



Tornado Global Hydrovacs Ltd.

Unaudited Condensed Consolidated Interim Financial Statements

For the three month period ended March 31, 2020

Notice to Reader

These interim condensed consolidated financial statements have been prepared by the Management of Tornado Global Hydrovacs Ltd. and have not been audited or reviewed by the external auditor.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

	Notes	March 31, 2020	December 31, 2019
(In \$'000's CAD)			(Audited)
ASSETS			
Current assets			
Cash and cash equivalents		\$ 1,241	\$ 2,417
Accounts receivable		3,417	1,990
Inventory	4	9,970	11,383
Prepaid expenses and other assets		698	468
Fair value of foreign currency forward contracts		—	1
Total current assets		15,326	16,259
Non-current assets			
Tax recoverable		169	197
Property and equipment, net	10	11,698	3,756
Goodwill and intangible assets, net		2,950	3,071
Right-of-use assets, net		464	547
Total non-current assets		15,281	7,571
Total assets		\$ 30,607	\$ 23,830
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 5,862	\$ 6,596
Customer deposits	11	467	110
Current portion of lease liabilities	12	821	643
Current tax payable		260	354
Current portion of mortgage payable	13	500	—
Fair value of foreign currency forward contracts		87	—
Total current liabilities		7,997	7,703
Non-current liabilities			
Deferred tax		351	329
Lease liabilities	12	1,491	808
Mortgage payable	13	5,383	—
Total liabilities		15,222	8,840
Shareholders' Equity			
Share capital	14	20,903	20,903
Common share purchase warrants	14	144	144
Contributed surplus		594	594
Deficit		(6,573)	(6,464)
Accumulated other comprehensive income		317	(187)
Total shareholders' equity		15,385	14,990
Total liabilities and equity		\$ 30,607	\$ 23,830

Related party transactions - see Note 16

Subsequent events - see Note 19

See accompanying notes to condensed consolidated financial statements

On behalf of the Board of Directors:

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

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

	Notes	Three Months ended	
		March 31 2020	March 31 2019
(In \$000's CAD, except per share amounts)			
Revenues			
Revenue	6	\$ 13,589	\$ 13,836
Other loss - foreign exchange		(201)	(34)
		13,388	13,802
Cost of sales	7	11,804	11,844
Gross Profit		1,584	1,958
Selling and general administrative expenses	8	1,244	1,543
Income before depreciation, amortization and other items		340	415
Depreciation of property and equipment	10	180	188
Amortization of intangible assets		141	145
Depreciation of right-of-use assets		83	24
		404	357
Income (loss) before the undernoted		(64)	58
Change in fair value of foreign currency forward contracts		88	(3)
Finance costs		29	74
Finance income		—	(24)
Stock based compensation		—	20
		117	67
Loss before tax		(181)	(9)
Income tax expense (recovery)			
Current		(94)	101
Deferred		22	8
		(72)	109
Net loss		(109)	(118)
Other comprehensive income (loss)			
Translation of foreign subsidiaries		504	28
Comprehensive income (loss)		\$ 395	\$ (90)
Net loss per share			
Basic	5	\$nil	\$nil
Diluted	5	\$nil	\$nil

See accompanying notes to condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

	Notes	Three Months ended	
		March 31 2020	March 31 2019
(In \$000's CAD)			
OPERATING ACTIVITIES			
Net loss		\$ (109)	\$ (118)
<i>Add (deduct) items not affecting cash:</i>			
Depreciation of property and equipment	10	180	212
Amortization of intangible assets		141	145
Depreciation of right-of-use assets		83	24
Cost of sold leased trucks transferred from property and equipment		691	—
Deferred income taxes		(22)	8
Change in fair value of foreign currency forward contracts		88	(3)
Stock based compensation		—	20
		1,052	288
Change in non-cash working capital	18	(865)	1,174
Change in tax recoverable		28	(11)
Cash flow from operating activities		215	1,451
INVESTING ACTIVITIES			
Additions of property and equipment	10	(1,589)	(121)
Additions of intangible assets		(20)	(10)
Proceeds from disposal of fixed assets		6	—
Cash flow used in investing activities		(1,603)	(131)
FINANCING ACTIVITIES			
Net proceeds from leases	17	177	(321)
Net repayment of term loans		—	(64)
Cash flow from (used in) financing activities		177	(385)
Effect of exchange rate changes on cash and cash equivalents		35	23
Net increase (decrease) in cash and equivalents during the period		(1,176)	958
Cash and cash equivalents, beginning of period		2,417	2,228
Cash and cash equivalents, end of period		\$ 1,241	\$ 3,186

