

Q U A R T E R T W O 2 0 2 2



## **Management's Discussion & Analysis**

**FOR THE THREE MONTH PERIOD ENDED  
JUNE 30, 2022**

**Dated August 8, 2022**

# Titanium Transportation Group Inc.

Management's Discussion and Analysis for the second quarter ended June 30, 2022

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## GENERAL INFORMATION

The following is Titanium Transportation Group Inc.'s management discussion and analysis dated August 8, 2022 ("MD&A"), which provides a comparative overview of the Company's performance for the three month and six month periods ended June 30, 2022 with the corresponding three month and six month periods ended June 30, 2021, and it reviews the Company's financial position as at June 30, 2022. Throughout this MD&A, any reference to "Company", "we", "us", "our" or "Titanium" shall mean Titanium Transportation Group Inc. and all of its direct and indirect wholly-owned subsidiaries. This discussion should be read in conjunction with the Company's MD&A, audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2021 as well as the unaudited condensed consolidated interim financial statements of the Company for the second quarter ended June 30, 2022 ("consolidated interim financial statements").

The consolidated interim financial statements of the Company and extracts from those consolidated interim financial statements contained in this MD&A were prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated interim financial statements comply with IAS 34, Interim Financial Reporting, and do not include all of the information required for annual financial statements. The Company's presentation currency is the Canadian dollar. All financial information presented has been rounded to the nearest dollar, except per share amounts and where otherwise indicated. The Company's consolidated interim financial statements for the second quarter ended June 30, 2022 were approved by its Board of Directors on August 8, 2022. Readers are cautioned that certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumption prove incorrect, actual results may vary significantly from those expected. See "Forward Looking Statements" and "Risks and Uncertainties".

Unless otherwise indicated, the information in this report is dated as of August 8, 2022. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## OVERVIEW

The Company is an asset-based transportation and logistics company servicing Canada and the United States with terminals in Bolton, Bracebridge, Napanee, North Bay, Windsor, Belleville, Cornwall, and Brantford, ON, with additional parking/switch yards in Sudbury, Brockville and Trenton, ON and freight brokerage offices in Charlotte, NC, Nashville, TN, Chicago, IL, Denver, CO, and Atlanta, GA. The Company has over 1,000 customers across various industries, including large multinational corporations. The Company has approximately 800 power units, 3,000 trailers, and 1,100 independent owner operators and full-time employees.

The Truck Transportation segment provides transport of general merchandise by long-haul, dedicated and local trucking services throughout Canada and the U.S. with a variety of trailer types, including dry vans and flatbeds that support both heated and multi-axle services. Through the use of a modern fleet, the Truck Transportation segment provides reliable and high quality service to various customers, attains a high asset utilization through its network of terminals and yards across Ontario, and creates a platform for revenue growth and cost efficiencies through the integration of acquisitions.

The Logistics segment is a non-asset-based third-party logistics provider of ancillary transportation services, such as freight brokerage, North American and international freight forwarding, intermodal, special and expedited services. The Logistics segment succeeds due to the extensive experience and expertise of the Company's dedicated personnel, up to date and innovative information technology and systems, as well as strong strategic relationships with third-party providers.

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The Company's operational results are influenced by industry-wide economic factors and by capital allocation including operating and spending decisions. Industry-wide economic factors which impact operational results include freight demand, truck capacity, fuel prices, driver availability, overall economic conditions, exchange rates, government regulation and weather. The Company makes key decisions when allocating capital between its Truck Transportation and Logistics segments, hiring employees or contract for services of independent contractors and determining sustainable compensation structures, investing in new equipment and technology, and considering business acquisitions. Operating and spending decisions are made after the analysis of numerous important financial and operational metrics including EBITDA<sup>1</sup> and operating income, revenue generated per truck and per mile, empty miles, driver retention and fuel efficiency.

## Q2 2022 Key Highlights

- ◆ Consolidated revenue for Q2 2022 was a record \$136.2 million -- a 35.1% increase over Q2 2021. Favorable market conditions were reflected in increased freight rates propelled revenue increases for all segments.
- ◆ Operating income was \$10.1 million for Q2 2022, representing an 8.7% operating margin<sup>1</sup>, compared to \$2.7 million and a 2.9%, respectively, in Q2 2021.
- ◆ Truck Transportation segment revenue for Q2 2022 was \$58.6 million, a 30.9% increase year over year. Operating income was \$2.9 million, with a corresponding 6.0% margin, compared to negative \$1.0 million in Q2 2021.
- ◆ Logistics segment revenue was \$78.6 million for Q2 2022, a 36.2% increase when compared to \$57.7 million in the same period in 2021. U.S. freight brokerage segment contributed \$46.0 million in revenue in Q2 2022 -- a 16.9% increase from Q2 2021. Operating income was \$8.4 million, representing a 12.0% operating margin for the quarter -- compared to \$4.7 million and 8.7%, respectively, in Q2 2021.

### Revenue by Industry

Manufactured Goods	25.3%
Food & Beverages	23.0%
Retail	18.2%
Metals & Mining	7.0%
Services	6.8%
Logistics/Trucking	6.1%
Automotive	5.8%
Recycling	3.5%
Other	4.3%

Based on Q2 2022 revenue

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<sup>1</sup> Refer to "Results of Operations" on page 3 and "Non-IFRS Financial Measures" on page 12 for more information about operating income and EBITDA and for a reconciliation of operating income and EBITDA to net income.

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## RESULTS OF OPERATIONS

**Financial Highlights** (unaudited)  
(in '000 Canadian dollars)

	<b>3 months ended</b>	<b>3 months ended</b>	<b>6 months ended</b>	<b>6 months ended</b>
	<b>June 30 2022</b>	<b>June 30 2021</b>	<b>June 30 2022</b>	<b>June 30 2021</b>
Revenue	116,830	92,513	237,871	172,034
Fuel surcharge	19,353	8,285	34,299	14,438
	136,183	100,798	272,170	186,472
Operating expenses	119,848	93,067	241,918	171,226
EBITDA <sup>(1)</sup>	16,335	7,731	30,252	15,246
EBITDA margin <sup>(1)</sup>	14.0 %	8.4 %	12.7 %	8.9 %
Depreciation	5,877	4,917	11,321	9,709
Amortization of customer lists	327	142	654	257
Operating income <sup>(1)</sup>	10,131	2,672	18,277	5,280
Operating margin <sup>(1)</sup>	8.7 %	2.9 %	7.7 %	3.1 %
Gain on sale of property and equipment	(1,650)	(344)	(2,495)	(416)
Finance costs	1,013	987	1,931	1,803
Finance income	(42)	(57)	(93)	(107)
Foreign exchange loss	486	235	462	378
Transaction costs	-	-	-	800
Loss/(Gain) on Sale of Marketable Securities	-	487	-	(111)
Income tax expense	2,747	426	4,927	826
Net income and comprehensive income attributable to owners of the Company	7,577	938	13,545	2,107
Net income per share - basic	0.17	0.02	0.31	0.05
Net income per share - diluted	0.17	0.02	0.30	0.05

(1) Refer to "Non-IFRS Financial Measures".

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## EXECUTIVE SUMMARY

The turbulent impact of the COVID-19 pandemic continued in the second quarter of 2022. Inflationary pressure on input costs, combined with central banks increasing interest rates, contributed to a challenging operating environment. Notwithstanding, Titanium reported record results with quarterly revenues of \$136.2 million and quarterly EBITDA of \$16.3 million. These results continue to demonstrate the impact of our strategic investments in technology and our people. Our disciplined focus on core business growth strategies and adherence to strong financial principles ensures the Company is well-positioned to weather any economic headwinds that may arise in the latter half of this year.

