# Titanium Transportation Group Inc.

Management's Discussion and Analysis

For the second quarter ended
June 30, 2017

Dated August 9, 2017

## GENERAL INFORMATION

The following is Titanium Transportation Group Inc.'s management discussion and analysis dated August 9, 2017 ("MD&A"), which provides a comparative overview of the Company's performance for its three month and six month periods ended June 30, 2017 with the corresponding three month and six month periods ended June 30, 2016, and it reviews the Company's financial position as at June 30, 2017. Throughout this MD&A, the term "Company" or "Titanium" shall mean Titanium Transportation Group Inc. and all of its direct and indirect wholly-owned subsidiaries. This discussion should be read in conjunction with the Company's MD&A, audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2016 as well as the unaudited condensed consolidated interim financial statements of the Company for the second quarter ended June 30, 2017 ("consolidated interim financial statements").

The consolidated interim financial statements of the Company and extracts from those consolidated interim financial statements contained in this MD&A were prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated interim financial statements comply with IAS 34, Interim Financial Reporting, and do not include all of the information required for annual financial statements. The Company's presentation currency is the Canadian dollar. All financial information presented has been rounded to the nearest dollar, except per share amounts and where otherwise indicated. The Company's consolidated interim financial statements for the second quarter ended June 30, 2017 were approved by its Board of Directors on August 9, 2017. Readers are cautioned that certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumption prove incorrect, actual results may vary significantly from those expected. See "Forward Looking Statements" and "Risks and Uncertainties".

Unless otherwise indicated, the information in this report is dated as of August 9, 2017. Additional information relating to the Company is available on SEDAR at www.sedar.com.

## OVERVIEW

The Company is an asset-based transportation and logistics company servicing Canada and the United States with terminals in Bolton, Bracebridge, Napanee, North Bay and Windsor, Ontario and with additional parking/switch yards in Sudbury, Brantford, Brockville and Trenton, Ontario. The Company has over 1,000 customers across various industries, including large multinational corporations. The Company has approximately 400 power units, 1,300 trailers, and 500 independent owner operators and full-time employees.

The Truck Transportation segment provides transport of general merchandise by long-haul, dedicated and local trucking services throughout Canada and the U.S. with a variety of trailer types, including 53’ dry vans and flatbeds that support both heated and hazmat services. Through the use of a modern fleet, the Truck Transportation segment provides reliable and timely service to various customers, attains a high asset utilization through its network of terminals and yards across Ontario, and achieves revenue growth and cost efficiencies through the integration of acquisitions.

The Logistics segment is a non-asset-based broker that provides ancillary transportation services, such as third-party logistics services and freight forwarding across all of North America. Through its network, the Logistics segment offers customers transportation services, intermodal service, international shipping, specialty services, and expedited services. The Logistics segment succeeds due to the extensive experience and expertise of the Company's dedicated personnel, up to date and innovative information technology infrastructure, and strong strategic relationships with third-party providers.

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

Titanium experienced record revenue (including fuel surcharge) of $32.8 million and a corresponding record EBITDA of $3.4 million this quarter. These results represent a 9.4% increase in revenue and a 6.6% increase in EBITDA over the three month period ended June 30, 2016. Revenue and EBITDA for the six month period ended June 30, 2017, was $62.6 million and $6.3 million, respectively, which is a 7.8% and 11.3% increase over the six month period ended June 30, 2016. These increases were primarily driven by the Logistics segment.

The Logistics segment enjoyed revenue growth of 29.1% for the three month period and 30.6% for the six month period ended June 30, 2017 over the same periods in prior year. The increase was a result of an increasing and developing sales team as well as improved spot market rates in the second quarter of 2017. Although weakness in margins remained in the second quarter of 2017, improved volumes and a focus on fixed cost reduction allowed the Logistics segment to increase EBITDA for the three month and six month periods by 53.3% and 58.3%, respectively.

The Truck Transportation segment results for both the three month and six month periods ended June 30, 2017 were very comparable to that of 2016. Rates continued to be lower than what was experienced in the first half of 2016, although some tightening of capacity was experienced in the second quarter of 2017 by way of increased spot rates. Contract rates remained unchanged for the most part. Titanium was able to combat pricing pressure in 2017 with operational improvements, such as the elimination of redundant costs following the acquisition of ProNorth Transportation in December 2015, as well as investment in new equipment, which improved fuel efficiency and reduced repair costs.

| **Revenue by Industry** | |
|---|---|
| Manufactured Goods | 37.9% |
| Retail | 14.0% |
| Logistics/ Trucking | 9.9% |
| Metals | 9.2% |
| Food & Beverage | 8.3% |
| Services | 6.2% |
| Forest Products | 6.0% |
| Automotive | 3.9% |
| Other | 4.6% |

Based on Q2 2017 revenue

Net income increased by $425,240 in the second quarter of 2017 and by $739,653 in the first half of 2017 over the same periods in 2016. The increase can be attributed to growth in the Logistics segment, reduced corporate costs and the non-recurrence of a foreign exchange loss experienced in the first quarter of 2016 and transaction costs incurred in the second quarter of 2016. Transaction costs related to the acquisition of the Windsor terminal in June 2016.

[1] Refer to "Results of Operations" on page 3 and "Non-IFRS Financial Measures" on page 11 for more information about EBITDA and for a reconciliation of EBITDA to net income.

