ended December 31, 2018. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as disclosed. Included in these consolidated financial statements are the accounts of TGHL and its subsidiaries. These consolidated financial statements have been prepared in Canadian dollars which is the functional currency of TGHL. The functional currencies of Tornado Global Hydrovac (North America) Inc., Tornado Global Hydrovac (Beijing) Ltd. and Tornado Hydrovacs Asia Pacific Ltd. are Canadian dollars, Chinese Yuan ("RMB") and US dollars respectively.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments and liabilities incurred or assumed at the date of exchange. Acquisition costs for business combinations are expensed and included in selling, general and administrative expenses. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition.

In situations where the initial accounting for a business combination is incomplete prior to the finalization of the consolidated financial statements, the Company records provisional amounts for those items for the accounting is incomplete. Such provisional amounts are subsequently adjusted to reflect new financial information obtained about the facts and circumstances that existed as of the acquisition date and, if known would have affected the amounts recognized as of that date.

Foreign currency transactions

For the purpose of preparing financial statements, Canadian and foreign operations apply the following procedures on transactions and balances in currencies other than their functional currency: 1) monetary items are translated into their functional currency using the exchange rate in effect at the period end rate; 2) non-monetary items are translated into their functional currency using the historical exchange rate if they are measured at cost, or using the exchange rate at the measurement date if they are measured at fair value; and 3) revenues and expenses are translated into their functional currency using the appropriate average exchange rate of the period. Any resulting gains or losses are recognized in net income and, if hedge account is applied, offsetting losses or gains from the hedging items are also recognized in net income.

For the purpose of preparing consolidated financial statements in Canadian dollars, the assets and liabilities of the Company's foreign operations that have a functional currency other than Canadian dollars are expressed in Canadian dollars using exchange rates prevailing at the end of the reporting period, while revenue and expenses items are translated at the appropriate average exchange rate for the period. Exchange differences arising on consolidation, if any, are recognized initially in other comprehensive income ("OCI") and reclassified from equity to net income on disposal or partial disposal of foreign operations.

Revenue recognition

Revenue is measured based on the consideration specified in a contract with the customer. The amount of revenue recognized by the Company is based on the transaction price allocated to each performance obligation. Such transaction price corresponds to the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer.

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

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

The Company's obligation to repair or replace products under the standard warranty terms is recognized as a provision.

The Company applies the following 5-step revenue recognition model based on the principle that an entity should recognize revenue as performance obligations are satisfied based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue from the sale of goods is recognized at the point when the Company has satisfied its performance obligations in the contract and control is transferred to the customer, generally upon shipment or delivery of the goods to the customer. Revenue is recognized at an amount that reflects the consideration to which the Company ultimately expects to be entitled in exchange for those goods.

The accounting treatment of a sale and leaseback transaction depends upon the substance of the transaction and whether the sale price reflects fair value. For sale and leasebacks, if the transaction is established at fair value, any gain or loss is recognized immediately. If the sale price is below fair value, any gain or loss is recognized immediately except that if the loss is compensated for by future lease payments at below market price, the loss is deferred and amortized in proportion to the lease payments over the term of the lease. If the sale price is above fair value, the excess over fair value is deferred and amortized over the term of the lease.

Income taxes

Tax expense comprises current income tax and deferred income tax expense.

Current tax

Recoverable tax assets or current tax liabilities represent the tax authorities' obligations or claims for prior or current periods which are not received or paid at the end of the reporting period. Current tax is based on taxable income which differs from accounting income by definition. Recoverable tax assets or current tax liabilities are measured using the tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax

Deferred tax is determined based on differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable income. Deferred tax assets or liabilities are measured based on tax rates that have been enacted or substantially enacted by the end of the reporting period, and that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets or liabilities are recognized for all deductible or taxable temporary differences arising if it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The benefits of Scientific Research and Experimental Development (SRED) tax incentives are not recognized until the expenditures have been approved by the tax authority.

Cash and cash equivalents

All highly liquid temporary investments with an operating maturity of three months or less when purchased are considered to be cash equivalents.

Property and equipment

Property and equipment are stated at cost, net of any accumulated depreciation, accumulated impairment losses and subsequent reversals (if any). Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Machinery and equipment ("M&E")	10 years
Office furniture and equipment ("Office Equip.")	3 years
Leasehold improvements ("Leaseholds")	5 years
Rental equipment ("Rental Equip.")	15 years
Vehicles	5 years

The assets' useful lives, residual values and methods of depreciation of assets are reviewed annually, and adjusted prospectively, if appropriate. Rental equipment includes hydrovac truck rental inventory.

Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented in Note 15: Lease liabilities.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented in note 13: Right-of-use assets, net.

The Company applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the impairment of non-financial assets accounting policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included within cost of sales and selling and general administrative expenses in the consolidated statement of comprehensive loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

Intangible assets

Patents acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Computer software is stated at cost, net of any accumulated amortization, impairment losses and subsequent reversals (if any). Amortization is calculated on a straight-line basis over the estimated useful lives of 5 years. Internally developed intangible assets are initially recognized when the following recognition criteria outlined in IAS 38 – Intangible Assets are met:

- it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Internally generated intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite useful life is reviewed at least annually. Change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the consolidated statement of comprehensive loss.

Finite life intangible assets are amortized on a straight-line basis over the estimated useful lives of the related assets which for patents pending and development is assumed to be 7 years. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive loss when the asset is derecognized.

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date of control (acquisition date). Goodwill is measured as the excess of the consideration paid over the Company's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree recognized at the date of acquisition. Goodwill is not amortized but is tested for impairment annually.

The impairment test is carried out by comparing the carrying amount of the cash generating unit with its recoverable amount which is the higher of its value in use or fair value less costs to sell. When the carrying amount of a cash generating unit, including goodwill, exceeds its recoverable amount, an impairment loss is recognized in an amount equal to the excess. Fair value less costs to sell of the cash generating unit is determined through discounted cash flow analysis.

Impairment of property and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its property and equipment, and its intangible assets other than goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to an individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of: i) fair value less costs to sell; and ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and risks. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior periods. A reversal of an impairment loss is recognized immediately in net income.