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

As at March 31, 2020						
	Common Shares	Common Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Equity
(In \$000's CAD)						
As at December 31, 2019	\$ 20,903	\$ 144	\$ 594	\$ (6,464)	\$ (187)	\$ 14,990
Loss for the period	-	-	-	(109)	-	(109)
Other comprehensive loss for the period	-	-	-	-	504	504
As at March 31, 2020	\$ 20,903	\$ 144	\$ 594	\$ (6,573)	\$ 317	\$ 15,385

As at March 31, 2019						
	Common Shares	Common Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Equity
(In \$000's CAD)						
As at December 31, 2018	\$ 20,893	\$ 144	\$ 469	\$ (4,830)	\$ 277	\$ 16,953
Stock based compensation	-	-	20	-	-	20
Loss for the period	-	-	-	(118)	-	(118)
Other comprehensive income for the period	-	-	-	-	28	28
As at March 31, 2019	\$ 20,893	\$ 144	\$ 489	\$ (4,948)	\$ 305	\$ 16,883

See accompanying notes to condensed consolidated financial statements

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2020

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

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".

These financial statements were recommended for approval by the Company's Audit Committee and were approved and authorized for issue by the Board of Directors on July 8, 2020.

2. Summary of significant accounting policies

The interim condensed consolidated financial statements are condensed and have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Except as discussed below, the same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as disclosed in the TGHL's consolidated financial statements for the year ended December 31, 2019. TGHL's 2019 annual consolidated financial statements include incremental annual IFRS disclosures that may be helpful to readers of the interim results and therefore should be read in conjunction with these interim condensed consolidated financial statements.

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as issued by the International Accounting Standards Board ("IASB").

Basis of presentation

These interim condensed consolidated financial statements are prepared for the three months ended March 31, 2020 and includes the results for the comparative period in 2019. The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as disclosed. The interim condensed consolidated financial statements include the accounts of Tornado Global Hydrovacs Ltd. and its direct and indirect wholly owned subsidiaries Tornado Global Hydrovacs (North America) Inc., Tornado Hydrovacs Asia Pacific Holdings Ltd. and Tornado Global Hydrovacs (Beijing) Ltd.

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

Use of estimates

Accounting measurements at interim dates inherently involve a greater reliance on estimates than at year-end. In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments of a normal recurring nature to present fairly, the condensed consolidated financial position of the TGHL as at March 31, 2020. There have been no changes to the Company's significant accounting estimates and judgments as of March 31, 2020.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2020

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

3. Adoption of new accounting standards

Effective January 1, 2020, the Company adopted amendments to IFRS 3 Business Combinations. The amendments 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 amendments have no impact on the Company's consolidated financial statements.

4. Inventory

Inventory comprises:

	March 31, 2020	December 31, 2019
Work-in-process	\$ 4,732	\$ 4,863
Raw materials	5,187	6,014
Finished goods	51	506
	\$ 9,970	\$ 11,383

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

5. Net loss per share

Basic:			Diluted:		
Three Months ended March 31, 2020			Three Months ended March 31, 2020		
Net loss	Weighted average number of shares	Net loss per share	Net loss	Weighted average number of shares	Net loss per share
(\$109)	126,771,127	\$nil	(\$109)	126,771,127	\$nil
Three Months ended March 31, 2019			Three Months ended March 31, 2019		
Net loss	Weighted average number of shares	Net loss per share	Net Loss	Weighted average number of shares	Net loss per share
(\$118)	126,716,519	\$nil	(\$118)	129,085,269	\$nil

The effects of dilution from 7,445,400 stock options (2019 - 7,500,000) and 3,100,000 warrants were excluded in the calculation of weighted average shares outstanding for diluted loss per share for the three months ended March 31, 2020 as they are antidilutive.