## RESULTS OF OPERATIONS

**Financial Highlights** (unaudited)

| | 3 months ended June 30 2017 | 3 months ended June 30 2016 | 6 months ended June 30 2017 | 6 months ended June 30 2016 |
|---|---|---|---|---|
| Revenue | 30,860,157 | 28,385,885 | 58,910,924 | 54,820,587 |
| Fuel surcharge | 1,933,644 | 1,581,471 | 3,712,303 | 3,255,344 |
| | 32,793,801 | 29,967,356 | 62,623,227 | 58,075,931 |
| Operating expenses | 29,418,116 | 26,802,107 | 56,337,825 | 52,430,497 |
| EBITDA(1) | 3,375,685 | 3,165,249 | 6,285,402 | 5,645,434 |
| EBITDA margin(1) | 10.9 % | 11.2 % | 10.7 % | 10.3 % |
| Depreciation | 2,612,815 | 2,619,979 | 5,183,278 | 5,023,162 |
| Amortization of customer lists | 30,360 | 30,360 | 60,720 | 60,720 |
| Operating income(1) | 732,510 | 514,910 | 1,041,404 | 561,552 |
| Operating margin(1) | 2.4 % | 1.8 % | 1.8 % | 1.0 % |
| Loss (gain) on sale of property and equipment | (69,388) | 86,335 | (345,313) | (244,998) |
| Finance costs | 438,628 | 460,548 | 932,730 | 848,922 |
| Finance income | (104,884) | (119,696) | (208,934) | (176,625) |
| Foreign exchange loss (gain) | 24,946 | (7,298) | (867) | 266,399 |
| Transaction costs | - | 226,392 | - | 226,392 |
| Income tax expense (recovery) | 144,108 | (5,231) | 235,404 | (47,269) |
| Net income (loss) and comprehensive income (loss) attributable to owners of the Company | 299,100 | (126,140) | 428,384 | (311,269) |
| Net income (loss) per share - basic | 0.01 | - | 0.01 | (0.01) |
| Net income (loss) per share - diluted | 0.01 | - | 0.01 | (0.01) |

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

**Selected Segmented Financial Information** (unaudited)

| | 3 months ended June 30 2017 | 3 months ended June 30 2016 | 6 months ended June 30 2017 | 6 months ended June 30 2016 |
|---|---|---|---|---|
| **Truck Transportation** | | | | |
| Revenue | 20,198,152 | 20,192,913 | 39,458,210 | 40,133,250 |
| Fuel surcharge | 1,410,756 | 1,248,473 | 2,782,545 | 2,684,529 |
| | 21,608,908 | 21,441,386 | 42,240,755 | 42,817,779 |
| Operating expenses | | | | |
| Carriers and independent contractors | 7,517,720 | 7,402,067 | 14,391,280 | 14,408,837 |
| Vehicle operating | 4,764,965 | 4,798,880 | 9,774,265 | 10,107,528 |
| Wages and casual labour | 4,945,553 | 4,860,833 | 9,722,555 | 10,022,092 |
| Other operating | 1,164,004 | 1,081,555 | 2,318,986 | 2,261,492 |
| | 18,392,242 | 18,143,335 | 36,207,086 | 36,799,949 |
| EBITDA(1) | 3,216,666 | 3,298,051 | 6,033,669 | 6,017,830 |
| EBITDA margin(1) | 15.9 % | 16.3 % | 15.3 % | 15.0 % |
| Depreciation | 2,535,431 | 2,616,332 | 5,030,448 | 5,017,383 |
| Amortization of customer lists | 30,360 | 30,360 | 60,720 | 60,720 |
| Operating income(1) | 650,875 | 651,359 | 942,501 | 939,727 |
| Operating margin(1) | 3.2 % | 3.2 % | 2.4 % | 2.3 % |
| Loss (gain) on sale of property and equipment | (69,388) | 86,335 | (345,313) | (244,998) |
| Finance costs | 438,628 | 460,548 | 932,730 | 848,922 |
| Finance income | (104,884) | (119,696) | (208,934) | (176,625) |
| Foreign exchange loss (gain) | (26,647) | (16,513) | (47,903) | 166,139 |
| Transaction costs | - | 226,392 | - | 226,392 |
| Income tax expense | 124,836 | 17,693 | 191,352 | 47,849 |
| Net income (loss) | 288,330 | (3,400) | 420,569 | 72,048 |
| **Logistics** | | | | |
| Revenue | 10,935,589 | 8,542,560 | 20,005,543 | 15,455,557 |
| Fuel surcharge | 522,888 | 332,998 | 929,758 | 570,815 |
| | 11,458,477 | 8,875,558 | 20,935,301 | 16,026,372 |
| Operating expenses | | | | |
| Carriers and independent contractors | 9,463,537 | 7,232,552 | 17,274,130 | 12,966,577 |
| Wages and casual labour | 987,217 | 846,022 | 1,871,260 | 1,617,723 |
| Other operating | 381,297 | 388,229 | 698,501 | 752,494 |
| | 10,832,051 | 8,466,803 | 19,843,891 | 15,336,794 |
| EBITDA(1) | 626,426 | 408,755 | 1,091,410 | 689,578 |
| EBITDA margin(1) | 5.7 % | 4.8 % | 5.5 % | 4.5 % |
| Depreciation | 77,384 | 3,647 | 152,830 | 5,779 |
| Foreign exchange loss | 51,593 | 9,215 | 47,036 | 100,260 |
| Income tax expense | 134,831 | 109,391 | 242,267 | 162,358 |
| Net income | 362,618 | 286,502 | 649,277 | 421,181 |

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

**Revenue** (unaudited)

| | 3 months ended June 30 2017 | 3 months ended June 30 2016 | 6 months ended June 30 2017 | 6 months ended June 30 2016 |
|---|---|---|---|---|
| **Truck Transportation** | | | | |
| Revenue | 20,198,152 | 20,192,913 | 39,458,210 | 40,133,250 |
| Fuel surcharge | 1,410,756 | 1,248,473 | 2,782,545 | 2,684,529 |
| | 21,608,908 | 21,441,386 | 42,240,755 | 42,817,779 |
| **Logistics** | | | | |
| Revenue | 10,935,589 | 8,542,560 | 20,005,543 | 15,455,557 |
| Fuel surcharge | 522,888 | 332,998 | 929,758 | 570,815 |
| | 11,458,477 | 8,875,558 | 20,935,301 | 16,026,372 |

For the three month and six month periods ended June 30, 2017, the Company's consolidated revenues increased by $2.8 million or 9.4%, and $4.5 million or 7.8% when compared to the three month and six month periods ended June 30, 2016. The increase in revenue was a result of an increase in revenue in the Logistics segment, as Truck Transportation revenues were relatively unchanged.

