



Interim Consolidated Financial Statements
Q3 Fiscal 2020

May 31, 2020



Notice of No Auditor Review of Interim Consolidated Financial Statements

These interim condensed consolidated financial statements and related notes for the period ended May 31, 2020 have been prepared by and are the responsibility of management of Titan Logix Corp. The auditors of Titan Logix Corp. have not audited or reviewed these interim condensed consolidated financial statements.

	May 31, 2020 \$	August 31, 2019 \$
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	9,495,457	7,171,837
Short term investments	-	2,041,227
Accounts receivable	515,236	966,873
Inventories	1,025,022	925,862
Prepaid expenses	33,642	112,371
Current portion of investment in secured loan (note 6)	385,244	384,867
Total current assets	11,454,601	11,603,037
Non-current assets		
Property, plant and equipment	277,422	218,047
Right-of-use assets (note 5)	539,082	-
Intangible assets	1,115,514	1,324,561
Investment in secured loan (note 6)	3,505,966	3,782,424
Total assets	16,892,585	16,928,069
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	466,061	579,380
Income tax payable	4,538	15,514
Current portion of finance lease obligations (note 5)	132,728	-
Total current liabilities	603,327	594,894
Non-current liabilities		
Finance lease obligations (note 5)	415,498	-
Total liabilities	1,018,825	594,894
Equity		
Share capital (note 7)	5,730,279	5,730,279
Contributed surplus	780,708	770,208
Retained earnings	9,362,773	9,832,688
Total equity	15,873,760	16,333,175
Total liabilities and equity	16,892,585	16,928,069

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

On behalf of the Board

"Alvin Pyke"
Director

"Helen Cornett"
Director

	Three months ended		Nine months ended	
	May 31 2020 \$	May 31 2019 \$	May 31 2020 \$	May 31 2019 \$
Revenue	781,778	1,316,403	3,501,207	4,196,792
Cost of sales	399,601	574,680	1,685,220	1,922,723
Gross profit	382,177	741,723	1,815,987	2,274,069
Expenses				
General and administration	283,227	451,972	866,242	1,340,790
Marketing and sales	198,510	195,302	757,276	562,813
Engineering	439,485	203,729	962,785	512,827
Depreciation of property, plant and equipment	6,748	11,390	18,104	32,622
Depreciation right-of-use assets	16,866	-	50,598	-
Amortization of intangible assets	69,653	73,683	209,045	221,050
(Gain) on foreign exchange	(51,877)	(35,579)	(70,100)	(35,357)
Total expenses	962,612	900,497	2,793,950	2,634,745
Operating (loss) before other items	(580,435)	(158,774)	(977,963)	(360,676)
Other items				
Finance income (note 8)	170,637	175,085	530,430	498,118
Interest on finance leases	(7,057)	-	(22,382)	-
Total other items	163,580	175,085	508,048	498,118
Earnings (loss) before income taxes	(416,855)	16,311	(469,915)	137,442
Income tax expense	-	-	-	-
Net earnings (loss) and comprehensive earnings (loss)	(416,855)	16,311	(469,915)	137,442
Earnings (loss) per share (note 10)				
Basic	(0.01)	0.00	(0.02)	0.00
Diluted	(0.01)	0.00	(0.02)	0.00

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

	Common Shares #	Share Capital \$	Contributed Surplus \$	Retained Earnings \$	Total Equity \$
Balance, August 31, 2019	28,536,132	5,730,279	770,208	9,832,688	16,333,175
Share-based compensation			10,500		10,500
Net (loss)	-	-	-	(469,915)	(469,915)
Balance, May 31, 2020	28,536,132	5,730,279	780,708	9,362,773	15,873,760

	Common Shares #	Share Capital \$	Contributed Surplus \$	Retained Earnings \$	Total Equity \$
Balance, August 31, 2018	28,536,132	5,730,279	686,208	9,722,728	16,139,215
Share-based compensation			84,000		84,000
Net earnings	-	-	-	137,442	137,442
Balance, May 31, 2019	28,536,132	5,730,279	770,208	9,860,170	16,360,657