During the first half of the year, our logistics segment posted significant organic growth as we executed on our U.S. expansion strategy with the addition of a location in Atlanta, GA. We expect to add at least one more U.S. location later this year. In addition, both our Canadian and U.S. logistics divisions capitalized on the favorable pricing environment. Segmented revenues grew by 59% in the first half of the year, and delivered more than double the EBITDA reported during the same period in 2021 at \$17.6 million.

Our trucking segment also posted record revenue during the quarter and for the first half of the year. Favorable pricing environments combined with synergies from the ITS acquisition drove the segment's revenue to growth of 28.6% in the first half of the year, or 22.1% after normalizing for inorganic growth. More importantly, profitability of the segment improved significantly, with EBITDA at 16.2% compared to 10.8% in 2021.

Looking ahead, the macro-economic uncertainties outlook for the balance of the year is cloudy. Inflationary pressure on all major input costs, including energy costs, driver wages, repairs and maintenance and rising purchase prices for tractors, trailers and other direct inputs are expected to persist across the industry. Nevertheless, the continued supply chain disruptions, tight capacity, and general staffing shortages should create opportunities for further improved profitability. While we anticipate a deceleration in our recent explosive growth over the latter half of the year, we remain well-positioned and confident to respond effectively to evolving customer needs and market conditions.

Overall, we expect to deliver solid results over the second half of the year given our investments in scalable technology and people, which enables us to provide best-in-class services to our customers and our solid balance sheet and disciplined focus allows us to continue to explore accretive acquisition opportunities should they arise. As a result of effective capital management and uncompromising focus on delivering sustainable profitability, we expect to exceed our previous consolidated revenue and EBITDA guidance. As such we are increasing our guidance to \$460 to \$480 million in consolidated revenue and \$45 to \$50 million in EBITDA this year, from the previous guidance of \$450 to 470 million in consolidated revenue and \$38 to \$43 million in EBITDA.

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## Selected Segmented Financial Information (unaudited)

(in '000 Canadian dollars)

	3 months ended	3 months ended	6 months ended	6 months ended
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
<b>Truck Transportation</b>				
Revenue	47,827	40,174	90,435	75,584
Fuel surcharge	10,788	4,589	17,520	8,360
	58,615	44,763	107,955	83,944
Operating expenses				
Carriers and independent contractors	17,648	13,739	32,514	27,176
Vehicle operating	17,911	12,860	33,284	23,037
Wages and casual labour	12,392	12,382	24,296	22,358
Other operating	1,695	1,895	3,197	3,307
	49,646	40,876	93,291	75,878
EBITDA <sup>(1)</sup>	8,969	3,887	14,664	8,066
EBITDA margin <sup>(1)</sup>	18.8 %	9.7 %	16.2 %	10.7 %
Depreciation	5,757	4,756	11,082	9,440
Amortization of customer lists	327	142	654	257
Operating income (loss) <sup>(1)</sup>	2,885	(1,011)	2,928	(1,631)
Operating margin <sup>(1)</sup>	6.0 %	(2.5)%	3.2 %	(2.2)%
Gain on sale of property and equipment	(1,650)	(344)	(2,495)	(416)
Finance costs	929	940	1,755	1,709
Finance income	(42)	(57)	(93)	(107)
Transaction costs	-	-	-	800
Loss/(Gain) on Sale of Marketable Securities	-	487	-	(111)
Income tax expense (recovery)	1,066	(400)	1,123	(746)
<b>Net income (loss)</b>	<b>2,582</b>	<b>(1,637)</b>	<b>2,638</b>	<b>(2,760)</b>

(1) Refer to "Non-IFRS Financial Measures".

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## Selected Segmented Financial Information (unaudited), continued

(in '000 Canadian dollars)

	3 months ended	3 months ended	6 months ended	6 months ended
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
<b>Logistics</b>				
Revenue	70,059	54,037	149,763	99,195
Fuel surcharge	8,565	3,695	16,778	6,078
	78,624	57,732	166,541	105,273
Operating expenses				
Carriers and independent contractors	62,871	48,621	134,952	88,626
Wages and casual labour	6,015	3,722	11,704	6,594
Other operating	1,314	664	2,308	1,340
	70,200	53,007	148,964	96,560
EBITDA/ Operating income <sup>(1)</sup>	8,424	4,725	17,577	8,713
EBITDA/ Operating margin <sup>(1)</sup>	12.0 %	8.7 %	11.7 %	8.8 %
Depreciation	120	161	239	269
Finance costs	83	47	176	94
Income tax expense	2,077	1,104	4,429	2,043
Net income	6,144	3,413	12,733	6,307

(1) Refer to "Non-IFRS Financial Measures".

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**Revenue** (unaudited)  
(in '000 Canadian dollars)

	<b>3 months ended</b>	<b>3 months ended</b>	<b>6 months ended</b>	<b>6 months ended</b>
	<b>June 30 2022</b>	<b>June 30 2021</b>	<b>June 30 2022</b>	<b>June 30 2021</b>
<b>Truck Transportation</b>				
Revenue	47,827	40,174	90,435	75,584
Fuel surcharge	10,788	4,589	17,520	8,360
	<u>58,615</u>	<u>44,763</u>	<u>107,955</u>	<u>83,944</u>
<b>Logistics</b>				
Revenue	70,059	54,037	149,763	99,195
Fuel surcharge	8,565	3,695	16,778	6,078
	<u>78,624</u>	<u>57,732</u>	<u>166,541</u>	<u>105,273</u>

For the three month and six month periods ended June 30, 2022, the Company's consolidated revenues increased by \$35.4 million and \$85.7 million, or 35.1% and 46.0%, respectively, when compared to the same periods ended June 30, 2021. The improvement in top line revenues reflected optimization in our pricing strategy to capitalize on the market conditions in the quarter. Our U.S. logistics division also increased their footprint with two new offices since June 30, 2021, which added much needed capacity to the segment.

The Truck Transportation segment experienced an increase in revenue of \$13.9 million or 30.9% for the three month period and an increase of \$24.0 million or 28.6% for the six month period ended June 30, 2022 when compared to that of 2021. The increase is primarily a result of revenue contribution from increases in pricing (freight rates). In addition, the acquisition of BSC also contributed a total of \$2.3 million for three month period ended June 30, 2022.

Logistics segment revenue increased \$20.9 million or 36.2%, for the three month period ended June 30, 2022 and an increase of \$61.3, million, or 58.2%, for the six month period ended June 30, 2022, when compared to 2021. Revenues from this segment remained strong in both quarters of 2022, reflecting a favourable market environment characterized by tight capacity from such factors as ongoing supply chain disruptions and labour shortages. Furthermore, our strategic expansion into Denver and Atlanta enhanced our capacity to service existing and new customers.

