

Consolidated Financial Statements Fiscal 2017



August 31, 2017



Grant Thornton LLP

1701 Scotia Place 2
10060 Jasper Avenue NW
Edmonton, AB
T5J 3R8
T +1 780 422 7114
F +1 780 426 3208
www.GrantThornton.ca

Independent Auditor's Report

To the Shareholders of Titan Logix Corp.

We have audited the accompanying consolidated financial statements of Titan Logix Corp. which comprise the consolidated statements of financial position as at August 31, 2017 and August 31, 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Titan Logix Corp. as at August 31, 2017 and August 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Edmonton, Canada
November 29, 2017

Chartered Professional Accountants



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	August 31, 2017 \$	August 31, 2016 \$
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	13,527,827	12,788,278
Short term investments	-	1,000,000
Accounts receivable (note 5)	562,035	412,076
Inventories (note 6)	802,773	1,529,192
Prepaid expenses	101,491	139,922
Income tax recoverable	153,862	396,386
Assets held for sale (note 9)	-	162,974
Total current assets	15,147,988	16,428,828
Non-current assets		
Property, plant and equipment (note 7)	259,785	402,963
Non-current assets held for sale (notes 8 and 9)	-	40,943
Intangible assets (note 10)	1,278,147	828,731
Total assets	16,685,920	17,701,465
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	453,616	521,583
Current portion of finance lease obligations (note 12)	30,939	46,618
Total current liabilities	484,555	568,201
Non-current liabilities		
Finance lease obligations (note 12)	26,504	91,058
Total liabilities	511,059	659,259
Equity		
Share capital (note 15)	5,730,279	5,566,479
Contributed surplus	718,073	766,830
Retained earnings	9,726,509	10,708,897
Total equity	16,174,861	17,042,206
Total liabilities and equity	16,685,920	17,701,465

Subsequent event (note 25)

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board

"Douglas Carruthers"
Director

"Helen Cornett"
Director



CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended August 31,	2017 \$	2016 \$
Revenue	3,512,527	3,972,800
Cost of sales	2,342,627	3,084,235
Gross profit	1,169,900	888,565
Expenses		
General and administration	1,417,237	2,033,651
Marketing and sales	767,744	1,375,821
Engineering	96,736	549,910
Depreciation of property, plant and equipment (notes 7 and 16)	83,588	177,160
Amortization of intangible assets (notes 10 and 16)	253,171	305,234
Loss (gain) on foreign exchange	18,203	(38,158)
Total expenses	2,636,679	4,403,618
Operating loss before other items	(1,466,779)	(3,515,053)
Other items		
Gain on disposal of property, plant and equipment	11,549	18,341
Gain on disposal of non-current assets held for sale (note 9)	307,275	-
Loss on disposal of intangible assets	-	(2,136)
Loss on impairment of property, plant and equipment	(14,056)	(154,558)
Loss on impairment of non-current assets held for sale	-	(20,000)
Loss on impairment of intangible assets (note 10)	-	(940,924)
Interest revenue	173,436	148,401
Interest on finance leases	(1,150)	(9,496)
Total other items	477,054	(960,372)
Loss before income taxes	(989,725)	(4,475,425)
Income tax recovery (note 14)		
Current	(7,337)	(375,128)
Deferred	-	(403,043)
Total income tax recovery	(7,337)	(778,171)
Net loss and comprehensive loss	(982,388)	(3,697,254)
Loss per share (note 17)		
Basic	(0.03)	(0.14)
Diluted	(0.03)	(0.14)

The accompanying notes are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Shares #	Share Capital \$	Contributed Surplus \$	Retained Earnings \$	Total Equity \$
Balance at August 31, 2015	25,648,440	4,098,882	722,649	14,406,151	19,227,682
Share-based compensation	-	-	87,281	-	87,281
Shares issued - exercise of options (note 15)	330,000	92,700	(43,100)	-	49,600
Shares issued - private placement (note 15)	2,307,692	1,374,897	-	-	1,374,897
Net loss	-	-	-	(3,697,254)	(3,697,254)
Balance at August 31, 2016	28,286,132	5,566,479	766,830	10,708,897	17,042,206
Share-based compensation	-	-	21,243	-	21,243
Shares issued - exercise of options (note 15)	250,000	163,800	(70,000)	-	93,800
Net loss	-	-	-	(982,388)	(982,388)
Balance at August 31, 2017	28,536,132	5,730,279	718,073	9,726,509	16,174,861

The accompanying notes are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31,	2017	2016
	\$	\$
Cash provided by (used in)		
Operating activities		
Net loss	(982,388)	(3,697,254)
Non-cash items included in net loss		
Deferred tax recovery	-	(403,043)
Impairment of inventory (note 6)	128,145	119,082
Depreciation of property, plant and equipment (note 7)	97,482	215,853
Amortization of intangible assets (note 10)	253,171	305,234
Share-based compensation (note 15)	21,243	87,281
Gain on disposal of property, plant and equipment	(11,549)	(18,341)
Gain on disposal of non-current assets held for sale (note 9)	(307,275)	-
Loss on disposal of intangible assets	-	2,136
Loss on impairment of property, plant and equipment	14,056	154,558
Loss on impairment of non-current assets held for sale	-	20,000
Loss on impairment of intangible assets	-	940,924
Changes in non-cash working capital (note 19)	668,261	325,163
Net cash (used in) operating activities	(118,854)	(1,948,407)
Investing activities		
Maturity (purchase) of short term investments	1,000,000	(1,000,000)
Purchase of property, plant and equipment	(3,642)	(28,548)
Purchase of intangible assets	(16,288)	(48,218)
Proceeds from disposal of property, plant and equipment	19,471	77,634
Proceeds from disposal of assets held for sale (note 9)	474,234	-
Product development costs capitalized	(686,299)	(406,349)
Net cash provided by (used in) investing activities	787,476	(1,405,481)
Financing activities		
Proceeds from issuance of shares, net of share issue costs	-	1,374,897
Proceeds from exercise of stock options	93,800	49,600
Payment of finance lease obligation	(22,873)	(56,228)
Net cash provided by financing activities	70,927	1,368,269
Net increase (decrease) in cash and cash equivalents	739,549	(1,985,619)
Cash and cash equivalents, beginning of year	12,788,278	14,773,897
Cash and cash equivalents, end of year	13,527,827	12,788,278
Interest paid	6,810	15,325
Non- cash transactions		
Equipment purchased under finance lease	-	96,489

The accompanying notes are an integral part of these consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

1. NATURE OF OPERATIONS

Titan Logix Corp. (the "Company") is a public company incorporated and domiciled in Canada and its common shares trade on the TSX Venture Exchange under the symbol TLA. The head office for the Company is located in Edmonton, Alberta, Canada. The address of the Company's registered office is 421 7 Ave SW #1700, Calgary, AB T2P 4K9.

