



Unaudited Condensed Consolidated Interim Financial Statements

For the third quarter ended
September 30, 2017

Titanium Transportation Group Inc.

Condensed Consolidated Interim Statements of Financial Position

(unaudited)

(in Canadian dollars)

	September 30 2017	December 31 2016
Assets		
Current		
Cash	245,409	152,808
Trade and other receivables (note 14 and 17)	22,293,350	19,349,970
Current taxes recoverable	1,383,695	469,398
Finance lease receivables (note 6)	2,143,336	2,471,690
Prepaid expenses and deposits	997,374	1,620,151
Assets held for sale (note 7)	-	1,820,727
Restricted cash (note 5)	4,334,450	-
	<u>31,397,614</u>	<u>25,884,744</u>
Finance lease receivables (note 6)	4,918,943	6,948,786
Property and equipment (note 8)	71,501,685	73,726,657
Deferred tax assets	278,870	351,415
Customer lists (note 9)	627,360	718,440
Goodwill (note 9)	4,515,825	4,515,825
	<u>113,240,297</u>	<u>112,145,867</u>
Liabilities		
Current		
Bank indebtedness (note 10)	13,100,992	7,728,358
Trade and other payables	10,869,396	9,205,205
Current taxes payable	291,816	142,631
Loans payable (note 10)	7,421,651	7,491,309
Finance lease liabilities (note 10)	7,397,688	8,204,358
Finance lease liabilities on assets held for sale	-	485,091
	<u>39,081,543</u>	<u>33,256,952</u>
Loans payable (note 10)	15,161,446	19,184,828
Finance lease liabilities (note 10)	16,447,167	18,836,277
Deferred tax liabilities	5,657,570	4,629,524
	<u>76,347,726</u>	<u>75,907,581</u>
<i>Commitments and contingencies (note 16)</i>		
Shareholders' Equity		
Share capital (note 11)	26,778,207	26,754,964
Contributed surplus (note 12)	3,867,398	3,681,674
Retained earnings	6,246,966	5,801,648
	<u>36,892,571</u>	<u>36,238,286</u>
	<u>113,240,297</u>	<u>112,145,867</u>

On behalf of the Board

"Ted Daniel"
Director

"Bill Chyfetz"
Director

See accompanying notes

1.

Titanium Transportation Group Inc.

Condensed Consolidated Interim Statements of Comprehensive Income

(unaudited)

(in Canadian dollars)

	3 months ended Sept 30 2017	3 months ended Sept 30 2016	9 months ended Sep 30 2017	9 months ended Sep 30 2016
Revenue (note 14)	29,827,618	28,261,865	88,738,542	83,082,452
Fuel surcharge	1,688,836	1,577,145	5,401,139	4,832,489
	<u>31,516,454</u>	<u>29,839,010</u>	<u>94,139,681</u>	<u>87,914,941</u>
Operating expenses				
Carriers and independent contractors	16,319,363	14,175,745	47,431,944	40,782,939
Vehicle operating	4,741,931	4,760,842	14,516,196	14,868,370
Wages and casual labour (note 15)	5,933,596	5,933,654	17,934,697	18,027,835
Other operating (note 14)	1,688,151	1,733,517	5,138,029	5,355,111
	<u>28,683,041</u>	<u>26,603,758</u>	<u>85,020,866</u>	<u>79,034,255</u>
Income before the following	<u>2,833,413</u>	<u>3,235,252</u>	<u>9,118,815</u>	<u>8,880,686</u>
Depreciation (note 8)	2,580,884	2,634,409	7,764,162	7,657,571
Gain on sale of property and equipment	(92,124)	(28,402)	(437,437)	(273,400)
Finance costs	430,516	490,372	1,363,246	1,339,294
Finance income	(109,127)	(94,766)	(318,061)	(271,391)
Foreign exchange loss	74,850	16,057	73,983	282,456
Amortization of customer lists (note 9)	30,360	30,360	91,080	91,080
Transaction costs	-	-	-	226,392
	<u>2,915,359</u>	<u>3,048,030</u>	<u>8,536,973</u>	<u>9,052,002</u>
Income (loss) before income taxes	(81,946)	187,222	581,842	(171,316)
Income tax expense (recovery)	(98,880)	57,442	136,524	10,173
Net income (loss) and comprehensive income (loss) attributable to owners of the Company	<u>16,934</u>	<u>129,780</u>	<u>445,318</u>	<u>(181,489)</u>
Earnings (loss) per share:				
Basic	0.00	0.00	0.01	(0.00)
Diluted	0.00	0.00	0.01	(0.00)
Weighted average number of shares outstanding:				
Basic (note 11)	37,391,971	37,388,510	37,389,664	36,703,633
Diluted (note 11)	<u>37,395,432</u>	<u>37,412,726</u>	<u>37,390,818</u>	<u>36,703,633</u>

See accompanying notes

2.