The Truck Transportation segment experienced a slight increase in revenue of $0.2 million or 0.8%, for the three month period ended June 30, 2017 and a slight decrease of $0.6 million or 1.3% for the six month period ended June 30, 2017 when compared to that of 2016. The Company acquired annual revenues of approximately $2.7 million with the acquisition of the Windsor terminal and experienced organic revenue growth in the first two quarters of 2017. However, this growth was offset by decreased pricing brought about by a relatively more competitive environment, as well as reductions in unprofitable ProNorth Transportation revenues. The net effect of these factors was a nominal change to revenue year over year. However, a slight tightening of capacity this quarter allowed for some increases in rates and volumes when compared to the previous three quarters.

The Logistics segment saw an increase in revenue of $2.6 million or 29.1% for the three month period ended June 30, 2017 and an increase of $4.9 million or 30.6% for the six month period ended June 30, 2017, when compared to that of 2016. The increase is primarily attributable to the growth in the segment's sales force following the Company's move to a much larger head office location late last year, as well as some tightening experienced in truck transportation capacity this quarter.

**Operating Expenses and Income** (unaudited)

| | 3 months ended June 30 2017 | 3 months ended June 30 2016 | 6 months ended June 30 2017 | 6 months ended June 30 2016 |
|---|---|---|---|---|
| **Truck Transportation** | | | | |
| Revenue | 21,608,908 | 21,441,386 | 42,240,755 | 42,817,779 |
| Operating expenses | 18,392,242 | 18,143,335 | 36,207,086 | 36,799,949 |
| EBITDA*(1)* | 3,216,666 | 3,298,051 | 6,033,669 | 6,017,830 |
| EBITDA margin*(1)* | 15.9 % | 16.3 % | 15.3 % | 15.0 % |
| Depreciation and amortization | 2,565,791 | 2,646,692 | 5,091,168 | 5,078,103 |
| Operating income*(1)* | 650,875 | 651,359 | 942,501 | 939,727 |
| Operating margin*(1)* | 3.2 % | 3.2 % | 2.4 % | 2.3 % |
| **Logistics** | | | | |
| Revenue | 11,458,477 | 8,875,558 | 20,935,301 | 16,026,372 |
| Operating expenses | 10,832,051 | 8,466,803 | 19,843,891 | 15,336,794 |
| EBITDA*(1)* | 626,426 | 408,755 | 1,091,410 | 689,578 |
| EBITDA margin*(1)* | 5.7 % | 4.8 % | 5.5 % | 4.5 % |
| **Corporate** | | | | |
| Operating expenses | 467,407 | 541,557 | 839,677 | 1,061,974 |

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

For the Truck Transportation segment, operating expenses increased slightly by $0.2 million or 1.4%, for the three month period ended June 30, 2017 and decreased slightly by $0.6 million or 1.6% for the six month period ended June 30, 2017, when compared to the same periods in 2016. The nominal change is a result of the net effect of cost savings realized as part of the integration of ProNorth Transportation, offset by higher fuel prices in 2017. The Company was not able to offset rising fuel costs entirely with increased pricing, due to more competitive than normal market conditions. As a result, EBITDA and operating income, as well as the related margins, remain relatively unchanged for both the three month and six month periods ending June 30, 2017 when compared to 2016.

For the Logistics segment, operating expenses increased by $2.4 million or 27.9% for the three month period ended June 30, 2017 and increased by $4.5 million or 29.4% for the six month period ended June 30, 2017. The increase was primarily driven by a higher volume of orders resulting in higher carrier costs. The improvement in EBITDA margin from 4.8% to 5.7% for the three month period and from 4.5% to 5.5% for the six month period, is a product of both a higher volume of revenue and a reduction of fixed costs, despite the fact that lower margins were experienced in 2017 versus 2016. Although there was some tightening of capacity, this has not yet translated into increased spreads as rates are still very low.

The Company realized a foreign exchange loss during the first quarter of 2016 as a result of the strengthening of the Canadian dollar relative to the US dollar during that period. Later in 2016, the Company began to borrow in US dollars in order to hedge against its exposure on its US dollar receivables. In addition, the Company incurred transaction costs during the second quarter of 2016 relating to the acquisition of the Windsor terminal.

## SUMMARY OF QUARTERLY RESULTS

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

(in thousands)

| | Q2'17 | Q1'17 | Q4'16 | Q3'16 | Q2'16 | Q1'16 | Q4'15 | Q3'15 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 32,794 | 29,829 | 28,647 | 29,839 | 29,967 | 28,109 | 26,571 | 27,246 |
| EBITDA(1) | 3,376 | 2,910 | 3,061 | 3,235 | 3,165 | 2,481 | 2,638 | 2,901 |
| EBITDA margin(1) | 10.9 % | 10.4 % | 11.3 % | 11.4 % | 11.1 % | 9.4 % | 10.6 % | 11.3 % |
| Operating income(1) | 733 | 309 | 374 | 570 | 515 | 47 | 417 | 1,073 |
| Operating margin(1) | 2.4 % | 1.1 % | 1.4 % | 2.0 % | 1.8 % | 0.2 % | 1.7 % | 4.2 % |
| Net income (loss) and comprehensive income (loss) attributable to the owners of the Company | 299 | 129 | 119 | 130 | (126) | (185) | 446 | 1,366 |
| Per share - basic | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | (0.01) | 0.01 | 0.04 |
| Per share - diluted | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | (0.01) | 0.01 | 0.04 |

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

Changes from quarter to quarter are mainly the result of acquisitions, seasonality of operations and changes in economic conditions. Economic conditions began to worsen after the third quarter of 2015 and then further deteriorated in the second half of 2016, which resulted in reduced revenue, margins and profitability. The Company combated these changes with an increased focus on its sales force as well as cost cutting.

In addition, there has historically been an increase in revenue and a decrease in margins in quarters following an acquisition. Following the quarter in which an acquisition has occurred, revenues have often decreased, stabilized and then increased while EBITDA margins have increased. This historical trend can be observed in Q1 2016 following the acquisition of ProNorth Transportation. It may be difficult to isolate this impact if the integration process of two or more acquisitions overlap or if there are significant changes in economic conditions.

The activities of the Company are also subject to seasonal demand for truck transportation. Historically, the Company has experienced weak demand in the first quarter, moderate demand in the third and fourth quarters and stronger demand in the second quarter. Harsher winter conditions also generally result in lower fuel economy and increased repair costs during the first quarter.

