



Tornado Global Hydrovacs Ltd.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six month periods ended June 30, 2021

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 | June 30, 2021 | December 31, 2020 |
|---|--------|------------------|-------------------|
| (In \$000's CAD) | | | |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 1,843 | \$ 2,000 |
| Accounts receivable | | 3,038 | 2,944 |
| Inventory | 3 | 9,372 | 8,280 |
| Prepaid expenses and other assets | | 606 | 500 |
| Current tax receivable | | 37 | 295 |
| Total current assets | | 14,896 | 14,019 |
| Non-current assets | | | |
| Property and equipment, net | | 10,824 | 11,094 |
| Goodwill and intangible assets, net | | 2,220 | 2,513 |
| Total non-current assets | | 13,044 | 13,607 |
| Total assets | | \$ 27,940 | \$ 27,626 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | \$ 4,618 | \$ 4,016 |
| Customer deposits | | 129 | 46 |
| Current portion of lease liabilities | 9 | 694 | 726 |
| Term loan | | 531 | 647 |
| Mortgage payable | 10, 16 | 5,422 | 5,847 |
| Total current liabilities | | 11,394 | 11,282 |
| Non-current liabilities | | | |
| Deferred tax | | 420 | 426 |
| Lease liabilities | 9 | 680 | 1,089 |
| Total liabilities | | 12,494 | 12,797 |
| Shareholders' Equity | | | |
| Share capital | 11 | 20,903 | 20,903 |
| Common share purchase warrants | 11 | 144 | 144 |
| Contributed surplus | | 732 | 594 |
| Deficit | | (6,854) | (7,131) |
| Accumulated other comprehensive income | | 521 | 319 |
| Total shareholders' equity | | 15,446 | 14,829 |
| Total liabilities and equity | | \$ 27,940 | \$ 27,626 |

See Note 16 - Subsequent Event

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 | | Six Months ended | |
|--|-------|--------------------|----------------------------|------------------|----------------------------|
| | | June 30 2021 | June 30 2020 | June 30 2021 | June 30 2020 |
| (In \$000's CAD, except per share amounts) | | | | | |
| | | | (Restated) (See Note 2) | | (Restated) (See Note 2) |
| Revenues | | | | | |
| Revenue | 5 | \$ 7,058 | \$ 6,248 | \$ 15,024 | \$ 18,287 |
| Other gain (loss) - foreign exchange | | 13 | 157 | 25 | (44) |
| | | 7,071 | 6,405 | 15,049 | 18,243 |
| Cost of sales | 6 | 5,208 | 5,027 | 10,962 | 15,281 |
| Gross Profit | | 1,863 | 1,378 | 4,087 | 2,962 |
| Selling and general administrative expenses | 7 | 1,185 | 806 | 2,310 | 2,050 |
| Income before depreciation, amortization and other items | | 678 | 572 | 1,777 | 912 |
| Depreciation of property and equipment | | 301 | 299 | 601 | 562 |
| Amortization of intangible assets | | 149 | 144 | 298 | 285 |
| Loss on disposal of fixed assets | | 63 | — | 63 | — |
| | | 513 | 443 | 962 | 847 |
| Income before the undernoted | | 165 | 129 | 815 | 65 |
| Finance costs | | 34 | 43 | 73 | 72 |
| Stock based compensation | 12 | 94 | — | 138 | — |
| Accretion expense | 10 | 36 | — | 75 | — |
| Change in fair value of derivative financial instruments | | — | (87) | — | 1 |
| | | 164 | (44) | 286 | 73 |
| Income (loss) before tax | | 1 | 173 | 529 | (8) |
| Income tax recovery (expense) | | | | | |
| Current | | (83) | (40) | (258) | 54 |
| Deferred | | (2) | (5) | 6 | (27) |
| | | (85) | (45) | (252) | 27 |
| Net income (loss) | | (84) | 128 | 277 | 19 |
| Other comprehensive income (loss) | | | | | |
| Translation of foreign subsidiaries | | (5) | (48) | 202 | 456 |
| Comprehensive income (loss) | | \$ (89) | \$ 80 | \$ 479 | \$ 475 |
| Net income (loss) per share | | | | | |
| Basic | 4 | \$ (0.001) | \$ 0.001 | \$ 0.002 | \$ 0.000 |
| Diluted | 4 | \$ (0.001) | \$ 0.001 | \$ 0.002 | \$ 0.000 |