Titanium Transportation Group Inc.

Condensed Consolidated Interim Statements of Changes in Equity

Nine months ended September 30, 2017 and 2016

(unaudited)

(in Canadian dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total
Balances at December 31, 2016	26,754,964	3,681,674	5,801,648	36,238,286
Share issuance (note 11)	23,243	-	-	23,243
Share-based compensation expense (note 12)	-	185,724	-	185,724
Net income and comprehensive income	-	-	445,318	445,318
Balances at September 30, 2017	26,778,207	3,867,398	6,246,966	36,892,571
Balances at December 31, 2015	24,765,964	3,391,767	5,863,739	34,021,470
Share issuance	1,989,000	-	-	1,989,000
Share-based compensation expense	-	214,508	-	214,508
Net income (loss) and comprehensive income (loss)	-	-	(181,489)	(181,489)
Balances at September 30, 2016	26,754,964	3,606,275	5,682,250	36,043,489

Titanium Transportation Group Inc.

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

(in Canadian dollars)

	3 months ended Sep 30 2017	3 months ended Sep 30 2016	9 months ended Sep 30 2017	9 months ended Sep 30 2016
Cash flows from operating activities				
Net income (loss)	16,934	129,780	445,318	(181,489)
Adjustments:				
Depreciation	2,580,884	2,634,409	7,764,162	7,657,571
Gain on sale of property and equipment	(92,124)	(28,402)	(437,437)	(273,400)
Finance costs	430,516	490,372	1,363,246	1,339,294
Finance income	(109,127)	(94,766)	(318,061)	(271,391)
Amortization of customer lists	30,360	30,360	91,080	91,080
Share-based compensation expense	52,530	76,844	185,724	214,508
Income tax expense (recovery)	(98,880)	57,442	136,524	10,173
	<u>2,811,093</u>	<u>3,296,039</u>	<u>9,230,556</u>	<u>8,586,346</u>
Net change in non-cash operating working capital	(2,153,892)	(1,507,996)	(930,083)	(633,131)
	<u>657,201</u>	<u>1,788,043</u>	<u>8,300,473</u>	<u>7,953,215</u>
Interest paid	(429,888)	(509,263)	(1,374,223)	(1,298,316)
Interest received	109,127	94,766	318,061	271,391
Income taxes received (paid)	<u>399,700</u>	<u>(42,363)</u>	<u>198,955</u>	<u>(676,741)</u>
	<u>736,140</u>	<u>1,331,183</u>	<u>7,443,266</u>	<u>6,249,549</u>
Cash flows from investing activities				
Proceeds from finance lease receivables	524,304	619,286	1,599,558	1,736,571
Acquisition of property and equipment (note 8, 13)	(287,804)	(786,212)	(1,099,968)	(9,242,744)
Disposition of property and equipment (note 7, 8)	487,834	3,243,945	2,567,393	6,891,841
	<u>724,334</u>	<u>3,077,019</u>	<u>3,066,983</u>	<u>(614,332)</u>
Cash flows from financing activities				
Proceeds from bank indebtedness	6,257,802	273,609	5,278,342	5,887,648
Proceeds from loans payable (note 13)	618,098	-	618,098	-
Repayment of loans payable (note 13)	(1,839,064)	(1,710,181)	(5,413,844)	(6,690,478)
Repayment of finance lease liabilities (note 13)	(2,162,646)	(1,726,519)	(6,589,037)	(4,275,543)
Repayment of related company loan	-	(1,002,001)	-	(1,002,001)
Repayment of amounts due to related parties	-	(200,000)	-	(200,000)
Issuance of shares	23,243	-	23,243	(11,000)
	<u>2,897,433</u>	<u>(4,365,092)</u>	<u>(6,083,198)</u>	<u>(6,291,374)</u>
Increase (decrease) in cash	4,357,907	43,110	4,427,051	(656,157)
Cash, beginning	<u>221,952</u>	<u>89,642</u>	<u>152,808</u>	<u>788,909</u>
Cash, ending	<u>4,579,859</u>	<u>132,752</u>	<u>4,579,859</u>	<u>132,752</u>
Cash	245,409			
Restricted cash	<u>4,334,450</u>			
	<u>4,579,859</u>			

Refer to note 13 for supplemental cash flow information.

