



Tornado Global Hydrovacs Ltd.

# Unaudited Condensed Consolidated Interim Financial Statements

For the three month period ended March 31, 2022

## 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, 2022	December 31, 2021
(In \$000's CAD)			
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 790	\$ 834
Accounts receivable		4,413	2,977
Inventory	3	10,267	8,307
Prepaid expenses and other assets		850	959
Current tax receivable		—	178
<b>Total current assets</b>		<b>16,320</b>	<b>13,255</b>
<b>Non-current assets</b>			
Property and equipment, net	4	8,412	9,850
Goodwill and intangible assets, net		2,284	2,210
<b>Total non-current assets</b>		<b>10,696</b>	<b>12,060</b>
<b>Total assets</b>		<b>\$ 27,016</b>	<b>\$ 25,315</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Operating line	11	\$ 1,059	\$ -
Accounts payable and accrued liabilities		7,839	7,142
Customer deposits		166	116
Current portion of lease liabilities	10	130	573
Current portion of facility term loan	11	139	138
Current tax payable		208	—
<b>Total current liabilities</b>		<b>9,541</b>	<b>7,969</b>
<b>Non-current liabilities</b>			
Deferred tax		12	18
Lease liabilities	10	197	604
Facility term loan	11	4,563	4,594
<b>Total liabilities</b>		<b>14,313</b>	<b>13,185</b>
<b>Shareholders' Equity</b>			
Share capital	12	20,915	20,915
Common share purchase warrants	12	141	141
Contributed surplus		1,130	1,077
Deficit		(9,872)	(10,346)
Accumulated other comprehensive income		389	343
<b>Total shareholders' equity</b>		<b>12,703</b>	<b>12,130</b>
<b>Total liabilities and equity</b>		<b>\$ 27,016</b>	<b>\$ 25,315</b>

See accompanying notes to condensed consolidated financial statements

On behalf of the Board of Directors:

"Guy Nelson"  
Non-Executive Chairman and Chair of Audit Committee

"George Tai"  
Director

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

	Notes	Three Months ended	
		March 31 2022	March 31 2021
(In \$000's CAD, except per share amounts)			
<b>Revenues</b>			
Revenue	6	\$ 9,952	\$ 7,966
Other gain (loss) - foreign exchange		(13)	12
		9,939	7,978
Cost of sales	7	7,595	5,754
Gross Profit		2,344	2,224
Selling and general administrative expenses	8	1,398	1,125
Income before depreciation, amortization and other items		946	1,099
Depreciation of property and equipment	4	147	300
Amortization of intangible assets		160	149
(Gain) on disposal of fixed assets		(136)	—
		171	449
Income before the undernoted		775	650
Finance costs		45	39
Stock based compensation	13	53	44
Accretion expense		—	39
		98	122
<b>Income before tax</b>		677	528
Income tax recovery (expense)			
Current		(209)	(175)
Deferred		6	8
		(203)	(167)
<b>Net income</b>		474	361
Other comprehensive income			
Translation of foreign subsidiaries		46	207
<b>Comprehensive income</b>		\$ 520	\$ 568
<b>Net income per share</b>			
Basic	5	\$ 0.004	\$ 0.003
Diluted	5	\$ 0.004	\$ 0.003