Inventory

Inventory comprises raw materials, work in progress and finished goods. Inventory is valued at the lower of cost and net realizable value, using a weighted average cost basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write down previously recorded is reversed.

Financial instruments

Classification and Measurement of Financial Instruments

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

Amortized Cost

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

FVTPL

The Company classifies its risk management contracts as measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the consolidated statement of comprehensive loss. The following table summarizes the classification categories for the Company's financial assets and liabilities by financial statement line item under IFRS.

Financial Assets	**IFRS 9**
Cash and equivalents	Amortized cost
Accounts receivable	Amortized cost
Tax recoverable	Amortized cost
Risk management assets	FVTPL
Financial Liabilities	**IFRS 9**
Accounts payable and accrued liabilities	Amortized cost
Term loans	Amortized cost
Risk management liabilities	FVTPL

Hierarchy of fair value measurements

The Company classifies its financial assets and liabilities measured at fair value into three levels according to the observability of the inputs used in their measurement.

Level 1

Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2

Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3

Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement
Subsequent to initial recognition, all financial assets are classified and subsequently measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash and equivalents, accounts receivable and tax recoverable.

Reclassifications
The Company reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment
The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments, as well as lease receivables, contract assets, and any financial guarantee contracts and loan commitments not measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for accounts receivables and lease receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

Loss allowances for expected credit losses are presented in the consolidated statement of financial position for financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 24 for additional information about the Company's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets
The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities
Recognition and initial measurement
The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount. Transaction costs of equity transactions are treated as a deduction from equity.

Classification and subsequent measurement
Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains or losses relating to a financial liability are recognized in profit or loss. Distributions to holders of instruments classified as equity are recognized directly in equity.

Derecognition of financial liabilities
The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Derivatives
Derivatives are initially recognized at fair value on the date the Company becomes party to the provisions of the contract, and are subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of derivative instruments are recognized in profit or loss.

Interest
Interest income and expense are recognized in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income or expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit impaired, calculation of interest income reverts to the gross basis.

Offsetting
Financial assets and financial liabilities are offset, with the net amount presented in the consolidated statement of financial position, when, and only when, the Company has a current and legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or when arising from a group of similar transactions if the resulting income and expenses are not material.

Earnings per share
The computation of earnings per share is based on the weighted average number of shares outstanding during the period. Diluted earnings per share are computed in a similar way to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares assuming the exercise of share options and common share warrants, if dilutive.

Share-based compensation plans
Directors, employees and consultants of TGHL may receive remuneration in the form of stock options. Awards granted under the TGHL's stock option plan are recognized in profit or loss using the fair value method using the Black Scholes method for option valuation.

Equity settled transactions
The cost of equity settled transactions is recognized, together with a corresponding increase in other capital reserves, in equity, over the period in which the performance and/or service conditions are fulfilled.

When options, warrants and other share-based compensation awards are exercised, the amounts previously credited to contributed surplus are reversed and credited to shareholder's equity. The amount of cash, if any, received from participants is also credited to shareholder's equity.

Reportable segments
A reportable business segment is a component of TGHL that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the TGHL's other segments. All operating segments' operating results are reviewed regularly by the TGHL's Chief Executive Officer and Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. TGHL segregates its business geographically between its North American operations and its operations in China and also includes a Corporate segment for its head office expenses in Calgary.

3. Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and the disclosure of contingent liabilities. Actual results could differ from those judgements, estimates and assumptions. The items whose actual results could differ significantly from those judgements, estimates and assumptions are described below.

Critical judgements made in applying TGHL's accounting policies

Cash generating units
For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. Management determines which groups of assets are capable of generating cash inflows that are largely independent of other operations. The Company's cash generating units are its North American manufacturing and sales operations and its China operations.

Key sources of estimate uncertainty

Loss allowance
Given the nature of business and the credit terms provided to customers, estimates and judgements are inherent in the on-going assessment of the recoverability of some accounts receivable. TGHL maintains a loss allowance to reflect expected credit losses. TGHL is not able to predict changes in the financial conditions of its customers and TGHL's estimates related to the recoverability of accounts receivable may be materially impacted if the financial condition of TGHL's customers deteriorates.

Valuation of inventory
Estimates are inherent in the determination of the net realizable value of inventory. The cost of inventory may not be fully recoverable if it is damaged or if the selling price of the inventory is less than its cost. TGHL regularly reviews its inventory quantities and reduces the cost attributed to inventory no longer deemed to be fully recoverable. Estimates

related to the determination of net realizable value may be impacted by a number of factors including market conditions. A provision is recorded for slow moving inventory as required.

Intangible assets
Expenditures for research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product of process is technically and commercially feasible, future economic benefits are probable and TGHL intends to and has sufficient resources to complete development and to use or sell the asset.

Measurement of right-of-use assets and lease liabilities
The application of IFRS 16 Leases requires assumptions and estimates in order to determine the value of the right-of-use assets and the lease liabilities which mainly relate to the implicit and incremental borrowing rates, as applicable. The Company's incremental borrowing rate is substantiated using a buildup approach, which references certain treasury rates plus a financing spread to determine a reasonable rate of interest that the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment. Judgement must also be applied as to whether renewal options are reasonably certain of being exercised.

Impairment of non-financial assets
TGHL periodically assesses the recoverability of values assigned to long-lived assets (goodwill, intangible assets, and property equipment) after considering potential impairment indicated by such factors as significant changes in technological, market, economic or legal environment, business and market trends, future prospects, current market value and other economic factors. In performing its review of recoverability, management estimates either the value in use or fair value less costs of disposal. For the purpose of intangible assets' impairment testing, intangible assets are assessed at the CGU level. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed. In determining the recoverable amount of a CGU or a group of CGUs, various estimates are employed. The Company determine value-in-use by using estimates including projected future revenues, earnings, working capital and capital investment consistent with strategic plans presented to the board of directors of the Company.

TGHL's goodwill impairment test is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the forecast and do not include restructuring activities that TGHL is not yet committed to or significant future investments that may enhance the performance of the cash generating unit being tested. The calculation is sensitive to the discount rate applied as well as the expected future cash flows.