See accompanying notes to condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

| | Notes | Six Months ended | |
|--|-------|------------------|-----------------|
| | | June 30 2021 | June 30 2020 |
| (In \$000's CAD) | | | |
| OPERATING ACTIVITIES | | | |
| Net income | | \$ 277 | \$ 19 |
| <i>Add (deduct) items not affecting cash:</i> | | | |
| Depreciation of property and equipment | | 601 | 562 |
| Amortization of intangible assets | | 298 | 285 |
| Loss on disposal of fixed assets | | 63 | — |
| Deferred income taxes | | (6) | (27) |
| Accretion expense | 10 | 75 | — |
| Stock based compensation | | 138 | — |
| Cost of sales on trucks transferred from property and equipment | | — | 1,179 |
| Change in fair value of foreign currency forward contracts | | — | 1 |
| | | 1,446 | 2,019 |
| Change in non-cash working capital | 15 | (349) | 456 |
| Change in tax recoverable | | — | 34 |
| Cash flow from operating activities | | 1,097 | 2,509 |
| INVESTING ACTIVITIES | | | |
| Additions of property and equipment | | (423) | (1,705) |
| Additions of intangible assets | | — | (20) |
| Proceeds from disposal of fixed assets | | 37 | 6 |
| Cash flow used in investing activities | | (386) | (1,719) |
| FINANCING ACTIVITIES | | | |
| Net proceeds (repayment) of leases | 9 | (433) | 27 |
| Repayment of mortgage | 10 | (500) | — |
| Proceeds from (repayment) of term loan | | (116) | 761 |
| Cash flow (used in) from financing activities | | (1,049) | 788 |
| Effect of exchange rate changes on cash and cash equivalents | | 181 | (68) |
| Net increase (decrease) in cash and equivalents during the period | | (157) | 1,510 |
| Cash and cash equivalents, beginning of period | | 2,000 | 2,417 |
| Cash and cash equivalents, end of period | | \$ 1,843 | \$ 3,927 |

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

| As at June 30, 2021 | | | | | | | |
|---|------------------|--------------------------------------|------------------------|-------------------|---|------------------|--|
| | Common Shares | Common Share Purchase Warrants | Contributed Surplus | Deficit | Accumulated Other Comprehensive Income | Total Equity | |
| (In \$000's CAD) | | | | | | | |
| As at December 31, 2020 | \$ 20,903 | \$ 144 | \$ 594 | \$ (7,131) | \$ 319 | \$ 14,829 | |
| Income for the period | - | - | - | 277 | - | 277 | |
| Stock based compensation | - | - | 138 | - | - | 138 | |
| Other comprehensive income for the period | - | - | - | - | 202 | 202 | |
| As at June 30, 2021 | \$ 20,903 | \$ 144 | \$ 732 | \$ (6,854) | \$ 521 | \$ 15,446 | |

| As at June 30, 2020 | | | | | | | |
|---|------------------|--------------------------------------|------------------------|-------------------|--|------------------|--|
| | Common Shares | Common Share Purchase Warrants | Contributed Surplus | Deficit | Accumulated Other Comprehensive Income (Loss) | Total Equity | |
| (In \$000's CAD) | | | | | | | |
| As at December 31, 2019 | \$ 20,903 | \$ 144 | \$ 594 | \$ (6,464) | \$ (187) | \$ 14,990 | |
| Income for the period | - | - | - | 19 | - | 19 | |
| Other comprehensive income for the period | - | - | - | - | 456 | 456 | |
| As at June 30, 2020 | \$ 20,903 | \$ 144 | \$ 594 | \$ (6,445) | \$ 269 | \$ 15,465 | |

See accompanying notes to condensed consolidated financial statements

Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three and six months ended June 30, 2021

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

1. Corporate information

Tornado Global Hydrovac Ltd. ("TGHL" or the "Company") is incorporated in Alberta, Canada and through its subsidiaries, designs, fabricates, manufactures and sells hydrovac trucks to excavation service providers in the municipal and oil and gas 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 August 18, 2021.

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, 2020. TGHL's 2020 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.

Basis of presentation

These interim condensed consolidated financial statements are prepared for the three and six months ended June 30, 2021 and includes the results for the comparative period in 2020. 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 Hydrovac Ltd. and its direct and indirect wholly owned subsidiaries Tornado Global Hydrovac (North America) Inc. ("Tornado NA"), Tornado Hydrovac Asia Pacific Holdings Ltd. and Tornado Global Hydrovac (Shanghai) Ltd.