See accompanying notes to condensed consolidated financial statements

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

	Notes	Three Months ended	
		March 31 2022	March 31 2021
(In \$000's CAD)			
<b>OPERATING ACTIVITIES</b>			
Net income		\$ 474	\$ 361
<i>Add (deduct) items not affecting cash:</i>			
Depreciation of property and equipment		147	300
Amortization of intangible assets		160	149
Deferred income taxes		(6)	(8)
Stock based compensation		53	44
Gain on disposal of fixed assets		(136)	—
Accretion expense		—	39
		<b>692</b>	<b>885</b>
Change in non-cash working capital	16	(2,154)	(21)
<b>Cash flow (used in) from operating activities</b>		<b>(1,462)</b>	<b>864</b>
<b>INVESTING ACTIVITIES</b>			
Additions of property and equipment	4	(28)	(10)
Additions of intangible assets		(234)	—
Proceeds from disposal of fixed assets		1,455	—
<b>Cash flow from (used in) investing activities</b>		<b>1,193</b>	<b>(10)</b>
<b>FINANCING ACTIVITIES</b>			
Net repayment of leases	10	(891)	(121)
Repayment of term loan		—	(58)
Repayment of vendor take-back mortgage		—	(500)
Draw on operating line	11	1,059	—
Repayment of facility term loan	11	(35)	—
<b>Cash flow (used in) from financing activities</b>		<b>133</b>	<b>(679)</b>
Effect of exchange rate changes on cash and cash equivalents		92	112
<b>Net increase (decrease) in cash and equivalents during the period</b>		<b>(44)</b>	<b>287</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>834</b>	<b>2,000</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 790</b>	<b>\$ 2,287</b>

See accompanying notes to condensed consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

	Common Share				Accumulated		
	Common Shares	Purchase Warrants	Contributed Surplus	Deficit	Other Comprehensive Income	Total Equity	
<b>(In \$000's CAD)</b>							
As at December 31, 2021	\$ 20,915	\$ 141	\$ 1,077	\$ (10,346)	\$ 343	\$ 12,130	
Income for the period	-	-	-	474	-	474	
Stock based compensation	-	-	53	-	-	53	
Other comprehensive income for the period	-	-	-	-	46	46	
As at March 31, 2022	\$ 20,915	\$ 141	\$ 1,130	\$ (9,872)	\$ 389	\$ 12,703	

	Common Share				Accumulated		
	Common Shares	Purchase Warrants	Contributed Surplus	Deficit	Other Comprehensive Income (Loss)	Total Equity	
<b>(In \$000's CAD)</b>							
As at December 31, 2020	\$ 20,903	\$ 144	\$ 594	\$ (7,131)	\$ 319	\$ 14,829	
Income for the period	-	-	-	361	-	361	
Stock based compensation	-	-	44	-	-	44	
Other comprehensive income for the period	-	-	-	-	207	207	
As at March 31, 2021	\$ 20,903	\$ 144	\$ 638	\$ (6,770)	\$ 526	\$ 15,441	

# Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three months ended March 31, 2022

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

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## 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 is incorporated under the Business Corporations Act (Alberta). TGHL's shares trade in Canada on the TSX Venture Exchange under the symbol "TGH" and in the United States on the OTCQX® Best Market under the symbol "TGHLF".

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 May 23, 2022.

## 2. Summary of significant accounting policies

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). 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, 2021. TGHL's 2021 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 months ended March 31, 2022 and include the results for the comparative periods in 2021. The interim condensed consolidated financial statements have been prepared on the historical cost basis. 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 NA"), Tornado Hydrovacs Asia Pacific Holdings Ltd. and Tornado Global Hydrovacs (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 Hydrovacs Asia Pacific Ltd. are Canadian dollars, Chinese Yuan ("RMB") and US dollars respectively.

Certain 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 as at March 31, 2022. There have been no changes to the Company's significant accounting estimates and judgments as of March 31, 2022.

## Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three months ended March 31, 2022

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

### 3. Inventory

Inventory comprises:

	March 31, 2022	December 31, 2021
Work-in-process	\$ 2,538	\$ 2,731
Raw materials	7,729	5,576
	<b>\$ 10,267</b>	<b>\$ 8,307</b>

### 4. Property and equipment

Cost	M&E	Office Space & Equip	Rental Equipment and Vehicles	Land, Building and Improvements	Total
Balance, December 31, 2021	\$ 2,351	\$ 1,378	\$ 2,212	\$ 6,940	\$ 12,881
<b>Additions</b>	<b>28</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28</b>
<b>Disposals (1)</b>	<b>-</b>	<b>-</b>	<b>(1,707)</b>	<b>-</b>	<b>(1,707)</b>
<b>Balance, March 31, 2022</b>	<b>\$ 2,379</b>	<b>\$ 1,378</b>	<b>\$ 505</b>	<b>\$ 6,940</b>	<b>\$ 11,202</b>

