Tornado Global Hydrovacs Ltd.

Consolidated Financial Statements

December 31, 2022

Audited

2022

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 statement of financial position as at December 31, 2022, the consolidated statement of comprehensive income (loss), consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year 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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 audit 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Assessing the accounting for complex revenue contracts	
As described in Note 12 to the consolidated financial statements, during the year the Company entered into a Product Supply and Development Agreement for the co-development and supply of customized hydrovac trucks, which includes a commitment for delivery of a number of proprietary hydrovac trucks over the contractual term. Revenue recognized relating to this contract requires management to use significant judgment and estimation in identifying all the performance obligations in the contract and allocating the transaction price to the separate performance obligations. Significant differences in the allocation of consideration to the separate performance obligations could have a material effect on the amount of revenue recognized in a period. Auditing the Company's allocation of consideration to each performance obligation was complex due to the subjective nature of estimating the standalone selling price for each performance obligation and the significant effect changes in those allocations would have on revenue recognized during the year.	To test the identification of performance obligations and allocation of consideration thereto, our audit procedures included the following, among others: • We reviewed the executed contractual arrangements, including pricing and billing terms, change orders and conditions to assess the Company's identification of performance obligations and related revenue recognition. • We assessed the allocation of consideration to each performance obligation in the contract by evaluating the observable standalone selling price through comparison to historical margins recognized on sales for similar units sold during the year. • We evaluated the Company's significant accounting policies and related disclosures in the consolidated financial statements to assess appropriateness and conformity with IFRS.

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 audit 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 audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 IFRS, 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ross Haffie.

Ernst + Young LLP

Chartered Professional Accountants

Calgary, Canada
April 19, 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In $000's CAD)	Notes	December 31, 2022	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		$ 3,419	$ 834
Accounts receivable	4	7,416	2,977
Inventory	5	18,535	8,307
Prepaid expenses and other assets		1,102	959
Current tax receivable		—	178
Total current assets		30,472	13,255
Non-current assets			
Property and equipment, net	6	8,217	9,850
Goodwill and intangible assets, net	7	1,751	2,210
Deferred tax asset	15	65	—
Total non-current assets		10,033	12,060
Total assets		$ 40,505	$ 25,315
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Operating line	9	$ 5,217	$ -
Accounts payable and accrued liabilities		14,422	7,142
Customer deposits		10	116
Current portion of lease liabilities	8	117	573
Current portion of facility term loan	9	142	138
Total current liabilities		19,908	7,969
Non-current liabilities			
Deferred tax	15	—	18
Lease liabilities	8	90	604
Facility term loan	9	4,471	4,594
Total liabilities		24,469	13,185
Shareholders' Equity			
Share capital	10	25,625	20,915
Common share purchase warrants	10	—	141
Contributed (deficit) surplus		(1,998)	1,077
Deficit		(7,891)	(10,346)
Accumulated other comprehensive income		300	343
Total shareholders' equity		16,036	12,130
Total liabilities and equity		$ 40,505	$ 25,315

See accompanying notes to consolidated financial statements

On behalf of the Board of Directors:

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

"George Tai"
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Notes	Year ended December 31 2022	December 31 2021
(In $000's CAD, except per share amounts)			
Revenues			
Revenue	**12**	**$ 59,516**	$ 32,876
Other gain (loss) - foreign exchange		**(231)**	22
		59,285	32,898
Cost of sales	**13**	**48,395**	26,902
Gross Profit		**10,890**	5,996
Selling and general administrative expenses	**14**	**6,422**	6,056
Income (loss) before depreciation, amortization and other items		**4,468**	(60)
Depreciation of property and equipment	**6**	**654**	970
Amortization of intangible assets	**7**	**659**	605
Impairment write-down		**—**	953
Loss (gain) on disposal of fixed assets	**6**	**(219)**	77
		1,094	2,605
Income (loss) before the undernoted		**3,374**	(2,665)
Finance costs		**468**	210
Stock based compensation	**10**	**464**	489
Accretion expense		**—**	153
		932	852
Income (loss) before tax		**2,442**	(3,517)
Income tax (expense) recovery			
Current	**15**	**(70)**	(106)
Deferred	**15**	**83**	408
		13	302
Net income (loss)		**2,455**	(3,215)
Other comprehensive income			
Translation of foreign subsidiaries		**(43)**	24
Comprehensive income (loss)		**$ 2,412**	$ (3,191)
Net income (loss) per share			
Basic	**11**	**$ 0.019**	$ (0.025)
Diluted	**11**	**$ 0.019**	$ (0.025)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended December 31 2022	December 31 2021
(In $000's CAD)			
OPERATING ACTIVITIES			
Net income (loss)		$ **2,455**	$ (3,215)
Add (deduct) items not affecting cash:			
Depreciation of property and equipment		**654**	970
Amortization of intangible assets		**659**	605
Impairment write-down		**—**	953
Deferred income taxes		**(83)**	(408)
Stock based compensation	**10**	**464**	489
Loss (gain) on disposal of fixed assets	**6**	**(219)**	77
Accretion expense		**—**	153
		3,930	(376)
Change in non-cash working capital	**22**	**(7,458)**	2,794
Cash flow (used in) from operating activities		**(3,528)**	2,418
INVESTING ACTIVITIES			
Additions of property and equipment	**6**	**(517)**	(1,118)
Additions of intangible assets	**7**	**(201)**	(485)
Proceeds from disposal of fixed assets		**1,715**	542
Cash flow from (used in) investing activities		**997**	(1,061)
FINANCING ACTIVITIES			
Net repayment of leases	**8**	**(1,060)**	(734)
Draw on operating line	**9**	**5,217**	—
Proceeds from options and warrants exercise		**1,030**	3
Net proceeds (Repayment) of facility term loan	**9**	**(138)**	4,724
Repayment of term loan		**—**	(647)
Repayment of vendor take-back mortgage		**—**	(6,000)
Cash flow from (used in) financing activities		**5,049**	(2,654)
Effect of exchange rate changes on cash and cash equivalents		**67**	131
Net increase (decrease) in cash and equivalents during the year		**2,585**	(1,166)
Cash and cash equivalents, beginning of year		**834**	2,000
Cash and cash equivalents, end of year		$ **3,419**	$ 834

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Shares	Common Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Equity
(In $000's CAD)						
As at December 31, 2021	**$ 20,915**	**$ 141**	**$ 1,077**	**$ (10,346)**	**$ 343**	**$ 12,130**
Income for the year	**-**	**-**	**-**	**2,455**	**-**	**2,455**
Stock based compensation	**-**	**-**	**464**	**-**	**-**	**464**
Options and warrants exercised during the year	**4,710**	**(141)**	**(3,539)**	**-**	**-**	**1,030**
Other comprehensive loss for the year	**-**	**-**	**-**	**-**	**(43)**	**(43)**
As at December 31, 2022	**$ 25,625**	**$ -**	**$ (1,998)**	**$ (7,891)**	**$ 300**	**$ 16,036**

	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
Loss for the year	-	-	-	(3,215)	-	(3,215)
Stock based compensation	-	-	489	-	-	489
Warrants exercised during the year	12	(3)	(6)	-	-	3
Other comprehensive income for the year	-	-	-	-	24	24
As at December 31, 2021	$ 20,915	$ 141	$ 1,077	$ (10,346)	$ 343	$ 12,130

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".

2. Summary of significant accounting policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared using the same accounting policies and methods as the consolidated financial statements for the year ended December 31, 2021.

The consolidated financial statements were authorized for issue by the Board of Directors on April 19, 2023.

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 (Shanghai) 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, 2022 and include the results for the comparative year ended December 31, 2021. The consolidated financial statements have been prepared on the historical cost basis. 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.