These interim condensed 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 (Shanghai) Ltd. and Tornado Hydrovac Asia Pacific Ltd. are Canadian dollars, Chinese Yuan ("RMB") and US dollars respectively.

During 2020, the Company reassessed the facts used in applying judgement in assessing whether it acts as principal or agent under its contracts with customers where it is responsible for sourcing a component of its hydrovac trucks. Based on this reassessment of facts, the Company has concluded that it acts as agent rather than principal for this component. The effect of this adjustment on the three and six months ended June 30, 2020 is a reduction to both revenue and cost of sales of \$1.2 million and \$2.8 million respectively. The 2020 comparative figures presented in these interim condensed consolidated financial statements have accordingly been restated; there was no effect on basic or diluted net income per share for the three and six months ended June 30, 2020. This adjustment did not have any effect on the Company's interim condensed consolidated statement of financial position or interim condensed consolidated statement of cash flows.

Certain other prior period amounts have been reclassified to conform with the current period presentation.

Use of estimates

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

Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three and six months ended June 30, 2021

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

as at June 30, 2021. There have been no changes to the Company's significant accounting estimates and judgments as of June 30, 2021.

3. Inventory

Inventory comprises:

| | June 30, 2021 | December 31, 2020 |
|-----------------|-----------------|-------------------|
| Work-in-process | \$ 3,317 | \$ 2,076 |
| Raw materials | 5,200 | 4,459 |
| Finished goods | 855 | 1,745 |
| | \$ 9,372 | \$ 8,280 |

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

4. Net income (loss) per share

| Basic: | | | Diluted: | | |
|----------------------------------|-----------------------------------|----------------------|----------------------------------|-----------------------------------|----------------------|
| Three Months ended June 30, 2021 | | | Three Months ended June 30, 2021 | | |
| Net loss | Weighted average number of shares | Net loss per share | Net loss | Weighted average number of shares | Net loss per share |
| (\$84) | 126,771,119 | (\$0.001) | (\$84) | 126,771,119 | (\$0.001) |
| Three Months ended June 30, 2020 | | | Three Months ended June 30, 2020 | | |
| Net income | Weighted average number of shares | Net income per share | Net income | Weighted average number of shares | Net income per share |
| \$128 | 126,771,119 | \$0.001 | \$128 | 128,295,133 | \$0.001 |
| Basic: | | | Diluted: | | |
| Six Months ended June 30, 2021 | | | Six Months ended June 30, 2021 | | |
| Net income | Weighted average number of shares | Net income per share | Net income | Weighted average number of shares | Net income per share |
| \$277 | 126,771,119 | \$0.002 | \$277 | 134,898,409 | \$0.002 |
| Six Months ended June 30, 2020 | | | Six Months ended June 30, 2020 | | |
| Net income | Weighted average number of shares | Net income per share | Net income | Weighted average number of shares | Net income per share |
| \$19 | 126,771,119 | \$0.000 | \$19 | 128,295,133 | \$0.000 |

Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three and six months ended June 30, 2021

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

The effects of dilution from 11,095,400 stock options (2020 - 7,445,400) and 3,100,000 warrants (2020 – 3,100,000) were excluded in the calculation of weighted average shares outstanding for diluted earnings per share for the three months ended June 30, 2021 as they are anti dilutive.

The effects of dilution from 11,095,400 stock options (2020 - 7,445,400) and 3,100,000 warrants (2020 – 3,100,000) were included in the calculation of weighted average shares outstanding for diluted earnings per share for the six months ended June 30, 2021 as they are dilutive.

5. Revenue

Revenue for the three and six month periods ended June 30 comprised the following:

| | Three Months ended June 30 | | Six Months ended June 30 | |
|--------------------|----------------------------|------------------------|--------------------------|------------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | | (Restated, see Note 2) | | (Restated, see Note 2) |
| Hydrovac sales | \$ 6,309 | \$ 5,718 | \$ 13,584 | \$ 17,233 |
| Parts and services | 599 | 454 | 1,176 | 877 |
| Rental | 150 | 76 | 264 | 177 |
| | \$ 7,058 | \$ 6,248 | \$ 15,024 | \$ 18,287 |

During the six months ended June 30, 2021, 24.2% (2020 - 40.6%) of truck sales were attributable to one customer.