#### Accumulated Depreciation

Balance, December 31, 2021	\$ 869	\$ 1,182	\$ 672	\$ 307	\$ 3,030
<b>Depreciation for the period</b>	<b>59</b>	<b>22</b>	<b>14</b>	<b>52</b>	<b>147</b>
<b>Disposals (1)</b>	<b>-</b>	<b>-</b>	<b>(388)</b>	<b>-</b>	<b>(388)</b>
<b>Balance, March 31, 2022</b>	<b>\$ 928</b>	<b>\$ 1,204</b>	<b>\$ 298</b>	<b>\$ 359</b>	<b>\$ 2,789</b>

#### Net book value

Balance, December 31, 2021	\$ 1,482	\$ 196	\$ 1,540	\$ 6,633	\$ 9,850
<b>Balance, March 31, 2022</b>	<b>\$ 1,451</b>	<b>\$ 174</b>	<b>\$ 207</b>	<b>\$ 6,581</b>	<b>\$ 8,412</b>

(1) During the three months ended March 31, 2022, disposals of \$1,319 (2021 - \$nil) related to certain rental hydrovac trucks in North America were recorded, with net proceeds of \$1,455.

# Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three months ended March 31, 2022

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

## 5. Net income per share

Basic:			Diluted:		
Three Months ended March 31, 2022			Three Months ended March 31, 2022		
Net income	Weighted average number of shares	Net income per share	Net income	Weighted average number of shares	Net income per share
\$474	126,775,297	\$0.004	\$474	135,346,718	\$0.004
Three Months ended March 31, 2021			Three Months ended March 31, 2021		
Net income	Weighted average number of shares	Net income per share	Net income	Weighted average number of shares	Net income per share
\$361	126,771,119	\$0.003	\$361	132,797,311	\$0.003

The effects of dilution from 10,795,400 stock options (2021 – 8,745,400) and 3,075,000 warrants (2021 – 3,100,000) were included in the calculation of weighted average shares outstanding for diluted earnings per share for the three months ended March 31, 2022 as they are dilutive.

## 6. Revenue

Revenue for the three month periods ended March 31 comprised the following:

	Three Months ended March 31	
	2022	2021
Hydrovac sales	\$ 8,954	\$ 7,275
Parts and services	981	577
Rental	17	114
	<b>\$ 9,952</b>	<b>\$ 7,966</b>

During the three months ended March 31, 2022, 44.4% (2021 – 29.0%) of hydrovac sales were attributable to one customer.

The table below shows geographical sales:

	Three Months ended March 31	
	2022	2021
Canada	\$ 5,388	\$ 5,540
United States	4,564	2,426
	<b>\$ 9,952</b>	<b>\$ 7,966</b>



## Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three months ended March 31, 2022

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

### 7. Cost of sales

	Three Months ended March 31	
	2022	2021
Direct manufacturing costs	\$ 6,374	\$ 4,632
Indirect salaries and benefits	443	371
Indirect production costs	778	751
	\$ 7,595	\$ 5,754

Cost of sales for the three months ended March 31, 2022 includes Canada Emergency Wage Subsidy ("CEWS") of \$nil (2021 - \$183).

### 8. Selling and general administrative expenses

	Three Months ended March 31	
	2022	2021
Salaries and benefits	\$ 986	\$ 699
Selling, general and administrative expense	412	426
	\$ 1,398	\$ 1,125

Selling and general administrative expenses for the three months ended March 31, 2022 includes Canada Emergency CEWS of \$nil (2021 - \$127).

### 9. Operating segments

TGHL has one operating segment; its North American manufacturing and sales operations. It also has a Corporate segment which comprises expenses incurred at its head office in Calgary.

