



Unaudited Condensed Consolidated Interim Financial Statements

For the third quarter ended  
September 30, 2018

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Financial Position

(unaudited)

(in Canadian dollars)

	<b>September 30 2018</b>	<b>December 31 2017</b>
<b>Assets</b>		
Current		
Cash	169,265	479,012
Trade and other receivables (note 13)	29,597,462	24,302,160
Current taxes recoverable	12,081	62,305
Finance lease receivables (note 5, 12)	2,415,991	2,109,129
Prepaid expenses and deposits	1,120,634	1,727,554
Assets held for sale (note 6)	106,338	342,138
	<u>33,421,771</u>	<u>29,022,298</u>
Finance lease receivables (note 5, 12)	4,883,218	4,551,541
Property and equipment (note 7)	71,610,627	76,875,398
Deferred tax assets	692,844	249,883
Customer lists (note 8)	1,371,400	1,542,850
Goodwill (note 8)	1,968,286	1,968,286
	<u>113,948,146</u>	<u>114,210,256</u>
<b>Liabilities</b>		
Current		
Bank indebtedness (note 9, 12)	7,298,506	11,361,611
Acquisition loan (note 9)	3,000,000	3,000,000
Trade and other payables	15,891,098	12,636,579
Current taxes payable	519,219	105,492
Loans payable (note 9, 12)	8,717,998	8,696,749
Finance lease liabilities (note 9, 12)	7,647,493	7,447,435
	<u>43,074,314</u>	<u>43,247,866</u>
Loans payable (note 9, 12)	15,286,804	16,875,601
Finance lease liabilities (note 9, 12)	11,830,169	16,336,246
Deferred tax liabilities	6,159,910	5,111,236
	<u>76,351,197</u>	<u>81,570,949</u>
<i>Commitments and contingencies (note 15)</i>		
<b>Shareholders' Equity</b>		
Share capital (note 10)	22,847,942	22,585,503
Contributed surplus (note 11)	7,571,008	7,340,115
Retained earnings	7,177,999	2,713,689
	<u>37,596,949</u>	<u>32,639,307</u>
	<u>113,948,146</u>	<u>114,210,256</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)

	<b>3 months ended Sept 30 2018</b>	<b>3 months ended Sept 30 2017</b>	<b>9 months ended Sept 30 2018</b>	<b>9 months ended Sept 30 2017</b>
Revenue (note 13)	41,654,492	29,827,618	132,320,832	88,738,542
Fuel surcharge	3,190,907	1,688,836	9,810,199	5,401,139
	<u>44,845,399</u>	<u>31,516,454</u>	<u>142,131,031</u>	<u>94,139,681</u>
Operating expenses				
Carriers and independent contractors	22,442,943	16,319,363	74,609,000	47,431,944
Vehicle operating	6,651,402	4,741,931	19,571,020	14,516,196
Wages and casual labour (note 14)	8,932,977	5,933,596	25,443,724	17,934,697
Other operating (note 13)	1,549,716	1,688,151	5,542,773	5,138,029
	<u>39,577,038</u>	<u>28,683,041</u>	<u>125,166,517</u>	<u>85,020,866</u>
Income before the following	<u>5,268,361</u>	<u>2,833,413</u>	<u>16,964,514</u>	<u>9,118,815</u>
Depreciation (note 7)	3,207,308	2,580,884	9,545,632	7,764,162
Gain on sale of property and equipment	(90,229)	(92,124)	(374,759)	(437,437)
Finance costs	551,863	430,516	1,703,759	1,363,246
Finance income	(95,971)	(109,127)	(253,100)	(318,061)
Foreign exchange loss (gain)	48,527	74,850	(26,370)	73,983
Amortization of customer lists (note 8)	57,150	30,360	171,450	91,080
	<u>3,678,648</u>	<u>2,915,359</u>	<u>10,766,612</u>	<u>8,536,973</u>
Income (loss) before income taxes	1,589,713	(81,946)	6,197,902	581,842
Income tax expense (recovery)	465,259	(98,880)	1,733,592	136,524
Net income and comprehensive income attributable to owners of the Company	<u>1,124,454</u>	<u>16,934</u>	<u>4,464,310</u>	<u>445,318</u>
Earnings per share:				
Basic	0.03	0.00	0.12	0.01
Diluted	0.03	0.00	0.12	0.01
Weighted average number of shares outstanding:				
Basic (note 10)	36,323,048	37,391,971	36,233,373	37,389,664
Diluted (note 10)	<u>36,727,947</u>	<u>37,395,432</u>	<u>36,563,863</u>	<u>37,390,818</u>

See accompanying notes

2.