Titanium Transportation Group Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2017 and 2016

(unaudited)

1. REPORTING ENTITY

Titanium Transportation Group Inc. ("Titanium" or the "Company") was incorporated on July 11, 1989 under the *Canada Business Corporations Act* although the current business commenced on July 3, 2002. The Company is a truck-based carrier and logistics broker servicing all of North America with distribution terminals based in Bolton, Bracebridge, Napanee, North Bay and Windsor, Ontario. The Company's registered head office is at 32 Simpson Rd, Bolton, Ontario, L7E 1G9.

The controlling shareholder of the Company is Trunkeast Investments Canada Limited ("Trunkeast") and the ultimate controlling shareholder is De Zen Investments Canada Limited.

The condensed consolidated interim financial statements include the accounts of the Company and all of its subsidiaries.

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the most recent annual consolidated financial statements of the Company, including the notes thereto, for the year ended December 31, 2016.

These unaudited condensed consolidated interim financial statements have been prepared by and are the sole responsibility of the Company's management. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants of Canada for the review of interim financial statements.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 7, 2017.

Basis of Measurement

These condensed consolidated interim financial statements have been prepared on a going concern basis using historical cost, except for assets and liabilities acquired in business combinations, which are measured at fair value at the acquisition date.

Functional and Presentation Currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented has been rounded to the nearest dollar, except per share amounts and where otherwise indicated.

Titanium Transportation Group Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2017 and 2016

(unaudited)

2. BASIS OF PRESENTATION - continued

Seasonality of Interim Operations

The activities of the Company are subject to seasonal demand for truck transportation. Historically, the Company has experienced weaker demand in the first quarter, moderate demand in the third and fourth quarters and stronger demand in the second quarter. In addition, harsher winter conditions generally result in lower fuel economy and increased repair costs. Furthermore, the timing of acquisitions and variations in economic conditions could have a considerable impact on quarterly results. Consequently, the results of operations for the interim period are not necessarily indicative of the results of operations for the full year.

Use of Estimates

The preparation of condensed consolidated interim financial statements in accordance with IFRS, requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses for the period. Management makes estimates based on specific facts or circumstances as well as past experiences. Management periodically reviews its estimates and underlying assumptions relating to provisions for receivables, depreciation, deferred taxes, impairment testing, determining the fair value of identifiable assets acquired and liabilities assumed in a business combination, determining the risk free rate of return, expected volatility, expected dividends, expected forfeitures and future market conditions when calculating fair value of share based payments and warrants, and determining fair values of financial instruments. Due to the inherent uncertainty involved with making such estimates, actual results could differ from those reported. As adjustments become necessary, they are reported in earnings in the period in which they become known.

Use of Judgment

The preparation of these condensed consolidated interim financial statements in accordance with IFRS, requires management to make judgments that affect the application of accounting policies and the interpretation of accounting standards. Management periodically reviews its judgments and underlying assumptions relating to the classification of leases, determining income tax provisions, assessing impairment of assets, allocating the purchase price in a business combination and determining fair values of financial instruments.

Titanium Transportation Group Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2017 and 2016

(unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described in the Company's annual consolidated financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated. The accounting policies have been applied consistently by all subsidiaries.

Share Based Payments

The grant date fair value of share-based payment awards granted to employees, independent contractors and consultants is recognized as an expense, with a corresponding increase in contributed surplus, over the period that the employee, contractor or consultant unconditionally become entitled to the awards.

New Standards Adopted

IAS 7, Statement of Cash Flows, was amended to require disclosure that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Adoption of these amendments did not have a material impact on the Company's condensed consolidated interim financial statements.

New Standards not yet Adopted

IFRS 16, Leases, was issued by the IASB on January 13, 2016, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of this standard on the condensed consolidated interim financial statements.

IFRS 15, Revenue from Contracts with Customers, which will replace IAS 18, Revenue, will become effective for periods beginning on or after January 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. New estimates and judgemental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company is currently assessing the impact of this standard on the condensed consolidated interim financial statements.

