



## Management's Discussion and Analysis

For the second quarter ended  
June 30, 2018

Dated August 8, 2018

# Titanium Transportation Group Inc.

Management's Discussion and Analysis for the second quarter ended June 30, 2018

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## GENERAL INFORMATION

The following is Titanium Transportation Group Inc.'s management discussion and analysis dated August 8, 2018 ("MD&A"), which provides a comparative overview of the Company's performance for its three month and six month period ended June 30, 2018 with the corresponding three month and six month period ended June 30, 2017, and it reviews the Company's financial position as at June 30, 2018. 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, 2017 as well as the unaudited condensed consolidated interim financial statements of the Company for the second quarter ended June 30, 2018 ("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, 2018 were approved by its Board of Directors on August 8, 2018. Readers are cautioned that certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumption prove incorrect, actual results may vary significantly from those expected. See "Forward Looking Statements" and "Risks and Uncertainties".

Unless otherwise indicated, the information in this report is dated as of August 8, 2018. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## OVERVIEW

Titanium 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, with no one customer accounting for more than 6% of revenue. The Company has approximately 450 power units, 1,500 trailers, and 550 independent owner operators and full-time employees.

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

The Logistics segment is a non-asset-based 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 a variety of transportation services, including 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.

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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, truck capacity, fuel prices, driver availability, unemployment, exchange rates, government regulation and weather. 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<sup>1</sup> and operating income, revenue generated per truck and per mile, empty miles, driver retention and fuel efficiency.

## Key Highlights

Revenue (including fuel surcharge) for the three month and six month periods ended June 30, 2018 was \$51.8 million and \$97.3 million, respectively, a 58.0% and 55.4% increase over the same periods last year. Similarly, operating income was \$3.4 million for the three month period ended June 30, 2018 and \$5.2 million for the six month period ended June 30, 2018, which represents 5 times the operating income of the same periods last year.

Both the Logistics and Truck Transportation segments delivered strong growth this quarter and year to date, reflecting supportive industry trends and Titanium's advantageous positioning in the marketplace. Strong economic growth continued to drive increased industry demand for transportation services, while ongoing capacity constraints have resulted in improved pricing and continue to benefit those operators with the scale and flexibility to meet increased customer demand. As a result of Titanium's previous and ongoing investments in technology, capacity and people, the Company was well positioned to effectively respond to these opportunities. As the Company is expecting these favourable conditions to continue in the immediate term, the Company is adjusting its revenue and EBITDA run rates upwards to \$180 million and \$20 million, respectively, from \$170 million and \$18 million.

The Truck Transportation segment demonstrated significant revenue growth of 37.7% and 32.0%, respectively, for the three and six month periods ended June 30, 2018 relative to year ago levels. The growth was driven by the Company's acquisition of Xpress Group on October 1, 2017 as well as organic growth in both volumes and rates, reflecting tighter industry conditions. Strong organic growth was supported by the Company's success in recruiting and retaining drivers, reflecting in part previous investments in driver pay increases. To date, higher driver rates have been fully reflected in higher contract rates. As a result, the combination of higher volumes and improved contract rates drove operating income to double over prior year levels.

The Logistics segment continued to experience exceptional revenue growth in the second quarter, with year over year growth of 102.8% and 108.5%, respectively, for the three and six month periods ended June 30, 2018. The segment's strong performance reflects a significant increase in demand for brokerage services as well as a decrease in industry wide carrier availability. The Company remained uniquely positioned to capitalize on these market conditions as a result of its investment in proprietary technology and its strong carrier relationships. With significantly increased volumes over relatively fixed costs, the segment delivered favourable operating leverage and higher margins, dramatically increasing operating income to four times that of prior year for both the three month and six month periods.

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<sup>1</sup> 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.