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Changes in Equity

Nine months ended September 30, 2018 and 2017

(unaudited)

(in Canadian dollars)

	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Retained Earnings</b>	<b>Total</b>
Balances at December 31, 2017	22,585,503	7,340,115	2,713,689	32,639,307
Share issuance (note 10)	262,439	-	-	262,439
Share-based compensation expense (note 10, 11)	-	230,893	-	230,893
Net income and comprehensive income	-	-	4,464,310	4,464,310
<b>Balances at September 30, 2018</b>	<b>22,847,942</b>	<b>7,571,008</b>	<b>7,177,999</b>	<b>37,596,949</b>
Balances at December 31, 2016	26,754,964	3,681,674	5,801,648	36,238,286
Share issuance	23,243	-	-	23,243
Share-based compensation expense	-	185,724	-	185,724
Net income and comprehensive income	-	-	445,318	445,318
<b>Balances at September 30, 2017</b>	<b>26,778,207</b>	<b>3,867,398</b>	<b>6,246,966</b>	<b>36,892,571</b>

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

(in Canadian dollars)

	<b>3 months ended Sept 30 2018</b>	<b>3 months ended Sept 30 2017</b>	<b>9 months ended Sept 30 2018</b>	<b>9 months ended Sept 30 2017</b>
<b>Cash flows from operating activities</b>				
Net income	1,124,454	16,934	4,464,310	445,318
Adjustments:				
Depreciation	3,207,308	2,580,884	9,545,632	7,764,162
Gain on sale of property and equipment	(90,229)	(92,124)	(374,759)	(437,437)
Finance costs	551,863	430,516	1,703,759	1,363,246
Finance income	(95,971)	(109,127)	(253,100)	(318,061)
Amortization of customer lists	57,150	30,360	171,450	91,080
Share-based compensation expense	80,311	52,530	230,893	185,724
Income tax expense (recovery)	465,259	(98,880)	1,733,592	136,524
	<u>5,300,145</u>	<u>2,811,093</u>	<u>17,221,777</u>	<u>9,230,556</u>
Net change in non-cash operating working capital	<u>6,448,459</u>	<u>(2,153,892)</u>	<u>(1,370,504)</u>	<u>(930,083)</u>
	11,748,604	657,201	15,851,273	8,300,473
Interest paid	(575,078)	(429,888)	(1,696,977)	(1,374,223)
Interest received	95,971	109,127	253,100	318,061
Income taxes received (paid)	(573,628)	399,700	(663,928)	198,955
	<u>10,695,869</u>	<u>736,140</u>	<u>13,743,468</u>	<u>7,443,266</u>
<b>Cash flows from investing activities</b>				
Proceeds from finance lease receivables	602,292	524,304	1,648,556	1,599,558
Acquisition of property and equipment (note 7, 12)	(178,515)	(287,804)	(1,461,291)	(1,099,968)
Disposition of property and equipment (note 6, 7)	222,314	487,834	1,146,187	2,567,393
	<u>646,091</u>	<u>724,334</u>	<u>1,333,452</u>	<u>3,066,983</u>
<b>Cash flows from financing activities</b>				
Proceeds from bank indebtedness (note 12)	-	6,257,802	-	5,278,342
Repayment of bank indebtedness (note 12)	(7,481,699)	-	(4,059,740)	-
Proceeds from loans payable (note 12)	140,127	618,098	1,086,719	618,098
Repayment of loans payable (note 12)	(2,369,935)	(1,839,064)	(7,007,647)	(5,413,844)
Repayment of finance lease liabilities (note 12)	(1,889,058)	(2,162,646)	(5,668,438)	(6,589,037)
Issuance of shares (note 10)	76,703	23,243	262,439	23,243
	<u>(11,523,862)</u>	<u>2,897,433</u>	<u>(15,386,667)</u>	<u>(6,083,198)</u>
Increase (decrease) in cash	(181,902)	4,357,907	(309,747)	4,427,051
Cash, beginning	351,167	221,952	479,012	152,808
Cash, ending	<u>169,265</u>	<u>4,579,859</u>	<u>169,265</u>	<u>4,579,859</u>