The table below shows geographical sales:

| | Three Months ended June 30 | | Six Months ended June 30 | |
|---------------|----------------------------|------------------------|--------------------------|------------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | | (Restated, see Note 2) | | (Restated, see Note 2) |
| Canada | \$ 5,619 | \$ 3,995 | \$ 11,159 | \$ 9,072 |
| United States | 1,439 | 2,253 | 3,865 | 9,215 |
| | \$ 7,058 | \$ 6,248 | \$ 15,024 | \$ 18,287 |

6. Cost of sales

| | Three Months ended June 30 | | Six Months ended June 30 | |
|--------------------------------|----------------------------|------------------------|--------------------------|------------------------|
| | 2021 | 2020 | 2021 | 2020 |
| | | (Restated, see Note 2) | | (Restated, see Note 2) |
| Direct manufacturing costs | \$ 4,043 | \$ 3,861 | \$ 8,475 | \$ 11,882 |
| Indirect salaries and benefits | 437 | 299 | 808 | 795 |
| Indirect production costs | 728 | 867 | 1,679 | 2,604 |
| | \$ 5,208 | \$ 5,027 | \$ 10,962 | \$ 15,281 |

Cost of sales for the three and six months ended June 30, 2021 includes Canada Emergency Wage Subsidy ("CEWS") of \$273 (2020 – \$311) and \$456 (2020 – \$412) respectively.

Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three and six months ended June 30, 2021

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

7. Selling and general administrative expenses

| | Three Months ended June 30 | | Six Months ended June 30 | |
|---|----------------------------|--------|--------------------------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| Salaries and benefits | \$ 697 | \$ 349 | \$ 1,466 | \$ 1,298 |
| Selling, general and administrative expense | 488 | 457 | 844 | 752 |
| | \$ 1,185 | \$ 806 | \$ 2,310 | \$ 2,050 |

Selling and general administrative expenses for the three and six months ended June 30, 2021 includes CEWS of \$138 (2020 – \$211) and \$266 (2020 – \$265) and respectively.

8. Operating segments

TGHL has two operating segments; its North American manufacturing and sales operations and its China operations. It also has a Corporate segment which comprises expenses incurred at its head office in Calgary. The China operating segment is used principally to source certain parts to the North America segment.

The tables below show the North America, China and Corporate segments for the three and six months ended June 30, 2021 and 2020 respectively:

| Three months ended June 30, 2021 | North America | | China | Corporate | | Total |
|--|---------------|---------|----------|-----------|------|-----------|
| Revenue | \$ 7,071 | \$ - | \$ - | \$ - | \$ - | \$ 7,071 |
| Cost of sales | 5,208 | - | - | - | - | 5,208 |
| Selling and administrative expenses | 894 | 69 | 222 | - | - | 1,185 |
| | 969 | (69) | (222) | - | - | 678 |
| Depreciation and amortization expense | 260 | - | 190 | - | - | 450 |
| Loss on disposal of fixed assets | 63 | - | - | - | - | 63 |
| Income (loss) before other items of income | \$ 646 | \$ (69) | \$ (412) | \$ - | \$ - | \$ 165 |
| Total assets | \$ 18,491 | \$ 989 | \$ 8,460 | \$ - | \$ - | \$ 27,940 |
| Total liabilities | \$ 5,789 | \$ 485 | \$ 6,220 | \$ - | \$ - | \$ 12,494 |
| Capital Expenditures | \$ 413 | \$ - | \$ - | \$ - | \$ - | \$ 413 |

| Three months ended June 30, 2020 | North America | | China | Corporate | | Total |
|--|---------------|--------|----------|-----------|------|-----------|
| Revenue | \$ 6,405 | \$ - | \$ - | \$ - | \$ - | \$ 6,405 |
| Cost of sales | 5,027 | - | - | - | - | 5,027 |
| Selling and administrative expenses | 544 | 111 | 151 | - | - | 806 |
| | 834 | (111) | (151) | - | - | 572 |
| Depreciation and amortization expense | 257 | 1 | 185 | - | - | 443 |
| Income (loss) before other items of income | 577 | (112) | (336) | - | - | 129 |
| Total assets | \$ 17,489 | \$ 962 | \$ 9,373 | \$ - | \$ - | \$ 27,824 |
| Total liabilities | \$ 6,309 | \$ 2 | \$ 6,048 | \$ - | \$ - | \$ 12,359 |
| Capital Expenditures | \$ 116 | \$ - | \$ - | \$ - | \$ - | \$ 116 |

Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three and six months ended June 30, 2021