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

	Three months ended		Nine months ended	
	May 31 2020 \$	May 31 2019 \$	May 31 2020 \$	May 31 2019 \$
Cash provided by (used in)				
Operating activities				
Net income (loss)	(416,855)	16,311	(469,915)	137,442
Adjustments for:				
Non-cash items included in net income (loss)				
Interest on finance leases	7,057	-	22,382	-
Depreciation of property, plant and equipment	10,829	14,645	30,348	42,392
Depreciation of right-of-use assets	36,041	-	108,124	-
Amortization of intangible assets	69,654	73,683	209,046	221,050
Share-based compensation	-	84,000	10,500	84,000
Finance income (note 8)	(170,637)	(175,085)	(530,430)	(498,118)
Changes in non-cash working capital (note 11)	106,655	177,432	306,912	133,756
Net cash provided by (used in) operating activities	(357,256)	190,986	(313,033)	120,522
Investing activities				
Maturity of short term investments	-	-	2,041,227	-
Investment in secured loan (note 6)	-	12,500	-	62,500
Payments received on investment in secured note (note 6)	100,000	100,000	300,000	300,000
Finance income (note 8)	162,663	167,616	506,511	480,730
Purchase of short term investments	-	(23,178)	-	(41,227)
Purchase of property, plant and equipment	(83,990)	(13,605)	(89,723)	(15,955)
Proceeds from disposal of property, plant and equipment	-	251	-	251
Net cash provided by investing activities	178,673	243,584	2,758,015	786,299
Financing activities				
Payment of finance lease obligation	(40,081)	(22,574)	(121,362)	(26,504)
Net cash (used in) financing activities	(40,081)	(22,574)	(121,362)	(26,504)
Net increase in cash and cash equivalents	(218,664)	411,996	2,323,620	880,317
Cash and cash equivalents, beginning of period	9,714,121	6,739,199	7,171,837	6,270,878
Cash and cash equivalents, end of period	9,495,457	7,151,195	9,495,457	7,151,195

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

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 #2600 10180 101 Street, Edmonton, AB T5J 3Y2.

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 designed to be part of a complete Supply Chain Management solution. The ultimate solution consists of the Company's products integrated with best-in-class data management to enable end-to-end Industrial Internet of Things solutions for our customers' Supply Chain Management.

2. BASIS OF PRESENTATION

Statement of compliance

These interim condensed consolidated financial statements for the nine months ended May 31, 2020 and May 31, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). They have been prepared in accordance with IAS 34, "Interim Financial Reporting" and do not contain all necessary annual disclosures in accordance with IFRS.

The interim unaudited condensed consolidated financial statements of the Company for the nine months ended May 31, 2020 were authorized for issue in accordance with a resolution of the directors on July 21, 2020.

Principles of consolidation

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

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements, in all material respects, follow the same accounting policies and method of application as the annual audited consolidated financial statements of the preceding fiscal year except as noted below. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended August 31, 2019.

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. During the fiscal quarter 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 due to the collapse in oil prices and business impact of COVID-19. The market uncertainty impacted the earnings potential of the Company's CGUs; therefore, an asset impairment test was performed at May 31, 2020. Upon completion of the asset impairment testing, the Company concluded that there was no asset impairment required at May 31, 2020.

Changes in accounting policies

IFRS 16 – Leases

IFRS 16 replaces IAS 17-Leases and specifies how to recognize, measure, present and disclose leases and is 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. At the commencement date of a lease, the lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The standard requires the lessee to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Changes in accounting policies (cont'd)

IFRS 16 – Leases (cont'd)

Initial Adoption

The Company adopted IFRS 16 on September 1, 2019 using the modified retrospective approach and has not restated prior periods for the impact of IFRS 16. Comparative information is reported under IAS 17 and its related interpretations. The Company also elected to use the following transitional reliefs and exemptions permitted under the standard:

- Short-term leases that have a lease term of 12 months or less and leases of low-value assets (less than \$5,000) have not been recognized as right-of-use assets and lease liabilities. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.
- Contracts that had not previously been identified as leases under the previous standard have not been reassessed under IFRS 16.
- Leases having similar characteristics are measured at transition by applying a single discount rate.

Under IAS 17, the previous standard, leases were classified as finance or operating leases. Leases were classified as finance leases if the Company had substantially all the risks and reward of ownership of the underlying assets. Finance leases were 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.

On transition to IFRS 16 under the modified retrospective approach, lease payments are discounted using the Company's incremental borrowing rate as of September 1, 2019. The Company used a weighted average incremental borrowing rate of 4.95% to measure the present value of the future lease payments on September 1, 2019.