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## Operating Expenses and Income (unaudited) (in '000 Canadian dollars)

	3 months ended	3 months ended	6 months ended	6 months ended
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
<b>Truck Transportation</b>				
Revenue	58,615	44,763	107,955	83,944
Operating expenses	49,646	40,876	93,291	75,878
EBITDA <sup>(1)</sup>	8,969	3,887	14,664	8,066
EBITDA margin <sup>(1)</sup>	18.8 %	9.7 %	16.2 %	10.7 %
Depreciation and amortization	6,084	4,898	11,736	9,697
Operating income <sup>(1)</sup>	2,885	(1,011)	2,928	(1,631)
Operating margin <sup>(1)</sup>	6.0 %	(2.5)%	3.2 %	(2.2)%
<b>Logistics</b>				
Revenue	78,624	57,732	166,541	105,273
Operating expenses	70,200	53,007	148,964	96,560
EBITDA/ Operating income <sup>(1)</sup>	8,424	4,725	17,577	8,713
EBITDA/ Operating margin <sup>(1)</sup>	12.0 %	8.7 %	11.7 %	8.8 %
<b>Corporate</b>				
Operating expenses	1,057	880	1,991	1,534

(1) Refer to "Non-IFRS Financial Measures".

For the Truck Transportation segment, operating expenses increased by \$8.8 million, or 21.5%, for the three month period ended June 30, 2022 and by \$17.4 million, or 22.9%, for the six month period ended June 30, 2022, when compared to the same periods in 2021. The increase in operating expenses was mainly a reflection of the increase in volume from the ITS acquisition. For the three and six month period ended June 30, 2022, the segment operating margin improved significantly to 6.0% and 3.2% from -2.5% and -2.2% respectively. Margins are normally expected to soften following an acquisition as the segment integrates the operations, and part of the margin improvement in the quarter can be attributed by synergies related to the ITS acquisition, which weighted on the profitability of the segment in the same quarters of 2021. In addition, optimization of our pricing strategy also contributed to growth in the segment's revenue.

For the Logistics segment, operating expenses increased by \$17.2 million or 32.4% for the three month period ended June 30, 2022 and increased by \$52.4 million or 54.3% for the six month period ended June 30, 2022, when compared to the same periods in 2021. The increase in expenses for the quarter was mainly attributable to increases in subcontracting costs associated with the tightening of industry capacity. In addition, volume growth in the U.S. Logistics segment from our strategic U.S. expansion also added cost to the freight brokerage business. Nevertheless, segment operating margin increased significantly from 8.7% to 12.0% in the three month period ended June 30, 2022. For the six month period ended June 30, 2022, the segment operating margin increased from 8.8% to 11.7%. Leveraging our best-in-class technology, we were able to optimize our pricing strategies while mitigating the associated cost increases as much as possible.

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## SUMMARY OF QUARTERLY RESULTS

(in '000 Canadian dollars)

The following table sets out quarterly financial information for the Company's eight most recently completed quarters:

	<b>Q2'22</b>	<b>Q1'22</b>	<b>Q4'21</b>	<b>Q3'21</b>	<b>Q2'21</b>	<b>Q1'21</b>	<b>Q4'20</b>	<b>Q3'20</b>
Revenue	136,183	135,987	111,283	101,688	100,798	85,675	65,850	52,627
EBITDA <sup>(1)</sup>	16,335	13,917	8,783	7,239	7,731	7,515	6,529	6,713
EBITDA margin <sup>(1)</sup>	14.0 %	11.5 %	8.7 %	7.8 %	8.4 %	9.5 %	10.4 %	13.5 %
Operating income <sup>(1)</sup>	10,131	8,146	2,942	1,709	2,671	2,608	2,968	3,646
Operating margin <sup>(1)</sup>	8.7 %	6.7 %	2.9 %	1.8 %	2.9 %	3.3 %	4.7 %	7.3 %
Net income (loss) and comprehensive income (loss) attributable to the owners of the Company	7,577	5,969	1,573	1,354	938	1,169	2,094	2,655
Per share - basic	0.17	0.14	0.04	0.03	0.02	0.03	0.06	0.07
Per share - diluted	0.17	0.13	0.04	0.03	0.02	0.03	0.06	0.07

(1) Refer to "Non-IFRS Financial Measures".

Changes from quarter to quarter are mainly the result of seasonality of operations, changes in industry conditions and acquisitions. 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. Following the initial outbreak of the COVID-19 pandemic in early 2020, market conditions began to improve at the end of Q2 2020. Freight demand improved for the second half of 2020 as many end markets served by Titanium resumed activities. The economic recovery was particularly strong in the United States, in part reflecting the accelerated roll-out of COVID-19 vaccinations and easing of restrictions associated with the virus. In contrast, the Canadian market lagged behind in the recovery process in part reflecting ongoing COVID restrictions.

Consumer activities gradually began to resume as pandemic restrictions began to ease in 2021. However, the supply chain struggled to keep pace with the higher levels of aggregate demand. This, combined with monetary measures introduced during the pandemic and the geopolitical impacts of Russia's invasion of Ukraine, led to significant inflationary pressure in the North American and global economies. Operating costs rapidly increased starting Q2 2021 and continued through to Q2 2022. Fuel prices climbed as global political unrest added to the uncertainty in the market, which in turn further increased operating costs. Similarly, the increased operating costs, combined with tight capacity, created the conditions for an upward adjustment in freight rates.

In addition, there has historically been an increase in revenue and a decrease in margins in quarters following an acquisition. Revenues have often decreased, stabilized and then increased while EBITDA margins have increased in quarters after a business acquisition. For the acquisition of ITS, Truck Transportation segment EBITDA was significantly impacted by integration costs to bring the acquired fleet up to Titanium standards. Acquired revenue also followed historical trend as we rebranded the fleet under the Titanium banner. Margins and EBITDA steadily recovered since Q4 2021, where virtually all integration of the acquisition had completed.

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## LIQUIDITY AND CAPITAL RESOURCES

(in '000 Canadian dollars)

	<b>June 30 2022</b>	<b>December 31 2021</b>
Working capital (deficit) <sup>(1)</sup>	27,701	4,126
Total assets	256,481	233,666
Net debt <sup>(2)</sup>	82,685	83,067
Shareholders' equity	87,651	73,714
Net debt to equity ratio <sup>(3)</sup>	0.94	1.13

(1) Working capital (deficit) is defined as current assets less current liabilities.

(2) Net debt is defined as bank indebtedness, acquisition loan, loans payable and finance lease liabilities, net of cash, finance lease receivables, both current and long-term portions.

(3) Net debt to equity ratio is defined as net debt divided by shareholders' equity.

The Company's working capital position improved as at June 30, 2022 compared to December 31, 2021. After a slight decline in Q1 2022 due to the acquisition of BSC, where consideration for the transaction consisted of \$9.0 million in cash and \$1.5 million in share consideration, our solid operating results from the first half of 2022 allowed our capital position to quickly recover and improved to 0.94. More impressively, we were able to achieve this while incurring \$28.7 million in debt to replace excess aged equipment.

In terms of rolling stock expenditures, the industry is still facing significant supply chain disruption. We were able to increase our expected capital purchases to \$36.8 million towards 150 new power units and 150 trailers over the next year. Of this amount, \$4.4 million will be allocated towards 25 new power units for organic growth. In addition, we expect to realize proceeds from the sale of excess aged equipment of approximately \$7.6 million. Our rolling stock replacement policy is to replace trucks after 6 years, van trailers after 10 years and flatbed trailers after 15 years. We believe there is sufficient financing available to fund planned capital expenditures in the future and to provide for the further organic and inorganic growth of the business.