Titan Logix Corp. is a developer, manufacturer and marketer of innovative fluid measurement and management solutions. The Company's Guided Wave Radar (GWR) solutions are primarily used in the upstream/midstream oil and gas industry. Secondary industries for its products include the aviation, waste fluid collection, and chemical industries. The Company's products are all developed to be part of a complete asset management solution. The ultimate solution will consist of the Company's products integrated with best-in-class third party solutions to enable complete fluid management throughout each stage of the customers fluid handling processes. This is captured by the Company's slogan "Advanced Technology Fluid Management Solutions, In the Field, On the Road, In the Office"TM.

- In the Field: "In the Field" refers to Titan's solution offerings for storage tanks and process vessels.
 - On the Road: "On the Road" refers to Titan's solution offerings for mobile tanker trucks and trailers.
- In the Office: "In the Office" refers to Titan's solution offerings that enable customers to monitor their fluid assets remotely from the convenience of their dispatch center or other back office environment through a wired or wireless connection.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements for the year ended August 31, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company for the year ended August 31, 2017 were authorized for issue in accordance with a resolution of the directors on November 29, 2017.

Principles of consolidation

These consolidated financial statements include the financial statements of Titan Logix Corp. and its wholly owned subsidiary, Titan Logix USA Corp. The financial statements for the subsidiary are prepared for the same reporting period as the parent company using consistent accounting policies. All intercompany transactions and balances have been eliminated in the preparation of these consolidated financial statements.

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars which is the functional currency of Titan Logix Corp. and its subsidiary.

Significant accounting estimates and judgments

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets, liabilities, revenue and expenses. These estimates and judgments are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The estimation of anticipated future events involves uncertainty and, consequently, the estimates used in preparation of the consolidated financial statements may change as future events unfold, more experience is acquired or the Company's operating environment changes. Actual results may differ from these estimates under different assumptions or conditions. Estimates and judgments are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements.

a) *Internally generated research costs*

Management monitors progress of internal research and development projects by using a project management system. Significant judgment is required in distinguishing research from the development phase. Development costs are recognized as an asset when all the criteria for capitalization are met, whereas research costs are expensed as incurred.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

2. BASIS OF PRESENTATION (cont'd)

Significant accounting estimates and judgments (cont'd)

a) Internally generated research costs (cont'd)

To distinguish the research project phase from the development phase, it is the Company's policy to require a forecast of sales to be generated by the intangible asset to support the capitalization criteria. The forecast is then incorporated into the Company's overall budget forecast once the capitalization of development costs commences. This ensures that managerial accounting, impairment testing procedures and accounting for internally generated intangible assets is based on the same data.

The Company's management also monitors at each reporting period whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical challenge after the time of recognition.

b) Determination of cash generating units

The Company tests certain intangible assets annually for impairment. Management uses judgment in determining the cash-generating units (CGU). For the purpose of assessing impairment of intangible assets, assets are grouped at the lowest level of separately identified independent cash inflows which make up the CGU.

c) Impairment of intangible assets

The Company assesses impairment at each reporting period by evaluating the circumstances specific to the organization that may lead to impairment of assets. Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of future cash flows, future costs, discount rates and other relevant assumptions.

d) Deferred income taxes

Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings. Assessing the recoverability of deferred tax assets requires the Company to make significant judgements and estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit and loss in the period in which the change occurs.

The Company follows the liability method for calculating deferred taxes. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

e) Leases

In applying the classification of leases in IAS 17, management considers its equipment leases to be finance lease arrangements. In some cases, the determination of classification is not always conclusive, and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Estimates

The following are the key estimates and their assumptions concerning the sources of estimation uncertainty during the reporting periods, that have a significant risk of causing adjustments to the carrying amounts of the assets and liabilities.

a) Valuation and impairment of intangible assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. An impairment loss is recognized when the amount of an asset's or CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost of disposal and the value in use. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. Actual results may vary from these estimates and may cause adjustments to the Company's assets in following years.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

2. BASIS OF PRESENTATION (cont'd)

Significant accounting estimates and judgments (cont'd)

b) Useful lives of property, plant and equipment and intangible assets

The amounts recorded for depreciation of property and equipment and amortization of intangible assets are based on estimates of the useful lives of the assets and residual values. The Company depreciates property, plant and equipment and amortizes intangible assets over the estimated useful lives of the assets. In determining the estimated useful life of these assets, significant judgment is required. Judgment is required to determine whether events or circumstances warrant a revision to the remaining periods of depreciation and amortization. The Company considers expectations of the in-service period of these assets in determining these estimates. The Company assesses the estimated useful life of these assets on an annual basis to ensure they match the anticipated life of an asset from a revenue producing perspective. If the Company determines that the useful life of an asset is different from the original assessment, changes to depreciation and amortization will be applied prospectively. The estimates of cash flows used to assess the potential impairment of these assets are also subject to measurement uncertainty. A significant change in these estimates and judgments could result in a material change to depreciation and amortization expense or impairment charges.

c) Valuation of inventory

Raw materials and finished goods inventories are measured at the lower of cost and net realizable value. Net realizable value approximates the estimated selling price less all estimated costs of completion and necessary costs to complete the sale. Finished goods costs include the Company's allocation of overhead. This allocation is based on estimated annual production levels determined through management's judgement of the normal capacity of the production facilities.

Allowances are made against obsolete or damaged inventories and charged to cost of sales. The reversal of any write-down of inventory arising from an increase in net realizable value would be recognized as a reduction in cost of sales in the period in which the reversal occurred. The valuation of inventory is based on management's best estimate including historical experience relating to the ultimate selling prices less costs to sell the inventory.

d) Valuation of accounts receivables

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts. Management monitors receivables for indications of impairment on an ongoing basis. Balances are considered for impairment when there is doubt regarding collection. The amount recognized as impairment is based on management's past experience and future expectations related to the financial conditions of customers, the value of the receivables and economic trends impacting the product markets in which the Company participates. Credit is spread among many customers and the Company has not experienced significant accounts receivable collection problems in the past.