Government subsidies

The Company recognizes government subsidies on an accrual basis when there is a reasonable assurance that it will comply with the conditions required to qualify for the subsidy and that the collection of the subsidy is also reasonably assured. Government subsidies are recognized on the consolidated statement of comprehensive loss over the periods in which the expenses that the subsidy is intended to offset are recognized.

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.

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 sales of goods and intellectual property are 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.

No revenue is recorded when the Company acts as agent under its contracts with customers where it is responsible for sourcing certain components of its hydrovac trucks. The Company does not charge a fee for sourcing the hydrovac truck components therefore there is no revenue to recognize on a net basis.

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 substantively enacted by the end of the reporting period.

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

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.

Cash and cash equivalents

All liquid temporary investments with a term to 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. 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
Building	25 years
Building improvements	15 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 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 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.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers 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.

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.

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 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 income (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.

For the purposes of the Company's goodwill impairment testing, the recoverable amount of a cash generating unit calculated in a preceding year may be used in the current year if certain conditions are met. These conditions include: that the assets and liabilities of the CGU to which goodwill has been allocated have not changed significantly since the recoverable amount was previously calculated; the most recent recoverable amount calculation exceeded the CGU's carrying amount by a substantial margin; and based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount was calculated, the likelihood that a current recoverable amount calculation would be less than the current carrying amount of the CGU is remote. The recoverable amount calculated in 2020 was used for the Company's North America CGU for purposes of the 2022 goodwill impairment assessment.

Impairment of non-financial 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 process 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.

Amortized Cost

The Company classifies its cash and equivalents, accounts receivable, accounts payable, term loans, mortgage payable 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.

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.

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets carried at amortized cost. 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. 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 17 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.

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.

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 over the vesting period and is measured as at the option grant date using a Black-Scholes method.

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, common share purchase 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 or 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.

Impairment of non-financial assets

TGHL periodically assesses the recoverability of values assigned to long-lived assets (goodwill, intangible assets, and property and 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. 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 determines the recoverable amount of its CGUs 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.

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.

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.

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

Share-based compensation

Employees of the Company may receive remuneration in the form of stock options. Awards granted under the Company's stock option plan are recognized at fair value using the Black Scholes model for option valuation. Certain inputs to the Black Scholes model require management to make estimates, including expected future volatility, years to exercise and forfeitures.

4. Accounts receivable

	As at December 31	
	2022	2021
Trade	**$ 7,375**	$ 2,972
Taxes receivable	**93**	44
Loss allowance	**(52)**	(39)
	$ 7,416	$ 2,977

Taxes receivable as at December 31, 2022, comprise Canada GST receivable $93 (2021 - $44).

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

	As at December 31	
	2022	2021
≤ 30 days	**$ 7,076**	$ 2,491
> 30 day	**64**	141
> 60 days	**30**	104
> 90 days	**205**	236
	$ 7,375	$ 2,972

5. Inventory

	As at December 31	
	2022	2021
Work-in-process	**$ 3,592**	$ 2,731
Raw materials	**14,943**	5,576
	$ 18,535	$ 8,307

There were $584 inventory adjustments recorded during the year (2021 - $795) included in the cost of sales. A provision of $58 (2021 - $208) is included in the cost of sales for slow moving inventory.

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

6. Property and equipment

Cost		M&E		Office Space & Equip (1)		Leaseholds		Rental Equipment and Vehicles (1)		Land, Building and Improvements		Total
Balance, December 31, 2020	$	2,310	$	1,285	$	1,255	$	3,386	$	6,277	$	14,513
Additions		362		93		-		-		663		1,118
Disposals		(321)		-		(1,255)		(1,174)		-		(2,750)
Balance, December 31, 2021		2,351		1,378		-		2,212		6,940		12,881
Additions		**281**		**133**		**-**		**103**				**517**
Disposals (2)		**(19)**		**-**		**-**		**(2,003)**		**-**		**(2,022)**
Balance, December 31, 2022	**$**	**2,613**	**$**	**1,511**	**$**	**-**	**$**	**312**	**$**	**6,940**	**$**	**11,376**