Useful lives of key property and equipment and intangible assets
Estimated useful lives of property and equipment and intangible assets are based on management's judgement and experience. When management identifies that the actual useful lives for these assets differ materially from the estimates used to calculate depreciation and amortization, that change is adjusted prospectively.

Warranty costs
TGHL provides for future warranty costs on products sold based on management's best estimate of such costs, taking into account past experience and the nature of the contracts. Warranty costs are considered an assurance-type warranty under IFRS 15 due to the short-term nature and inability for customers to purchase separately. Management determined no provision was required for warranty costs in 2019 or 2018.

Deferred taxes
TGHL accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on deductible or taxable temporary differences between the carrying amounts and tax bases of the assets and liabilities. Deferred tax assets and liabilities are measured using substantially enacted tax rates expected to apply in the years in which the temporary differences are expected to reverse. If the estimates and assumptions are modified in the future, TGHL may be required to reduce or increase the value of deferred tax assets or liabilities resulting in, where applicable, an income tax expense or recovery. TGHL regularly evaluates deferred tax assets and liabilities.

4. Adoption of new accounting standards

Effective January 1, 2019, the Company has applied IFRS 16 Leases (as issued by the IASB in January 2016).

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. Details of these new requirements are described in Significant accounting policies – Leases.

The Company has applied the standard using the expedited modified retrospective (cumulative catch up) approach and therefore comparative periods have not been restated and continue to be reported under IAS 17 and IFRIC 4.

<u>Impact of the new definition of a lease</u>

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.
The Company applies the definition of a lease and related guidance set out in IFRS 16 to all material lease contracts entered into or modified on or after January 1, 2019 (whether it is a lessor or a lessee in the lease contract).

<u>Impact of the Lessee Accounting</u>

Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

- recognizes right-of-use assets and lease liabilities in the balance sheet, initially measured at the present value of future lease payments;
- recognizes depreciation of right-of-use assets and interest on lease liabilities in the statement of comprehensive loss; and
- separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

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

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognize a provision for onerous lease contracts.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review;
- applied the exemption not to recognize right-of-use assets and liabilities for short-term leases (lease term of 12 months or less) and leases of low value assets (such as personal computers and office furniture), and to recognize a lease expense on a straight-line basis as permitted by IFRS 16; this expense is presented within cost of sales and selling and general administrative expenses in the consolidated statement of comprehensive loss;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Company recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Company's consolidated financial statements.

Financial impact of initial application of IFRS 16

On transition to IFRS 16, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate. The weighted-average rate applied is 5.2%. In accordance with the expedited modified retrospective approach, the Company has opted to measure the right-of-use assets for all leases at amounts equivalent to the corresponding lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

		1-Jan-19
Operating lease commitments at December 31, 2018	$	980
Discounted using the incremental borrowing rate at		66
Recognition exemption – leases of low value assets		34
Lease liabilities recognized at January 1, 2019	$	880

5. Standards issued but not yet effective

The Company has not yet applied the following new standard, interpretation and amendment to standards that have been issued as at December 31, 2019 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of this new or amended standard and interpretation.

Amendments to IFRS 3 – definition of a business

In October 2018, the IASB 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.

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

6. Accounts receivable

	Year ended December 31	
	2019	2018
Trade	**$ 1,704**	$ 3,338
Taxes receivable	**286**	291
Current portion of lease receivable	**-**	386
Loss allowance (Note 24)	**-**	(70)
	$ 1,990	$ 3,945

TGHL's breakdown of the aging of trade accounts receivables is as follows:

	Year ended December 31	
	2019	2018
< 30 days	**$ 1,469**	$ 2,567
> 30 day	**79**	239
> 60 days	**40**	138
> 90 days	**116**	394
	$ 1,704	$ 3,338

Tax receivables as at December 31, 2019, comprise Canada GST receivable $286 (2018 - $154) and current portion of China VAT taxes recoverable $nil (2018 - $137).

Lease receivable comprises:

	Year ended December 31	
	2019	2018
Total estimated minimum lease payments receivable	**$ -**	$ 1,164
Less: current portion	**-**	(386)
	$ -	$ 778

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

The Company had no leases receivable relating to hydrovac trucks (2018 – three), receivable in combined monthly installments of $nil and $32 as at December 31, 2019 and December 31, 2018 respectively. These leases contain an incentive to purchase the hydrovac truck within the first year. Future estimated minimum lease payments receivable under the sales-type hydrovac truck lease are as follows:

	Year ended December 31	
	2019	2018
Less than one year	**$ -**	$ 386
Between two and three years	**-**	778
Residual value	**-**	-
	$ -	$ 1,164

During the year the Company derecognized an asset previously classified as a finance lease receivable after a customer did not exercise their bargain purchase option and returned the two hydrovac trucks prior to the termination of the lease term. The Company treated the transaction as a lease modification and measured the asset at the amount of the net investment in the lease immediately before the effective date of the lease modification. The hydrovac trucks were assessed for impairment and were reclassified from property and equipment to inventory for sale. In a subsequent quarter in 2019, the Company rented the truck to another customer and accordingly the hydrovac trucks were once again assessed for potential impairment and transferred to property and equipment.

7. Tax recoverable

	Year ended December 31	
	2019	2018
Tax recoverable	**$ 197**	$ 200

Tax recoverable relates to long term portion of VAT tax in China which will be applied against future VAT payable.

8. 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

There was an inventory write-down of $19 recorded during the year (2018 - $30) which is included in the cost of sales. A provision of $60 (2018 - $59) is included in the cost of sales for slow moving inventory. Finished goods inventory consists of hydrovac equipment and 1 (2018 - 2) hydrovac truck in North America.