e) Share-based compensation

The Company measures the cost of equity settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires the determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The Company uses a Black-Scholes Option Pricing Model. This fair value estimate also requires determining the most appropriate inputs to the valuation model including the estimated expected life of the stock option, volatility, and dividend yield. The expected volatility is based on the historical volatility of the Company's shares over a period commensurate with the expected term of the share option. The risk-free interest rate for the expected life of the option is based on the yield available on government bonds, with an approximate equivalent remaining term at the end of the grant. Historical data is used to estimate the expected life of the option. As well, the Company estimates its forfeiture rate for equity settled transactions based on historical experience in order to determine the compensation expense arising from the share-based awards. The cost of equity-settled transactions is recognized in the consolidated statement of loss over the period in which the service condition is fulfilled with the corresponding adjustment added to the contributed surplus account. No expense is recognized for awards that do not vest.

f) Warranties

The Company estimates a provision for warranty costs as the actual future claims to fulfill warranty expenses are unknown. Management bases its estimate on historical costs associated with warranty costs as well as the number of expected warranty claims outstanding. At August 31, 2017 and August 31, 2016 no material warranty claims were expected and therefore no provision was recorded.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

These consolidated financial statements have been prepared mainly under the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets. Other measurement bases used are described in the applicable accounting policies below.

a) Foreign currency

Transactions in currencies other than Canadian dollars, the Company's functional and presentation currency, are translated at exchange rates prevailing at the time the transactions occurred. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction. Exchange gains and losses on foreign currency differences are recognized in earnings in the period incurred.

b) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, balances with banks and investments in guaranteed investment certificates cashable on demand or with original maturities of three months or less.

c) Short term investments

Short term investments consist of guaranteed investment certificates not cashable on demand, or with original maturities greater than three months.

d) Accounts receivable

Trade and other receivables are carried at the original amount due from customers, which is considered to be fair value, less allowances for doubtful accounts. Allowance for doubtful accounts is based on a review of all outstanding amounts, where significant doubt about collectability exists, including an analysis of historical bad debts, customer creditworthiness, and any changes in customers' ability to pay. Bad debts identified as uncollectible are included within general and administration expense.

e) Inventories

Inventory of raw materials, work-in-progress and finished goods are stated at the lower of cost, determined on a weighted average basis, or net realizable value. Net realizable value is the amount that would be realized from the sale of the inventory in the ordinary course of business. The cost of work-in-process inventory and finished goods inventory includes the cost of raw material, labor and applicable production overhead costs based on the normal capacity of the production facilities. Obsolete and excess inventory is recorded at the lower of cost or net realizable value. When the applicable cost of the inventories exceeds the net realizable value, inventory is written down to the net realizable value and is subsequently written back up to the original cost if the net realizable value exceeds the book value. All write-downs and reversals are charged to cost of sales.

f) Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. When significant parts of property, plant and equipment have different useful lives, they are accounted for as individual components of an asset and depreciated according to their specific useful lives.

Property, plant and equipment is depreciated over the estimated useful life of the asset using the following annual rates and methods:

Production and computer equipment	20% declining balance
Research and development equipment	20% declining balance
Rental equipment	Straight-line over 4 years
Office furniture and equipment	Straight-line over 5 years
Automotive equipment	Straight-line over the term of the lease
Leasehold improvements	Straight-line over the term of the lease

Gains and losses on disposals of property, plant and equipment are determined by comparing the disposal proceeds with the carrying amount of the assets and are recognized as other gains or losses in earnings.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

g) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification and an active program to locate a buyer and complete the plan has been initiated.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

h) Intangible assets

Product development costs:

Intangible assets include costs incurred primarily for the development and production of new or substantially improved assets. These costs are capitalized as intangible assets provided they meet all of the following recognition requirements:

- Completion of the intangible asset is technically feasible so that it can be made available for sale;
- The Company has the intent and ability to complete the intangible asset and use or sell it;
- The intangible asset will generate probable future economic benefits which requires that there be a market for the sale of the right to use the intangible asset;
- There are adequate technical, financial and other resources to complete the development of the intangible asset; and
- The expenditure attributable to the development of the intangible asset can be measured reliably.

Capitalized costs include the cost of materials consumed in development activities and payroll, employee benefits, and other head-count expenses associated with product development. Capitalized costs also include third-party development costs.

Upon product commercialization, capitalized product development costs are amortized over their estimated useful life of four years. Amortization expense is recorded as part of amortization in the statement of loss. However, if at any time a product is deemed no longer commercially viable, the balance of the related deferred cost is expensed in the statement of loss. Useful lives and amortization methods are reviewed at each financial year-end and adjusted if appropriate.

Development costs not meeting the criteria for capitalization and expenditures during the research phase of an internal project are expensed in the period in which they are incurred. Costs associated with maintaining intangible assets such as minor updates and repairs are expensed as incurred.

Other intangible assets:

Acquired intangible assets including licenses and computer software are measured on initial recognition at cost and are carried at cost less accumulated amortization and any accumulated impairment losses. All other intangible assets are considered to have finite useful lives. Other intangible assets are amortized on a straight-line basis over the period of their estimated useful lives as follows:

Technology licenses	Term of the license agreement (10 to 20 years)
Software licenses	Term of the license agreement (1 to 3 years)
Software	Expected life of the software system (3 to 5 years)

i) Impairment of non-financial assets

Property, plant and equipment and finite life intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset is estimated. For the purposes of assessing impairment, property, plant and equipment and intangible assets are grouped into cash generating units (CGUs). CGUs are the smallest identifiable group of assets that generate cash flows that are independent of the cash flows of other groups of assets. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Value in use of each CGU is determined using estimated discounted cash flows, which include estimates of future cash flows and a determination of the discount rate. The fair value less costs of disposal is based on available data from sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset.

For the purpose of measuring recoverable amounts where the recoverable amount of an asset cannot be determined, the assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs).

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Finance leases

The Company leases various automotive equipment and where the Company has substantially all the risks and rewards of ownership these leases are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding lease obligations, net of interest, are included in finance lease obligations. The interest element of the finance cost is charged to earnings or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant, property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

k) Warranty provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions for warranty costs are recognized at the time the necessity of such provision is evident and measured at management's best estimate of the expenditure required to settle the obligation. All provisions are reviewed at the end of the reporting period, and are discounted to present value where the time value of money is material.

l) Revenue recognition

Revenue is derived primarily from the sales of fluid measurement gauges. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company, the revenue can reliably be measured and the Company maintains no continuing managerial involvement to the degree usually associated with ownership. This is typically when goods are delivered and the title has passed. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales tax, returns and discounts. Provisions for estimated product returns are based on historical experience.

m) Cost of sales

Cost of sales includes the cost of components, direct and indirect labor, a proportionate share of overhead cost, the costs associated with delivery, warranty costs, inventory valuation adjustments, depreciation and engineering costs related to product support and enhancements.

n) Financial instruments

The Company recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. The Company classifies its financial instruments at initial recognition in the following categories depending on the purpose for which the instruments were acquired.