Accumulated Depreciation		M&E		Office Space & Equip (1)		Leaseholds		Rental Equipment and Vehicles (1)		Land, Building and Improvements		Total
Balance, December 31, 2020	$	855	$	923	$	1,131	$	377	$	133	$	3,419
Depreciation for the year		196		259		124		218		174		971
Disposals		(182)		-		(1,255)		(694)		-		(2,131)
Impairment		-		-		-		771		-		771
Balance, December 31, 2021		869		1,182		-		672		307		3,030
Depreciation for the year		**272**		**126**		**-**		**47**		**209**		**654**
Disposals (2)		**(12)**		**-**		**-**		**(514)**		**-**		**(526)**
Balance, December 31, 2022	**$**	**1,129**	**$**	**1,308**	**$**	**-**	**$**	**205**	**$**	**516**	**$**	**3,158**

Net book value		M&E		Office Space & Equip (1)		Leaseholds		Rental Equipment and Vehicles (1)		Land, Building and Improvements		Total
Balance, December 31, 2021	$	1,482	$	196	$	-	$	1,540	$	6,633	$	9,850
Balance, December 31, 2022	**$**	**1,484**	**$**	**203**	**$**	**-**	**$**	**107**	**$**	**6,424**	**$**	**8,217**

(1) The carrying amount of leased assets included in Office Space and rental equipment and vehicles at December 31, 2022 was $33 (2021 - $1,641).

(2) During the year ended December 31, 2022, disposals of $7 (2021 - $139) related to the Company's manufacturing M&E and $1,489 (2021 - $480) related to certain hydrovac equipment and trucks in North America were recognized. Proceeds of $15 and $1,700 were received upon disposals respectively.

Rental Equipment and Vehicles as at December 31, 2022, comprise nil (2021 – 6) hydrovac trucks rented to customers under leases with a net book value of $0 (2021 - $1,504) in North America and other operating vehicles with a net book value of 107 (2021 - $36) in North America.

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

7. Goodwill and intangible assets

Cost		Goodwill		Patents		Development		Computer Software		Total
Balance, December 31, 2020	$	833	$	3,529	$	227	$	336	$	4,925
Additions		-		-		379		106		485
Impairment		-		-		(243)		-		(243)
Balance, December 31, 2021		833		3,529		363		442		5,167
Additions		**-**		**-**		**-**		**201**		**201**
Balance, December 31, 2022	**$**	**833**	**$**	**3,529**	**$**	**363**	**$**	**643**	**$**	**5,368**

Accumulated Amortization		Goodwill		Patents		Development		Computer Software		Total
Balance, December 31, 2020	$	-	$	2,230	$	72	$	110	$	2,412
Amortization for the year		-		493		44		68		605
Impairment		-		-		(61)		-		(61)
Balance, December 31, 2021		-		2,723		55		178		2,956
Amortization for the year		**-**		**494**		**58**		**107**		**659**
Balance, December 31, 2022	**$**	**-**	**$**	**3,217**	**$**	**113**	**$**	**285**	**$**	**3,615**

Net book value		Goodwill		Patents		Development		Computer Software		Total
Balance, December 31, 2021	$	833	$	806	$	308	$	264	$	2,210
Balance, December 31, 2022	**$**	**833**	**$**	**312**	**$**	**250**	**$**	**358**	**$**	**1,751**

Annual goodwill impairment

The Company's goodwill is allocated to the North America CGU which comprises the Company's North American operations. As at December 31, 2022 and December 31, 2021, there was no goodwill impairment.

Recoverable amount

The Company completed its annual impairment test for goodwill as at December 31, 2022. The recoverable amount was based on the fair value less costs of disposal, an income-based approach whereby a present value technique is employed that takes into account estimated future cash flows based on assumptions that would be common to any market participant. This approach requires management to make estimates and assumptions with respect to forecasted revenues, costs, capital expenditures and required levels of working capital, as well as the applicable discount rate (level 3 within the fair value hierarchy).