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

9. Property and equipment

Cost	M&E	Office Equip	Leaseholds	Rental Equipment and Vehicles	Total
Balance, December 31, 2017	$ 1,723	$ 211	$ 1,066	$ 893	$ 3,893
Additions	81	19	53	3,224	3,377
Disposals	-	-	-	(7)	(7)
Reclassification to inventory	-	-	-	(405)	(405)
Balance, December 31, 2018	1,804	230	1,119	3,705	6,858
Additions	**237**	**59**	**136**	**1,438**	**1,870**
Reclassification from lease receivable (1)	**-**	**-**	**-**	**748**	**748**
Reclassification to inventory (2)	**-**	**-**	**-**	**(2,134)**	**(2,134)**
Reclassification from inventory (3)	**-**	**-**	**-**	**180**	**180**
Impairment (4)	**(17)**	**-**	**-**	**(1,726)**	**(1,743)**
Foreign exchange adjustments	**-**	**-**	**-**	**(35)**	**(35)**
Balance, December 31, 2019	**$ 2,024**	**$ 289**	**$ 1,255**	**$ 2,176**	**$ 5,744**

Accumulated Depreciation	M&E	Office Equip	Leaseholds	Rental Equipment and Vehicles	Total
Balance, December 31, 2017	$ 268	$ 84	$ 311	$ 36	$ 699
Depreciation for the year	188	71	223	129	611
Disposals	-	-	-	(3)	(3)
Reclassification to inventory	-	-	-	(7)	(7)
Balance, December 31, 2018	456	155	534	155	1,300
Depreciation for the year	**200**	**63**	**345**	**307**	**915**
Foreign exchange adjustments	**-**	**-**	**-**	**(27)**	**(27)**
Reclassification to inventory (2)	**-**	**-**	**-**	**(78)**	**(78)**
Impairment (4)	**(3)**	**-**	**-**	**(119)**	**(122)**
Balance, December 31, 2019	**$ 653**	**$ 218**	**$ 879**	**$ 238**	**$ 1,988**

Net book value	M&E	Office Equip	Leaseholds	Rental Equipment and Vehicles	Total
Balance, December 31, 2018	$ 1,348	$ 75	$ 585	$ 3,550	$ 5,558
Balance, December 31, 2019	**$ 1,371**	**$ 71**	**$ 376**	**$ 1,938**	**$ 3,756**

(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 reclassed as property and equipment (Note 6).
(2) During 2019, six hydrovac trucks (2018 - one) were reclassed from property and equipment to inventory and then subsequently sold to customers.
(3) During 2019, 3 hydrovac equipment (2019-nil) were reclassed from inventory to property and equipment and then subsequently written-off.
(4) During 2019, an impairment write-down of $1,656 (2018 - $nil) was recognized principally relating to the Company's hydrovac trucks and equipment in China (Note 21).

Rental Equipment and Vehicles as at December 31, 2019, comprise 5 (2018 – 6) hydrovac trucks rented to customers as operating leases with a net book value of $1,658 (2018 - $1,990) in North America, 1 (2018 – nil) hydrovac equipment for rental with a net book value of $183 (2018 - $nil), other operating vehicles with a net book value of $91 (2018 - $40) in North America and 9 (2018 – 6) hydrovac trucks and equipment for rental with a net book value of $nil (2018 - $1,520) in China.

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

As at December 31, 2019, 3 (2018 – 2) hydrovac trucks rented to customers and 1 (2018 – 1) other equipment in North America are under leases which the Company entered into as lessee with a net book value of $1,014 (2018 - $620).

10. Goodwill and intangible assets

Cost	Goodwill	Patents	Development	Computer Software	Total
Balance, December 31, 2017	$ 833	$ 3,529	$ -	$ 41	$ 4,403
Additions	-	-	678	95	773
Balance, December 31, 2018	833	3,529	678	136	5,176
Additions	**-**	**-**	**239**	**165**	**404**
Impairment (1)	**-**	**-**	**(690)**	**-**	**(690)**
Balance, December 31, 2019	**$ 833**	**$ 3,529**	**$ 227**	**$ 301**	**$ 4,890**

Accumulated Amortization	Goodwill	Patents	Development	Computer Software	Total
Balance, December 31, 2017	$ -	$ 739	$ -	$ 2	$ 741
Amortization for the year	-	493	65	16	574
Balance, December 31, 2018	-	1,232	65	18	1,315
Amortization for the year	**-**	**504**	**72**	**32**	**608**
Impairment (1)	**-**	**-**	**(104)**	**-**	**(104)**
Balance, December 31, 2019	**$ -**	**$ 1,736**	**$ 33**	**$ 50**	**$ 1,819**

Net book value	Goodwill	Patents	Development	Computer Software	Total
Balance, December 31, 2018	$ 833	$ 2,297	$ 613	$ 118	$ 3,861
Balance, December 31, 2019	**$ 833**	**$ 1,793**	**$ 194**	**$ 251**	**$ 3,071**

(1) During 2019, an impairment write-down of $586 (2018 - $nil) was recognized relating to the Company's development of the hydrovac trucks and equipment specific for the Chinese market (Note 21).

No research and development costs have been expensed in 2019 and 2018.

Annual goodwill impairment

Goodwill is allocated to those cash generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill. The Company's goodwill is allocated to the North America CGU which comprises the Company's North American operations. As at December 31, 2019 and December 31, 2018, there was no goodwill impairment.

Recoverable amount

Recoverable amount was based on value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the asset.

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

Key assumptions used in value-in-use calculations

The calculations of value in use for the cash generating units are most sensitive to the following assumptions:

1. Discount rate used
2. Growth rate for operating income and expenses used in the budget
3. Projected sales used to extrapolate cash flows beyond the budget date

A range of discount rates from 18.7% - 20.7% were applied in the value in use calculation. Cash flows were projected based on past experience, actual operating results and the business plan for a 1 year period. Cash flows for a 3 year period were extrapolated using projected sales and operating expenses.

Net sales and margins in the business plan were budgeted based on discussions with customers, past experience and trends, as well as planned initiatives. The anticipated annual net sales have been based on expected growth levels (net of any estimated inflationary effect of rising raw material prices).

11. Accounts payable and accrued liabilities

	Year ended December 31	
	2019	2018
Accounts payable and accrued liabilities	**$ 6,267**	$ 5,298
Accrued wages, vacation and bonuses payable	**329**	490
	$ 6,596	$ 5,788

12. Customer deposits

	Year ended December 31	
	2019	2018
Customer deposits	**$ 110**	$ 242

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

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

13. Right-of-use assets, net

Cost		
As at January 1, 2019 (Note 4)	$	880
Additions		-
As at December 31, 2019	**$**	**880**

Accumulated depreciation		
As at January 1, 2019 (Note 4)	$	-
Depreciation		333
As at December 31, 2019	**$**	**333**

Net book value		
As at January 1, 2019 (Note 4)	$	880
As at December 31, 2019	$	547

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.