The Company leases land, buildings and office equipment and recognized right-of use assets and lease liabilities on transition to IFRS 16. There was no impact on opening retained earnings. The following table summarizes the impact of the adoption of IFRS 16 on the Company's Statement of Financial Position, as at September 1, 2019:

Statement of Financial Position – September 1, 2019	\$
Recognition of right-of use assets	647,206
Recognition of current portion of lease liabilities	132,416
Recognition of long term lease liabilities	514,790

The following table reconciles the Company's lease commitments at August 31, 2019, as previously disclosed in the Company's August 31, 2019 and 2018 audited annual consolidated financial statements to the lease liabilities recognized on initial adoption of IFRS 16 at September 1, 2019.

	\$
Operating lease commitments as of August 31, 2019	727,492
Leases with low value or a lease term of 12 months or less	(1,680)
Lease liabilities before discounting	725,812
Discounted using incremental borrowing rate	(78,606)
Total lease liabilities recognized as of September 1, 2019	647,206

Ongoing recognition and measurement

A lease is defined as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When applying this definition, the Company assesses whether a contract meets the following:

- The contract involves an identified asset that is explicitly or implicitly identified in the contract and is physically distinct;
- The Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset, having the right to direct how and for what purpose the asset is used throughout the period of use.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Right-of-use assets are measured at amortized cost, which is comprised of the amount of the initial measurement of the lease liability, less any incentives received, plus any lease payments made at, or before the commencement date and initial direct costs and asset restoration costs, if any. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)
Changes in accounting policies (cont'd)
IFRS 16 – Leases (cont'd)

The lease liability is initially measured at the present value of the lease payments which may include; fixed lease payments and payments to exercise an extension or termination option, if the Company is reasonably certain to exercise either of these options. The present value of the liability is discounted using the interest rate implicit in the lease or, if that rate is not readily determined, the Company's incremental borrowing rate. Lease liabilities are subsequently measured at amortized cost using the effective interest method. Each lease payment is allocated between the liability and finance cost. 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 lease liability is reduced as payments are made against the principal portion of the lease.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

As at	May 31, 2020 \$	August 31, 2019 \$
Cash on hand and balances with banks	1,527,988	2,919,243
Guaranteed investment certificates	7,967,469	4,252,594
	9,495,457	7,171,837

5. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES
Right-of-use Assets

Cost	\$
Balance at September 1, 2019	647,206
Additions	-
Balance at May 31, 2020	647,206
Accumulated Depreciation	\$
Balance at September 1, 2019	-
Depreciation	108,124
Balance at May 31, 2020	108,124
Net book value	\$
Balance at September 1, 2019	647,206
Balance at May 31, 2020	539,082

Lease liabilities

	\$
Balance at September 1, 2019	647,206
Finance costs	22,382
Lease payments	(121,362)
Balance at May 31, 2020	548,226
Lease liabilities due within one year	132,728
Lease liabilities due beyond one year	415,498

6. INVESTMENTS

Short term investments

As at	
August 31, 2019	\$ 2,041,227
Maturity of short term investments	(2,041,227)
May 31, 2020	\$ -

Short term investments consist of guaranteed investment certificates (GICs) not cashable on demand, or with original maturities greater than three months. During the nine months ended May 31, 2020, the Company's investments in GICs, including its GICs classified as short term investments, generated finance income of \$134,349 (May 31, 2019 - \$137,019) (note 8).

Investment in secured loan

As at		
August 31, 2019		\$ 4,167,291
Principal repayments		(300,000)
Amortization of commitment fee and amendment fee		23,919
May 31, 2020		\$ 3,891,210

As at	May 31, 2020	August 31, 2019
	\$	\$
Current portion of investment in secured loan	385,244	384,867
Long-term portion of investment in secured loan	3,505,966	3,782,424
	3,891,210	4,167,291

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 co-invested \$5 million of a \$10 million five-year secured loan to a company in the energy services industry (the "Borrower"). The loan is 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 loan is for a 60-month term and bears interest at the 30-day bankers' acceptance rate plus 9.5% (2018 - 7.5%), with a payment of \$33,333 principal plus interest paid monthly. The Borrower may prepay the loan at any time subject to set terms. Principal repayments of \$300,000 were received in the nine months ended May 31, 2020 (May 31, 2019 - \$300,000). The terms of the agreement included an upfront commitment fee from the Borrower of \$75,000 and therefore the Company recorded the initial value of the investment in secured loan at an amortized cost of \$4,925,000. The \$75,000 commitment fee is amortized over the term of the loan and included in interest income.