The Company's assumptions regarding cash flows are based on past experience, actual operating results and the business plan approved by the Company's Board of Directors for a one-year period. Sales and margins in the business plan were based on discussions with customers, past experience and trends, as well as planned initiatives. The discount rate is estimated based on the weighted-average cost of capital for comparable companies operating in similar industries, adjusted for company-specific risk factors. It is an estimate of the overall required rate of return by a market participant for the North America cash generating unit.

Future cash flows are based on management's projections for a six-year period with a perpetual growth rate applied thereafter.

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

Key assumptions used in fair value less costs of disposal calculations

The calculations of fair value less costs of disposal for the North America cash generating unit is most sensitive to changes in the discount rate and perpetual growth rate assumptions.

A discount rate 11.5% and a terminal growth rate 2.0% were applied in the fair value less costs of disposal calculation. We do not believe there are any reasonably possible changes in the discount rate or perpetual growth rate that would cause the recoverable amount of the North America CGU to be impaired.

8. Lease liabilities

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

As at December 31, 2022, the Company had nil (2021 – 6) hydrovac truck leases, nil equipment lease (2021 – 1) and 7 computer equipment leases (2021 - 5), repayable in monthly installments totalling $10 (2021 - $58) with final installments totalling $10 (2021 - $134), bearing interest at rates between 3% and 8%.

As at December 31, 2022, the Company had $46 lease liabilities relating to the Company's office lease in Calgary with no additional end of lease liabilities.

	As at December 31	
	2022	2021
Leases obligation	**$ 207**	$ 1,177
Less: current portion of leases obligation	**(117)**	(573)
	$ 90	$ 604

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

2023	**$ 131**
2024	**74**
2025	**12**
2026	**-**
2027	**-**
Total minimum lease payments	**217**
Amount representing interest	**(10)**
	207
Less current portion of leases	**(117)**
	$ 90

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

	Year ended December 31	
	2022	**2021**
Interest expense on lease liabilities	**$ 25**	$ 107

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

9. Credit Facility

On July 14, 2021 the Company entered into a Credit Facility, subsequently amended on September 15, 2022, which consists of an up to $6,000 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 December 31, 2022	$	**4,681**
Less unamortized transaction cost		**(68)**
Less current portion of facility term loan		**(142)**
	$	**4,471**

Pursuant to the terms of the Operating Loan, the Lender will advance up to $6,000 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 $3,000.

The Operating Line bears interest at a floating rate equal to the prime rate per annum established by the Lender, currently at 6.85%, 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 December 31, 2022, $5,217 of the Operating Line was used.

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

	Covenant Limit	**December 31, 2022**
Debt Service Coverage ratio (DSC) at all times (1)	not less than 120%	587%

(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.

10. Shareholders' 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.

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

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

	Shares		Amount
Outstanding common shares, December 31, 2020	126,771,119	$	20,903
Exercise of warrants	25,000		12
Outstanding common shares, December 31, 2021	126,796,119		20,915
Exercise of warrants	3,075,000		1,621
Exercise of stock options	6,000,000		3,089
Outstanding common shares, December 31, 2022	**135,871,119**	**$**	**25,625**

3,075,000 shares were issued pursuant to the exercise of warrants during the year ended December 31, 2022. (2021 – 25,000). 6,000,000 shares were issued pursuant to the exercise of stock options during the year ended December 31, 2022. (2021 – nil).

No dividends were declared during the years ended December 31, 2022 and December 31, 2021.