Refer to note 12 for supplemental cash flow information.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

(unaudited)

### 1. REPORTING ENTITY

Titanium Transportation Group Inc. (the "Company" or "Titanium") commenced operations as a transportation company on July 3, 2002. Titanium 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 registered head office of the Company is at 32 Simpson Rd, Bolton, Ontario, L7E 1G9. The Company was incorporated on July 11, 1989 under the Canada Business Corporations Act.

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, 2017.

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 condensed consolidated interim 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 6, 2018.

#### 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, 2018 and 2017

(unaudited)

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### 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 industry 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, legal settlements, 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 stock options 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, 2018 and 2017

(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.

#### **New Standards Adopted**

*IFRS 9, Financial Instruments*, was issued by the IASB on November 12, 2009 and replaced 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. This standard became effective on January 1, 2018 and the adoption of this standard did not have a material impact on the Company's condensed consolidated interim financial statements.

*IFRS 15, Revenue from Contracts with Customers*, which replaced IAS 18, *Revenue*, became effective on 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. Adoption of this standard did not have a material impact on the Company's condensed consolidated interim financial statements.

#### **New Standards not yet Adopted**

*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 has conducted a preliminary assessment of the effect of this standard and determined that the standard will not have a material impact on the consolidated interim financial statements.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

(unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

*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. Although early adoption is permitted, the Company does not intend to adopt IFRS 16 until this standard becomes effective. The Company intends to adopt this standard retrospectively, without modifications, to allow for comparability of operating results. The Company has conducted a preliminary assessment of the effect of this standard and determined that the standard will have the following impact:

	<b>As Reported</b>	<b>Adjustments</b>	<b>Restated</b>
<b>As at September 30, 2018</b>			
Property and equipment	71,610,627	35,021,721	106,632,348
Trade and other payables	15,891,098	(618,263)	15,272,835
Finance lease liabilities	19,477,662	35,759,824	55,237,486
Deferred tax liabilities	6,159,910	(31,757)	6,128,153
Retained earnings	7,177,999	(88,083)	7,089,916
<b>Three months ended September 30, 2018</b>			
Other operating expenses	1,549,716	(425,469)	1,124,247
Depreciation	3,207,308	137,327	3,344,635
Finance costs	551,863	335,809	887,672
Income tax expense	465,259	(12,632)	452,627
<b>Nine months ended September 30, 2018</b>			
Other operating expenses	5,542,773	(1,276,407)	4,266,366
Depreciation	9,545,632	411,981	9,957,613
Finance costs	1,703,759	1,009,926	2,713,685
Income tax expense	1,733,592	(38,557)	1,695,035

The above adjustments pertain largely to the lease of the Company's head office terminal and assume that the purchase option in 2026 will be exercised. Until the Company presents its first financial statements on the date of initial application, the actual impact of adopting IFRS 16 may differ as the new accounting policy is still subject to change and adjustments were based on preliminary estimates.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's condensed consolidated interim financial statements.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

(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") are comprised mainly of expenses required to operate a publicly traded and multi-entity organization.