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## RESULTS OF OPERATIONS

### Financial Highlights (unaudited)

	<b>3 months ended June 30 2018</b>	<b>3 months ended June 30 2017</b>	<b>6 months ended June 30 2018</b>	<b>6 months ended June 30 2017</b>
Revenue	48,259,042	30,860,157	90,666,340	58,910,924
Fuel surcharge	3,550,732	1,933,644	6,619,292	3,712,303
	51,809,774	32,793,801	97,285,632	62,623,227
Operating expenses	45,087,755	29,418,116	85,589,479	56,337,825
EBITDA <sup>(1)</sup>	6,722,019	3,375,685	11,696,153	6,285,402
EBITDA margin <sup>(1)</sup>	13.9 %	10.9 %	12.9 %	10.7 %
Depreciation	3,280,718	2,612,815	6,338,324	5,183,278
Amortization of customer lists	57,150	30,360	114,300	60,720
Operating income <sup>(1)</sup>	3,384,151	732,510	5,243,529	1,041,404
Operating margin <sup>(1)</sup>	7.0 %	2.4 %	5.8 %	1.8 %
Gain on sale of property and equipment	(216,916)	(69,388)	(284,530)	(345,313)
Finance costs	585,396	438,628	1,151,896	932,730
Finance income	(79,889)	(104,884)	(157,129)	(208,934)
Foreign exchange gain	(15,719)	24,946	(74,897)	(867)
Income tax expense	889,554	144,108	1,268,333	235,404
Net income and comprehensive income attributable to owners of the Company	2,221,725	299,100	3,339,856	428,384
Net income per share - basic	0.06	0.01	0.09	0.01
Net income per share - diluted	0.06	0.01	0.09	0.01

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

### Revenue by Industry

Manufactured Goods	32.1%
Retail	18.7%
Automotive	10.4%
Metals	9.9%
Logistics/ Trucking	9.6%
Food & Beverage	5.7%
Forest Products	4.5%
Services	3.7%
Other	5.4%

Based on Q2 2018 revenue

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## Selected Segmented Financial Information (unaudited)

	<b>3 months ended June 30 2018</b>	<b>3 months ended June 30 2017</b>	<b>6 months ended June 30 2018</b>	<b>6 months ended June 30 2017</b>
<b>Truck Transportation</b>				
Revenue	27,353,951	20,198,152	51,256,451	39,458,210
Fuel surcharge	2,393,522	1,410,756	4,482,405	2,782,545
	<u>29,747,473</u>	<u>21,608,908</u>	<u>55,738,856</u>	<u>42,240,755</u>
Operating expenses				
Carriers and independent contractors	10,599,601	7,517,720	19,929,991	14,391,280
Vehicle operating	6,656,462	4,764,965	12,919,618	9,774,265
Wages and casual labour	6,423,622	4,945,553	12,398,133	9,722,555
Other operating	1,397,641	1,164,004	2,571,693	2,318,986
	<u>25,077,326</u>	<u>18,392,242</u>	<u>47,819,435</u>	<u>36,207,086</u>
EBITDA <sup>(1)</sup>	4,670,147	3,216,666	7,919,421	6,033,669
EBITDA margin <sup>(1)</sup>	17.1 %	15.9 %	15.5 %	15.3 %
Depreciation	3,166,822	2,535,431	6,110,532	5,030,448
Amortization of customer lists	57,150	30,360	114,300	60,720
Operating income <sup>(1)</sup>	1,446,175	650,875	1,694,589	942,501
Operating margin <sup>(1)</sup>	5.3 %	3.2 %	3.3 %	2.4 %
Gain on sale of property and equipment	(216,916)	(69,388)	(284,530)	(345,313)
Finance costs	543,586	438,628	1,080,398	932,730
Finance income	(79,889)	(104,884)	(157,129)	(208,934)
Foreign exchange loss (gain)	(10,433)	(26,647)	6,539	(47,903)
Income tax expense	352,568	124,836	290,913	191,352
Net income	<u>857,259</u>	<u>288,330</u>	<u>758,398</u>	<u>420,569</u>
<b>Logistics</b>				
Revenue	22,084,869	10,935,589	41,505,018	20,005,543
Fuel surcharge	1,157,210	522,888	2,136,887	929,758
	<u>23,242,079</u>	<u>11,458,477</u>	<u>43,641,905</u>	<u>20,935,301</u>
Operating expenses				
Carriers and independent contractors	18,353,717	9,463,537	34,331,195	17,274,130
Wages and casual labour	1,822,576	987,217	3,603,917	1,871,260
Other operating	595,185	381,297	1,118,652	698,501
	<u>20,771,478</u>	<u>10,832,051</u>	<u>39,053,764</u>	<u>19,843,891</u>
EBITDA/ Operating income <sup>(1)</sup>	2,470,601	626,426	4,588,141	1,091,410
EBITDA/ Operating margin <sup>(1)</sup>	11.2 %	5.7 %	11.1 %	5.5 %
Depreciation	113,896	77,384	227,792	152,830
Finance costs	41,810	-	71,498	-
Foreign exchange loss (gain)	(5,286)	51,593	(81,436)	47,036
Income tax expense	637,919	134,831	1,178,663	242,267
Net income	<u>1,682,262</u>	<u>362,618</u>	<u>3,191,624</u>	<u>649,277</u>