Common Share Purchase Warrants

The following table indicates issuances and exercises of Warrants over the past 2 years:

	Warrants		Amount
Outstanding warrants, December 31, 2020	3,100,000	$	144
Exercise of warrants	(25,000)		(3)
Outstanding common shares, December 31, 2021	3,075,000		141
Exercise of warrants	(3,075,000)		(141)
Outstanding warrants, December 31, 2022	-	$	-

Stock Options

The Company maintains a stock option plan for the benefit of officers, directors, key employees and consultants of the Company. At December 31, 2022 the Company was permitted to issue up to a maximum of 13,587,112 stock options, being 10% of the outstanding common shares.

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

The following tables summarize Stock Option activity to December 31, 2022:

	Number of Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2020	7,445,400	$0.11
Granted	3,650,000	$0.27
Forfeited	(300,000)	$0.11
Balance, December 31, 2021	10,795,400	$0.14
Granted	2,325,000	$0.51
Forfeited	(1,345,400)	$0.15
Exercised	(6,000,000)	$0.11
Balance, December 31, 2022	5,775,000	$0.37
Exercisable, December 31, 2022	3,175,000	$0.32

The tables 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 December 31, 2022:

	Options - Outstanding			Options - Exercisable	
Exercise Price ($)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price ($)	Number Exercisable	Weighted Average Exercise Price ($)
$0.23	1,300,000	2.9	$0.23	916,667	$0.23
$0.27	650,000	1.4	$0.27	650,000	$0.27
$0.32	1,500,000	3.4	$0.32	1,000,000	$0.32
$0.51	2,325,000	3.9	$0.32	608,333	$0.51
	5,775,000	3.3	$0.37	3,175,000	$0.32

The stock option value per share for the options granted has been calculated using the Black Scholes pricing methodology based on expected volatility of 77% which is estimated by management based on an analysis of historical stock prices as well as overall market and industry conditions; risk-free interest rates between 0.3% and 3.2% and an expected life between 36 months and 60 months. The fair value of the four tranches of options as discussed above at the grant date was $0.23, $0.27, $0.32 and $0.51 respectively. 4,475,000 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. 500,000 stock options vested one forth at the grant date and will vest one forth on the dates that are three, six and nine months from the grant date. All these options resulted in total option expense of $464 during the year ended December 31, 2021 (2021 – $489).

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

11. Income (loss) per share

Basic:			Diluted:		
Year ended December 31, 2022			Year ended December 31, 2022		
Net income	Weighted average number of shares	Net income per share	Net income	Weighted average number of shares	Net income per share
$2,455	**130,231,040**	**$0.019**	**$2,455**	**131,011,967**	**$0.019**
Year ended December 31, 2021			Year ended December 31, 2021		
Net loss	Weighted average number of shares	Net loss per share	Net loss	Weighted average number of shares	Net loss per share
($3,215)	126,775,297	($0.025)	($3,215)	126,775,297	($0.025)

The effects of dilution from 5,775,000 (2021 – 10,795,400) stock options were included in the calculation of weighted average shares outstanding for diluted income per share for the year ended December 31, 2022 as they are dilutive.

12. Revenue

Revenue for the years ended December 31 comprised the following:

	Year ended December 31	
	2022	2021
Hydrovac sales	**$ 50,551**	$ 29,719
Parts and services	**4,996**	2,647
Rental	**54**	510
Intellectual property	**3,915**	-
	$ 59,516	$ 32,876

During 2022, 33.0% (2021 – 34.0%) of hydrovac sales were attributable to one customer and 10.3% (2021 -21.0%) of hydrovac sales were attributed to another customer. During 2022, the Company entered into a Product Supply and Development Agreement for the co-development and supply of customized hydrovac trucks (the "Supply Contract"). Under the terms of the Supply Contract the Company received a $3,915 payment with respect to the transfer of certain intellectual property rights ("IP") relating to the proprietary hydrovac trucks.