The tables below show the North America and Corporate segments for the three months ended March 31, 2022 and 2021 respectively:

## Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three months ended March 31, 2022

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

Three Months ended March 31, 2022	North America	Corporate	Total
Revenue	\$ 9,939	\$ -	\$ 9,939
Cost of sales	7,595	-	7,595
Selling and general administrative	1,181	217	1,398
	1,163	(217)	946
Depreciation and amortization	111	196	307
Loss on disposal of fixed assets	(136)	-	(136)
Income (loss) before other items	\$ 1,188	\$ (413)	\$ 775
<b>Total assets</b>	<b>\$ 18,904</b>	<b>\$ 8,112</b>	<b>\$ 27,016</b>
<b>Total liabilities</b>	<b>\$ 8,823</b>	<b>\$ 5,490</b>	<b>\$ 14,313</b>
<b>Capital expenditures</b>	<b>\$ 32</b>	<b>\$ 230</b>	<b>\$ 262</b>

Three Months ended March 31, 2021	North America	Corporate	Total
Revenue	\$ 7,978	\$ -	\$ 7,978
Cost of sales	5,754	-	5,754
Selling and general administrative	953	172	1,125
	1,271	(172)	1,099
Depreciation and amortization	259	190	449
Income (loss) before other items	\$ 1,012	\$ (362)	\$ 650
<b>Total assets</b>	<b>\$ 19,776</b>	<b>\$ 8,703</b>	<b>\$ 28,479</b>
<b>Total liabilities</b>	<b>\$ 6,703</b>	<b>\$ 6,335</b>	<b>\$ 13,038</b>
<b>Capital expenditures</b>	<b>\$ 10</b>	<b>\$ -</b>	<b>\$ 10</b>

### 10. Lease liabilities

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

As at March 31, 2022, the Company had 1 hydrovac truck lease (December 31, 2021 – 6), 1 equipment lease (December 31, 2021 – 1) and 5 computer equipment leases (December 31, 2021 - 5), repayable in monthly installments totalling \$18 (December 31, 2021 - \$58) with final installments totalling \$18 (December 31, 2021 - \$134), bearing interest at rates between 2% and 7%.

As at March 31, 2022, the Company had \$62 lease liabilities relating to the Company's facility leases in Calgary with no additional end of lease liabilities.

	March 31, 2022	December 31, 2021
Leases obligation	\$ 327	\$ 1,177
Less: current portion of leases obligation	(130)	(573)
	<b>\$ 197</b>	<b>\$ 604</b>

## Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three months ended March 31, 2022

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

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

2022	\$	159
2023		111
2024		66
2025		14
2026		-
Total minimum lease payments		350
Amount representing interest		(23)
		327
Less current portion of leases		(130)
	\$	197

### 11. Credit Facility

On July 14, 2021 the Company entered into a Credit Facility, which consists of an up to \$3,000 revolving operating line of credit ("Operating Line") and a \$4,875 term loan ("Term Loan") with a Canadian Schedule I chartered bank (the "Lender"). The Credit Facility is secured 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, and a first-ranking mortgage charge on the Red Deer Facility.

The Term Loan bears interest at a fixed rate of 2.83%, with advances repayable, together with interest, on a monthly basis until maturity in July 2026. The term loan was used to repay the balance of the non-interest bearing vendor take-back mortgage secured against the Company's Red Deer Facility.

Amount drawn at March 31, 2022	\$	4,784
Less unamortized transaction cost		(82)
		(139)
Less current portion of facility term loan		(139)
	\$	4,563

Pursuant to the terms of the Operating Loan, the Lender will advance up to \$3,000 based on the total of: (i) 90% of insured accounts receivable excluding statutory claims, customer deposits, accounts receivable aged greater than 90 days, and accounts receivable due from related parties, plus (ii)(A) 75% of other North American accounts receivable excluding statutory claims, customer deposits, accounts receivable aged greater than 90 days, and accounts receivable due from related parties; and (B) 50% of Canadian inventory excluding lienable supplier payables, priority claims, and work in process, up to maximum of \$1,500.