Financial assets and financial liabilities at fair value through profit or loss:

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. As at August 31, 2017, the Company did not have any financial assets or financial liabilities that are classified as at fair value through profit or loss.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method. Any changes in value are recognized in the earnings or loss. The Company's loans and receivables are comprised of cash and cash equivalents, short-term investments and accounts receivables.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets. All income and expenses relating to financial assets are recognized in the consolidated statement of earnings as "Other items".



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

n) Financial instruments (cont'd)

Other financial liabilities:

Financial liabilities are initially recognized at fair value, net of any transaction costs incurred. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. Any changes in value are recognized in the consolidated statement of earnings. The Company's financial liabilities include accounts payables and accrued liabilities. Financial liabilities are classified as current liabilities if payment is due within twelve months.

o) Comprehensive (loss) income

Comprehensive (loss) income is the change in equity (net assets) of the Company during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners. The Company does not have other comprehensive (loss) income, and accordingly, comprehensive (loss) income and net (loss) earnings are equal.

p) Share-based compensation

The Company grants stock options to directors, employees or other people who provide management services to the Company. The stock options are equity settled. The cost of the stock options granted are measured at their fair value at the date on which they were granted. The fair value is estimated using the Black-Scholes Option Pricing Model, taking into account market conditions relating to the Company's shares. Compensation expense is recognized over the vesting period in earnings with a corresponding increase in contributed surplus. No expense is recognized for awards that do not vest. Any consideration received upon exercise of stock options is recorded as an increase in share capital together with a transfer of the amount recorded in contributed surplus to share capital.

q) Investment tax credits

The Company is eligible for certain investment tax credits relating to qualifying scientific research and experimental development (SRED) expenditures. Based on the technical merit of its claim and management's assessment of the certainty of realization, tax benefits associated with investment tax credits are recorded as a reduction in research and development expenses or as a reduction in product development costs capitalized depending on the nature of the expenditure.

r) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted, or substantively enacted, at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax is computed on the basis of tax profit which differs from net profit.

Deferred tax

The Company follows the liability method for calculating deferred taxes. Under this method, deferred taxes are recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and where, at the time of the transaction, neither accounting profit nor taxable profit was affected. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and current tax liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

s) Earnings per share

Basic earnings per share is calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that would occur if stock options were exercised. Diluted earnings per share is calculated by dividing net earnings available to common shareholders by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding arising from the exercise of potentially dilutive stock options outstanding during the period.

The Company uses the treasury method for outstanding options which assumes that the proceeds that could be obtained upon exercise of options are used to purchase the Company's common shares at the average market price during the period. Anti-dilutive amounts are not considered in computing diluted earnings per share.

t) Changes in accounting policies and new standards and interpretations not yet adopted

The Company adopted no new IFRS standards of interpretations during fiscal 2017.

The following new accounting pronouncements have been issued but are not effective and may have an impact on the Company's consolidated financial statements in the future:

IFRS 9 - Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes guidance on recognition and de-recognition of financial assets and financial liabilities, extensive changes to IAS 39's guidance on the classification and measurement of financial assets, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

IFRS 15 – Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and is to be applied retrospectively. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

IFRS 16 – Leases will replace IAS 17 - Leases. IFRS 16 specifies how to recognize, measure, present and disclose leases effective for annual periods beginning on or after January 1, 2019. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative - IAS 7 requires enhanced disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). Application of the standard is mandatory for annual periods beginning on or after January 1, 2017, applied prospectively. The Company is considering the implications of the standard and the impact on the Company.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

As at	August 31, 2017 \$	August 31, 2016 \$
Cash on hand and balances with banks	3,527,827	2,529,098
Guaranteed investment certificates	10,000,000	10,259,180
	13,527,827	12,788,278

5. ACCOUNTS RECEIVABLE

As at	August 31, 2017 \$	August 31, 2016 \$
Trade receivables	541,808	373,839
Allowance for doubtful accounts	(17,908)	(20,165)
Net trade receivables	523,900	353,674
Other receivables	38,135	58,402
	562,035	412,076

During the year ended August 31, 2017, the allowance for doubtful accounts was reduced by receivables written off of \$2,257 (2016 - \$134,486). The allowance for doubtful accounts was offset by bad debt expense of \$nil (2016 - \$18,652), which is included in general and administration expenses.

6. INVENTORIES

As at	August 31, 2017 \$	August 31, 2016 \$
Raw materials	178,314	199,319
Work in progress and finished goods	624,459	1,329,873
	802,773	1,529,192

During the year ended August 31, 2017, inventory write-downs of \$128,145 (2016 - \$119,082) are included in cost of sales. There were no reversals of write-downs that were taken in previous periods. During the year ended August 31, 2017, the carrying amount of inventory charged to costs of sales was \$1,498,381 (2016 - \$1,544,985).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Production and computer equipment	Research and development equipment	Office furniture & rental equipment	Automotive equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
As at August 31, 2015	-	997,206	236,530	252,230	260,948	249,824	1,996,738
Additions	-	1,889	1,981	5,564	96,489	19,114	125,037
Disposals	-	(10,766)	-	(8,920)	(169,572)	-	(189,258)
Impairments	-	(535,768)	(36,897)	(6,795)	-	(183,376)	(762,836)
Reclassified as held for sale	-	(21,382)	-	(2,028)	-	-	(23,410)
As at August 31, 2016	-	431,179	201,614	240,051	187,865	85,562	1,146,271
Additions	-	2,692	950	-	-	-	3,642
Disposals	-	(5,700)	-	(12,532)	(100,685)	(5,313)	(124,230)
Impairments	-	(37,679)	(1,585)	-	-	-	(39,264)
Reclassified from held for sale (note 8)	30,000	-	-	-	-	-	30,000
As at August 31, 2017	30,000	390,492	200,979	227,519	87,180	80,249	1,016,419
Accumulated depreciation							
As at August 31, 2015	-	712,196	121,814	217,584	107,524	113,812	1,272,930
Depreciation	-	56,858	23,142	15,853	65,149	54,851	215,853
Disposals	-	(5,774)	-	(7,371)	(111,585)	-	(124,730)
Impairments	-	(482,366)	(28,691)	(6,795)	-	(90,426)	(608,278)
Reclassified as held for sale (note 8)	-	(11,453)	-	(1,014)	-	-	(12,467)
As at August 31, 2016	-	269,461	116,265	218,257	61,088	78,237	743,308
Depreciation	-	31,909	17,167	9,284	32,874	6,248	97,482
Disposals	-	(3,494)	-	(10,560)	(39,581)	(5,313)	(58,948)
Impairments	-	(23,997)	(1,211)	-	-	-	(25,208)
As at August 31, 2017	-	273,879	132,221	216,981	54,381	79,172	756,634
Net book value							
As at August 31, 2016	-	161,718	85,349	21,794	126,777	7,325	402,963
As at August 31, 2017	30,000	116,613	68,758	10,538	32,799	1,077	259,785