The table below shows the geographical sales:

	Year ended December 31	
	2022	2021
Canada	**$ 31,435**	$ 21,296
United States	**28,081**	11,580
	$ 59,516	$ 32,876

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

13. Cost of sales

	Year ended December 31			
		2022		**2021**
Direct manufacturing costs	$	**38,416**	$	22,021
Indirect salaries and benefits		**2,307**		1,590
Indirect production costs		**5,715**		3,291
Intellectual property		**1,957**		-
	$	**48,395**	$	26,902

Cost of sales for the year ended December 31, 2022 includes Canada Emergency Wage Subsidy ("CEWS") of $nil (2021 – $427). Cost of sales for the year ended December 31, 2022 includes IP of $1,957 (2021 – $nil).

14. Selling and general administrative expenses

	Year ended December 31			
		2022		2021
Salaries and benefits	$	**4,160**	$	3,982
Selling, general and administrative expense		**2,262**		2,074
	$	**6,422**	$	6,056

Selling and general administrative expenses for the year ended December 31, 2022 includes CEWS of $nil (2021 – $213).

15. Income tax expense

The components of tax expense (recovery) are as follows:

	Year ended December 31			
		2022		2021
Current income tax expense	$	**70**	$	106
Deferred income tax expense (recovery)		**(83)**		(408)
	$	**(13)**	$	(302)

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	
	2022	2021
Loss before income tax	**$ 2,442**	$ (3,517)
Combined federal and provincial statutory income tax rate	**23.0%**	23.0%
Expected tax recovery using combined federal and provincial statutory income tax rate	**562**	(809)
Effect on income tax resulting from:		
Stock based compensation	**107**	113
Non deductible expenses	**5**	3
Unrecognized tax benefit	**(753)**	262
Other	**66**	129
Income tax expense	**$ (13)**	$ (302)

The Company recorded deferred income tax assets in relation to its estimated total income tax pools due to reasonable certainty related to the realization of such assets. As at December 31, 2022, $65 (2021 - $nil) of deferred income tax assets were recognized in the statements of financial position for the following deductible temporary differences:

	As at December 31	
	2022	2021
Domestic Operations		
Non-capital losses	**$ -**	$ 479
Share issue costs	**-**	5
Intangible assets	**394**	562
	394	1,046
Foreign Operations		
Non-capital losses	**1,419**	1,487
Property and equipment	**2**	1
	1,421	1,488
Deductible temporary differences and unused tax losses for which no deferred tax asset has been recognized	**(1,815)**	(2,534)
Total	**$ -**	$ -

As at December 31, 2022, in Canada the Company has unused non-capital tax losses of approximately $1,007 (2021 - $3,798) which expire from 2041 to 2042, and deductible temporary differences of $1,069 (2021 – $750). As at December 31, 2022, in China the Company has unused non-capital tax losses of approximately $5,675 (2021 - $5,947) which expire from 2023 to 2026 and taxable temporary differences of $62 (2021 - $64).

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

	As at December 31	
	2022	2021
Property and equipment and right-of-use assets	**$ (422)**	$ (404)
Loss carry-forwards	**232**	394
Intangible assets and other	**256**	(8)
	$ 65	$ (18)

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

16. 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 years ended December 31, 2022 and 2021 respectively:

Year ended December 31, 2022	**North America**	**Corporate**	**Total**
Revenue	**$ 59,285**	**$ -**	**$ 59,285**
Cost of sales	**48,395**	**-**	**48,395**
Selling and general administrative	**5,101**	**1,321**	**6,422**
	5,789	**(1,321)**	**4,468**
Depreciation and amortization	**528**	**785**	**1,313**
Loss on disposal of fixed assets	**(219)**	**-**	**(219)**
Segment income (loss)	**$ 5,480**	**$ (2,106)**	**$ 3,374**
Total assets	**$ 33,076**	**$ 7,429**	**$ 40,505**
Total liabilities	**$ 19,644**	**$ 4,825**	**$ 24,469**
Capital expenditures	**$ 718**	**$ -**	**$ 718**