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

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## Revenue (unaudited)

	<b>3 months ended June 30 2018</b>	<b>3 months ended June 30 2017</b>	<b>6 months ended June 30 2018</b>	<b>6 months ended June 30 2017</b>
<b>Truck Transportation</b>				
Revenue	27,353,951	20,198,152	51,256,451	39,458,210
Fuel surcharge	<u>2,393,522</u>	<u>1,410,756</u>	<u>4,482,405</u>	<u>2,782,545</u>
	<b>29,747,473</b>	<b>21,608,908</b>	<b>55,738,856</b>	<b>42,240,755</b>
<b>Logistics</b>				
Revenue	22,084,869	10,935,589	41,505,018	20,005,543
Fuel surcharge	<u>1,157,210</u>	<u>522,888</u>	<u>2,136,887</u>	<u>929,758</u>
	<b>23,242,079</b>	<b>11,458,477</b>	<b>43,641,905</b>	<b>20,935,301</b>

For the three month and six month periods ended June 30, 2018, the Company's consolidated revenues increased by \$19.0 million and \$34.7 million, or 58.0% and 55.4%, respectively, when compared to same periods ended June 30, 2017. The increase in revenue was a result of an increase in revenue in both segments.

The Truck Transportation segment experienced an increase in revenue of \$8.1 million or 37.7% for the three month period and \$13.5 million or 32.0% for the six month period ended June 30, 2018 when compared to that of 2017. Approximately \$4 million and \$7.8 million, respectively, can be attributed to the acquisition of Xpress Group on October 1, 2017. The balance represents organic growth in volumes, attributable to aggressive driver recruitment and strong customer demand, as well as significantly improved contract rates supported by strong industry conditions.

The Logistics segment saw an increase in revenue of \$11.8 million or 102.8% for the three month period ended June 30, 2018 and an increase of \$22.7 million or 108.5% for the six month period ended June 30, 2018, when compared to that of 2017. Tightening of trucking capacity significantly increased reliance on freight brokerage during the first half of 2018, and the Company was able to capitalize on the increased demand through its strong carrier relationships and prior investments in infrastructure and technology.

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## Operating Expenses and Income (unaudited)

	<b>3 months ended June 30 2018</b>	<b>3 months ended June 30 2017</b>	<b>6 months ended June 30 2018</b>	<b>6 months ended June 30 2017</b>
<b>Truck Transportation</b>				
Revenue	29,747,473	21,608,908	55,738,856	42,240,755
Operating expenses	25,077,326	18,392,242	47,819,435	36,207,086
EBITDA <sup>(1)</sup>	4,670,147	3,216,666	7,919,421	6,033,669
EBITDA margin <sup>(1)</sup>	17.1 %	15.9 %	15.5 %	15.3 %
Depreciation and amortization	3,223,972	2,565,791	6,224,832	5,091,168
Operating income <sup>(1)</sup>	1,446,175	650,875	1,694,589	942,501
Operating margin <sup>(1)</sup>	5.3 %	3.2 %	3.3 %	2.4 %
<b>Logistics</b>				
Revenue	23,242,079	11,458,477	43,641,905	20,935,301
Operating expenses	20,771,478	10,832,051	39,053,764	19,843,891
EBITDA/ Operating income <sup>(1)</sup>	2,470,601	626,426	4,588,141	1,091,410
EBITDA/ Operating margin <sup>(1)</sup>	11.2 %	5.7 %	11.1 %	5.5 %
<b>Corporate</b>				
Operating expenses	418,729	467,407	811,409	839,677

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

For the Truck Transportation segment, operating expenses increased by \$6.7 million or 36.3% for the three month period ended June 30, 2018 and increased by \$11.6 million or 32.1% for the six month period ended June 30, 2018, when compared to the same periods in 2017. The increase was driven by the acquisition of Xpress Group, a significant driver pay increase, and organic volume growth. As contract rate increases more than offset driver pay increases, operating margins grew to 5.3% from 3.2% for the three month period, and to 3.3% from 2.4% for the six month period.