In December 2018 and May 2019, the credit agreement with the Borrower was amended for covenant terms, subject to an amendment fee. The amendment fees of \$62,500 are amortized over the remaining term of the loan and included in finance income.

During the nine months ended May 31, 2020, the Company's investment in the secured loan to Greypoint Capital Inc. generated finance income of \$373,428 (May 31, 2019 - \$348,341) (note 8).

7. SHARE CAPITAL

a) Authorized

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

b) Issued

The Company has 28,536,132 issued common shares (August 31, 2019 - 28,536,132).

7. SHARE CAPITAL (cont'd)
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, 2019 – 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 May 31, 2020, the Company has 450,000 (August 31, 2019 – 420,000) options outstanding, which expire on dates between April 2024 and January 2025. The continuity of the Company's outstanding and exercisable options is as follows:

	Nine months ended May 31, 2020		Twelve months ended August 31, 2019	
	Number of options outstanding #	Weighted average exercise price \$	Number of options outstanding #	Weighted average exercise price \$
Outstanding, beginning of period	420,000	0.62	180,000	0.90
Granted	50,000	0.49	300,000	0.57
Forfeited	(170,000)	0.68	(60,000)	1.23
Outstanding, end of period	300,000	0.56	420,000	0.62
Exercisable, end of period	300,000	0.56	420,000	0.62

The following table summarizes information about stock options outstanding and exercisable as at May 31, 2020.

Exercise price	Options outstanding	Average remaining life (in years)	Options vested	Options not vested
\$ 0.57	250,000	3.90	300,000	-
\$ 0.49	50,000	4.66	50,000	-
Total, end of period	300,000		300,000	-

During the nine months ended May 31, 2020, 50,000 stock options were granted with a weighted average estimated value of \$0.21 per common share as determined using the Black-Scholes Option Pricing Model. These options were granted on January 27, 2020 at an exercise price of \$0.49 and expire on January 27, 2025. These options vested immediately (nine months ended May 31, 2019 – 300,000 granted at an exercise price of \$0.57).

During the nine months ended May 31, 2020, 170,000 stock options that had a weighted average exercise price of \$0.68 were forfeited (nine months ended May 31, 2019 – 60,000 options forfeited that had a weighted average exercise price of \$1.23).

8. FINANCE INCOME

	Three months ended		Nine months ended	
	May 31, 2020 \$	May 31, 2019 \$	May 31, 2020 \$	May 31, 2019 \$
Interest from investment in secured loan	117,945	121,141	373,428	348,341
Interest from investments in guaranteed investment certificates	50,016	48,179	134,349	137,019
Other interest income	2,676	5,765	22,653	12,758
	170,637	175,085	530,430	498,118

9. NATURE OF EXPENSES

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

	Three months ended		Nine months ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
	\$	\$	\$	\$
Employee salaries and benefits				
Included in cost of sales	81,886	124,059	347,789	405,531
Included in total expenses	529,689	544,530	1,600,599	1,707,204
Total employee salaries and benefits	611,575	668,588	1,948,388	2,112,735
Depreciation and amortization				
Included in cost of sales	23,257	3,255	69,771	9,770
Included in total expenses	93,267	85,073	277,747	253,672
Total depreciation and amortization	116,524	88,328	347,518	263,442

During the months ended May 31, 2020, in response to the COVID-19 pandemic (note 17) salaries and benefits were rolled back company-wide by 10% to 20% for all employees and certain employee benefits were also suspended. The Company received wage subsidy funding through the Government of Canada's, Canada Emergency Wage Subsidy ("CEWS") that was available to any employer, subject to eligibility criteria, whose business has been adversely affected by COVID-19. In addition, the Company's wholly owned subsidiary received approval and funding under its application for the United States Small Business Administration ("SBA") Paycheck Protection Program ("PPP") pursuant to the U.S. Coronavirus Aid, Relief, and Economic Security Act. All or a portion of the loan may be forgiven if the Company maintains its employment and compensation within certain parameters during the designated period following the loan origination date and the proceeds of the loan are spent on payroll costs, rent or lease agreements. Payroll expenses for the fiscal quarter were reduced by \$149,141 with respect to subsidy programs (three and nine month periods ended May 31, 2019: \$nil).