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2020

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

6. Revenue

	Three Months ended March 31	
	2020	2019
Revenues	\$ 13,589	\$ 13,836

Revenue as at March 31, 2020, comprise truck and equipment sales \$13,365 (2019 - \$13,214), parts and services \$123 (2019 - \$305) and rental income \$101 (2019 - \$317). During the three months ended March 31, 2019, 26.9% (2018 - 20.2%) of truck sales was attributable to one customer.

The table below shows the geographical sales:

	Three Months ended March 31	
	2020	2019
Canada	\$ 6,628	\$ 7,197
United States	6,961	6,639
China	-	-
	\$ 13,589	\$ 13,836

7. Cost of sales

	Three Months ended March 31	
	2020	2019
Direct manufacturing costs	\$ 9,470	\$ 9,950
Indirect salaries and benefits	496	482
Indirect production costs	1,838	1,412
	\$ 11,804	\$ 11,844

8. Selling and general administrative expenses

	Three Months ended March 31	
	2020	2019
Salaries and benefits	\$ 949	\$ 896
Selling, general and administrative expense	295	647
	\$ 1,244	\$ 1,543

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2020

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

9. 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 three months ended March 31, 2020 and 2019 respectively:

Three months ended March 31, 2020	North America		China		Corporate		Total	
Revenue	\$	13,388	\$	-	\$	-	\$	13,388
Cost of sales		11,804		-		-		11,804
Selling and general administrative		1,000		127		117		1,244
		584		(127)		(117)		340
Depreciation and amortization		245		3		156		404
Income (loss) before other items	\$	339	\$	(130)	\$	(273)	\$	(64)
Total assets	\$	19,868	\$	1,073	\$	9,666	\$	30,607
Total liabilities	\$	9,238	\$	2	\$	5,982	\$	15,222
Capital Expenditures	\$	1,239	\$	-	\$	370	\$	1,609

Three months ended March 31, 2019	North America		China		Corporate		Total	
Revenue	\$	13,802	\$	-	\$	-	\$	13,802
Cost of sales		11,844		-		-		11,844
Selling and general administrative		1,091		262		190		1,543
		867		(262)		(190)		415
Depreciation and amortization		186		26		145		357
Loss on disposal of assets		-		-		-		-
Income (loss) before other items	\$	681	\$	(288)	\$	(335)	\$	58
Total assets	\$	17,555	\$	3,845	\$	3,807	\$	25,207
Total liabilities	\$	7,944	\$	204	\$	176	\$	8,324
Capital Expenditures	\$	131	\$	-	\$	-	\$	131

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2020

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

10. Property and equipment

Cost	M&E	Office Equip	Leaseholds	Rental Equipment and Vehicles	Land and Building (3)	Total
Balance, December 31, 2019	\$ 2,024	\$ 289	\$ 1,255	\$ 2,176	\$ -	\$ 5,744
Additions	140	-	-	1,099	6,380	7,619
Disposals	(6)	-	-	-	-	(6)
Reclassification to inventory (1)	-	-	-	(807)	-	(807)
Reclassification from inventory (2)	-	-	-	1,313	-	1,313
Borrowing costs	-	-	-	-	3	3
Balance, March 31, 2020	\$ 2,158	\$ 289	\$ 1,255	\$ 3,781	\$ 6,383	\$ 13,866

Accumulated Depreciation

Balance, December 31, 2019	\$ 653	\$ 218	\$ 879	\$ 238	\$ -	\$ 1,988
Depreciation for the period	49	10	63	161	13	296
Reclassification to inventory (1)	-	-	-	(116)	-	(116)
Balance, March 31, 2020	\$ 702	\$ 228	\$ 942	\$ 283	\$ 13	\$ 2,168

Net book value

Balance, December 31, 2019	\$ 1,371	\$ 71	\$ 376	\$ 1,938	\$ -	\$ 3,756
Balance, March 31, 2020	\$ 1,456	\$ 61	\$ 313	\$ 3,498	\$ 6,370	\$ 11,698

- (1) During Q1 2020, two hydrovac trucks (2019 - nil) were reclassified from property and equipment to inventory and then subsequently sold and leased back from a third party.
- (2) During Q1 2020, 5 hydrovac equipment (2019 - nil) were reclassified from inventory to property and equipment.
- (3) During Q1 2020, the Company acquired a new manufacturing and production facility in Red Deer, Alberta. The land and building were recorded at discounted price with borrowing costs relating to the associated mortgage capitalized. \$500 was paid toward the purchase price at closing. \$6,000 was financed by way of a vendor take back mortgage.