## LIQUIDITY AND CAPITAL RESOURCES

| | June 30 2017 | December 31 2016 |
|---|---|---|
| Working capital (deficit)(1) | (8,962,539) | (7,372,208) |
| Total assets | 107,871,710 | 112,145,867 |
| Net debt(2) | 46,414,403 | 50,536,210 |
| Shareholders' equity | 36,799,864 | 36,238,286 |
| Net debt to equity ratio(3) | 1.26 | 1.39 |

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

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

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

The Company's net debt position and net debt to equity ratio as at June 30, 2017 decreased when compared to December 31, 2016 as cash flows generated from operating and financing activities allowed the Company to pay down debt. Minimal investment in equipment was required during the six month period ended June 30, 2017, as there was significant replenishment in 2015 and 2016 following the acquisition of Muskoka Transport Limited and ProNorth Transportation. Total assets declined due to Company efforts to improve asset utilization. Although due on demand, the Company considers its bank indebtedness to be long-term debt as it is often used to finance equipment purchases and acquisitions.

During this quarter, the Company completed its undertaking to sell excess aged equipment and improve asset utilization, resulting in proceeds of $7.3 million over the last twelve months. Although no additional assets have been identified as available for sale in this quarter, efforts to improve trailer utilization will continue through the use of BlackBerry's radar trailer tracking system. The Company has committed approximately $750,000 towards the purchase of additional rolling stock, as of June 30, 2017, and expects to purchase additional trucks in the second half of 2017 if customer demands continue to strengthen. Management believes there is sufficient financing available to fund planned capital expenditures in the future and to provide for the future growth of the business.

The Company paid down an additional $0.4 million in debt, during the first six months of 2017, in excess of what was contractually required. The Company actively seeks debt refinancing when possible, especially with respect to debt acquired through business acquisitions, to the extent that penalties for early retirement of debt are not significant and lower cost financing is available. Management believes that the Company's operating cash flows are sufficient to fund daily operating activities and meet regular debt repayment obligations.

The Company limits the use of off-balance sheet financing, by way of operating leases, to the extent practical. Operating leases mainly pertain to the use of the Company's head office terminal but do include some power units and trailers to the extent that the Company assumes these commitments as part of business acquisitions. Excluding the Company's Bolton head office, these leases expire between July 2017 and October 2020. The lease for the Company's head office expires September 2031.

The portion of the Company's bank credit facilities which were unused as of June 30, 2017 include approximately $8.2 million under a revolving demand operating facility, $5 million under a non-revolving acquisition facility, $7.5 million under an accordion acquisition facility and $1.8 million under a finance lease loan facility. In addition, the Company has available approximately $13.5 million in finance leasing and loan facilities through other institutions.

**Common Shares**

As of August 9, 2017, there are 37,388,510 common shares of the Company outstanding and 4,426,665 outstanding warrants to acquire common shares of the Company. On July 7, 2017, 2,018,250 warrants expired, having an exercise price of $3.50. In addition, there are 1,779,000 stock options outstanding, of which 450,000 are exercisable.

At the Company's Annual and Special Meeting of Shareholders on June 13, 2017, shareholders approved a Company Share Purchase Plan (the "Plan"), which will be implemented by September 2017. The Plan will allow participants who have enrolled in the Plan to contribute up to 5% of their compensation towards the Plan in each pay period. Participants will include Titanium's approximately 500 employees and independent owner operators, but exclude insiders of the Company. Contributions under the Plan will be used to purchase Shares from treasury based on a 20 day volume weighted trading price on the TSX-V. The Company will match 100% of all participant contributions and the matched portion will be subject to a three year vesting period in the case of employees, or a three year deferred matching period in the case of independent contractors. The maximum number of shares which may be issued under this plan may not exceed 1,500,000, representing approximately 4% of the number of issued and outstanding shares of the Company.

## TRANSACTIONS WITH RELATED PARTIES

The Company provides truck transportation services to companies under common control. These companies include Vision Extrusions Group Limited, Vision Profile Extrusions Ltd. and Sunview Patio Doors Ltd. Aggregate revenues from these companies totaled $1,244,416 and $2,119,375, respectively, for the three month and six month periods ended June 30, 2017 (2016 - $990,597 and $1,709,194).

The Company also currently rents its head office from Caledon First Investments Limited, a company under common control with Titanium. Rent was previously paid to Vaughan West II Limited, Roybridge Holdings Limited and Vision Extrusions Group Limited, also companies under common control. Total rent paid to these companies for the three month and six month periods ended June 30, 2017 was $481,469 and $962,938, respectively (2016 - $112,843 and $225,730). The Company has committed to annual rent of $1,688,748, which will increase to $2,413,123 over a 15 year period.

Trunkeast Investments Canada Limited, the Company's controlling shareholder as of June 30, 2017, provides administrative and support services to the Company on a monthly basis. For these services, the Company was charged $15,000 and $30,000 (2016 - $15,000 and $30,000) for the three month and six month periods ended June 30, 2017, respectively. The Company is committed to payment for such services until such time that the contract is terminated. Six month's written notice is required for termination.

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

**FORWARD LOOKING STATEMENTS**

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

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

From time to time, the Company will disclose its current annual run rate revenue and EBITDA. Although not intended as such, this may be interpreted as forward looking information. Run rates are presented in order to provide investors with insight into the current size of the Company, assuming synergies have been fully realized. Historical figures may not be a good indicator of the Company's size, as a result of the number of acquisitions that are completed each year and the time that it takes to fully realize synergies. After releasing Q2 2016 results, the Company estimated that post synergy annualized revenue and EBITDA would be $125 million and $14.5 million, respectively. Actual revenue and EBITDA for the last four quarters was $121 million and $12.6 million, respectively. The primary reason for the difference is a more significant decline in economic conditions than anticipated at the time. As there has been some improvement in economic conditions recently, the Company is adjusting its revenue run rate from $120 million to $125 million at this time. The Company's EBITDA run rate remains unchanged at $13 million.

## NON-IFRS FINANCIAL MEASURES

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

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

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

"Operating income" is calculated as net income before asset impairments, gains or losses on the sale of equipment, finance income and costs, gains or losses on foreign exchange, income tax expense, transaction costs and reverse takeover costs.