IFRS 9, Financial Instruments, was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of this standard on the condensed consolidated interim financial statements.

Titanium Transportation Group Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2017 and 2016

(unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

IFRIC 23, Uncertainty over Income Tax Treatments, was issued by IASB on June 7, 2017. The interpretation provides guidance on the accounting for current and deferred tax assets and liabilities in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 requires the entity to contemplate whether uncertain tax treatments should be considered separately or as a group based on the predictability of the resolution. In addition, the entity should assess if the tax authority will accept uncertain tax treatments, and in the case where it is not probable, the interpretation requires the entity to reflect the uncertainty with disclosure of the most likely amount and the expected value of the income tax payable or recoverable. The interpretation is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company is currently assessing the impact of this interpretation on the condensed consolidated interim financial statements.

Titanium Transportation Group Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2017 and 2016

(unaudited)

4. OPERATING SEGMENTS

The Company's business activities are made up of two main segments: Truck Transportation and Logistics. The Truck Transportation segment represents the pickup and delivery of full loads across Canada and the United States using a van, flatbed or other specialized equipment. The Logistics segment represents the brokering of freight across North America. The Company's CEO reviews internal management reports for each operating segment on a monthly basis. Operating segment results that are reported include items directly attributable to each operating segment, as well as those that can be allocated on a reasonable basis. Unallocated items ("Corporate") comprise mainly of expenses required to operate a publicly traded and multi-entity organization.

	Truck Transportation	Logistics	Corporate	Elimination	Total
Three months ended September 30, 2017					
Revenue - external	20,381,879	11,134,575	-	-	31,516,454
Revenue - internal	316,415	-	-	(316,415)	-
Total revenue	20,698,294	11,134,575	-	(316,415)	31,516,454
Depreciation	2,502,298	78,586	-	-	2,580,884
Finance costs	430,516	-	-	-	430,516
Finance income	(109,127)	-	-	-	(109,127)
Income (loss) before income taxes	(25,829)	443,318	(499,435)	-	(81,946)
Income taxes (recoveries)	(95,625)	120,772	(124,027)	-	(98,880)
Capital expenditures	2,677,353	40,896	-	-	2,718,249
Three months ended September 30, 2016					
Revenue - external	20,712,118	9,126,892	-	-	29,839,010
Revenue - internal	325,924	-	-	(325,924)	-
Total revenue	21,038,042	9,126,892	-	(325,924)	29,839,010
Depreciation	2,627,033	7,376	-	-	2,634,409
Finance costs	490,372	-	-	-	490,372
Finance income	(94,766)	-	-	-	(94,766)
Income (loss) before income taxes	106,288	530,951	(450,017)	-	187,222
Income taxes (recoveries)	18,421	144,458	(105,437)	-	57,442
Capital expenditures	2,501,830	198,383	-	-	2,700,213

Titanium Transportation Group Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2017 and 2016

(unaudited)

4. OPERATING SEGMENTS - continued

	Truck Transportation	Logistics	Corporate	Elimination	Total
Nine months ended September 30, 2017					
Revenue - external	62,069,805	32,069,876	-	-	94,139,681
Revenue - internal	869,244	-	-	(869,244)	-
Total revenue	62,939,049	32,069,876	-	(869,244)	94,139,681
Depreciation	7,532,746	231,416	-	-	7,764,162
Finance costs	1,363,246	-	-	-	1,363,246
Finance income	(318,061)	-	-	-	(318,061)
Income (loss) before income taxes	586,092	1,334,862	(1,339,112)	-	581,842
Income taxes (recoveries)	95,727	363,039	(322,242)	-	136,524
Capital expenditures	4,957,189	132,591	-	-	5,089,780
Nine months ended September 30, 2016					
Revenue - external	62,761,677	25,153,264	-	-	87,914,941
Revenue - internal	1,094,144	-	-	(1,094,144)	-
Total revenue	63,855,821	25,153,264	-	(1,094,144)	87,914,941
Depreciation	7,644,416	13,155	-	-	7,657,571
Finance costs	1,339,294	-	-	-	1,339,294
Finance income	(271,391)	-	-	-	(271,391)
Income (loss) before income taxes	226,185	1,114,490	(1,511,991)	-	(171,316)
Income taxes (recoveries)	66,270	306,816	(362,913)	-	10,173
Capital expenditures	35,761,287	256,733	-	-	36,018,020

Revenue is attributed to geographical locations based on the location of the origin of the service. All of the Company's assets are located in Canada.