11. Customer deposits

	March 31, 2019	December 31, 2019
Customer deposits	\$ 467	\$ 110

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

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2020

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

12. Lease liabilities

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

As at March 31, 2020, the Company had 6 hydrovac truck leases, 1 equipment lease and 2 computer equipment leases, repayable in monthly installments totalling of \$52 with final installments totalling \$129, bearing interest at rates between 2% and 9%.

	March 31, 2020	December 31, 2019
Finance leases obligation	\$ 1,835	\$ 894
Less: current portion of finance lease obligations	(507)	(329)
	\$ 1,328	\$ 565

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

2020	\$ 467
2021	611
2022	547
2023	354
2024	159
Total minimum lease payments	2,138
Amount representing interest	(303)
	1,835
Less current portion of finance lease	(507)
	\$ 1,328

As at March 31, 2020, the Company had \$447 lease liabilities relating to the Company's facilities in Stettler and Calgary, which consists \$314 current portion and \$163 non-current portion.

	March 31, 2020	December 31, 2019
Current	\$ 314	\$ 314
Non-current	163	243
	\$ 477	\$ 557

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2020

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

13. Mortgage payable

The mortgage payable relates to the Company's newly acquired manufacturing and production facility in Red Deer, Alberta. The Company paid an aggregate of \$500 toward the purchase price of \$6,500 ("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.

	March 31, 2020	December 31, 2019
Total mortgage Payable	\$ 6,000	\$ -
Less: Fair value adjustment (1)	(117)	-
	5,883	
Less: current portion of mortgage payable	(500)	-
	\$ 5,383	\$ -

(1) The mortgage payable was measured at fair value and classified into level 2 of hierarchy of fair value measurements at March 31, 2020. All other measurements are consistent with the year end statements.

14. Share capital

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

As at March 31, 2020 and December 31, 2019 there were 126,771,119 Common Shares outstanding. No shares were issued during the period.

No dividends were declared during the period. No options or warrants were granted or exercised during the period.

15. Capital disclosure and management

TGHL does not have any externally imposed restrictions on its capital. TGHL considers its net free cash to be its capital and manages the amounts based upon the projected needs of its geographic operating segments. TGHL monitors these amounts to ensure there is adequate cash to support the North American operations and the planned expansion in China. Should the projected requirements not be fulfilled, TGHL expects to raise additional cash through either the issuance of additional equity, acquisition of additional debt, or a combination thereof. As at March 31, 2020 TGHL had \$1,241 cash which is expected to meet the budgeted requirements for the next 12 months.

16. Related party transactions

In Q1 2020, the Company's wholly-owned subsidiary Tornado Hydrovac Asia Pacific Holdings Limited ("Tornado Asia") purchased hydrovac truck components of \$251 from Shanghai World Trade Resources Group Co. Ltd. ("ShanghaiCo") for the Company's North American Operations. During Q1 2020, Tornado Asia advanced \$490 to Shanghai Co for the purchase of upcoming components. As at March 31, 2020, Tornado Asia had a receivable of \$106 from ShanghaiCo.

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

Notes to the Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2020

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

As at March 31, 2019, the Company's China subsidiary was carrying an outstanding receivable in the amount of \$99 owing by Dynamic Attractions Ltd. (a related party to the Company), which was paid in full in April 2019.

17. Cash flow changes from financing activities

Details of changes in financing activities for the three months ended March 31, 2020 are as follows:

	January 1, 2020	Cash Flows	Non-cash changes		March 31, 2020
			Fair Value / Amortization	Change in Leases	
Lease liabilities	1,451	177	-	684	2,312
Share capital	20,903	-	-	-	20,903

18. Changes in non-cash working capital

	Three months ended March 31	
	2020	2019
Accounts receivable	\$ (1,427)	\$ 1,017
Inventory	1,413	(55)
Prepaid expenses and other assets	(380)	7
Accounts payable and accrued liabilities	(734)	231
Customer deposits	357	(127)
Current tax payable	(94)	101
Total change in non-cash working capital	\$ (865)	\$ 1,174

19. 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 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.

Bank and equipment financings

Subsequent to March 31, 2020, the Company executed a \$1,000 bank line of credit and also secured an equipment financing loan of \$950.