The Operating Line bears interest at a floating rate equal to the prime rate per annum established by the Lender, currently at 2.45%, plus 0.75%. The Operating Line is uncommitted, made available at the Lender's discretion, and is not automatically available upon satisfaction of the terms and conditions, conditions precedent, or financial tests set out in the Credit Facility. Repayments under the Operating Line will be made on demand. As of March 31, 2022, \$1,059 of the Operating Line was used.

Under the terms of the Credit Facility, the Company is required to comply with the following financial covenant:

# Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three months ended March 31, 2022

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

Debt Service Coverage ratio (DSC) at all times <sup>(1)</sup>	<b>Covenant Limit</b> not less than 120%	<b>March 31, 2022</b> 517%
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- (1) The DSC is calculated as follows: (EBITDA less: Unfinanced CAPEX) / (Scheduled Principal + Interest on all debt). EBITDA is defined as earnings before interest, taxes, depreciation, amortization, plus/minus extraordinary losses (gains), non-cash losses (gains), non-recurring losses (gains). Unfinanced Capex shall be calculated as total capital expenditures net of debt advanced in support of such expenditures, proceeds from the sale of fixed assets, net proceeds of equity issuances and undrawn portion of the credit facilities.

## 12. 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, 2022 and December 31, 2021 there were 126,796,119 Common Shares outstanding. No shares were issued during 2022.

No dividends were declared during 2022.

As at March 31, 2022 and December 31, 2021 there were 3,075,000 Common Share Purchase Warrants outstanding. Each Warrant is exercisable at \$0.12 and expires on September 15, 2022. No warrants were exercised during 2022.

## 13. Stock Options

The following table summarizes Stock Option as at March 31, 2022:

	Number of Options Outstanding	Weighted Average Exercise Price
Balance, March 31, 2022 and December 31, 2021	10,795,400	\$0.14
Exercisable, March 31, 2022	9,412,067	\$0.17

The table below outline the number of options, the weighted average remaining life (in years) and distinction between outstanding and exercisable at each exercise price for all options outstanding as at March 31, 2022:

Exercise Price (\$)	Options - Outstanding			Options - Exercisable	
	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (\$)	Number Exercisable	Weighted Average Exercise Price (\$)
\$0.11	7,145,400	0.6	\$0.11	7,145,400	\$0.11
\$0.23	1,300,000	3.6	\$0.23	916,667	\$0.23
\$0.27	650,000	2.2	\$0.27	650,000	\$0.27
\$0.32	1,700,000	4.2	\$0.32	700,000	\$0.32
	10,795,400	1.4	\$0.17	9,412,067	\$0.14

Total option expense of \$53 was recorded for the three months ended March 31, 2022 (2021 - \$44).

## 14. Capital disclosure and management

As of March 31, 2022, TGHL does not have any externally imposed restrictions on its capital other than as discussed above under "Credit Facility". TGHL considers its cash and cash flows from operating activities to be its capital and

# Notes to the Interim Condensed Consolidated Financial Statements

Unaudited three months ended March 31, 2022

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

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. 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 March 31, 2022 TGHL had \$790 cash which together with the available line of credit and operating cash flow is expected to meet the budgeted requirements for the next 12 months.

## 15. Related party transactions

During the three months ended March 31, 2022, \$19 (2021 - \$nil) of legal fees were incurred and paid to Dentons Canada LLP. Mr. George Tai, a director of the Company, is a Partner of Dentons Canada LLP.

This transaction was in the normal course of operations and was measured at the amount of consideration agreed to by the parties.

## 16. Changes in non-cash working capital

	Three Months ended March 31	
	2022	2021
Accounts receivable	\$ (1,436)	\$ (1,110)
Inventory	(1,960)	(21)
Prepaid expenses and other assets	109	(48)
Accounts payable and accrued liabilities	697	968
Customer deposits	50	16
Current tax receivable	178	174
Current tax payable	208	-
Total change in non-cash working capital	\$ (2,154)	\$ (21)