	3 months ended Sep 30 2017	3 months ended Sep 30 2016	9 months ended Sep 30 2017	9 months ended Sep 30 2016
Canada	20,874,849	21,275,885	61,261,794	59,029,296
United States	10,641,605	8,563,125	32,877,887	28,885,645
	31,516,454	29,839,010	94,139,681	87,914,941

Titanium Transportation Group Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2017 and 2016

(unaudited)

5. BUSINESS COMBINATIONS

Consistent with the Company's growth strategy and to add capacity to its Windsor terminal, Titanium acquired all the outstanding shares of Xpress Group ("Xpress") on October 1, 2017 for consideration of approximately \$3.65 million, consisting of approximately \$3.2 million in cash and \$420,000 in share consideration. In addition, the Company assumed approximately \$5,200,000 in debt.

As finalized financial statements for Xpress as of and for the period ended September 30, 2017 are not yet available and the company was so recently acquired, there is insufficient reliable information to provide an estimate of the fair value allocation among the net identifiable assets and liabilities associated with this acquisition, and therefore, such an allocation has not been disclosed. Similarly, there is insufficient information to determine the amount of goodwill acquired, if any, gross contractual amount of trade receivables acquired and the portion thereof that is uncollectible at the acquisition date.

As of September 30, 2017, \$4,334,450 in cash was being held in trust in order to fund the cash portion of the Xpress purchase price, to pay off certain debts of Xpress, and to fund Xpress working capital, following the closing of the transaction on October 1, 2017.

6. FINANCE LEASE RECEIVABLES

During the nine month period ended September 30, 2017, the Company entered into new finance leases totaling \$1,794,395, which are receivable over 36 to 60 months with interest rates of 5.25%.

7. ASSETS HELD FOR SALE

Balance, December 31, 2016	1,820,727
Reclassification from property and equipment	226,151
Disposals	<u>(2,046,878)</u>
Balance, September 30, 2017	<u>-</u>

Titanium Transportation Group Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2017 and 2016

(unaudited)

8. PROPERTY AND EQUIPMENT

	Land, Buildings and Leaseholds	Furniture and Equipment	Rolling Stock	Total
Cost				
Balances, December 31, 2016	10,504,873	4,715,800	75,424,136	90,644,809
Reacquisition of rolling stock relating to finance lease receivables	-	-	2,583,799	2,583,799
Other additions	150,574	790,443	4,148,763	5,089,780
Sale of rolling stock relating to finance lease receivables	-	-	(1,906,196)	(1,906,196)
Other disposals	-	(16,500)	(1,557,027)	(1,573,527)
Reclassification to assets held for sale	-	-	(649,761)	(649,761)
Balances, September 30, 2017	<u>10,655,447</u>	<u>5,489,743</u>	<u>78,043,714</u>	<u>94,188,904</u>
Accumulated depreciation				
Balances, December 31, 2016	291,528	2,092,456	14,534,168	16,918,152
Depreciation	351,601	687,537	6,725,024	7,764,162
Sale of rolling stock relating to finance lease receivables	-	-	(259,056)	(259,056)
Other disposals	-	(15,833)	(1,296,596)	(1,312,429)
Reclassification to assets held for sale	-	-	(423,610)	(423,610)
Balances, September 30, 2017	<u>643,129</u>	<u>2,764,160</u>	<u>19,279,930</u>	<u>22,687,219</u>
Net carrying amounts				
At December 31, 2016	10,213,345	2,623,344	60,889,968	73,726,657
At September 30, 2017	<u>10,012,318</u>	<u>2,725,583</u>	<u>58,763,784</u>	<u>71,501,685</u>

9. GOODWILL AND INTANGIBLES

	Goodwill	Customer Lists	Total
Balances, December 31, 2016	4,515,825	718,440	5,234,265
Amortization	-	(91,080)	(91,080)
Balances, September 30, 2017	<u>4,515,825</u>	<u>627,360</u>	<u>5,143,185</u>

Titanium Transportation Group Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2017 and 2016

(unaudited)

10. LONG-TERM DEBT

Terms and conditions of outstanding long-term debt are as follows:

	Effective Interest Rate	Year of Maturity	Carrying Amount
Bank indebtedness	PRIME+0.50%	N/A	13,100,992
Loans payable	2.95% - 4.50%	2017-2031	22,583,097
Finance lease liabilities	2.56% - 5.50%	2017-2022	23,844,855
			59,528,944
Current portion			27,920,331
			<u>31,608,613</u>

Subsequent to the reporting date, the Company renegotiated the payment terms related to vendor take back loans issued as consideration for the acquisition of ProNorth Transportation ("ProNorth"). Quarterly payments will begin on January 1, 2018 over a nine year period.