The following table sets out the Company's contractual obligations, excluding future interest payments:

(in '000 Canadian dollars)

	<b>Total</b>	<b>1 Year</b>	<b>2 Years</b>	<b>3 Years</b>	<b>4 Years</b>	<b>5 Years</b>	<b>After 5 Years</b>
Loans	56,852	14,642	12,372	11,782	10,640	5,898	1,518
Finance leases	26,336	6,288	4,440	3,516	2,201	1,982	7,909
	83,188	20,930	16,812	15,298	12,841	7,880	9,427

Titanium actively seeks debt refinancing when possible, especially with respect to debt acquired through business acquisitions, to the extent that penalties for early retirement of debt are not significant and lower cost financing is available. We believe the Company's operating cash flows are sufficient to fund daily operating activities and meet regular debt repayment obligations.

The portion of the Company's bank credit facilities which were unused as of June 30, 2022 include approximately \$30.1 million under the revolving demand operating facility, and \$5.5 million under a finance lease loan facility. In addition, the Company has \$30.6 million available in finance leasing and loan facilities through other institutions.

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The Company's credit facility and finance leasing agreements require Titanium to maintain three covenants on a quarterly basis. These covenants are measured on a consolidated rolling twelve-month basis. We were in compliance with all covenants as of June 30, 2022 and we believe the Company will be in compliance with all required covenants for the next twelve months. The first covenant requires the Company's debt to tangible net worth ratio to be less than 3.5. Debt to tangible net worth is a ratio of total liabilities plus future minimum lease payments on non-realty operating leases to shareholder's equity less goodwill, customer lists and deferred tax assets. The second covenant requires the Company's debt service coverage ratio to be greater than 1.15. Debt service coverage is a ratio of net income before interest income and expenses, gains on sale of equipment, depreciation, amortization and non-cash items, less unfinanced capital expenditures, plus proceeds of sale of equipment, to contractually required principal and interest payments made over the prior twelve months. The third covenant requires the Company's fixed charge coverage ratio to be greater than 1.00. Fixed charge coverage is a ratio of net income before interest income and expenses, gains on sale of equipment, to contractually required principal and interest payments made over the prior twelve months.

The Company must calculate its covenants by adjusting its net income and debt to treat realty leases as an operating lease rather than a finance lease.

## Common Shares

The Company offers 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 \$9,600 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, 464,655 have not yet vested.

During the quarter ended June 30, 2022, dividends of \$0.9 million or \$0.02 per common share (2021 - \$0.9 million) was declared and paid by the Company to its shareholders.

As of August 8, 2022, there are 44,726,199 common shares of the Company outstanding. In addition, there are 2,315,100 stock options outstanding, of which 1,394,300 are exercisable.

## TRANSACTIONS WITH RELATED PARTIES

The Company provides truck transportation services to companies under common control. These companies include Vision Extrusions Group Limited, Vision Profile Extrusions Ltd. and Sunview Patio Doors Ltd. Aggregate revenues from these companies totaled \$4.0 million for the six month period ended June 30, 2022 (2021 - \$2.9 million).

The Company was leasing its head office from Caledon First Investments Limited, a company under common control, until the building was sold during Q4 2021. No payments were made to this company for the three month and six month periods ended June 30, 2022 (2021 - \$0.5 million and \$0.9 million).

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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## FORWARD LOOKING STATEMENTS

This MD&A contains forward looking statements that reflect the Company's current expectations and projections about its future results. When used in this MD&A, forward looking statements can be identified by the use of words such as "may", or by such words as "will", "intend", "believe", "estimate", "consider", "expect", "anticipate", "objective" and similar expressions or variations of such words. Forward looking statements are, by their nature, not guarantees of the Company's future operational or financial performance and are subject to risks and uncertainties and other factors that could cause the Company's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward looking statements. No representation or warranty is intended with respect to anticipated future results or that estimates or projections will be sustained.

Readers are cautioned not to place undue reliance on these forward looking statements, which are necessarily based on a number of estimates and assumptions that, while considered reasonable by management as of the date of this MD&A, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The following factors could cause the Company's actual financial performance to differ materially from that expressed in any forward looking statement: highly competitive market conditions, the Company's ability to recruit, train and retain qualified drivers, the Company's ability to identify, successfully complete and integrate suitable acquisitions, fuel price variation and the Company's ability to recover these costs from its customers, foreign currency fluctuations, the impact of environmental standards and regulations, changes in Canadian and US government regulations applicable to the Company's operations, changes in key personnel, adverse weather conditions, accidents and litigation, the market for used equipment, changes in interest rates, changes in the cost of liability insurance coverage, downturns in general economic conditions affecting the Company and its customers and availability of financing on reasonable commercial terms. The Company expressly disclaims any obligation to update forward looking statements if circumstances or management's views or estimates change, except as otherwise required pursuant to applicable law.

From time to time, we will disclose our current annual run rate revenue and EBITDA. Although not intended as such, this may be interpreted as forward looking information. Run rates are presented in order to provide investors with insight into the current size of the Company and do not take into account expected future growth or changes in economic conditions. Historical figures may not be a good indicator of the Company's size, due to acquisitions and the time that it takes to fully realize synergies. We estimate we will deliver consolidated revenue between \$460 million to \$480 million and between \$45 to \$50 million in EBITDA.

## NON-IFRS FINANCIAL MEASURES

This MD&A includes the following financial measures that do not have any standardized meaning under IFRS and may not be comparable to similar measures employed by other companies:

"Earnings before interest, income taxes, depreciation and amortization" ("EBITDA") is calculated as net income before depreciation, amortization, asset impairments, gains or losses on the sale of equipment, finance income and costs, gains or losses on foreign exchange, income tax expense, transaction costs, accelerated customer list amortization and goodwill impairment.

"EBITDA margin" is calculated as EBITDA as a percentage of revenue before fuel surcharge.

"Operating income" is calculated as net income before asset impairments, gains or losses on the sale of equipment, finance income and costs, gains or losses on foreign exchange, income tax expense, transaction costs, accelerated customer list amortization and goodwill impairment.

"Operating margin" is calculated as operating earnings as a percentage of revenue before fuel surcharge.

# Titanium Transportation Group Inc.

Management's Discussion and Analysis for the second quarter ended June 30, 2022

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"Adjusted net income" is calculated as net income before items that are not in the normal course of business, such as accelerated customer list amortization and goodwill impairment.

Management of the Company believes that these financial measures are useful for investors and other readers, when used in conjunction with other IFRS financial measures, as they are measures used internally by management to evaluate performance. However, these financial measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of financial performance prepared in accordance with IFRS.

## **RISKS AND UNCERTAINTIES**

The Company's business is subject to a number of risk factors which are described in our most recently filed annual information form. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operations may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

As the duration and impact of the COVID-19 pandemic to the global economy is indeterminable, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. The Company will continue to closely monitor the situation as it develops day-to-day and will take further actions, if necessary, to ensure the wellbeing of our workforce, customers, suppliers and other stakeholders, as well as minimize the disruption to Titanium's services.

The Company has taken measures to mitigate the potential negative impact on its financial results as a result of the outbreak. These measures are described under the section COVID-19 information in this MD&A. As the current market remain uncertain, the Company's exposure to interest rate risk and foreign exchange risk are heightened due to the volatility of the market. We continue to monitor the economic conditions on a daily basis to mitigate these risks.

The Company does not expect any material changes to other risk factors provided that temporary COVID-19 precautionary measures relax in the near future. If these measures extend indefinitely, there may be adverse effects on Titanium's credit risks as customers may become financially distressed. There may also be additional risks to the Company's operations as available workforce may contract for the Company, its customers and its suppliers. Furthermore, a prolonged period of precautionary measures will likely have severe effects on the Company's liquidity position. All of the above will have adverse impact to the Company's financial performance if the precautionary measures remain indefinite.