During the years ended August 31, 2017 and 2016, the Company identified indicators of impairment due to the significant decline in activity within the energy sector. Therefore, an impairment analysis was performed on the property, plant and equipment. As a result, impairment charges of \$13,682 for production and computer equipment and \$374 on research and development equipment, for a total of \$14,056, were recognized in 2017 to reduce the carrying amount of the assets to their fair value less costs of disposal.

For the year ended August 31, 2016, impairment charges of \$53,402 for production and computer equipment, \$8,206 on research and development equipment and \$92,950 on leasehold improvements, for a total of \$154,558, were recognized in the period to reduce the carrying amount of the assets to their fair value less costs of disposal.

The key assumptions used in estimating fair value less costs of disposal are the comparability of assets used in the sales comparison approach and any adjustments made to take into account differences, as well as the estimated costs of disposal.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

8. NON-CURRENT ASSETS HELD FOR SALE

Carrying value of assets held for sale previously classified under property, plant and equipment:

As at	August 31, 2017 \$	August 31, 2016 \$
Land	-	30,000
Production, computer and office equipment	-	10,943
	-	40,943

The Company intends to dispose of all of its land in Lampman, SK and continues to look for a buyer. Due to the weak real estate market conditions for the land, it is no longer classified as held for sale as it may be more than a year until it is sold. In 2016, the Company presented an offer for sale of a product line primarily sold in Saskatchewan. The assets related to the sale of this product line were classified as held for sale. In September 2016, the production, computer and office equipment was sold (note 9). In 2016, the Company identified indicators of impairment and performed an impairment analysis on the land and an impairment loss of \$20,000 was recognized to reflect real estate market conditions in Lampman, SK. and reduce the carrying amount of the asset to its fair value less costs of disposal.

9. DISPOSAL OF ASSETS HELD FOR SALE

In September 2016 the Company sold assets related to its TPZ 3310 and 3500 Controller product lines. These products were level measurement gauges and alarm systems for the oilfield storage and control industry. Under the terms of the sale agreement of the Company received proceeds of \$450,294 prior to a holdback of \$23,940. The carrying value of assets sold included inventory of \$156,016 and property, plant and equipment of \$10,943. The sale of the assets resulted in a gain on disposal of \$307,275. In conjunction with this divestiture the Company closed its branch in Lampman, SK. The Company continues to offer other level measurement solutions for the oilfield storage industry.

10. INTANGIBLE ASSETS

	Technology licenses \$	Software licenses \$	Software \$	Product development costs \$	Total \$
Cost					
As at August 31, 2015	104,660	68,401	98,054	1,934,070	2,205,185
Additions	-	22,115	26,103	406,349	454,567
SR&ED, investment tax credits (note 23)	-	-	-	(67,542)	(67,542)
Disposals	-	(46,729)	(50,746)	-	(97,475)
Impairment	-	-	-	(940,924)	(940,924)
As at August 31, 2016	104,660	43,787	73,411	1,331,953	1,553,811
Additions	-	16,288	-	686,299	702,587
Disposals	-	(44,257)	(52,955)	-	(97,212)
As at August 31, 2017	104,660	15,818	20,456	2,018,252	2,159,186
Accumulated amortization					
As at August 31, 2015	59,345	20,025	60,064	375,750	515,184
Amortization	3,830	48,846	42,355	210,203	305,234
Disposals	-	(46,646)	(48,692)	-	(95,338)
As at August 31, 2016	63,175	22,225	53,727	585,953	725,080
Amortization	3,829	23,351	15,786	210,205	253,171
Disposals	-	(44,257)	(52,955)	-	(97,212)
As at August 31, 2017	67,004	1,319	16,558	796,158	881,039
Net book value					
As at August 31, 2016	41,485	21,562	19,684	746,000	828,731
As at August 31, 2017	37,656	14,499	3,898	1,222,094	1,278,147



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

10. INTANGIBLE ASSETS (cont'd)

Once an intangible asset is fully amortized, the gross amount and related accumulated amortization are de-recognized from the accounts. The Company currently does not have any intangible assets with indefinite useful lives.

Impairment

Product development costs

At August 31, 2017 and 2016 the Company determined that an indicator of asset impairment existed, namely the significant decline in sales in the Company's primary market, mobile tank gauging for the crude oil industry. Despite the positive trend in oil prices in 2017, significant market uncertainty still exists. This uncertainty impacts the earnings potential of the Company's CGUs; therefore, an asset impairment test was performed at August 31, 2017 and 2016. Upon completion of the asset impairment testing, the Company concluded that there was no asset impairment required at August 31, 2017. The Company also concluded that there were no reversals of previous asset impairment required at August 31, 2017. In 2016 an impairment of \$940,924 was recognized as a result of the reduction in the anticipated recoverable amount of the capitalized carrying value of the product development costs.

The primary basis for the asset impairment tests performed at August 31, 2017 and 2016 was the next year's budget and business plan inputs as well as internal forecasts. The Company identified the CGUs for its product development costs based on product line and cash flows were developed for these CGUs. Significant assumptions included in the calculation of value-in-use at August 31, 2017 and 2016 included gross margins, a discount rate of 19.2%, a projected forecast period of 5 years, and estimated costs to complete. Management also assumed the Company would continue to have a market for its products, it would be able to retain its customer base in these markets, it would have the ability to maintain its prices and demand for the product and that there would be no significant product life cycle changes or requirements, and new products under development would be successfully commercialized.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	August 31, 2017 \$	August 31, 2016 \$
Trade payables	165,859	154,543
Other payables and accrued liabilities	287,757	367,040
	453,616	521,583

Other payables and accrued liabilities are primarily comprised of royalties payable and employee and payroll liabilities.