11. SHARE CAPITAL

Authorized

Unlimited number of common shares with no par value

	Common Shares #	Share Capital \$
Issued		
Balances, December 31, 2016	37,388,510	26,754,964
Shares issued as part of share purchase plan	41,534	23,243
Balances, September 30, 2017	<u>37,430,044</u>	<u>26,778,207</u>

During the quarter, the Company implemented a share purchase plan (the "Plan"), which allows all employees and independent contractors, except insiders of the Company, to contribute up to 5% of their compensation towards the purchase of Titanium common shares. Contributions are matched at a rate of 100% by the Company and shares are issued from treasury in order to fund the Plan. In the case of employees, matched shares are subject to a three year vesting period. In the case of independent contractors, matched shares are issued after three years of service. The maximum number of shares which have been approved for issuance under the Plan is 1,500,000. Of the shares issued to date, 20,766 have not vested.

On October 1, 2017, the Company purchased Xpress for cash and 374,264 newly issued common shares with a stated value of \$420,000.

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11. SHARE CAPITAL - continued

Subsequent to the reporting period, 1,750,000 common shares were forfeited for cancellation as part of a settlement with the vendor of ProNorth pertaining to Titanium's acquisition of ProNorth on December 1, 2015.

The weighted average number of common shares outstanding has been calculated as follows:

	3 months ended	3 months ended	9 months ended	9 months ended
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Issued common shares, beginning	37,388,510	37,388,510	37,388,510	36,267,802
Effect of issued common shares	3,461	-	1,154	435,831
Weighted average number of common shares	37,391,971	37,388,510	37,389,664	36,703,633
Dilutive effect of restricted common shares, stock options and warrants	3,461	24,216	1,154	-
Weighted average number of diluted common shares	37,395,432	37,412,726	37,390,818	36,703,633

12. CONTRIBUTED SURPLUS

The Company offers a stock option plan for the benefit of certain of its directors, employees and consultants. The maximum number of shares which may be issued under this plan may not exceed 6% of the number of issued and outstanding shares of the Company. Each stock option entitles its holder to receive one common share upon exercise. The majority of options vest over a period of six years, with half vesting three years from issuance and the other half vesting six years from issuance.

During the nine month period ended September 30, 2017, 194,000 stock options were issued to various directors and employees. Each stock option entitles the holder to acquire a common share of the Company at an exercise price of \$1.50 per common share. During the period, 10,000 stock options were forfeited and 250,000 expired. No other stock options expired, were exercised or were forfeited during the reporting period. As at September 30, 2017, there were 1,549,000 (December 31, 2016 - 1,615,000) stock options outstanding with a weighted average exercise price of \$1.83 (December 31, 2016 - \$1.82) and weighted average remaining life of 8 years. Of the stock options outstanding as at September 30, 2017, 814,000 were held by key management personnel. In addition, of the total options outstanding, 200,000 are fully vested and exercisable at a price of \$1.50.

The estimated fair value of stock options was calculated using the Black-Scholes option pricing model with the following assumptions: i) the expected life of each stock option is between 5.5 and 8.5 years; ii) the risk free rate is between 0.91% and 1.86%; iii) the dividend yield will be \$NIL; and iv) expected volatility is 65%-70%. Volatility was determined using the Company's trading data from the first day of trading to September 7, 2017. Variables used in the Black-Scholes option pricing model are based on highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate.

During the period, 2,018,250 warrants with an exercise price of \$3.50 expired. The total number of warrants outstanding as of September 30, 2017 was 4,426,665, with an exercise price of \$2.50 and expiry of April 1, 2018.