## **CHANGES IN ACCOUNTING POLICIES**

The following new standards, interpretations and amendments to standards became effective for the period beginning January 1, 2022. The full description of each of these changes in accounting policies is available in our consolidated interim financial statements. The impact of the adoption of these standards is outlined below.

*IAS 37, Provisions, Contingent Liabilities and Contingent Assets.*

The following new standards and amendments to standards are not yet effective for the year ended June 30, 2022 and have not been applied in preparing the consolidated interim financial statements:

*IAS 1, Presentation of Financial Statements*

Q U A R T E R T W O 2 0 2 2



**Unaudited Condensed Consolidated  
Interim Financial Statements  
FOR THE THREE MONTH PERIOD ENDED  
JUNE 30, 2022**

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Financial Position

(in '000 Canadian dollars)

(unaudited)

	<b>June 30 2022</b>	<b>December 31 2021</b>
<b>Assets</b>		
Current		
Cash	18,937	18,046
Restricted Cash	-	9,200
Trade and other receivables (note 5, 14)	80,471	68,132
Current taxes recoverable (note 5)	90	12
Finance lease receivables (note 6, 13)	1,318	1,417
Prepaid expenses and deposits (note 5)	3,275	3,701
	<u>104,091</u>	<u>100,508</u>
Finance lease receivables (note 6, 13)	2,318	2,303
Property and equipment (note 5, 7)	106,066	76,224
Right of use assets (note 5, 8)	32,838	44,006
Deferred tax assets	774	392
Customer lists (note 5, 9)	6,036	6,690
Goodwill (note 5, 9)	4,358	3,543
	<u>256,481</u>	<u>233,666</u>
<b>Liabilities</b>		
Current		
Bank indebtedness (note 5, 10, 13)	7,382	21,805
Acquisition loan (note 5, 10)	-	15,000
Trade and other payables (note 5)	44,266	37,165
Current taxes payable	3,812	4,064
Loans payable (note 5, 10, 13)	14,642	9,724
Finance lease liabilities (note 5, 10, 13, 14)	6,288	8,624
	<u>76,390</u>	<u>96,382</u>
Acquisition loan (note 5, 10)	14,688	-
Loans payable (note 5, 10, 13)	42,210	23,751
Finance lease liabilities (note 5, 10, 13, 14)	20,048	25,929
Deferred tax liabilities (note 5)	15,494	13,890
	<u>168,830</u>	<u>159,952</u>
<i>Commitments and contingencies (note 16)</i>		
<b>Shareholders' Equity</b>		
Share capital (note 11)	50,191	48,204
Contributed surplus (note 12)	8,999	8,812
Retained earnings	28,461	16,698
	<u>87,651</u>	<u>73,714</u>
	<u>256,481</u>	<u>233,666</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

Six months ended June 30, 2022 and 2021

(in '000 Canadian dollars, except per share amounts)

(unaudited)

	<b>3 months ended June 30 2022</b>	<b>3 months ended June 30 2021</b>	<b>6 months ended June 30 2022</b>	<b>6 months ended June 30 2021</b>
Revenue (note 14)	116,830	92,513	237,871	172,034
Fuel surcharge	19,353	8,285	34,299	14,438
	<u>136,183</u>	<u>100,798</u>	<u>272,170</u>	<u>186,472</u>
Operating expenses				
Carriers and independent contractors	79,463	60,662	165,140	113,058
Vehicle operating	17,911	12,860	33,284	23,037
Wages and casual labour (note 15)	19,001	16,532	37,026	29,750
Other operating	3,473	3,013	6,468	5,381
	<u>119,848</u>	<u>93,067</u>	<u>241,918</u>	<u>171,226</u>
Income before the following	<u>16,335</u>	<u>7,731</u>	<u>30,252</u>	<u>15,246</u>
Depreciation (note 7, 8)	5,877	4,917	11,321	9,709
Gain on sale of property and equipment	(1,650)	(344)	(2,495)	(416)
Finance costs (note 14)	1,013	987	1,931	1,803
Finance income	(42)	(57)	(93)	(107)
Foreign exchange loss	486	235	462	378
Amortization of customer lists (note 9)	327	142	654	257
Transaction costs (note 5)	-	-	-	800
Loss (Gain) on sale of marketable securities	-	487	-	(111)
	<u>6,011</u>	<u>6,367</u>	<u>11,780</u>	<u>12,313</u>
Income before income taxes	10,324	1,364	18,472	2,933
Income tax expense	2,747	426	4,927	826
Net income and comprehensive income attributable to owners of the Company	<u>7,577</u>	<u>938</u>	<u>13,545</u>	<u>2,107</u>
Earnings per share:				
Basic	0.17	0.02	0.31	0.05
Diluted	0.17	0.02	0.30	0.05
Weighted average number of shares outstanding (in number of shares):				
Basic (note 11)	44,157,015	43,333,960	43,898,227	39,794,488
Diluted (note 11)	<u>45,085,847</u>	<u>44,882,330</u>	<u>44,829,122</u>	<u>41,401,158</u>

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Changes in Equity

Six months ended June 30, 2022 and 2021

(in '000 Canadian dollars)

(unaudited)

	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Retained Earnings</b>	<b>Total</b>
Balances at December 31, 2021	48,204	8,812	16,698	73,714
Share issuance (note 11)	1,798	-	-	1,798
Shares vested (note 11)	153	(153)	-	-
Options exercised (note 12)	36	(13)	-	23
Share-based compensation expense (note 12, 15)	-	353	-	353
Dividends paid (note 11)	-	-	(1,782)	(1,782)
Net income and comprehensive income	-	-	13,545	13,545
<b>Balances at June 30, 2022</b>	<b>50,191</b>	<b>8,999</b>	<b>28,461</b>	<b>87,651</b>
Balances at December 31, 2020	23,252	8,782	15,037	47,071
Share issuance (note 11)	23,510	-	-	23,510
Shares vested (note 11)	164	(164)	-	-
Options exercised (note 11)	804	(297)	-	507
Share-based compensation expense (note 12, 15)	-	324	-	324
Dividends paid (note 11)	-	-	(1,616)	(1,616)
Net income and comprehensive income	-	-	2,107	2,107
<b>Balances at June 30, 2021</b>	<b>47,730</b>	<b>8,645</b>	<b>15,528</b>	<b>71,903</b>

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Cash Flows

(in '000 Canadian dollars)

(unaudited)