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

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

## RISKS AND UNCERTAINTIES

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

## CHANGES IN ACCOUNTING POLICIES

The following new standards and amendments to standards are not yet effective for the period ended June 30, 2017 and have not been applied in preparing the consolidated interim financial statements. The full description of each of these recent pronouncements is available in our consolidated interim financial statements.

IFRS 16, Leases
IFRS 15, Revenue from Contracts with Customers
IFRS 9, Financial Instruments

TITANIUM
Transportation Group Inc.

# Unaudited Condensed Consolidated Interim Financial Statements

For the second quarter ended
June 30, 2017

# Titanium Transportation Group Inc.
## Condensed Consolidated Interim Statements of Financial Position
(unaudited)

(in Canadian dollars)

| | June 30 2017 | December 31 2016 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash | 221,952 | 152,808 |
| Trade and other receivables (note 13) | 20,675,082 | 19,349,970 |
| Current taxes recoverable | 1,074,360 | 469,398 |
| Finance lease receivables (note 5) | 2,207,292 | 2,471,690 |
| Prepaid expenses and deposits | 1,089,881 | 1,620,151 |
| Assets held for sale (note 6) | - | 1,820,727 |
| | 25,268,567 | 25,884,744 |
| Finance lease receivables (note 5) | 5,531,714 | 6,948,786 |
| Property and equipment (note 7) | 71,607,607 | 73,726,657 |
| Deferred tax assets | 290,277 | 351,415 |
| Customer lists (note 8) | 657,720 | 718,440 |
| Goodwill (note 8) | 4,515,825 | 4,515,825 |
| | 107,871,710 | 112,145,867 |
| **Liabilities** | | |
| Current | | |
| Bank indebtedness (note 9) | 6,801,659 | 7,728,358 |
| Trade and other payables | 11,345,847 | 9,205,205 |
| Current taxes payable | 3,556 | 142,631 |
| Loans payable (note 9) | 8,654,879 | 7,491,309 |
| Finance lease liabilities (note 9) | 7,425,165 | 8,204,358 |
| Finance lease liabilities on assets held for sale | - | 485,091 |
| | 34,231,106 | 33,256,952 |
| Loans payable (note 9) | 15,498,845 | 19,184,828 |
| Finance lease liabilities (note 9) | 15,994,813 | 18,836,277 |
| Deferred tax liabilities | 5,347,082 | 4,629,524 |
| | 71,071,846 | 75,907,581 |
| *Commitments and contingencies (note 15)* | | |
| **Shareholders' Equity** | | |
| Share capital (note 10) | 26,754,964 | 26,754,964 |
| Contributed surplus (note 11) | 3,814,868 | 3,681,674 |
| Retained earnings | 6,230,032 | 5,801,648 |
| | 36,799,864 | 36,238,286 |
| | 107,871,710 | 112,145,867 |

On behalf of the Board

*"Ted Daniel"*
Director

*"Bill Chyfetz"*
Director

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Comprehensive Income

(unaudited)

(in Canadian dollars)

| | 3 months ended June 30 2017 | 3 months ended June 30 2016 | 6 months ended June 30 2017 | 6 months ended June 30 2016 |
|---|---|---|---|---|
| Revenue (note 13) | 30,860,157 | 28,385,885 | 58,910,924 | 54,820,587 |
| Fuel surcharge | 1,933,644 | 1,581,471 | 3,712,303 | 3,255,344 |
| | 32,793,801 | 29,967,356 | 62,623,227 | 58,075,931 |
| Operating expenses | | | | |
| Carriers and independent contractors | 16,707,673 | 14,285,031 | 31,112,581 | 26,607,194 |
| Vehicle operating | 4,764,965 | 4,798,880 | 9,774,265 | 10,107,528 |
| Wages and casual labour (note 14) | 6,145,631 | 5,932,637 | 12,001,101 | 12,094,181 |
| Other operating (note 13) | 1,799,847 | 1,785,559 | 3,449,878 | 3,621,594 |
| | 29,418,116 | 26,802,107 | 56,337,825 | 52,430,497 |
| Income before the following | 3,375,685 | 3,165,249 | 6,285,402 | 5,645,434 |
| Depreciation (note 7) | 2,612,815 | 2,619,979 | 5,183,278 | 5,023,162 |
| Loss (gain) on sale of property and equipment | (69,388) | 86,335 | (345,313) | (244,998) |
| Finance costs | 438,628 | 460,548 | 932,730 | 848,922 |
| Finance income | (104,884) | (119,696) | (208,934) | (176,625) |
| Foreign exchange loss (gain) | 24,946 | (7,298) | (867) | 266,399 |
| Amortization of customer lists (note 8) | 30,360 | 30,360 | 60,720 | 60,720 |
| Transaction costs | - | 226,392 | - | 226,392 |
| | 2,932,477 | 3,296,620 | 5,621,614 | 6,003,972 |
| Income (loss) before income taxes | 443,208 | (131,371) | 663,788 | (358,538) |
| Income tax expense (recovery) | 144,108 | (5,231) | 235,404 | (47,269) |
| Net income (loss) and comprehensive income (loss) attributable to owners of the Company | 299,100 | (126,140) | 428,384 | (311,269) |
| Earnings (loss) per share: | | | | |
| Basic | 0.01 | - | 0.01 | (0.01) |
| Diluted | 0.01 | - | 0.01 | (0.01) |
| Weighted average number of shares outstanding: | | | | |
| Basic (note 10) | 37,388,510 | 36,454,587 | 37,388,510 | 36,361,194 |
| Diluted (note 10) | 37,388,510 | 36,454,587 | 37,388,510 | 36,361,194 |

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Changes in Equity

Six months ended June 30, 2017 and 2016 (unaudited)