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13. SUPPLEMENTAL CASH FLOW INFORMATION

a) A reconciliation of assets arising from investing activities is as follows:

	Cash Flows		Non-Cash Changes		Balance Sep 30 2017
	Balance Dec 31 2016		New Leases	Return Leases	
Finance lease receivables	9,420,476	(1,599,558)	1,794,395	(2,553,034)	7,062,279

b) A reconciliation of liabilities arising from financing activities is as follows:

	Cash Flows		Non-Cash Changes			Balances Sep 30 2017
	Balances Dec 31 2016		New Leases /Loans	Foreign Exchange Conversion	Foreign Exchange Movement	
Bank indebtedness	7,728,358	5,278,342	-	-	94,292	13,100,992
Loan payable	26,676,137	(4,795,746)	1,755,072	(1,052,366)	-	22,583,097
Finance lease liabilities	27,525,726	(6,589,037)	2,234,740	1,052,366	(378,940)	23,844,855
	61,930,221	(6,106,441)	3,989,812	-	(284,648)	59,528,944

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14. RELATED PARTY TRANSACTIONS

During the period, Trunkeast held a significant portion of the shares of the Company and had de facto control. Neither Trunkeast nor the ultimate parent produce consolidated financial statements available for public use.

	3 months ended Sep 30 2017	3 months ended Sep 30 2016	9 months ended Sep 30 2017	9 months ended Sep 30 2016
Provided truck transportation services to Vision Extrusions Group Limited, Vision Profile Extrusions Ltd. and Sunview Patio Doors Ltd., companies under common control	1,273,581	915,773	3,392,956	2,624,967
Paid rent for premises to Vaughan West II Limited and Vision Extrusions Group Limited, paid rent for yard to Roybridge Holdings Limited, all companies under common control	-	(64,388)	-	(290,118)
Paid rent to Caledon First Investments Limited, a company under common control	(481,469)	(20,854)	(1,444,407)	(20,854)
Paid ZZEN for leasehold improvements	-	(1,902,001)	-	(1,902,001)
Paid management fees to Trunkeast	(15,000)	(15,000)	(45,000)	(45,000)
Paid interest to ZZEN	-	(8,476)	-	(8,476)
	<u>777,112</u>	<u>(1,094,946)</u>	<u>1,903,549</u>	<u>358,518</u>

Included in trade and other receivables as at September 30, 2017 is a total of \$477,220 due from these related companies.

These transactions were carried out in the normal course of business and were measured at the exchange amount, which management has concluded approximates an arm's-length arrangement.

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15. WAGES AND CASUAL LABOUR

Included in wages and casual labour are the following:

	3 months ended Sep 30 2017	3 months ended Sep 30 2016	9 months ended Sep 30 2017	9 months ended Sep 30 2016
Share-based compensation expense	52,530	76,844	185,724	214,508
Employee benefits	96,364	126,246	339,166	376,395
Key management personnel:				
Salaries and benefits	212,185	201,507	634,989	610,372
Share-based compensation expense	23,264	27,450	79,442	78,883

Board members and executive officers are deemed to be key management personnel.

16. COMMITMENTS AND CONTINGENCIES

- a) The Company is committed to the leasing of rolling stock as well as its head office terminal. Minimum lease payments on these operating leases are as follows:

Less than one year	1,845,008
Between one and five years	7,422,115
More than five years	19,450,140

Operating leases that were charged to income during the three month and nine month periods ended September 30, 2017 totaled \$610,811 and \$1,838,436 (2016 - \$474,886 and \$1,775,379).

In addition, the Company is committed to paying \$5,000 a month to Trunkeast in management fees until such time that the contract is terminated. Six month's written notice is required for termination.

- b) As at September 30, 2017, the Company was not committed to the purchase of any rolling stock or equipment.
- c) The Company has a letter of credit outstanding for \$665,843 in favour of Caledon First Investments Limited, a company under common control, as a security deposit required under the lease for its Bolton head office.
- d) The Company is regularly subject to litigation in the normal course of business. In the opinion of management, the outcome of current pending claims, in aggregate, is not likely to be material to the financial condition or results of operations of the Company.

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17. SUBSEQUENT EVENTS

Subsequent to the reporting date, the Company entered into a settlement with the vendors of ProNorth pertaining to Titanium's acquisition of ProNorth on December 1, 2015. The settlement includes:

- a) Forfeiture of 1,750,000 common shares held by the vendor (refer to note 11);
- b) Cancellation of a vendor consulting contract valued at \$450,000;
- c) Revision to the payment terms of vendor take back loans owing by the Company to the vendor (refer to note 10);
- d) Forfeiture by the Company of working capital and other receivables from the vendor totaling \$1,133,208. The balance is currently included in trade and other receivables.

In addition, on October 1, 2017, the Company acquired all the outstanding shares of Xpress. For further details, refer to note 5.