	<b>3 months ended June 30 2022</b>	<b>3 months ended June 30 2021</b>	<b>6 months ended June 30 2022</b>	<b>6 months ended June 30 2021</b>
<b>Cash flows from operating activities</b>				
Net income	7,577	938	13,545	2,107
Adjustments:				
Depreciation (note 7, 8)	5,877	4,917	11,321	9,709
Gain on sale of property and equipment	(1,650)	(344)	(2,495)	(416)
Finance costs	1,013	987	1,931	1,803
Finance income	(42)	(57)	(93)	(107)
Amortization of customer lists (note 9)	327	142	654	257
Share-based compensation expense (note 12)	140	146	353	324
Loss (Gain) on sale of marketable securities	-	487	-	(111)
Income tax expense	2,747	1,268	4,927	2,375
	<u>15,989</u>	<u>8,484</u>	<u>30,143</u>	<u>15,941</u>
Net change in non-cash operating working capital	9,473	(5,421)	364	(1,399)
	<u>25,462</u>	<u>3,063</u>	<u>30,507</u>	<u>14,542</u>
Interest paid	(1,033)	(994)	(1,965)	(1,770)
Interest received	42	57	93	107
Income taxes received (paid)	(3,229)	(2,316)	(4,452)	(3,305)
	<u>21,242</u>	<u>(190)</u>	<u>24,183</u>	<u>9,574</u>
<b>Cash flows from investing activities</b>				
Proceeds from finance lease receivables (note 13)	414	472	1,084	1,059
Proceeds from marketable securities (note 5)	-	(487)	-	2,059
Acquisition of property and equipment (note 7, 13)	(126)	(195)	(247)	(346)
Disposition of property and equipment (note 7, 13)	5,421	754	9,572	932
Acquisition of subsidiaries (note 5)	-	-	-	(27,000)
	<u>5,709</u>	<u>544</u>	<u>10,409</u>	<u>(23,296)</u>
<b>Cash flows from financing activities</b>				
Proceeds from bank indebtedness (note 13)	-	6,510	-	8,831
Repayment of bank indebtedness (note 13)	(12,319)	-	(14,190)	(4,929)
Proceeds from acquisition loans (note 13)	(313)	10,000	(313)	15,000
Repayment of loans payable (note 13)	(4,689)	(2,662)	(8,908)	(4,095)
Repayment of finance lease liabilities (note 13)	(4,162)	(5,709)	(8,828)	(8,651)
Dividends paid (note 11)	(892)	(876)	(1,782)	(1,616)
Issuance of shares (note 11)	161	(213)	320	24,017
	<u>(22,214)</u>	<u>7,050</u>	<u>(33,701)</u>	<u>28,557</u>
Increase in cash	4,737	7,404	891	14,835
Cash, beginning	14,200	10,520	18,046	3,089
Cash, ending	<u>18,937</u>	<u>17,924</u>	<u>18,937</u>	<u>17,924</u>

Refer to note 13 for supplemental cash flow information.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022 and 2021

(Tabular amounts in '000 Canadian dollars, unless otherwise noted.)

(unaudited)

### 1. REPORTING ENTITY

Titanium Transportation Group Inc. (the "Company" or "Titanium") commenced operations as a transportation company on July 3, 2002. The Company is a truck-based carrier and logistics broker servicing all of North America with distribution terminals in Bolton, Bracebridge, Napanee, North Bay, Windsor, Belleville, Cornwall, and Brantford, ON, with additional parking/switch yards in Sudbury, Brockville and Trenton, ON and freight brokerage offices in Charlotte, NC, Nashville, TN, Chicago, IL, Denver, CO, and Atlanta, GA. The registered head office of the Company is at 32 Simpson Rd, Bolton, Ontario, L7E 1G9. Titanium 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 common shares of the Company trade on the Toronto Stock Exchange under the symbol "TTNM".

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

### 2. BASIS OF PRESENTATION

#### **Basis of Consolidation**

The condensed consolidated interim financial statements consolidate the accounts of the Company and all of its subsidiaries. Subsidiaries are entities over which the Company has the power to govern financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date control ceases. Fully consolidated means that all transactions with subsidiaries and any intercompany balances, gains or losses with subsidiaries have been eliminated on consolidation. The accounting policies have been applied consistently by all subsidiaries.

All of the Company's subsidiaries are wholly-owned, are domiciled in Canada and the United States, and are in the truck transportation or logistics industries.

The acquisition method of accounting is used to account for business combinations. The cost of an acquisition is measured at the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed as incurred. The excess of the cost of the acquisition over the fair value of the acquisition's identifiable net assets is recorded as goodwill. If the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized directly in the consolidated statements of comprehensive income. Contingent consideration is included in total consideration and is recognized at its fair value as at the acquisition date.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022 and 2021

(Tabular amounts in '000 Canadian dollars, unless otherwise noted.)

(unaudited)

### 2. BASIS OF PRESENTATION - continued

#### 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, 2021.

These 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 August 8, 2022.

#### 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 ("CAD"), which is the functional currency of the Company and its wholly owned subsidiaries unless otherwise stated. All financial information presented has been rounded to the nearest thousands of dollar, except per share amounts and where otherwise indicated.

Items included in the condensed consolidated interim financial statements of all of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The Company identified that all of their subsidiaries with the exception of one have a functional currency of the Canadian Dollar. Titanium American Logistics Inc. in the United States, a wholly owned subsidiary incorporated in fiscal 2019, was determined to have a functional currency of the United States Dollar ("USD").

#### 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.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022 and 2021

(Tabular amounts in '000 Canadian dollars, unless otherwise noted.)

(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.

#### 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 with regards to the significant items outline below. Readers are cautioned that the foregoing list is not exhaustive and other items may also be affected by judgment.

- a) *Impairment of Intangible Assets* - Goodwill and intangible assets that have an indefinite life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that assets or the cash-generating unit ("CGU") might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or CGU.
- b) *Business combinations* – Tangible assets acquired as part of a business combination are valued based on management estimates of current market values, recent selling activity and third party valuations. Intangible assets are valued based on future discounted expected cash flows, customer attrition and workforce turnover. Discount rates are estimated based on industry averages, company size and capital structure.
- c) *Lease contracts* – Lease contracts with extensions, terminations or early buyout options are evaluated based on management judgement on whether it is reasonably certain that the option will be exercised. Management considers all relevant factors and economic incentives such as current market values of underlying asset, recent market renewals and third party valuations. In addition, management also evaluate relevant factors such as bank mortgage rate, interest rates and borrowing conditions when assessing the incremental borrowing rate to measure the lease liability.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022 and 2021

(Tabular amounts in '000 Canadian dollars, unless otherwise noted.)

(unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### Use of Estimates and Assumptions

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 with regards to the significant items outline below. 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 the condensed consolidated interim statement of comprehensive income in the period in which they become known. Readers are cautioned that the foregoing list is not exhaustive and other items may also be affected by estimates. Actual results could differ materially from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

- a) *Impairment of trade and other receivables* – An allowance for lifetime expected credit losses is established based on a combined approach of specific account identification and the use of a provision matrix. Management regularly analyzes its approach and exposure to credit loss based on an analysis of all relevant current information as well as historical trends.
- b) *Depreciation and impairment of property and equipment and Right of Use Assets* – Estimates of useful lives for straight line depreciation are based on management's historical experience and are reviewed on an ongoing basis. Property and equipment, as well as Right-of-Use Assets, is assessed for impairment when events or changes in circumstances indicate that the Company may not be able to recover its carrying value.
- c) *Share-based payments* – Management estimates expected volatility, the expected life of the instrument and expected forfeitures when valuing share-based payments. Volatility is estimated based on historical trading data. The expected life of the instrument and expected forfeitures is based on past experience.
- d) *Provisions* – Estimates of expected settlements arising from matters involving litigation or accident claims are based on information provided by legal counsel or insurance professionals.
- e) *Income Taxes* – Deferred tax balances are estimated based on expected future tax rates and the probability of future taxable income needed to realize deferred tax assets. Expected future tax rates are based on currently enacted tax rates or pronounced changes. Future taxable income is based on past performance and future expected conditions.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022 and 2021

(Tabular amounts in '000 Canadian dollars, unless otherwise noted.)