(in Canadian dollars)

| | Share Capital | Contributed Surplus | Retained Earnings | Total |
|---|---|---|---|---|
| Balances at December 31, 2016 | 26,754,964 | 3,681,674 | 5,801,648 | 36,238,286 |
| Share-based compensation expense (note 11) | - | 133,194 | - | 133,194 |
| Net income and comprehensive income | - | - | 428,384 | 428,384 |
| Balances at June 30, 2017 | 26,754,964 | 3,814,868 | 6,230,032 | 36,799,864 |
| | | | | |
| Balances at December 31, 2015 | 24,765,964 | 3,391,767 | 5,863,739 | 34,021,470 |
| Share issuance | 1,989,000 | - | | 1,989,000 |
| Share-based compensation expense | - | 137,664 | - | 137,664 |
| Net income (loss) and comprehensive income (loss) | - | - | (311,269) | (311,269) |
| Balances at June 30, 2016 | 26,754,964 | 3,529,431 | 5,552,470 | 35,836,865 |

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

(in Canadian dollars)

| | 3 months ended June 30 2017 | 3 months ended June 30 2016 | 6 months ended June 30 2017 | 6 months ended June 30 2016 |
|---|---|---|---|---|
| Cash flows from operating activities | | | | |
| Net income (loss) | 299,100 | (126,140) | 428,384 | (311,269) |
| Adjustments: | | | | |
| Depreciation | 2,612,815 | 2,619,979 | 5,183,278 | 5,023,162 |
| Loss (gain) on sale of property and equipment | (69,388) | 86,335 | (345,313) | (244,998) |
| Finance costs | 438,628 | 460,548 | 932,730 | 848,922 |
| Finance income | (104,884) | (119,696) | (208,934) | (176,625) |
| Amortization of customer lists | 30,360 | 30,360 | 60,720 | 60,720 |
| Share-based compensation expense | 51,885 | 76,846 | 133,194 | 137,664 |
| Income tax expense (recovery) | 144,108 | (5,231) | 235,404 | (47,269) |
| | 3,402,624 | 3,023,001 | 6,419,463 | 5,290,307 |
| Net change in non-cash operating working capital | 1,293,890 | 159,452 | 1,223,809 | 874,865 |
| | 4,696,514 | 3,182,453 | 7,643,272 | 6,165,172 |
| Interest paid | (444,260) | (427,037) | (944,335) | (789,053) |
| Interest received | 104,884 | 119,696 | 208,934 | 176,625 |
| Income taxes paid | (4,478) | (199,530) | (200,745) | (634,378) |
| | 4,352,660 | 2,675,582 | 6,707,126 | 4,918,366 |
| Cash flows from investing activities | | | | |
| Proceeds from finance lease receivables | 559,364 | 613,665 | 1,075,254 | 1,117,285 |
| Acquisition of property and equipment (note 7, 12) | (671,830) | (8,006,438) | (812,163) | (8,456,532) |
| Disposition of property and equipment (note 6, 7) | 1,203,959 | 3,250,105 | 2,079,558 | 3,647,896 |
| | 1,091,493 | (4,142,668) | 2,342,649 | (3,691,351) |
| Cash flows from financing activities | | | | |
| Proceeds from bank indebtedness | - | 4,887,430 | - | 5,614,039 |
| Repayment of bank indebtedness (note 12) | (1,580,419) | - | (979,460) | - |
| Repayment of loans payable (note 12) | (1,794,666) | (2,344,708) | (3,574,780) | (4,980,297) |
| Repayment of finance lease liabilities (note 12) | (2,053,743) | (1,527,098) | (4,426,391) | (2,549,024) |
| Issuance of shares | - | (11,000) | - | (11,000) |
| | (5,428,828) | 1,004,624 | (8,980,631) | (1,926,282) |
| Increase (decrease) in cash | 15,325 | (462,462) | 69,144 | (699,267) |
| Cash, beginning | 206,627 | 552,104 | 152,808 | 788,909 |
| Cash, ending | 221,952 | 89,642 | 221,952 | 89,642 |

Refer to note 12 for supplemental cash flow information.

## 1. REPORTING ENTITY

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

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

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

## 2. BASIS OF PRESENTATION

### Statement of Compliance

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

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

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 9, 2017.

### Basis of Measurement

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

### Functional and Presentation Currency

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

## 2. BASIS OF PRESENTATION - continued

### Seasonality of Interim Operations

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

### Use of Estimates

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

### Use of Judgment

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

**New Standards Adopted**

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

**New Standards not yet Adopted**

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

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

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

## 4. OPERATING SEGMENTS

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

| | Truck Transportation | Logistics | Corporate | Elimination | Total |
|---|---|---|---|---|---|
| **Three months ended June 30, 2017** | | | | | |
| Revenue - external | 21,335,324 | 11,458,477 | - | - | 32,793,801 |
| Revenue - internal | 273,584 | - | - | (273,584) | - |
| Total revenue | 21,608,908 | 11,458,477 | - | (273,584) | 32,793,801 |
| Depreciation | 2,535,431 | 77,384 | - | - | 2,612,815 |
| Finance costs | 438,628 | - | - | - | 438,628 |
| Finance income | (104,884) | - | - | - | (104,884) |
| Income (loss) before income taxes | 413,166 | 497,449 | (467,407) | - | 443,208 |
| Income taxes (recoveries) | 124,836 | 134,831 | (115,559) | - | 144,108 |
| Capital expenditures | 1,717,522 | 6,675 | - | - | 1,724,197 |
| **Three months ended June 30, 2016** | | | | | |
| Revenue - external | 21,091,798 | 8,875,558 | - | - | 29,967,356 |
| Revenue - internal | 349,588 | - | - | (349,588) | - |
| Total revenue | 21,441,386 | 8,875,558 | - | (349,588) | 29,967,356 |
| Depreciation | 2,616,332 | 3,647 | - | - | 2,619,979 |
| Finance costs | 460,548 | - | - | - | 460,548 |
| Finance income | (119,696) | - | - | - | (119,696) |
| Income (loss) before income taxes | 14,293 | 395,893 | (541,557) | - | (131,371) |
| Income taxes (recoveries) | 17,693 | 109,391 | (132,315) | - | (5,231) |
| Capital expenditures | 23,351,268 | - | - | - | 23,351,268 |