	<b>Truck Transportation</b>	<b>Logistics</b>	<b>Corporate</b>	<b>Elimination</b>	<b>Total</b>
<b>Three months ended September 30, 2018</b>					
Revenue - external	27,575,865	17,269,534	-	-	44,845,399
Revenue - internal	1,108,286	-	-	(1,108,286)	-
Total revenue	28,684,151	17,269,534	-	(1,108,286)	44,845,399
Depreciation	3,093,089	114,219	-	-	3,207,308
Finance costs	537,578	14,285	-	-	551,863
Finance income	(95,971)	-	-	-	(95,971)
Income (loss) before income taxes	749,233	1,257,249	(416,769)	-	1,589,713
Income taxes (recoveries)	230,942	334,837	(100,520)	-	465,259
Capital expenditures	2,337,763	3,700	-	-	2,341,463
<b>Three months ended September 30, 2017</b>					
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

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

(unaudited)

### 4. OPERATING SEGMENTS - continued

	<b>Truck Transportation</b>	<b>Logistics</b>	<b>Corporate</b>	<b>Elimination</b>	<b>Total</b>
<b>Nine months ended September 30, 2018</b>					
Revenue - external	81,219,592	60,911,439	-	-	142,131,031
Revenue - internal	3,203,415	-	-	(3,203,415)	-
Total revenue	<u>84,423,007</u>	<u>60,911,439</u>	<u>-</u>	<u>(3,203,415)</u>	<u>142,131,031</u>
Depreciation	9,203,621	342,011	-	-	9,545,632
Finance costs	1,617,976	85,783	-	-	1,703,759
Finance income	(253,100)	-	-	-	(253,100)
Income (loss) before income taxes	1,798,544	5,627,536	(1,228,178)	-	6,197,902
Income taxes (recoveries)	521,855	1,513,500	(301,763)	-	1,733,592
Capital expenditures	<u>7,082,126</u>	<u>3,700</u>	<u>-</u>	<u>-</u>	<u>7,085,826</u>
<b>Nine months ended September 30, 2017</b>					
Revenue - external	62,069,805	32,069,876	-	-	94,139,681
Revenue - internal	869,244	-	-	(869,244)	-
Total revenue	<u>62,939,049</u>	<u>32,069,876</u>	<u>-</u>	<u>(869,244)</u>	<u>94,139,681</u>
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	<u>4,957,189</u>	<u>132,591</u>	<u>-</u>	<u>-</u>	<u>5,089,780</u>

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.

	<b>3 months ended Sept 30 2018</b>	<b>3 months ended Sept 30 2017</b>	<b>9 months ended Sept 30 2018</b>	<b>9 months ended Sept 30 2017</b>
Canada	25,437,127	20,874,849	78,470,575	61,261,794
United States	19,417,272	10,641,605	63,669,456	32,877,887
	<u>44,854,399</u>	<u>31,516,454</u>	<u>142,140,031</u>	<u>94,139,681</u>

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

(unaudited)

### 5. FINANCE LEASE RECEIVABLES

During the nine month period ended September 30, 2018, the Company entered into new finance leases totaling \$3,035,483, which are receivable over 24 to 72 months with interest rates ranging from 6% to 7.25%.

### 6. ASSETS HELD FOR SALE

Assets held for sale are comprised of excess and aged rolling stock that is inactive and awaiting sale. These assets are expected to be sold over the next six months. No gain or loss was recognized on reclassification of these assets to assets held for sale. These assets relate entirely to the Truck Transportation segment.

Balance, December 31, 2017	342,138
Reclassification from property and equipment	572,062
Disposals	<u>(807,862)</u>
Balance, September 30, 2018	<u>106,338</u>