12. FINANCE LEASE OBLIGATIONS

The Company's future minimum finance lease payments are as follows:

As at	August 31, 2017			August 31, 2016		
	Current portion of finance lease obligations \$	Finance lease obligations after one year \$	Total finance lease obligations \$	Current portion of finance lease obligations \$	Finance lease obligations after one year \$	Total finance lease obligations \$
Lease payments	33,782	27,887	61,669	56,084	98,165	154,249
Finance charges	2,843	1,383	4,226	9,466	7,107	16,573
Net present value	30,939	26,504	57,443	46,618	91,058	137,676

The Company enters into financing lease arrangements for its automotive equipment. The terms of the leases are from 30 to 36 months. For the year ended August 31, 2017, the net book value of the leased automotive equipment is \$32,799 (2016 - \$126,777). During the year ended August 31, 2017 the Company significantly reduced its automotive equipment fleet.

For the year ended August 31, 2017, the fair value of the finance lease obligations has been estimated at \$57,443 (2016 - \$137,676). This amount reflects present value and takes into account estimated market interest rates on borrowings with similar terms.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

13. CREDIT FACILITIES

The Company maintains a general security agreement with its chartered bank with respect to corporate credit cards held. At August 31, 2017 and 2016 total credit available was \$100,000.

14. INCOME TAXES

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before tax. These differences result from the following items:

For the years ended August 31,	2017	2016
	\$	\$
Loss before income taxes	(989,725)	(4,475,425)
Statutory income tax rate	27.00%	27.00%
Expected income taxes	(267,226)	(1,208,365)
Increase (decrease) resulting from:		
Non-deductible expenses	12,497	19,803
Change in unrecognized assets	253,501	401,448
Change in tax rates and rate differences	1,228	(6,839)
Change in estimates related to previous years	(7,337)	15,767
Other	-	15
	(7,337)	(778,171)

For the years ended August 31,	2017	2016
	\$	\$
Income tax recovery is comprised of:		
Current tax recovery	(7,337)	(375,128)
Deferred tax recovery	-	(403,043)
	(7,337)	(778,171)

The components of the Company's deferred tax asset (liability) are as follows:

As at	August 31, 2017	August 31, 2016
	\$	\$
Non-capital losses	329,965	201,420
Intangible assets, net of investment tax credits	(329,965)	(201,420)
	-	-

Deferred tax assets have not been recognized in respect of the following items:

As at	August 31, 2017	August 31, 2016
	\$	\$
Deductible temporary differences	438,720	495,254
Tax losses	4,517,191	1,767,025
	4,955,911	2,262,279

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

For the year ended August 31, 2017, the Company has \$4,488,958 (2016 - \$2,972,823) of Canadian non-capital loss carryforwards, of which \$2,289,191 have not been recognized and begin to expire in 2036.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

15. SHARE CAPITAL

a) Authorized

The Company has authorized an unlimited number of common shares without par value.

b) Issued

The continuity of the Company's issued common shares is as follows:

	#	August 31, 2017 \$	#	August 31, 2016 \$
Issued, beginning of year	28,286,132	5,566,479	25,648,440	4,098,882
Shares issued on exercise of option	250,000	163,800	330,000	92,700
Shares issued on private placement	-	-	2,307,692	1,500,000
Share issue costs on private placement, net of tax of \$nil	-	-	-	(125,103)
Issued, end of year	28,536,132	5,730,279	28,286,132	5,566,479

c) Share-based compensation

The Company has a stock option plan for directors, officers, employees and consultants and permits the issue of options to purchase common shares of the Company. Subject to approval by the Board of Directors and the TSX Venture Exchange, a maximum of 3,000,000 (August 31, 2016 – 3,000,000) common shares are reserved for issue under this plan. The number of options and exercise price is set by the Board of Directors of the Company at the time of issue, provided that the exercise price shall not be less than the market price of the common shares on the stock exchange on which such shares are traded. The options issued vest in accordance with vesting schedules determined at the time of grant and may be exercised for a period not longer than five years from the time of issue.

At August 31, 2017, the Company has 545,000 (2016 – 1,005,000) options outstanding, which expire on dates between September 2017 and February 2021. The continuity of the Company's outstanding and exercisable options is as follows:

	Number of options outstanding #	August 31, 2017 Weighted average exercise price \$	Number of options outstanding #	August 31, 2016 Weighted average exercise price \$
Outstanding, beginning of year	1,005,000	0.64	1,145,000	0.64
Granted	-	-	475,000	0.59
Exercised	(250,000)	0.38	(330,000)	0.15
Forfeited	(210,000)	0.83	(285,000)	1.10
Outstanding, end of year	545,000	0.69	1,005,000	0.64
Exercisable, end of year	370,000	0.74	730,000	0.67



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

15. SHARE CAPITAL (cont'd)

The following table summarizes information about stock options outstanding and exercisable as at August 31, 2017.

Exercise price	Options outstanding	Average remaining life (in years)	Options vested	Options not vested
\$ 0.70	40,000	.05	40,000	-
\$ 1.28	40,000	1.37	40,000	-
\$ 1.14	40,000	2.39	40,000	-
\$ 0.65	100,000	3.37	100,000	-
\$ 0.57	100,000	3.43	100,000	-
\$ 0.57	225,000	3.43	50,000	175,000
Total, end of year	545,000		370,000	175,000

The following table summarizes information about stock options outstanding and exercisable as at August 31, 2016.

Exercise price	Options outstanding	Average remaining life (in years)	Options vested	Options not vested
\$ 0.38	130,000	0.38	130,000	-
\$ 0.37	120,000	0.42	120,000	-
\$ 0.70	40,000	1.05	40,000	-
\$ 0.63	20,000	1.38	20,000	-
\$ 1.28	60,000	2.37	60,000	-
\$ 1.14	60,000	3.39	60,000	-
\$ 0.85	100,000	3.99	100,000	-
\$ 0.65	100,000	4.37	100,000	-
\$ 0.57	100,000	4.43	100,000	-
\$ 0.57	275,000	4.43	-	275,000
Total, end of year	1,005,000		730,000	275,000

During the year ended August 31, 2017, 250,000 stock options were exercised that had a weighted average exercise price of \$0.38 which resulted in cash proceeds to the Company of \$93,800. The weighted average share price at the dates of exercise was \$0.66.

During the year ended August 31, 2016, 330,000 stock options were exercised that had a weighted average exercise price of \$0.15 which resulted in cash proceeds to the Company of \$49,600. The weighted average share price at the dates of exercise was \$0.56.

During the year ended August 31, 2017, 160,000 stock options that had a weighted average exercise price of \$0.91 were forfeited (2016 – 285,000; weighted average exercise price of \$1.10).