## 4. OPERATING SEGMENTS - continued

| | Truck Transportation | Logistics | Corporate | Elimination | Total |
|---|---|---|---|---|---|
| **Six months ended, June 30, 2017** | | | | | |
| Revenue - external | 41,687,926 | 20,935,301 | - | - | 62,623,227 |
| Revenue - internal | 552,829 | - | - | (552,829) | - |
| Total revenue | 42,240,755 | 20,935,301 | - | (552,829) | 62,623,227 |
| Depreciation | 5,030,448 | 152,830 | - | - | 5,183,278 |
| Finance costs | 932,730 | - | - | - | 932,730 |
| Finance income | (208,934) | - | - | - | (208,934) |
| Income (loss) before income taxes | 611,921 | 891,544 | (839,677) | - | 663,788 |
| Income taxes (recoveries) | 191,352 | 242,267 | (198,215) | - | 235,404 |
| Capital expenditures | 2,279,836 | 91,695 | - | - | 2,371,531 |
| **Six months ended, June 30, 2016** | | | | | |
| Revenue - external | 42,049,559 | 16,026,372 | - | - | 58,075,931 |
| Revenue - internal | 768,220 | - | - | (768,220) | - |
| Total revenue | 42,817,779 | 16,026,372 | - | (768,220) | 58,075,931 |
| Depreciation | 5,017,383 | 5,779 | - | - | 5,023,162 |
| Finance costs | 848,922 | - | - | - | 848,922 |
| Finance income | (176,625) | - | - | - | (176,625) |
| Income (loss) before income taxes | 119,897 | 583,539 | (1,061,974) | - | (358,538) |
| Income taxes (recoveries) | 47,849 | 162,358 | (257,476) | - | (47,269) |
| Capital expenditures | 33,259,457 | 58,350 | - | - | 33,317,807 |

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

| | 3 months ended June 30 2017 | 3 months ended June 30 2016 | 6 months ended June 30 2017 | 6 months ended June 30 2016 |
|---|---|---|---|---|
| Canada | 21,172,422 | 19,436,078 | 40,386,945 | 37,753,420 |
| United States | 11,621,379 | 10,531,287 | 22,236,282 | 20,322,520 |
| | 32,793,801 | 29,967,365 | 62,623,227 | 58,075,940 |

## 5. FINANCE LEASE RECEIVABLES

During the six month period ended June 30, 2017, the Company entered into new finance leases totaling $1,365,395, which are receivable over 36 to 60 months with interest rates of 5.25%.

## 6. ASSETS HELD FOR SALE

| | |
|---|---|
| Balance, December 31, 2016 | 1,820,727 |
| Reclassification from property and equipment | 226,151 |
| Disposals | (2,046,878) |
| Balance, June 30, 2017 | - |

## 7. PROPERTY AND EQUIPMENT

| | Land, Buildings and Leaseholds | Furniture and Equipment | Rolling Stock | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balances, December 31, 2016 | 10,504,873 | 4,715,800 | 75,424,136 | 90,644,809 |
| Reacquisition of rolling stock relating to finance lease receivables | - | - | 2,505,628 | 2,505,628 |
| Other additions | 33,851 | 634,817 | 1,702,863 | 2,371,531 |
| Sale of rolling stock relating to finance lease receivables | - | - | (1,579,122) | (1,579,122) |
| Other disposals | - | (13,000) | (383,609) | (396,609) |
| Reclassification to assets held for sale | - | - | (649,761) | (649,761) |
| Balances, June 30, 2017 | 10,538,724 | 5,337,617 | 77,020,135 | 92,896,476 |
| **Accumulated depreciation** | | | | |
| Balances, December 31, 2016 | 291,528 | 2,092,456 | 14,534,168 | 16,918,152 |
| Depreciation | 233,625 | 447,813 | 4,501,840 | 5,183,278 |
| Sale of rolling stock relating to finance lease receivables | - | - | (303,274) | (303,274) |
| Other disposals | - | (12,333) | (73,344) | (85,677) |
| Reclassification to assets held for sale | - | - | (423,610) | (423,610) |
| Balances, June 30, 2017 | 525,153 | 2,527,936 | 18,235,780 | 21,288,869 |
| **Net carrying amounts** | | | | |
| At December 31, 2016 | 10,213,345 | 2,623,344 | 60,889,968 | 73,726,657 |
| At June 30, 2017 | 10,013,571 | 2,809,681 | 58,784,355 | 71,607,607 |

## 8. GOODWILL AND INTANGIBLES

| | Goodwill | Customer Lists | Total |
|---|---|---|---|
| Balances, December 31, 2016 | 4,515,825 | 718,440 | 5,234,265 |
| Amortization | - | (60,720) | (60,720) |
| Balances, June 30, 2017 | 4,515,825 | 657,720 | 5,173,545 |

## 9. LONG-TERM DEBT

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

| | Effective Interest Rate | Year of Maturity | Carrying Amount |
|---|---|---|---|
| Bank indebtedness | PRIME+0.50% | N/A | 6,801,659 |
| Loans payable | 2.95% - 4.50% | 2017-2031 | 24,153,724 |
| Finance lease liabilities | 2.56% - 5.50% | 2017-2021 | 23,419,978 |
| | | | 54,375,361 |
| Current portion | | | 22,881,703 |
| | | | 31,493,658 |

Included in current portion of loans payable is a promissory note for $1,052,367 that will be converted to a long-term finance lease liability. Subsequent to the reporting period, the Company received loan proceeds totaling $618,098 relating to rolling stock purchases made during the three month period ended June 30, 2017.

## 10. SHARE CAPITAL

During the six month period ended June 30, 2017, there were no shares issued, cancelled or repurchased. As of June 30, 2017, there were 37,388,510 common shares of the Company outstanding.

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

| | 3 months ended June 30 2017 | 3 months ended June 30 2016 | 6 months ended June 30 2017 | 6 months ended June 30 2016 |
|---|---|---|---|---|
| Issued common shares, beginning | 37,388,510 | 36,267,802 | 37,388,510 | 36,267,802 |
| Effect of issued common shares | - | 186,785 | - | 93,392 |
| Weighted average number of common shares | 37,388,510 | 36,454,587 | 37,388,510 | 36,361,194 |

No additional adjustments to earnings or the weighted average number of shares were necessary for the effects of dilutive potential ordinary shares. Dilutive potential ordinary shares are financial instruments or contracts that may entitle its holder to ordinary shares, where the conversion, exercise or issuance of the financial instrument or warrant would result in a reduction in earnings per share or an increase in loss per share.