(unaudited)

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### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### **New Standards Adopted**

*IAS 37, Provisions, Contingent Liabilities and Contingent Assets*, was amended in May 2020 with the issuance of *Onerous Contracts - Cost of Fulfilling a Contract* by IASB. The IASB specified the costs of fulfilling a contract to include incremental costs incurred and allocation of other direct costs when determining whether a contract is onerous. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The adoption of this interpretation did not have a material impact on the condensed consolidated interim financial statements.

#### **New Standard not yet adopted**

*IAS 1, Presentation of Financial Statements*, was amended in January 2020. The IASB clarified the classification of liabilities as current or non-current by removing the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must exist at the end of the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company has not early adopted these amendments.

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

Six months ended June 30, 2022 and 2021

(Tabular amounts in '000 Canadian dollars, unless otherwise noted.)

(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 June 30, 2022</b>					
Revenue - external	57,559	78,624	-	-	136,183
Revenue - internal	1,056	-	-	(1,056)	-
Total revenue	58,615	78,624	-	(1,056)	136,183
Depreciation	5,757	120	-	-	5,877
Finance costs	930	83	-	-	1,013
Finance income	(42)	-	-	-	(42)
Income (loss) before income taxes	3,647	8,221	(1,544)	-	10,324
Income taxes (recoveries)	1,066	2,077	(396)	-	2,747
Capital expenditures	17,030	-	-	-	17,030
<b>Three months ended June 30, 2021</b>					
Revenue - external	43,066	57,732	-	-	100,798
Revenue - internal	1,697	-	-	(1,697)	-
Total revenue	44,763	57,732	-	(1,697)	100,798
Depreciation	4,756	161	-	-	4,917
Finance costs	940	47	-	-	987
Finance income	(57)	-	-	-	(57)
Income (loss) before income taxes	(2,037)	4,516	(1,115)	-	1,364
Income taxes (recoveries)	(400)	1,104	(278)	-	426
Capital expenditures	5,668	-	-	-	5,668

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022 and 2021

(Tabular amounts in '000 Canadian dollars, unless otherwise noted.)

(unaudited)

### 4. OPERATING SEGMENTS - continued

	<b>Truck Transportation</b>	<b>Logistics</b>	<b>Corporate</b>	<b>Elimination</b>	<b>Total</b>
<b>Six months ended, June 30, 2022</b>					
Revenue - external	105,629	166,541	-	-	272,170
Revenue - internal	2,326	-	-	(2,326)	-
<b>Total revenue</b>	<b>107,955</b>	<b>166,541</b>	<b>-</b>	<b>(2,326)</b>	<b>272,170</b>
Depreciation	11,082	239	-	-	11,321
Finance costs	1,755	176	-	-	1,931
Finance income	(93)	-	-	-	(93)
Income (loss) before income taxes	3,762	17,163	(2,453)	-	18,472
Income taxes (recoveries)	1,123	4,429	(625)	-	4,927
Capital expenditures	28,986	-	-	-	28,986
<b>Six months ended, June 30, 2021</b>					
Revenue - external	81,199	105,273	-	-	186,472
Revenue - internal	2,744	-	-	(2,744)	-
<b>Total revenue</b>	<b>83,943</b>	<b>105,273</b>	<b>-</b>	<b>(2,744)</b>	<b>186,472</b>
Depreciation	9,440	269	-	-	9,709
Finance costs	1,710	93	-	-	1,803
Finance income	(107)	-	-	-	(107)
Income (loss) before income taxes	(3,506)	8,351	(1,912)	-	2,933
Income taxes (recoveries)	(746)	2,043	(472)	-	825
Capital expenditures	5,780	689	-	-	6,469

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 June 30 2022</b>	<b>3 months ended June 30 2021</b>	<b>6 months ended June 30 2022</b>	<b>6 months ended June 30 2021</b>
Canada	58,277	41,292	115,164	75,655
United States	77,906	59,506	157,006	110,817
	<b>136,183</b>	<b>100,798</b>	<b>272,170</b>	<b>186,472</b>

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

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### 5. BUSINESS COMBINATIONS

On January 1, 2022, the Company acquired all the outstanding shares, land and building of Bert and Son's Cartage Limited ("BSC"), a truck-based carrier from Brantford, Ontario for \$9.0 million in cash and \$1.5 million in share considerations. The acquisition was consistent with the Company's growth strategy and to add capacity to its Brantford terminal.

From the date of acquisition, BSC contributed revenue of \$3.4 million and net income of \$0.6 million during the six month period ended June 30, 2022.

The fair value allocations for the BSC acquisition are based on preliminary purchase allocations conducted by management. As the acquisition is within the measurement period under IFRS 10, it continues to be refined. The Company had not yet completed the purchase price allocation over the identifiable net assets of BSC. Thus, property and equipment and deferred tax liabilities are presented as provisional amounts pending finalizing valuation of assets acquired and post-closing adjustments, which are not completed at the time that these condensed consolidated interim financial statements were approved by the Board of Directors. The table below presents the provisional purchase price allocation as at June 30, 2022:

Cash and cash equivalents	337
Trade and other receivables	972
Current taxes receivable	22
Prepaid expense and deposits	97
Property and equipment	9,084
Trade and other payables	(292)
Loans payable	(30)
Finance lease liabilities	(66)
Deferred tax liabilities	(439)
	<hr/>
Total identifiable net assets	9,685
Total consideration	10,500
	<hr/>
Goodwill	815
	<hr/>
Cash	9,000
Issuance of shares	1,500
	<hr/>
Total consideration transferred	10,500
	<hr/>

### 6. FINANCE LEASE RECEIVABLES

During the six month period ended June 30, 2022, the Company entered into new finance leases totaling \$1.2 million which are receivable over 12 to 72 months with interest rates ranging from 4.25% to 7.50%.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022 and 2021

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(unaudited)

### 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, 2021	16,346	3,573	93,463	113,382
Other additions	126	70	28,303	28,499
Acquired through business combinations	7,100	-	1,984	9,084
Reacquisition - Rolling stock	-	-	191	191
Sale of rolling stock relating to finance lease receivables	-	-	(1,379)	(1,379)
Purchase of lease assets	-	-	4,593	4,593
Other disposals	-	(7)	(5,625)	(5,632)
Balances, June 30, 2022	23,572	3,636	121,530	148,738
<b>Accumulated depreciation</b>				
Balances, December 31, 2021	2,785	3,182	31,191	37,158
Depreciation	361	129	7,692	8,182
Sale of rolling stock relating to finance lease receivables	-	-	(309)	(309)
Other disposals	-	(7)	(2,352)	(2,359)
Balances, June 30, 2022	3,146	3,304	36,222	42,672
<b>Net carrying amounts</b>				
At December 31, 2021	13,561	391	62,272	76,224
At June 30, 2022	20,426	332	85,308	106,066

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022 and 2021

(Tabular amounts in '000 Canadian dollars, unless otherwise noted.)