10. EARNINGS (LOSS) PER SHARE

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

	Three months ended		Nine months ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
	\$	\$	\$	\$
Net earnings (loss) (numerator for basic and diluted earnings (loss) per share)	(416,855)	16,311	(469,915)	137,442
Weighted average number of shares outstanding – basic (denominator for basic earnings (loss) per share)	28,536,132	28,536,132	28,536,132	28,536,132
Effect of dilutive securities				
Stock options converted to common shares	-	-	-	-
Weighted average number of shares outstanding – diluted (denominator for diluted earnings (loss) per share)	28,536,132	28,536,132	28,536,132	28,536,132
Basic earnings (loss) per share	(0.01)	0.00	(0.02)	0.00
Effect of dilutive securities	-	-	-	-
Diluted earnings (loss) per share	(0.01)	0.00	(0.02)	0.00

For the nine months ended May 31, 2020, there were 300,000 antidilutive options (2019 – 420,000). 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.

11. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	Three months ended		Nine months ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
	\$	\$	\$	\$
Accounts receivable	236,518	169,851	451,637	124,947
Inventories	(97,637)	(20,614)	(99,160)	120,514
Prepaid expenses	29,353	(9,360)	78,729	47,070
Accounts payable and accrued liabilities	(61,332)	39,306	(113,318)	(157,024)
Income tax payable	(247)	(1,751)	(10,976)	(1,751)
	106,655	177,432	306,912	133,756

12. 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 year was as follows:

	Three months ended		Nine months ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
	\$	\$	\$	\$
Salaries and short-term employee benefits	115,674	128,519	367,173	376,054
Termination benefits	-	-	-	242,390
Share-based compensation	-	84,000	10,500	84,000
	115,674	212,519	377,673	702,444

During the nine months ended May 31, 2020 and May 31, 2019, there were no long-term employee benefits or post-employment benefits recognized. Short-term employee benefits consist of salaries, consulting fees, bonuses, director fees, and all other short-term benefits.

13. 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 year.

As at	May 31, 2020	August 31, 2019
	\$	\$
Finance lease obligations	415,498	-
Share capital	5,730,279	5,730,279
Contributed surplus	780,708	770,208
Retained earnings	9,362,773	9,832,688
	16,289,258	16,333,175

14. FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, investment in secured loan, accounts payable and accrued liabilities. The carrying amounts of the current financial assets and current financial liabilities recognized in the Company's condensed consolidated interim financial statements at the end of the reporting period approximate their fair value due to their short period to maturity. Using the effective interest rate method, the fair value of the secured loan approximates its carrying value as the effective interest rate approximates the market interest rate.

15. FINANCIAL RISK MANAGEMENT

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.

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, accounts receivable and investment in secured loan. 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, accounts receivable and investment in secured loan. 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 May 31, 2020 of \$572,450 (August 31, 2019 - \$1,020,517). The Company's allowance for doubtful accounts as at May 31, 2020 amounted to \$57,214 (August 31, 2019 - \$53,644). As at May 31, 2020, the percentages of past due trade accounts receivable were as follows: 15% past due 61 to 90 days (August 31, 2019 - 4%) and 17% past due greater than 90 days (August 31, 2019 - 8%) 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.

The Company's maximum exposure to credit risk for its investment in secured loan is the carrying value of the investment in secured loan's balance at May 31, 2020 of \$3,966,667 (August 31, 2019 - \$4,266,667). In investing in the secured loan, the Company considered the Company's future liquidity requirements and evaluated whether the Company had plans to sell the investment in the secured loan before recovery. The Company considered general industry conditions, the credit worthiness and credit history of the Borrower. The Company also considered specific conditions related to the financial health of and business outlook for the Borrower, including business outlook, industry and sector performance, changes in technology, and operational and financing cash flow factors. The Company also took into consideration security interest issued as collateral. The Company's investment in secured loan is subject to compliance with reasonable and customary positive and negative covenants for loans of its nature. As at May 31, 2020, the Borrower is in compliance with all terms of the loan agreement. Management monitors the investment in secured loan for indications of impairment on an ongoing basis including the extended impact of COVID-19 on the Borrower's business.