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

| Six months ended June 30, 2021 | North America | | China | | Corporate | | Total |
|------------------------------------|---------------|--------|-------|-------|-----------|-------|-----------|
| Revenue | \$ | 15,049 | \$ | - | \$ | - | \$ 15,049 |
| Cost of sales | | 10,962 | | - | | - | 10,962 |
| Selling and general administrative | | 1,716 | | 130 | | 464 | 2,310 |
| | | 2,371 | | (130) | | (464) | 1,777 |
| Depreciation and amortization | | 519 | | - | | 381 | 899 |
| Loss on disposal of fixed assets | | 63 | | - | | - | 63 |
| Income (loss) before other items | \$ | 1,789 | \$ | (130) | \$ | (845) | \$ 815 |
| Total assets | \$ | 18,491 | \$ | 989 | \$ | 8,460 | \$ 27,940 |
| Total liabilities | \$ | 5,789 | \$ | 485 | \$ | 6,220 | \$ 12,494 |
| Capital Expenditures | \$ | 423 | \$ | - | \$ | - | \$ 423 |

| Six months ended June 30, 2020 | North America | | China | | Corporate | | Total |
|------------------------------------|---------------|--------|-------|-------|-----------|-------|-----------|
| Revenue | \$ | 18,243 | \$ | - | \$ | - | \$ 18,243 |
| Cost of sales | | 15,281 | | - | | - | 15,281 |
| Selling and general administrative | | 1,544 | | 238 | | 268 | 2,050 |
| | | 1,418 | | (238) | | (268) | 912 |
| Depreciation and amortization | | 502 | | 4 | | 341 | 847 |
| Income (loss) before other items | \$ | 916 | \$ | (242) | \$ | (609) | \$ 65 |
| Total assets | \$ | 17,489 | \$ | 962 | \$ | 9,373 | \$ 27,824 |
| Total liabilities | \$ | 6,309 | \$ | 2 | \$ | 6,048 | \$ 12,359 |
| Capital Expenditures | \$ | 1,355 | \$ | - | \$ | 370 | \$ 1,725 |

9. Lease liabilities

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

As at June 30, 2021, the Company had 6 (December 31, 2020 – 6) hydrovac truck leases, 1 equipment lease (December 31, 2020 – 1) and 3 computer equipment leases (December 31, 2020 - 3), repayable in monthly installments totalling of \$54 (December 31, 2020 - \$54) with final installments totalling \$131 (December 31, 2020 - \$131), bearing interest at rates between 2% and 9%.

As at June 30, 2021, the Company had \$81 lease liabilities relating to the Company's facility leases in Calgary with no additional end of lease liabilities.

| | June 30, 2021 | | December 31, 2020 | |
|--|---------------|-------|-------------------|-------|
| Leases obligation | \$ | 1,374 | \$ | 1,815 |
| Less: current portion of leases obligation | | (694) | | (726) |
| | \$ | 680 | \$ | 1,089 |

Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three and six months ended June 30, 2021

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

Amounts due on leases in the next five years are as follows:

| | | |
|--------------------------------|----|-------|
| 2021 | \$ | 327 |
| 2022 | | 607 |
| 2023 | | 405 |
| 2024 | | 177 |
| 2025 | | - |
| Total minimum lease payments | | 1,516 |
| Amount representing interest | | (142) |
| | | 1,374 |
| Less current portion of leases | | (694) |
| | \$ | 680 |

10. Mortgage payable

The mortgage payable relates to the Company's manufacturing and production facility in Red Deer, Alberta (the "Red Deer Facility"). 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 payment due on February 1, 2021 and the balance of the principal due on July 1, 2021. The fair value of the mortgage payable was determined to be \$5,705 by discounting the principal payments at a market interest rate of 2.7%. (see also "Subsequent event")

| | | |
|------------------------|----|-------|
| As at January 1, 2021 | \$ | 5,847 |
| Less principal payment | | (500) |
| Add: accretion expense | | 75 |
| Mortgage payable | \$ | 5,422 |

11. Share capital

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

As at June 30, 2021 and December 31, 2020 there were 126,771,119 Common Shares outstanding. No shares were issued during 2021.

No dividends were declared during 2021.

As at June 30, 2021 and December 31, 2020 there were 3,100,000 Common Share Purchase Warrants outstanding. Each Warrant is exercisable at \$0.12 and expires on September 15, 2022. No warrants were exercised during 2021.

Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three and six months ended June 30, 2021

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

12. Stock Options

The following tables summarize Stock Option activity for the six months ended June 30, 2021:

| | Number of Options Outstanding | Weighted Average Exercise Price |
|----------------------------|-------------------------------|---------------------------------|
| Balance, December 31, 2020 | 7,445,400 | \$0.11 |
| Granted | 3,650,000 | \$0.27 |
| Balance, June 30, 2021 | 11,095,400 | \$0.13 |
| Exercisable, June 30, 2021 | 9,195,400 | \$0.14 |

| Option price | Options Outstanding | Weighted Average Remaining Contractual Life (years) |
|--------------|---------------------|---|
| \$0.11 | 7,445,400 | 1.4 |
| \$0.23 | 1,300,000 | 4.6 |
| \$0.27 | 650,000 | 4.4 |
| \$0.32 | 1,700,000 | 4.9 |

1,300,000 stock options were granted on February 5, 2021 at an option price of \$0.23 per share. 650,000 stock options were granted on May 21, 2021 at an option price of \$0.27. 1,700,000 stock options were granted on May 31, 2021 at an option price of \$0.32 per share. The stock option value per share for the options granted has been calculated using the Black Scholes pricing methodology based on expected volatility of 44% which is estimated by management based on an analysis and comparison with peer companies, a risk-free interest rate of 0.96% and an expected life of 60 months. The fair value of the three tranches of options as discussed above at the grant date was \$0.09, \$0.11 and \$0.13 respectively. 2,850,000 stock options vested one third at the grant date and will vest one third on each of the first and second anniversaries of the grant. 800,000 stock options fully vested on the date of grant, resulting in total option expense of \$94 and \$138 during three and six months ended June 30, 2021 (2020 - nil) respectively.

13. Capital disclosure and management

As of June 30, 2021, TGHL does not have any externally imposed restrictions on its capital. TGHL considers its cash and cash flows from operating activities 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 and China operations. Should the Company require additional external financing, TGHL expects to raise additional cash through either the issuance of additional equity, acquisition of additional debt, or a combination thereof. As at June 30, 2021 TGHL had \$1,843 cash which together with available unused line of credit and operating cash flow is expected to meet the budgeted requirements for the next 12 months.

14. Related party transactions

During three and six months ended June 30, 2021, the Company's wholly-owned subsidiary Tornado Hydrovac Asia Pacific Holdings Limited ("Tornado Asia") purchased hydrovac truck components of \$nil (2020 - \$251) and \$nil (2020 - \$251) respectively from Shanghai World Trade Resources Group Co. Ltd. ("ShanghaiCo") for the Company's North American Operations and during three and six months ended June 30, 2021 Tornado Asia advanced \$nil (2020 - \$nil) and \$nil (2020 - \$490) to ShanghaiCo for the purchase of upcoming components. During the three and six months ended June 30, 2021, Tornado Asia incurred a service fee of \$nil (2020 - \$13) and \$nil (2020 - \$13) respectively payable to ShanghaiCo that equals to 5% of the value of the components purchased by ShanghaiCo on its behalf. As at June 30, 2021, TGHL had a net receivable of \$168 (2020 - a net receivable of \$106) from ShanghaiCo.

Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three and six months ended June 30, 2021

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

A director of the Company and Tornado Asia is a director of ShanghaiCo.

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

15. Changes in non-cash working capital

| | Six Months ended June 30 | |
|--|--------------------------|---------|
| | 2021 | 2020 |
| Accounts receivable | \$ (94) | \$ 308 |
| Inventory | (1,092) | 4,257 |
| Prepaid expenses and other assets | (106) | (310) |
| Accounts payable and accrued liabilities | 602 | (3,788) |
| Customer deposits | 83 | 43 |
| Current tax receivable | 258 | (54) |
| Total change in non-cash working capital | \$ (349) | \$ 456 |

16. Subsequent event

On July 14, 2021, the Company entered into a \$3,000 revolving operating line of credit and a \$4,875 term loan (together the "Credit Facility"), which is subject to a debt service coverage ratio required to be maintained at all times. The Credit Facility is secured against the Company's Red Deer Facility and by a first-ranking security interest in all of the present and future undertakings, property and assets of the Company and its subsidiary, Tornado NA. A portion of the Credit Facility was used to repay the balance of the non-interest bearing vendor take-back mortgage secured against the Company's Red Deer Facility and the balance of the Credit Facility will be used for general working capital purposes.