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### 8. RIGHT OF USE ASSETS

	<b>Land and Buildings</b>	<b>Furniture and Equipment</b>	<b>Rolling Stock</b>	<b>Total</b>
<b>Cost</b>				
Balances, December 31, 2021	18,285	1,532	34,179	53,996
Other additions	485	-	-	485
Other disposals	-	-	(4,766)	(4,766)
Purchase of lease assets	-	-	(6,553)	(6,553)
Balances, June 30, 2022	18,770	1,532	22,860	43,162
<b>Accumulated depreciation</b>				
Balances, December 31, 2021	2,164	1,498	6,328	9,990
Depreciation	990	34	2,115	3,139
Other disposals	-	-	(845)	(845)
Purchase of lease assets	-	-	(1,960)	(1,960)
Balances, June 30, 2022	3,154	1,532	5,638	10,324
<b>Net carrying amounts</b>				
At December 31, 2021	16,121	34	27,851	44,006
At June 30, 2022	15,616	-	17,222	32,838

### 9. GOODWILL AND INTANGIBLES

	<b>Goodwill</b>	<b>Customer Lists</b>	<b>Total</b>
Balances, December 31, 2021	3,543	6,690	10,233
Acquired through business combinations	815	-	815
Amortization	-	(654)	(654)
Balances, June 30, 2022	4,358	6,036	10,394

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022 and 2021

(Tabular amounts in '000 Canadian dollars, unless otherwise noted.)

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### 10. 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+0.50%	N/A	7,382
Acquisition loan	PRIME+0.50%	2026	14,688
Loans payable	2.00% - 5.19%	2022-2031	56,852
Finance lease liabilities	0.99% - 10.32%	2022-2026	26,336
			<u>105,258</u>
Current portion			<u>28,312</u>
			<u>76,946</u>

### 11. 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, 2021	44,037,513	48,204
Shares issued as part of share purchase plan	233,686	451
Shares issued on exercise of options (note 12)	15,000	36
Shares issued on business combination (note 5)	400,000	1,500
	<u>44,686,199</u>	<u>50,191</u>
Balances, June 30, 2022		

The Company offers 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 \$9,600 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, 464,655 (December 31, 2021 - 462,603) have not vested. During the three month and six month period ended June 30, 2022, the Company recognized an expense of \$0.1 million and \$0.2 million (2021 - \$0.1 million and \$0.2 million) relating to the Plan, with a corresponding increase to contributed surplus.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022 and 2021

(Tabular amounts in '000 Canadian dollars, unless otherwise noted.)

(unaudited)

### 11. SHARE CAPITAL - continued

On January 1, 2022, the Company completed the acquisition of Bert & Son's Cartage Limited. The purchase price included share consideration of 400,000 common shares of the Company at a price of \$3.75 per common share for a total of \$1.5 million.

During the quarter ended June 30, 2022, dividends of \$0.9 million or \$0.02 per common share (2021 - \$0.9 million) were declared and paid by the Company to its shareholders.

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

	<b>3 months ended June 30 2022</b>	<b>3 months ended June 30 2021</b>	<b>6 months ended June 30 2022</b>	<b>6 months ended June 30 2021</b>
Issued common shares, beginning	44,555,284	43,769,221	44,037,513	36,739,185
Effect of unvested common shares	(463,727)	(477,369)	(463,629)	(501,824)
Effect of issued common shares	65,458	42,108	324,343	3,557,127
Weighted average number of common shares	44,157,015	43,333,960	43,898,227	39,794,488
Dilutive effect of restricted common shares and stock options	928,832	1,548,370	930,895	1,606,670
Weighted average number of diluted common shares	45,085,847	44,882,330	44,829,122	41,401,158

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

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### 12. CONTRIBUTED SURPLUS

Share-based compensation expense is comprised of the following:

	<b>3 months ended</b>	<b>3 months ended</b>	<b>6 months ended</b>	<b>6 months ended</b>
	<b>June 30 2022</b>	<b>June 30 2021</b>	<b>June 30 2022</b>	<b>June 30 2021</b>
Share purchase plan	73	75	217	176
Stock options	67	71	136	148
	<b>140</b>	<b>146</b>	<b>353</b>	<b>324</b>

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 7% 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. The following table summarizes the changes in outstanding stock options:

	<b>Grant #</b>	<b>Exercise Price</b>
Balances, December 31, 2021	1,996,600	1.86
Issued	338,500	2.60
Exercised	(15,000)	1.50
Forfeited	(5,000)	2.60
Balances, June 30, 2022	<b>2,315,100</b>	<b>1.97</b>

Of the total stock options issued during the period, 65,000 (2021 - 100,000) stock options were issued to key management personnel. 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 0.28% and 1.01%; iii) the dividend yield will be between 2.78% and 3.11%; and iv) expected volatility is 60.20%. Volatility was determined using the Company's trading data from the first day of trading to the date of issuance. 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.

The following table summarizes information about stock options outstanding as at June 30, 2022:

<b>Exercise Price</b>	<b>Options Outstanding</b>	<b>Weighted Average Remaining Life</b>	<b>Options Exercisable</b>
<b>\$</b>	<b>#</b>	<b>in years</b>	<b>#</b>
1.50	1,381,300	4.4	1,164,200
2.60	723,800	8.6	35,100
2.85	195,000	3.6	195,000
3.00	15,000	9.1	-
<b>1.97</b>	<b>2,315,100</b>	<b>5.7</b>	<b>1,394,300</b>

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022 and 2021

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### 13. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Balance Dec 31 2021	Cash Flows	Non-Cash Changes		Balance June 30 2022
			New Leases	Reacquired Leases	
Finance lease receivables	3,720	(1,084)	1,195	(195)	3,636

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

	Balance Dec 31 2021	Cash Flows	Non-Cash Changes		Balance June 30 2022
			New Leases /Loans	Foreign Exchange Movement	
Bank indebtedness	21,805	(14,190)	-	(233)	7,382
Acquisition loan	15,000	(313)	-	-	14,688
Loan payable	33,475	(8,908)	31,562	723	56,852
Finance lease liabilities	34,553	(8,828)	551	60	26,336
	104,833	(32,239)	32,113	550	105,258

### 14. 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.

	3 months ended June 30 2022	3 months ended June 30 2021	6 months ended June 30 2022	6 months ended June 30 2021
Provided truck transportation services to Vision Extrusions Group Limited, Vision Profile Extrusions Ltd. and Sunview Patio Doors Ltd., companies under common control	5,431	3,330	9,414	6,204
Paid rent to Caledon First Investments Limited, a company under common control	-	(464)	-	(928)
	5,431	2,866	9,414	5,276

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### 14. RELATED PARTY TRANSACTIONS AND BALANCES - continued

Under IFRS 16, rent was paid to Caledon First Investments Limited until it was sold during Q4 2021. In the six month period ended June 30, 2021, total payments of \$0.9 million was considered repayment of finance lease obligations, with deemed interest paid for right-of-use asset included in finance costs.

As at June 30, 2022, there are no amounts payable to Caledon First Investments Limited. (2021 - \$33.4 million)

Included in trade and other receivables as at June 30, 2022 is a total of \$3.4 million (2021 - \$1.2 million) 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.

### 15. WAGES AND CASUAL LABOUR

Included in wages and casual labour are the following:

	3 months ended	3 months ended	6 months ended	6 months ended
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
Share-based compensation expense	140	146	353	324
Employee benefits	255	523	571	850
Key management personnel:				
Salaries and benefits	487	174	857	352
Share-based compensation expense	35	37	70	89

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

### 16. COMMITMENTS AND CONTINGENCIES

- As at June 30, 2022, the Company was committed to purchasing approximately \$36.8 million in rolling stock.
- The Company has a letter of credit outstanding for \$0.7 million in favour of Colonnade BridgePort ITF as a security deposit required under the lease for its Bolton head office.
- Subsequent to the quarter end, the Company has committed to renting additional office space. The future minimum lease payment for the lease is \$0.7 million for the duration of the lease.
- 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.