14. Term loans

	Year ended December 31	
	2019	2018
Term loans	**$ -**	$ 758

In 2019, the Company paid off its previous loans. In 2018, the Company had 3 term loans classified as current as they were due on demand bearing interest at rates between 5.75% and 5.85%, repayable in monthly blended instalments between $8 and $9, maturing between August 2021 and December 2021 and secured by hydrovac trucks in the Company's rental equipment with a total net book value of $646.

15. Lease liabilities

The Company's lease liabilities consist of leases obligation relating to hydrovac trucks and equipment and leases liabilities relating to facilities and office equipment.

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

As at December 31, 2019, the Company had 3 (2018 – 3) hydrovac truck leases, 1 equipment lease (2018 – nil) and 2 computer equipment leases (2018 -1), repayable in monthly installments totalling of $27 (2018 - $27) with final installments totalling $27 (2018 - $27), 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 lease 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

As at December 31, 2019, the Company had $557 lease liabilities relating to the Company's facility leases in Stettler and Calgary, which consists $314 current portion and $243 non-current portion.

	As Reported at December 31, 2018	**Adjustments**	**Balance on Adoption as at January 1, 2019**	**Balance on Adoption as at December 31, 2019**
Current	$ -	$ (323)	$ (323)	**$ (314)**
Non-current	$ -	$ (557)	$ (557)	**$ (243)**
	$ -	$ (880)	$ (880)	**$ (557)**

Lease related amounts recognized as an expense in the consolidated statement of comprehensive loss are as follows:

	Year ended December 31	
	2019	**2018**
Interest expense on lease liabilities	**$ 91**	$ -
Expenses relating to short-term leases	**43**	-
Expenses relating to lease of low value asset	**-**	-
	$ 134	$ -

As at December 31, 2019, the Company is committed to $3 for short-term leases.

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

In 2019, lease-related cash outflow recognized in the consolidated statement of cash flows is $1,566.

16. Shareholder's equity

Common Shares

The Company is authorized to issue an unlimited number of Class "A" Common Shares ("Common Shares") without nominal or par value. Each Common Share entitles its holder to one vote at all shareholder meetings. Holders of Common Shares are entitled to receive dividends if, as and when declared by the Board of Directors. Holders of Common Shares will participate in any distribution of net assets of TGHL on an equal per share basis.

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

	Shares	Amount
Outstanding common shares, December 31, 2017 and 2018	126,716,519	$20,893
Exercise of stock options	54,600	10
Outstanding common shares, December 31, 2019	**126,771,119**	**$20,903**

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 the period.

Common Share Purchase Warrants

	Warrants	Amount
December 31, 2019 and 2018	3,100,000	$144

Each Warrant is exercisable at $0.12 and expires on September 15, 2022.

No warrants were exercised during the year ended December 30, 2019.

Stock Options

As at December 31, 2019, there were 7,445,400 stock options outstanding with a weighted average exercise price of $0.11, of which 7,445,400 were exercisable at a weighted average exercise price of $0.11. 54,600 options were exercised during the year ended December 31, 2019. No options were granted during the year ended December 31, 2019.

The following tables summarize Stock Option activity to December 31, 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, December 31, 2019	7,445,400	$0.11
Exercisable, December 31, 2019	7,445,400	$0.11

Option price	Options Outstanding	Contractual Life (years)
$0.11	7,445,400	2.7

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

Stock based compensation expense in 2019 was $129 (2018 - $256). In 2019, 900,000 non-vested options were cancelled due to employment termination. For the year ended December 31, 2019, $nil stock based compensation expense related to the 900,000 options cancelled was recognized.

No stock options were granted during 2019 or 2018. 8,400,000 stock options were granted on November 21, 2017 at an option price of $0.11 per share. 86% of the options vested one third at the grant date, and will vest one third on each of the first and second anniversaries of the grant. 11% of the options will vest on the second anniversary of the grant. The remaining 3% of the options vested at the date of grant.

17. Loss per share

Basic:			**Diluted:**		
Year ended December 31, 2019			**Year ended December 31, 2019**		
Net loss	Weighted average number of shares	Net loss per share	Net loss	Weighted average number of shares	Net loss per share
($1,634)	126,748,533	($0.01)	($1,634)	126,748,533	($0.01)
Year ended December 31, 2018			Year ended December 31, 2018		
Net loss	Weighted average number of shares	Net loss per share	Net Loss	Shares	Net loss per share
($1,323)	126,716,519	($0.01)	($1,323)	128,696,519	($0.01)

The effects of dilution from 7,445,400 (2018 – 8,400,000) stock options and 3,100,000 (2018 – 3,100,000) warrants were excluded in the calculation of weighted average shares outstanding for diluted loss per share for the year ended December 31, 2019 as they are antidilutive.

18. Revenue

Revenues	**Year ended December 31**	
	2019	2018
Revenues	**$ 60,426**	$ 38,908

Revenue for the year ended December 31, 2019 comprised truck and equipment sales of $57,443 (2018 - $34,706), parts and services of $2,096 (2018 - $3,805) and rental income of $887 (2018 - $397).

During 2019, 33.1% (2018 – 20.1%) of truck and equipment sales were attributable to one customer.

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

The table below shows the geographical sales:

	Year ended December 31	
	2019	2018
Canada	**$ 32,890**	$ 25,966
United States	**27,536**	12,942
China	**-**	-
	$ 60,426	$ 38,908

19. Cost of sales

	Year ended December 31	
	2019	2018
Direct manufacturing costs	**$ 43,042**	$ 28,068
Indirect salaries and benefits	**1,784**	1,138
Indirect production costs	**6,256**	3,840
	$ 51,082	$ 33,046

20. Selling and general administrative expenses

	Year ended December 31	
	2019	2018
Salaries and benefits	**$ 3,623**	$ 3,081
Selling, general and administrative expense	**2,452**	2,337
	$ 6,075	$ 5,418

21. Impairment Write-down

	Year ended December 31	
	2019	2018
Impairment loss	**$ 2,242**	$ -

As at December 31, 2019, an impairment assessment was performed with respect to property and equipment in China ("PE in China") and the related intangible assets. The assessment considered:

- The Company's historical success in marketing its equipment;
- Historical cash flows;

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

- Assessment of the market for 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 loss was required and as a result an impairment write down was recorded on PE in China of $1,656 (2018 - $nil) and intangible assets of $586 (2018 - $nil).