## 11. CONTRIBUTED SURPLUS

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

During the six month period ended June 30, 2017, 174,000 stock options were issued to various directors and employees. Each stock option entitles the holder to acquire a common share of the Company at an exercise price of $1.50 per common share. During the period, 10,000 stock options were forfeited. No other stock options expired, were exercised or were forfeited during the reporting period. As at June 30, 2017, there were 1,779,000 stock options outstanding with a weighted average exercise price of $1.79 and weighted average remaining life of 8.4 years. Of the stock options outstanding as at June 30, 2017, 814,000 were held by key management personnel. In addition, of the total options outstanding, 450,000 are fully vested and exercisable at a price of $1.50. During the three month and six month period ended June 30, 2017, the Company recognized an expense of $51,885 and $133,194 (2016 - $76,846 and $137,664) relating to stock options with a corresponding increase to contributed surplus.

The estimated fair value of stock options was calculated using the Black-Scholes option pricing model with the following assumptions: i) the expected life of each stock option is between 5.5 and 8.5 years; ii) the risk free rate is between 0.91% and 1.56%; iii) the dividend yield will be $NIL; and iv) expected volatility is 65%. Volatility was determined using the Company's trading data from the first day of trading to January 9, 2017. Variables used in the Black-Scholes option pricing model are based on highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate.

The total number of warrants outstanding as of June 30, 2017 was 6,444,915, of which 4,426,665 have an exercise price of $2.50 and expire on April 1, 2018. On July 7, 2017, 2,018,250 warrants with an exercise price of $3.50 expired.

At the Company's Annual and Special Meeting of Shareholders on June 13, 2017, shareholders approved a Company Share Purchase Plan (the "Plan"), which will be implemented by September 2017. The Plan will allow participants who have enrolled in the Plan to contribute up to 5% of their compensation towards the Plan in each pay period. Participants will include Titanium's approximately 500 employees and independent owner operators, but exclude insiders of the Company. Contributions under the Plan will be used to purchase Shares from treasury based on a 20 day volume weighted trading price on the TSX-V. The Company will match 100% of all participant contributions and the matched portion will be subject to a three year vesting period in the case of employees, or a three year deferred matching period in the case of independent contractors. The maximum number of shares which may be issued under this plan may not exceed 1,500,000, representing approximately 4% of the number of issued and outstanding shares of the Company.

## 12. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | | Cash Flows | Non-Cash Changes | | |
|---|---|---|---|---|---|
| | Balance December 31 2016 | | New Leases | Return Leases | Balance June 30 2017 |
| Finance lease receivables | 9,420,476 | (1,075,254) | 1,365,395 | (1,971,611) | 7,739,006 |

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

| | | Cash Flows | Non-Cash Changes | | |
|---|---|---|---|---|---|
| | Balance December 31 2016 | | New Leases /Loans | Foreign Exchange Movement | Balance June 30 2017 |
| Bank indebtedness | 7,728,358 | (979,460) | - | 52,761 | 6,801,659 |
| Loan payable | 26,676,137 | (3,574,780) | 1,052,367 | - | 24,153,724 |
| Finance lease liabilities | 27,525,726 | (4,426,391) | 507,000 | (186,357) | 23,419,978 |
| | 61,930,221 | (8,980,631) | 1,559,367 | (133,596) | 54,375,361 |

## 13. RELATED PARTY TRANSACTIONS

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

| | 3 months ended June 30 2017 | 3 months ended June 30 2016 | 6 months ended June 30 2017 | 6 months ended June 30 2016 |
|---|---|---|---|---|
| Provided truck transportation services to Vision Extrusions Group Limited, Vision Profile Extrusions Ltd. and Sunview Patio Doors Ltd., companies under common control | 1,244,416 | 990,597 | 2,119,375 | 1,709,194 |
| Paid rent for premises to Vaughan West II Limited and Vision Extrusions Group Limited, paid rent for yard to Roybridge Holdings Limited, all companies under common control | - | (112,843) | - | (225,730) |
| Paid rent to Caledon First Investments Limited, a company under common control | (481,469) | - | (962,938) | - |
| Paid management fees to Trunkeast | (15,000) | (15,000) | (30,000) | (30,000) |
| | 747,947 | 862,754 | 1,126,437 | 1,453,464 |

Included in trade and other receivables as at June 30, 2017 is a total of $462,654 due from these related companies.

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

## 14. WAGES AND CASUAL LABOUR

Included in wages and casual labour are the following:

| | 3 months ended June 30 2017 | 3 months ended June 30 2016 | 6 months ended June 30 2017 | 6 months ended June 30 2016 |
|---|---|---|---|---|
| Share-based compensation expense | 51,885 | 76,846 | 133,194 | 137,664 |
| Employee benefits | 110,418 | 126,101 | 242,802 | 250,149 |
| Key management personnel: | | | | |
| Salaries and benefits | 206,481 | 255,199 | 422,804 | 447,276 |
| Share-based compensation expense | 23,264 | 27,450 | 56,178 | 51,433 |

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

## 15. COMMITMENTS AND CONTINGENCIES

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

| | |
|---|---|
| Less than one year | 1,857,958 |
| Between one and five years | 7,407,282 |
| More than five years | 19,921,416 |

Operating leases that were charged to income during the three month and six month period ended June 30, 2017 totaled $604,474 and $1,227,626 (2016 - $554,766 and $1,300,493).

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

b) As at June 30, 2017, the Company was committed to purchasing equipment and rolling stock for approximately $750,000.

c) The Company has a letter of credit outstanding for $665,843 in favour of Caledon First Investments Limited, a company under common control, as a security deposit required under the lease for its Bolton head office.

d) In connection with the ProNorth Transportation purchase, the Company has initiated proceedings under the sale purchase agreement to address various claims the Company has against the vendor. At the reporting date, management cannot provide a practicable estimate of the financial effect that will result from such proceedings.

e) The Company is regularly subject to litigation in the normal course of business. In the opinion of management, the outcome of current pending claims, in aggregate, is not likely to be material to the financial condition or results of operations of the Company.