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. The Company's contractual obligations related to financial liabilities are its accounts payable and accrued liabilities balance at May 31, 2020 of \$466,061 due within one year (August 31, 2019 - accounts payable and accrued liabilities of \$579,380).

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 investment in secured loan. 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 May 31, 2020, 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 \$14,719 (May 31, 2019 - \$15,293) 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.

15. FINANCIAL RISK MANAGEMENT (cont'd)

At May 31, 2020, the Company held net financial assets of US\$901,163 (May 31, 2019 - US\$737,099) 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 \$62,122 (May 31, 2019 - \$49,854).

16. 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 maker of the Company is the 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.

Revenues	Three months ended		Nine months ended	
	May 31, 2020 \$	May 31, 2019 \$	May 31, 2020 \$	May 31, 2019 \$
Canada	158,159	519,973	1,017,295	1,558,557
United States and other	623,619	796,430	2,483,912	2,638,235
	781,778	1,316,403	3,501,207	4,196,792

For the nine months ended May 31, 2020 revenue from a single customer made up 13% of total revenue in the period and for the nine months ended May 31, 2019, revenue from a single customer made up 12% of total revenue in the period.

At May 31, 2020, non-current assets held in Canada were \$5,422,931 (August 31, 2019 - \$5,319,903) and in the United States were \$15,053 (August 31, 2019 - \$5,129).

17. COVID-19 IMPACT

In March 2020, the World Health Organization declared a world-wide pandemic resulting from the outbreak of coronavirus, specifically identified as "COVID-19". Many countries had enacted emergency measures to combat the spread of the virus. These measures, which included the implementation of travel bans, temporary restriction on all non-essential business, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. The Company has assessed the economic impacts of the COVID-19 pandemic on its condensed consolidated interim financial statements. As at May 31, 2020, management has determined that the Company's ability to execute its medium and longer term plans, the economic viability of its assets and the carrying value of its long-lived assets are not materially impacted.

The current lack of global demand combined with over-supply of oil has resulted in a significant decrease in spot and forward oil prices. The impact of COVID-19 combined with the decrease in oil prices have resulted in a decrease in demand for our products and the Company has experienced a material decline in revenues and gross profit in the quarter. Cost containment efforts are being addressed in order to mitigate the impact of the decline in revenues and gross profit. The Company has reduced discretionary spending and downsized production costs to match current demand. In the third quarter compensation was rolled back company-wide by 10% to 20% for all employees and directors and certain employee benefits were also suspended.

The Company received wage subsidy funding through the Government of Canada's, Canada Emergency Wage Subsidy ("CEWS") that was available to any employer, subject to eligibility criteria, whose business has been adversely affected by COVID-19. In addition, the Company's wholly owned subsidiary received approval and funding under its application for the United States Small Business Administration ("SBA") Paycheck Protection Program ("PPP") pursuant to the U.S. Coronavirus Aid, Relief, and Economic Security Act. The unsecured loan of \$65,500 bears interest at 1.00% and matures on April 29, 2022. All or a portion of the loan may be forgiven if the Company maintains its employment and compensation within certain parameters during the designated period following the loan origination date and the proceeds of the loan are spent on payroll costs, rent or lease agreements.

17. COVID-19 IMPACT (cont'd)

Management of the Company has enacted its COVID-19 business continuity plan including safety protocol and remote working arrangements and currently only has experienced minimal disruptions to its business operations. At this point, management cannot reasonably estimate the duration, complexity, or severity of this pandemic, which could have a material adverse impact on the Company's business, results of operations, financial position and cash flows. Other possible effects may include disruptions in the demand for our products, absenteeism in the Company's labor workforce, unavailability of products and supplies used in operations, and a decline in the fair value of assets held by the Company. The full extent of the impact that the COVID-19 outbreak may have on the Company will depend on future developments that are highly uncertain and that cannot be predicted with confidence. Management is closely monitoring the impact of the pandemic on all aspects of its business.

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Victor Lee, P.Eng.
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Committee Chairperson

Alvin Pyke, P.Eng.
Chief Executive Officer

Officers:

Alvin Pyke, P. Eng.
Chief Executive Officer

Angela Schultz, CPA, CMA
Chief Financial Officer

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