Key assumptions used for property and equipment impairment
The key assumptions used to calculate the value in use for property and equipment are those regarding the ability to sell, lease and the shipping and reconfiguration of the units for Canada. These assumptions are considered to be level 3 in the fair value hierarchy.

Intangible assets impairment
As at December 31, 2019, the Company reviewed the carrying amounts of its intangible assets other than goodwill. The Company assessed development costs relating to hydrovac trucks and equipment specific for the Chinese market. The Company considered the recoverable amount of these assets based on future cash flows and determined that future cash flows are expected to be nominal. As a result, these assets were considered to be impaired and costs were fully written off.

Key assumptions used for intangible asset impairment
The key assumptions used to calculate the value in use are those regarding the revenue, and gross margin growth rates, sales channel mixture and growth in selling, general and administrative expenses. These assumptions are considered to be Level 3 in the fair value hierarchy.

22. Income tax expense

The components of tax expense are as follows:

	Year ended December 31	
	2019	2018
Current income tax expense	**$ 428**	$ 98
Deferred income tax expense	**66**	175
	$ 494	$ 273

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

The reconciliation between income tax expense (recovery) and the accounting profit multiplied by the combined federal and provincial statutory income tax rate is as follows:

	Year ended December 31	
	2019	2018
Loss before income tax	**$ (1,140)**	$ (1,050)
Combined federal and provincial statutory income tax rate	**26.5%**	27.0%
Expected tax recovery using combined federal and provincial statutory income tax rate	**(302)**	(283)
Effect on income tax resulting from:		
Stock based compensation	**34**	69
Non deductible expenses	**12**	26
Statutory rate differences and effect of rate changes	**78**	-
Unrecognized tax benefit	**717**	435
Other	**(45)**	26
Income tax expense	**$ 494**	$ 273

The Company has not recorded deferred income tax assets in relation to its estimated total income tax pools due to the uncertainty related to the realization of such assets. As at December 31, 2019 and 2018, no deferred income tax assets were recognized in the statements of financial position for the following deductible temporary differences:

	Year ended December 31	
	2019	2018
Domestic Operations		
Non-capital losses	**$ 353**	$ 459
Share issue costs	**11**	19
Intangible assets	**395**	230
Property and equipment and right-of-use assets	**-**	1
Investment tax credits	**103**	-
	862	709
Foreign Operations		
Non-capital losses	**871**	713
Property and equipment	**407**	1
	1,278	714
Deductible temporary differences and unused tax losses for which no deferred tax asset has been recognized	**(2,140)**	(1,423)
Total	**$ -**	$ -

As at December 31, 2019, in Canada the Company has unused non-capital tax losses of approximately $1,533 (2018 - 1,701) which expire at the end of 2036 and 2039, and deductible temporary differences of $1,766 (2018 – $928). As at December 31, 2019, in China the Company has unused non-capital tax losses of approximately $3,485 (2018 - $2,852) which expire at the end of 2022 and 2024 and deductible temporary differences of $1,627 (2018 - $nil).

The Company has a deferred tax liability arising from its operating subsidiary in Canada as follows:

	Year ended December 31	
	2019	2018
Property and equipment and right-of-use assets	**$ (316)**	$ (263)
Intangible assets	**(13)**	-
	$ (329)	$ (263)

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

23. Operating segments

TGHL has two 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 year ended December 31, 2019 and 2018 respectively:

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)**
Total assets	**$ 19,198**	**$ 1,114**	**$ 3,518**	**$ 23,830**
Total liabilities	**$ 8,171**	**$ 442**	**$ 227**	**$ 8,840**
Capital Expenditures	**$ 1,902**	**$ -**	**$ 372**	**$ 2,274**

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	1,809	(1,400)	(1,186)	(777)
Total assets	$ 17,653	$ 2,920	$ 4,520	$ 25,093
Total liabilities	$ 7,937	$ -	$ 203	$ 8,140
Capital Expenditures	$ 1,729	$ 1,583	$ 838	$ 4,150

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

24. Financial instruments and risk management

The following table presents information on the Company's assets and liabilities measured at fair value and discloses the fair value hierarchy of the valuation techniques at December 31, 2019:

As at December 31, 2019:						
		Carrying Value		Fair Value	Classification	Level
Cash and equivalents	$	2,417	$	2,417	Amortized cost	1
Fair value of foreign currency forward contracts		1		1	FVTPL	2

As at December 31, 2018:						
		Carrying Value		Fair Value	Classification	Level
Cash and equivalents	$	2,228	$	2,228	Amortized cost	1
Fair value of foreign currency forward contracts		0		0	FVTPL	2

The fair values of cash and equivalents, accounts receivable, tax recoverable, accounts payable and accrued liabilities, term loans, and customer deposits approximate their carrying values given their short-term maturities.

Risk management

In the normal course of its business, TGHL is exposed to multiple risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of TGHL, management considers the avoidance of undue concentrations of risk. TGHL manages its risks and risk exposures through a combination of financial instruments, insurance, a system of internal and disclosure controls and sound business practices. The primary types of financial risk which arise are liquidity, credit, and market risk. These risks and the actions taken to manage them are as follows:

Business risk - pandemic

In December 2019, the 2019 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 then characterized it as a pandemic on March 11, 2020. The outbreak has spread throughout the World including Canada and the United States, causing companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions.

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 such outbreaks on the Company's operations, the Company 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.

See also Note 31 – Subsequent events

Liquidity risk

Liquidity risk is the risk that TGHL cannot meet its financial obligations associated with financial liabilities in full. A range of alternatives is available to TGHL including cash flow provided by operations, additional debt, the issuance of equity or a combination thereof. Cash on hand and cashflow from operations are primarily used to finance working capital and capital expenditure requirements and are adequate to meet the Company's foreseeable financial obligations associated with financial liabilities.