Year ended ended December 31, 2021	North America	Corporate	Total
Revenue	$ 32,898	$ -	$ 32,898
Cost of sales	26,902	-	26,902
Selling and general administrative	5,005	1,051	6,056
	991	(1,051)	(60)
Depreciation and amortization	808	767	1,575
Impairment write-down	771	182	953
Loss on disposal of fixed assets	77	-	77
Segment income (loss)	$ (665)	$ (2,000)	$ (2,665)
Total assets	$ 17,125	$ 8,190	$ 25,315
Total liabilities	$ 8,284	$ 4,901	$ 13,185
Capital expenditures	$ 1,218	$ 385	$ 1,603

17. Risk management

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:

Liquidity risk

Liquidity risk is the risk that TGHL cannot meet its financial obligations as they come due. 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 expected to be adequate to meet the Company's foreseeable financial obligations associated with financial liabilities.

The following table summarizes the TGHL's financial liabilities with corresponding maturity dates as at December 31, 2022:

As at December 31, 2022		Total		2023		2024		2025		2026		2027 +
Accounts payable and accrued liabilities	$	14,422	$	14,422	$	-	$	-	$	-	$	-
Lease liabilities		207		125		71		11		-		-
Facility term loan		4,613		142		146		150		4,175		-
Total	$	19,242	$	14,689	$	217	$	161	$	4,175	$	-

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. The Company applies the simplified approach for accounts receivable. 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, 2022, the Company had a loss allowance of $52 (2021 - $39).

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, 2022, TGHL had seven customers (2021 – three) accounting for approximately 90.3% of total accounts receivable (2021 – 79.4%).

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 TGHL's exposure to market risks and the way these risks are managed or measured. Market risk comprises three types of risk: currency risk and interest rate risk.

Currency risk

In North America TGHL sells its products and 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 may enter into forward foreign exchange contracts or use other hedging activities to manage part of the foreign currency risk exposures relating to customer accounts receivable balances and accounts payable denominated in USD.

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 $1.3544 per USD (2020 - $1.2678):

	As at December 31			
(In $000's USD)		**2022**		2021
Cash and equivalents	**$**	**2,064**	$	13
Accounts receivable		**2,669**		678
Accounts payable & accrued liabilities		**(2,184)**		(873)
Net foreign currency exposure	**$**	**2,549**	$	(182)

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

For the year ended December 31, 2022, 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 $314 lower (2021 - $21 higher). Conversely, if the Canadian dollar had weakened 10% percent against the USD with all other variables held constant, net income would have been $384 higher (2021 - $26 lower).

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 operating line. 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, 2022, if interest rates had been 50 basis points lower with all other variables held constant, net income for the period would have been $16 (2021 — $4) higher, arising mainly as a result of lower interest expenses on variable borrowings. If interest rates had been 50 basis points higher, with all other variables held constant, net income would have been $16 (2021 — $4) lower, arising mainly as a result of higher interest expenses on variable interest rate borrowings.

18. Capital disclosure and management

TGHL does not have any externally imposed restrictions on its capital, other that as disclosed in Note 9 above – Credit facility. 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 operations 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 December 31, 2022 TGHL had $3,419 cash which together with the available line of credit, operating cash flow and anticipated proceeds from the Supply Contract are expected to meet the budgeted requirements for the next 12 months.

19. 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.

20. Related party transactions

During the year ended December 31, 2022, $42 (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.

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

21. Key management compensation

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

	Year ended December 31	
	2022	2021
Short-term employee benefits	**$ 533**	$ 570
Share based compensation	**98**	267
	$ 631	$ 837

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.

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

22. Changes in non-cash working capital

	Year ended December 31	
	2022	2021
Accounts receivable	**$ (4,439)**	$ (33)
Inventory	**(10,228)**	163
Prepaid expenses and other assets	**(143)**	(459)
Accounts payable and accrued liabilities	**7,280**	2,936
Customer deposits	**(106)**	70
Current tax receiveable	**178**	117
Total change in non-cash working capital	**$ (7,458)**	$ 2,794