During the year ended August 31, 2016, options were granted as follows:

- 100,000 options were granted with a weighted average estimated fair value of \$0.27 per common share as determined using the Black-Scholes Option Pricing Model. These options were granted on January 11, 2016 at an exercise price of \$0.65 and expire on January 11, 2021. These options vested immediately.
- 375,000 options were granted with a weighted average estimated fair value of \$0.23 per common share as determined using the Black-Scholes Option Pricing Model. These options were granted on February 3, 2016 at an exercise price of \$0.57 and expire on February 3, 2021. 100,000 options vested immediately and 275,000 vest over 2 years, with vesting terms and conditions determined by the board of directors when granted.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

15. SHARE CAPITAL (cont'd)

The following weighted average assumptions were utilized to calculate the fair value of the options granted:

For the year ended August 31,	2016
Risk-free interest rate	0.47%
Expected option life in years	5
Expected volatility	47.04%
Expected dividend yield	0%
Expected forfeiture rate	0%

The expected option life, volatility and dividend yield are based on management's judgments in regard to the Company's past history and expectations for the future.

Compensation expense is recognized evenly over the vesting period of the stock options. For the year ended August 31, 2017, share based compensation and a corresponding credit to contributed surplus of \$21,243 was recorded (2016 - \$87,281).

d) Shareholder rights plan

In 2013, the Company had adopted a Shareholder Rights Plan (the "Rights Plan"). The Rights Plan Agreement was designed to protect shareholders from unfair, abusive or coercive take-over strategies including the acquisition of control of the Company by a bidder in a transaction or series of transactions that may not treat all shareholders fairly nor afford all shareholders an equal opportunity to share in the premium paid upon an acquisition of control. One right had been issued by the Company pursuant to the Rights Plan Agreement in respect of each common share outstanding while the Rights Plan is in effect. In 2017 the Company's Rights Plan expired and was not renewed.

16. NATURE OF EXPENSES

The Company presents certain expenses in the Consolidated Statements of Loss and Comprehensive Loss by function. The following table presents these expenses by nature.

For the years ended August 31,	2017	2016
	\$	\$
Employee salaries and benefits		
Included in cost of sales	407,773	864,396
Included in total expenses	1,968,519	2,950,074
Total employee salaries and benefits	2,376,292	3,814,470
Depreciation and amortization		
Included in cost of sales	13,894	38,694
Included in total expenses	336,759	482,394
Total depreciation and amortization	350,653	521,087



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

17. LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

For the years ended August 31,	2017	2016
	\$	\$
Net loss (numerator for basic and diluted loss per share)	(982,388)	(3,697,254)
Weighted average number of shares outstanding – basic (denominator for basic loss per share)	28,434,242	26,423,536
Effect of dilutive securities		
Stock options converted to common shares	-	157,881
Weighted average number of shares outstanding – diluted (denominator for diluted loss per share)	28,434,242	26,581,417
Basic loss per share	(0.03)	(0.14)
Effect of dilutive securities	(0.00)	(0.00)
Diluted loss per share	(0.03)	(0.14)

For the year ended August 31, 2017 there were 595,000 antidilutive options (2016 – 260,000). The average market value of the Company's shares for purposes of this calculation were based on quoted market prices for the period during which the options were outstanding.

18. COMMITMENTS

- Pursuant to a license agreement with the Lawrence Livermore National Laboratory, revenues from the sale of TD80 products manufactured under the license are subject to a royalty of 3% with a minimum annual royalty fee of US\$25,000 for the life of the license. The license remains in force for the life of the last-to-expire issued patent under the agreement which expires February 2018. During the year ended August 31, 2017, these royalties totalled \$79,199 (2016 - \$68,591) and were included in cost of sales.
- Pursuant to a land purchase agreement in February 2010, the Company signed an agreement with the Town of Lampman to enable the Company to construct a new facility. In September 2016 the Company closed its branch in Lampman, SK. The Company has received approval from town officials to seek a buyer for the land who will enter into a similar agreement with the town and is currently actively looking for a buyer.
- The Company has commitments for office space and manufacturing facilities and office equipment operating leases. Future minimum payments under the terms of lease agreements are as follows:

2018	\$	82,203
2019		6,957

19. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

For the years ended August 31,	2017	2016
	\$	\$
Accounts receivable	(149,959)	394,600
Inventories	605,232	493,512
Prepaid expenses	38,431	17,239
Income tax recoverable	242,524	(514,517)
Accounts payable and accrued liabilities	(67,967)	(65,671)
	668,261	325,163



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

20. RELATED PARTY TRANSACTION

Key Management Personnel Compensation

The Company's key management personnel include its directors and executive. Compensation to key management personnel of the Company for the period was as follows:

For the years ended August 31,	2017	2016
	\$	\$
Salaries and short-term employee benefits	609,335	545,653
Share-based compensation	21,243	72,121
	630,578	617,774

During the years ended August 31, 2017 and 2016, there were no long-term employee benefits, post-employment benefits or termination benefits recognized. Short-term employee benefits consist of salaries, bonuses, director fees, and all other short-term benefits.

21. CAPITAL MANAGEMENT

The Company manages its capital to safeguard the Company's ability to continue as a going concern, to provide an adequate return to shareholders, and to preserve the financial flexibility in order to fund growth and expansionary opportunities that may arise. The Company's capital management practices are focused on preserving a solid capital base and a strong statement of financial position. The Company's capital consists of its finance lease obligations (less current portion) and its shareholders' equity which is comprised of issued shares, contributed surplus and retained earnings. The Company is not subject to any externally imposed capital requirements. The Company manages and maintains its capital structure based on current economic conditions. In order to maintain or adjust its capital structure, the Company may attempt to raise additional funds by issuing additional equity securities or assuming additional indebtedness. There were no changes to management's capital management objectives, practices or policies in the period.

As at	August 31, 2017	August 31, 2016
	\$	\$
Finance lease obligations	26,504	91,058
Share capital	5,730,279	5,566,479
Contributed surplus	718,073	766,830
Retained earnings	9,726,509	10,708,897
	16,201,365	17,133,264

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The fair value of the cash and cash equivalents, short-term investments, accounts receivables and accounts payable and accrued liabilities approximates their carrying value.

The Company is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk. The nature of the financial risks and the Company's strategy for managing these risks has not changed significantly from the prior period. The Company does not use financial derivatives.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (cont'd)

a) Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, short term investments and accounts receivable. The Company's cash on deposit and short-term investments are held with reputable financial institutions, from which management believes the risk of loss is low. The Company's maximum exposure to credit risk is as indicated by the carrying amount of its cash, cash equivalents, short term investments and accounts receivable. The Company has a credit policy and regularly monitors its credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss. The Company carries out credit evaluations of its customers who receive credit and carries adequate provisions for possible losses arising from credit risk associated with financial assets.