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

The following table summarizes the TGHL's financial liabilities with corresponding maturity dates as at December 31, 2019 and December 31, 2018:

As at December 31, 2019	Total	2020	2021	2022	2023	2024 +
Accounts payable and accrued liabilities	$ 6,596	$ 6,596	$ -	$ -	$ -	$ -
Lease liabilities	1,451	596	444	242	106	63
Total	$ 8,047	$ 7,192	$ 444	$ 242	$ 106	$ 63

As at December 31, 2018	Total	2019	2020	2021	2022	2023 +
Accounts payable and accrued liabilities	$ 5,788	$ 5,788	$ -	$ -	$ -	$ -
Finance leases	934	218	234	250	232	-
Loan ayable	758	296	296	166	-	-
Current taxes payable	155	155	-	-	-	-
Total	$ 7,635	$ 6,457	$ 530	$ 416	$ 232	$ -

TGHL expects to have adequate resources to discharge these financial liabilities. There is no change in liquidity risk exposure from 2018 to 2019.

Credit risk

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their commitments to TGHL. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. TGHL has credit policies to address credit risk on accounts receivable from customers, which may include the analysis of the financial position of customers and review of credit limits. TGHL also reviews new customer credit history before establishing credit and periodically reviews existing customer credit performance. Generally, cash is received prior to the delivery of trucks. The Company applies the simplified approach for accounts receivables and lease receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime. At December 31, 2019, the Company had a loss allowance of $nil (2018 - $70).

	Trade receivables	
	2019	**2018**
Opening loss allowance at January 1	**$ 70**	$ 55
Receivables written off during the year as uncollectble	**(70)**	-
Unused amount reserved	**-**	15
Closing loss allowance at December 31	**$ -**	$ 70

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company.

At December 31, 2019, TGHL had one individual customer from the North America segment accounting for approximately 20.0% of total accounts receivable (2018 – 50.6%).

Market risk

Market risk is the risk that changes in market prices will influence future cash flows associated with financial instruments. There has been no change to the TGHL's exposure to market risks and the way these risks are managed or measured. Market risk comprises three types of risk: currency risk, industry and commodity price risk.

Currency risk

In North America TGHL sells its products, as well as, purchases goods in both Canadian and U.S. currencies ("USD"). Accordingly, TGHL is exposed to currency risk as it relates to customer accounts receivable balances and accounts payable balances denominated in USD. TGHL is also exposed to changes in the exchange rate in China (RMB) with its operating segment in China. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange gain or loss. TGHL enters into forward foreign exchange contracts or uses other hedging activities to manage part of the foreign currency risk exposures relating to customer accounts receivable balances and accounts payable denominated in USD.

As at December 31, 2019, TGHL had a change in fair value of $1 (2018 -$nil) relating to its $150 USD (2018 - $nil) foreign currency forward contracts. The undernoted include amounts denominated in USD that have been converted to the Canadian dollar equivalent on the balance sheet date at a rate of $1.2988 per USD (2018 - $1.3642):

	Year ended December 31			
(In $000's USD)		**2019**		2018
Cash and equivalents	**$**	**420**	$	767
Accounts receivable		**351**		1,566
Accounts payable and accrued liabilities		**(801)**		(736)
Net foreign currency exposure	**$**	**(30)**	$	1,597

For the year ended December 31, 2019, if the Canadian dollar had strengthened 10% percent against the USD with all other variables held constant, net income for the year would have been $4 higher (2018 - $198 lower). Conversely, if the Canadian dollar had weakened 10% percent against the USD with all other variables held constant, net income would have been $4 lower (2018 - $242 higher). Included in revenue are realized and unrealized losses on translation of foreign currency monetary assets and liabilities and realized and unrealized losses on foreign currency transactions of $39 for the year ended December 31, 2019 (2018 – $58 loss).

As at December 31, 2019, TGHL had no RMB foreign currency forward contracts (2018 - nil). The undernoted include amounts denominated in RMB that have been converted to the Canadian dollar equivalent on the balance sheet date at a rate of $0.1865 per RMB (2018 - $0.1983):

	Year ended December 31			
(In ¥000's Chinese Yuan)		**2019**		2018
Cash and equivalents	**¥**	**414**	¥	1,160
Accounts receivable		**2,145**		2,403
Prepaid expenses and other assets		**148**		200
Inventories		**745**		3,219
Property and equipment, net		**14**		7,707
Goodwill and intangible assets, net		**51**		65
Accounts payable & accrued liabilities		**(110)**		(432)
Net foreign currency exposure	**¥**	**3,407**	¥	14,322

For the year ended December 31, 2019, if the Canadian dollar had strengthened 10% percent against the RMB with all other variables held constant, net income for the year would have been $58 lower (2018 - $258 lower) and other comprehensive income would be $40 lower (2018 - $278 lower). Conversely, if the Canadian dollar had weakened 10% percent against the RMB with all other variables held constant, net income would have been $71 higher (2018 - $316 higher) and other comprehensive income would be $51 higher (2018 - $278 higher).

Industry and commodity price risk

TGHL's primary market is the municipal infrastructure industries as its core product is an integral technology utilized in that industry. In addition, demand for TGHL's equipment in the oil and gas industry is heavily influenced by activity levels, which in turn, is influenced by commodity prices of oil and natural gas. To manage this risk, TGHL has redesigned and expanded its core product lines to offer trucks that are built and priced for more industries such as the municipal markets and the milder climates and terrains of eastern Canada and the United States.

Manufacturing costs for the TGHL's products are affected by fluctuations in the price of raw materials. To manage its risk, TGHL implements selling price adjustments to match raw material cost changes where the market will bear it. This matching is not always possible as customers react to selling price pressures related to raw material cost fluctuations per conditions pertaining to their markets.

The sensitivity analyses in the currency risk above do not take into consideration that the TGHL's liabilities are actively managed. Additionally, the financial position of TGHL may vary at the time that any actual market movement occurs or be mitigated by management's actions to reduce exposure to risks.