### 7. PROPERTY AND EQUIPMENT

	<b>Land, Buildings and Leaseholds</b>	<b>Furniture and Equipment</b>	<b>Rolling Stock</b>	<b>Total</b>
<b>Cost</b>				
Balances, December 31, 2017	10,759,543	5,703,938	85,200,245	101,663,726
Reacquisition of rolling stock relating to finance lease receivables	-	-	723,084	723,084
Other additions	17,116	213,371	6,855,339	7,085,826
Sale of rolling stock relating to finance lease receivables	-	-	(3,196,327)	(3,196,327)
Other disposals	-	(35,748)	-	(35,748)
Reclassification to assets held for sale	-	-	(1,471,887)	(1,471,887)
Balances, September 30, 2018	<u>10,776,659</u>	<u>5,881,561</u>	<u>88,110,454</u>	<u>104,768,674</u>
<b>Accumulated depreciation</b>				
Balances, December 31, 2017	763,185	2,906,748	21,118,395	24,788,328
Depreciation	374,100	1,033,776	8,137,756	9,545,632
Sale of rolling stock relating to finance lease receivables	-	-	(261,805)	(261,805)
Other disposals	-	(14,283)	-	(14,283)
Reclassification to assets held for sale	-	-	(899,825)	(899,825)
Balances, September 30, 2018	<u>1,137,285</u>	<u>3,926,241</u>	<u>28,094,521</u>	<u>33,158,047</u>
<b>Net carrying amounts</b>				
At December 31, 2017	9,996,358	2,797,190	64,081,850	76,875,398
At September 30, 2018	<u>9,639,374</u>	<u>1,955,320</u>	<u>60,015,933</u>	<u>71,610,627</u>

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

(unaudited)

### 8. GOODWILL AND INTANGIBLES

	<b>Goodwill</b>	<b>Customer Lists</b>	<b>Total</b>
Balances, December 31, 2017	1,968,286	1,542,850	3,511,136
Amortization	-	(171,450)	(171,450)
Balances, September 30, 2018	1,968,286	1,371,400	3,339,686

### 9. LONG-TERM DEBT

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

	<b>Effective Interest Rate</b>	<b>Year of Maturity</b>	<b>Carrying Amount</b>
Bank indebtedness	PRIME+1.00%	N/A	7,298,506
Acquisition loan	PRIME+1.50%	2023	3,000,000
Loans payable	2.95% - 5.75%	2018-2031	24,004,802
Finance lease liabilities	2.56% - 4.09%	2019-2023	19,477,662
			53,780,970
Current portion			26,663,997
			27,116,973

During the nine month period ended September 30, 2018, the Company's credit facility was amended to reflect a \$5 million increase in the revolving demand operating facility to \$20 million.

The Company was in compliance with all financial covenants as of September 30, 2018.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

(unaudited)

### 10. SHARE CAPITAL

#### Authorized

Unlimited number of common shares with no par value

	<b>Common Shares #</b>	<b>Share Capital \$</b>
<b>Issued</b>		
Balances, December 31, 2017	36,191,828	22,585,503
Shares issued as part of share purchase plan	<u>377,774</u>	<u>262,439</u>
Balances, September 30, 2018	<u>36,569,602</u>	<u>22,847,942</u>

In September 2017, the Company implemented a share purchase plan (the "Plan"), which allows all employees and independent contractors, but excluding insiders of the Company, to contribute up to 5% of their compensation to a maximum of \$4,800 per year 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 approved for issuance under the Plan is reviewed by the board of directors annually. Of the shares issued to date, 223,559 have not vested. During the three month and nine month period ended September 30, 2018, the Company recognized an expense of \$29,229 and \$67,727 (2017 - \$646 and \$646), respectively, relating to the Plan, with a corresponding increase to contributed surplus.

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

	<b>3 months ended Sept 30 2018</b>	<b>3 months ended Sept 30 2017</b>	<b>9 months ended Sept 30 2018</b>	<b>9 months ended Sept 30 2017</b>
Issued common shares, beginning	36,492,715	37,388,510	36,191,828	37,388,510
Effect of unvested common shares	(208,111)	(3,461)	(147,343)	(1,154)
Effect of issued common shares	<u>38,444</u>	<u>6,922</u>	<u>188,888</u>	<u>2,308</u>
Weighted average number of common shares	36,323,048	37,391,971	36,233,373	37,389,664
Dilutive effect of restricted common shares and stock options	<u>404,899</u>	<u>3,461</u>	<u>330,490</u>	<u>1,154</u>
Weighted average number of diluted common shares	<u>36,727,947</u>	<u>37,395,432</u>	<u>36,563,863</u>	<u>37,390,818</u>

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

(unaudited)