The Company's maximum exposure to credit risk for accounts receivable is the carrying value of its accounts receivable balance at August 31, 2017 of \$579,943 (2016 - \$432,241). The Company's allowance for doubtful accounts as at August 31, 2017 amounted to \$17,908 (2016 - \$20,165). As at August 31, 2017, the percentages of past due trade accounts receivable were as follows: 1% past due 61 to 90 days (2016- 5%) and 3% past due greater than 90 days (2016 - 16%) prior to including the allowance for doubtful accounts. It is management's view that these balances, net of the allowance for doubtful accounts, have a low risk of not being collected.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due or to fund the programs and commitments that the Company has planned. The Company manages liquidity risk through management of its capital structure in conjunction with cash flow forecasting including anticipated investing and financing activities. The Company believes that internally generated cash flows and current cash balances will be sufficient to cover its normal operating and capital expenditures for the current fiscal year.

As at August 31, 2017, contractual obligations related to financial liabilities are as follows:

	Accounts payable and accrued liabilities \$	Finance lease obligations \$
2018	453,616	30,939
2019	-	26,504
Total	453,616	57,443

As at August 31, 2016, contractual obligations related to financial liabilities are as follows:

	Accounts payable and accrued liabilities \$	Finance lease obligations \$
2017	521,583	46,618
2018	-	53,634
2019 and thereafter	-	37,424
Total	521,583	137,676



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (cont'd)

c) Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk arising from fluctuations in interest rates received on its cash and cash equivalents and its short-term investments. The Company manages interest rate risk by maximizing the interest earned in excess funds while maintaining the liquidity necessary to maintain day-to-day operating cash flow requirements.

At August 31, 2017, based on management's interest rate risk sensitivity analysis, a one-half percent change in market interest rates would have had an impact of approximately \$61,164 (2016 – \$54,770) on the Company's net earnings.

Currency risk

Foreign currency risk arises from fluctuations in the value of foreign currencies and the degree of volatility of these currencies relative to the Canadian dollar. The Company is subject to foreign currency risk in that it has both current assets and liabilities denominated in foreign currencies. It is management's opinion that a change in foreign currency exchange rates could affect the Company's results of operations and cash flows, but would not materially impair or enhance its ability to pay its foreign exchange obligations. The Company does not use hedging tools to reduce its exposure to foreign currency risk.

At August 31, 2017, the Company held net financial assets of US\$966,303 (2016 - US\$1,286,709) that were exposed to foreign exchange risk. Based on the Company's foreign currency exposures, with other variables unchanged, a five percent appreciation/ depreciation in the Canadian dollar would have impacted net earnings by approximately \$60,568 (2016 - \$84,382).

23. INVESTMENT TAX CREDITS

The Company receives government assistance in the form of investment tax credits. Federal Investment tax credits resulting from SR&ED claims can be used to reduce taxes payable whereas Alberta SR&ED tax credits are received in the form of cash. Investment tax credits relating to product development costs are recorded as a recovery of such costs and those relating to capital expenditures are recorded as a reduction of the cost of the asset acquired. The investment tax credits are recorded in the period in which these tax credits are considered measurable and reasonably assured to be recovered.

During the year ended August 31, 2017, no investment tax credits (2016 - \$67,542) were recorded as a reduction of product development costs capitalized. The SR&ED investment tax credits have a carry forward period of twenty years.

24. SEGMENTED REPORTING

The Company operates substantially all of its activities in one reportable segment, technology fluid management solutions, which include the developing, manufacturing and marketing of innovative fluid measurement and management solutions. The ultimate solution will consist of the Company's products integrated with best-in-class third party solutions to enable complete fluid management throughout each stage of the customers' fluid handling processes. Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision makers in allocating resources and assessing performance. The chief operating decision makers of the Company are the President and Chief Executive Officer.

Segmented information is provided on the basis of geographic segments as the Company sells into two primary geographic regions: Canada and the United States.

	2017	2016
	\$	\$
Revenues		
Canada	1,773,673	1,782,780
United States and other	1,738,854	2,190,020
	3,512,527	3,972,800

For the years ended August 31, 2017 and 2016, no revenue from a single customer of the Company exceeded 10% of total revenue in the period.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2017 and 2016

24. SEGMENTED REPORTING (cont'd)

At August 31, 2017, non-current assets held in Canada were \$1,528,659 (2016 - \$1,241,391) and in the United States were \$9,273 (2016 - \$31,246).

25. SUBSEQUENT EVENT

On November 6, 2017 the Company entered into a loan participation agreement with Greypoint Capital Inc. (as administrative agent) and Greypoint Capital L.P. (as co-lender). Pursuant to the loan participation agreement, The Company has agreed to co-invest \$5 million of a \$10 million five-year secured loan to a company in the energy services industry (the "Borrower"). The loan will be secured by a first priority security interest in the Borrower's real estate and equipment and a second priority security interest on the working capital assets of the Borrower. The expected rate of return on the loan is approximately 9% per year during the term of the loan, subject to any early repayment, based on prevailing floating rates.

**Corporate Address:**

4130 – 93 Street
Edmonton, Alberta, Canada T6E 5P5
Phone: (780) 462-4085; Fax: (780) 450-8369

Branch Address:

Overland Park, Kansas
United States of America
Phone: (877) 462-4085

Exchange Listing:

The Toronto Venture Stock Exchange (TSX-V)
Stock Symbol: TLA

Investor Information:

Investor Relations, Titan Logix Corp.
4130 – 93 Street
Edmonton, Alberta, Canada T6E 5P5
Phone: (780) 462-4085; Fax: (780) 450-8369
Email: invest@titanlogix.com

Transfer Agent:

Computershare Investor Services Inc.
Stock Transfer Services
600, 530 – 8th Avenue SW, Calgary, Alberta, Canada
T2P 3S8
Telephone: 1-800-564-6253

Directors:

S. Grant Reeves, BA
Chairperson of the Board

Helen Cornett, CPA, CA
Audit Committee Chairperson

Warren J. White, CPA, MBA
Executive Compensation and Corporate Governance
Committee Chairperson

Alvin Pyke, P.Eng.

Douglas Carruthers, BA
Chief Executive Officer

Greg McGillis, P.Eng., EE
President and Chief Technology Officer

Officers:

Douglas Carruthers, BA
Chief Executive Officer

Greg McGillis, P.Eng., EE
President and Chief Technology Officer

Angela Schultz, CPA, CMA
Chief Financial Officer

Auditors:

Grant Thornton LLP

www.titanlogix.com