There is no change in industry and commodity risk exposure from 2018 to 2019.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily through its variable rates on term loans. The Company manages exposure to interest rate risk by using a combination of fixed and floating rate debt instruments. For the year ended December 31, 2019, if interest rates had been 50 basis points lower with all other variables held constant, net income for the period would have been $nil (2018 — $1) higher, arising mainly as a result of no variable borrowings. If interest rates had been 50 basis points higher, with all other variables held constant, net income would have been $nil (2017 — $1) lower, arising mainly as a result of no variable borrowings.

Conditions in China

General

TGHL's subsidiaries, Tornado Global Hydrovacs (Beijing) Limited and Tornado Hydrovacs Asia Pacific Ltd., operate and have assets in China. As a result, TGHL is vulnerable to the political, economic and legal and regulatory conditions affecting our 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.

25. 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 individual geographic locations, China and North America, and its Corporate segment. 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 debt, or a combination thereof. As at December 31, 2019, TGHL had $2,313 (2018 - $1,983) cash in North America and Corporate and $104 (2017 - $245) in China available for the Chinese expansion. These levels are expected to meet the budgeted requirements for the next 12 months.

26. Contingencies

Director and officer indemnification

TGHL indemnifies its directors and officers against all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. TGHL has acquired and maintains liability insurance for its directors and officers.

Other indemnification provisions contingencies

From time to time, TGHL enters agreements in the normal course of operations and about business or asset acquisitions and dispositions. By their nature, these agreements may provide for indemnification of counterparties. The varying nature of these indemnification agreements prevents TGHL from making a reasonable estimate of the maximum potential amount it could incur.

Other contingencies

TGHL is subject to various product liability or general claims and legal proceedings covering matters that arise in the ordinary course of business. All such matters are adequately covered by insurance or by accruals, or are determined by management to be without merit, or of such kinds or amounts as would not have a material adverse effect on the financial results of TGHL.

27. Contractual obligations and commitments

Lease commitments

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

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

TGHL 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**

28. Related party transactions

Transactions between the Company and related parties during the year ended December 31, 2019 comprised the following:

(a) During the year ended December 31, 2019, $10 (2018 - $10) 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 in a Canada based office of Dentons Canada LLP.

(b) During the year ended December 31, 2019, the Company's wholly-owned subsidiary Tornado Hydrovacs 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 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 and purchased raw materials of $537 from the ShanghaiCo. for manufacturing hydrovac trucks in Canada. As at December 31, 2019, the Company had a payable of $270 to the ShanghaiCo.

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

(c) During the year ended December 31, 2018 the Company's Beijing operation agreed to purchase inventory in the amount of $234 (the "Purchase Amount") on behalf of Dynamic Attractions Ltd ("Dynamic"), a subsidiary of Empire Industries Ltd ("Empire"). 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% if the issued and outstanding Common Shares of the Company. In addition, a director of Tornado is a director and officer of Empire and another director of Tornado is a director of Empire. The Purchase Amount is being repaid by Dynamic on agreed commercial terms. Dynamic will pay a commercially reasonable fee to the Company for its services. This transaction is measured at which is the amount of consideration established and agreed to by the parties. As at December 31, 2018, the Company had a receivable of $101. The outstanding amount was paid in April 2019.

These transactions were in the normal course of operations and are measured at which is the amount of consideration established and agreed to by the parties.

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

29. Key management compensation

The Company's key management comprised its directors and executive officers who have been remunerated as follows:

	Year ended December 31	
	2019	2018
Management cash compensation	$ **565**	$ 562
Management short term benefits	**17**	22
Management share based compensation	**29**	71
Directors share based compensation	**58**	102
Directors fees	**120**	126
	$ **788**	$ 883

Short-term employee benefits include non-equity incentive plan compensation and other short-term benefits. Share based compensation represents the portion of the Company's share based payments expense incurred during the year attributable to the key management and directors.

30. Cash flow changes from financing activities

Details of changes in financing activities for the two years ended December 31, 2019 and December 31, 2018 are as follows:

	January 1, 2019	Cash Flows	Non-cash changes		December 31, 2019
			Fair Value / Amortization	Change in Leases	
Lease receivable	1,164	-	-	(1,164)	-
Lease liabilities	934	(345)	-	862	1,451
Loan payable	758	(758)	-	-	-
Share capital	20,893	6	-	4	20,903

	January 1, 2018	Cash Flows	Non-cash changes		December 31, 2018
			Fair Value / Amortization	Change in Finance Leases	
Finance lease receivable	503	(443)	-	1,104	1,164
Lease liabilities	735	204	-	(5)	934
Loan payable	-	758	-	-	758

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

31. Changes in non-cash working capital

	Year ended December 31	
	2019	2018
Accounts receivable	**$ 1,955**	$ (1,407)
Inventory	**(3,020)**	(1,873)
Prepaid expenses and other assets	**(308)**	50
Accounts payable and accrued liabilities	**808**	2,459
Customer deposits	**(132)**	242
Current tax payable	**199**	98
	$ (498)	$ (431)
Less: income taxes paid	**(204)**	-
Total change in non-cash working capital	**$ (294)**	$ (431)

32. Subsequent Events

Impact of COVID – 19 Pandemic

In late March and April 2020, with a number of hydrovac truck orders put on hold by clients as a result of the Coronavirus pandemic, the Company reduced truck production and put in place an aggressive program to conserve cash and maintain its workforce through a period of lower production in the North America segment. The Company was outsourcing approximately one third of its production before the pandemic and this has been discontinued entirely. Production at the Company's manufacturing facility in Stettler was also been reduced by approximately 60%. Approximately 65% of the Company's employees were temporarily laid off. In addition, management have taken a significant salary reduction. The governments of Canada and Alberta have introduced wage subsidy programs and loan guarantee initiatives and the Company has applied for applicable programs as appropriate. The cost savings generated by the temporary layoffs and salary reductions are intended to protect the Company's financial position 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.

As at June 11, 2020, COVID – 19 has no material impact on the Company's China segment beyond the impairment charges recorded in Note 21.

Property acquisition

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.

Bank and equipment financings

Subsequent to December 31, 2019, the Company executed a $1,000 bank line of credit and also secured an equipment financing loan of $950.