### 11. 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, 2018, 288,000 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, 85,000 stock options were forfeited. No other stock options expired, were exercised or were forfeited during the reporting period. As at September 30, 2018, there were 1,739,000 (December 31, 2017 - 1,536,000) stock options outstanding with a weighted average exercise price of \$1.78 (December 31, 2017 - \$1.83) and weighted average remaining life of 7.3 years (December 31, 2017 - 7.7 years). Of the stock options outstanding as at September 30, 2018, 981,500 were held by key management personnel. In addition, of the total options outstanding, 598,666 are fully vested and exercisable at a price of \$1.50. During the three and nine month period ended September 30, 2018, the Company recognized an expense of \$51,082 and \$163,166 (2017 - \$52,530 and \$185,078), respectively, relating to stock options with a corresponding increase to contributed surplus.

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 3.5 and 8.5 years; ii) the risk free rate is between 1.89% and 2.17%; iii) the dividend yield will be \$NIL; and iv) expected volatility is 60.21%. Volatility was determined using the Company's trading data from the first day of trading to January 22, 2018. 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.

On April 13, 2018, 4,426,665 warrants expired. There are no outstanding warrants as of September 30, 2018.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

(unaudited)

### 12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	<b>Balance Dec 31 2017</b>	<b>Cash Flows</b>	<b>Non-Cash Changes</b>		<b>Balance Sept 30 2018</b>
			<b>New Leases</b>	<b>Reacquired Leases</b>	
Finance lease receivables	6,660,670	(1,648,556)	3,035,483	(748,388)	7,299,209

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

	<b>Balance December 31 2017</b>	<b>Cash Flows</b>	<b>Non-Cash Changes</b>		<b>Balance Sept 30 2018</b>
			<b>New Leases /Loans</b>	<b>Foreign Exchange Movement</b>	
Bank indebtedness	11,361,611	(4,059,740)	-	(3,365)	7,298,506
Loans payable	25,572,350	(5,920,928)	4,374,944	(21,564)	24,004,802
Finance lease liabilities	23,783,681	(5,668,438)	1,249,591	112,828	19,477,662
	60,717,642	(15,649,106)	5,624,535	87,899	50,780,970

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

(unaudited)

### 13. RELATED PARTY TRANSACTIONS AND BALANCES

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.

	<b>3 months ended Sept 30 2018</b>	<b>3 months ended Sept 30 2017</b>	<b>9 months ended Sept 30 2018</b>	<b>9 months ended Sept 30 2017</b>
Provided truck transportation services to Vision Extrusions Group Limited, Vision Profile Extrusions Ltd. and Sunview Patio Doors Ltd., companies under common control	1,482,032	1,273,581	4,095,684	3,392,956
Paid rent to Caledon First Investments Limited, a company under common control	(488,032)	(481,469)	(1,464,094)	(1,444,407)
Paid management fees to Trunkeast	(7,500)	(15,000)	(22,500)	(45,000)
	<u>986,500</u>	<u>777,112</u>	<u>2,609,090</u>	<u>1,903,549</u>

Included in trade and other receivables as at September 30, 2018 is a total of \$404,665 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.

### 14. WAGES AND CASUAL LABOUR

Included in wages and casual labour are the following:

	<b>3 months ended Sept 30 2018</b>	<b>3 months ended Sept 30 2017</b>	<b>9 months ended Sept 30 2018</b>	<b>9 months ended Sept 30 2017</b>
Share-based compensation expense	80,311	52,530	230,893	185,724
Employee benefits	162,352	96,364	436,048	339,166
Key management personnel:				
Salaries and benefits	619,054	212,185	1,088,880	634,989
Share-based compensation expense	<u>26,737</u>	<u>23,264</u>	<u>83,443</u>	<u>79,442</u>

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

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Nine months ended September 30, 2018 and 2017

(unaudited)

### 15. 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	1,912,639
Between one and five years	7,548,803
More than five years	17,499,597

Operating leases that were charged to income during the three month and nine month period ended September 30, 2018 totaled \$638,245 and \$1,916,975 (2017 - \$610,811 and \$1,838,436).

- b) As at September 30, 2018, the Company was committed to purchasing \$3.4 million in rolling stock and \$0.5 million in furniture and 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 head office terminal.
- 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.