For the Logistics segment, operating expenses increased by \$9.9 million or 91.8% for the three month period ended June 30, 2018 and increased by \$19.2 million or 96.8% for the six month period ended June 30, 2018. The increase was primarily driven by a higher volume of orders resulting in higher carrier costs and sales commissions. The improvement in operating margin from 5.7% to 11.2% for the three month period and from 5.5% to 11.1% for the six month period is a product of both a higher volume of revenue over relatively fixed costs as well as improved contribution margins as a result of tightening capacity.

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## SUMMARY OF QUARTERLY RESULTS

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

(in thousands)

	<u>Q2'18</u>	<u>Q1'18</u>	<u>Q4'17</u>	<u>Q3'17</u>	<u>Q2'17</u>	<u>Q1'17</u>	<u>Q4'16</u>	<u>Q3'16</u>
Revenue	51,810	45,476	35,445	31,516	32,794	29,829	28,647	29,839
EBITDA <sup>(1)</sup>	6,722	4,974	3,497	2,833	3,376	2,910	3,061	3,235
EBITDA margin <sup>(1)</sup>	13.9 %	11.7 %	10.5 %	9.5 %	10.9 %	10.4 %	11.3 %	11.4 %
Operating income <sup>(1)</sup>	3,384	1,859	475	222	733	309	374	570
Operating margin <sup>(1)</sup>	7.0 %	4.4 %	1.4 %	0.7 %	2.4 %	1.1 %	1.4 %	2.0 %
Adjusted net income (loss) <sup>(1)</sup>	2,222	1,118	(12)	17	299	129	119	130
Per share - basic	0.06	0.03	(0.00)	0.00	0.01	0.00	0.00	0.00
Per share - diluted	0.06	0.03	(0.00)	0.00	0.01	0.00	0.00	0.00
Net income (loss) and comprehensive income (loss) attributable to the owners of the Company	2,222	1,118	(3,533)	17	299	129	119	130
Per share - basic	0.06	0.03	(0.10)	0.00	0.01	0.00	0.00	0.00
Per share - diluted	0.06	0.03	(0.10)	0.00	0.01	0.00	0.00	0.00

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

Changes from quarter to quarter are mainly the result of acquisitions, seasonality of operations and changes in industry conditions. Industry conditions began to worsen during 2016 and then further deteriorated into 2017, which resulted in reduced revenue, margins and profitability. The Company combated these changes with an increased focus on its sales force and organic growth as well as better asset utilization and operating cost savings. Industry conditions began to improve near the end of 2017, particularly in the United States, when strong economic growth along with the persistent shortage of drivers and the introduction of mandatory ELDs, constrained truck capacity. Historically, the Logistics division has reacted much faster to industry change as it is predominantly reliant on spot rates.

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.

There has also 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 Q4 2017 following the acquisition of Xpress Group. 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 industry conditions.

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## LIQUIDITY AND CAPITAL RESOURCES

	<b>June 30</b>	<b>December 31</b>
	<b>2018</b>	<b>2017</b>
Working capital (deficit) <sup>(1)</sup>	(10,931,057)	(14,225,568)
Total assets	123,809,981	114,210,256
Net debt <sup>(2)</sup>	56,631,223	56,235,822
Shareholders' equity	36,315,481	32,639,307
Net debt to equity ratio <sup>(3)</sup>	1.56	1.72

(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 working capital position improved as at June 30, 2018 when compared to December 31, 2017, primarily as a result of the Company's strong profitability and free cash flow during the first half of 2018. Net debt remained flat as a result of the rapid growth of the Logistics segment, where cash receipts from customers significantly lag behind cash payments to vendors. Although due on demand and classified as current, the Company uses its bank indebtedness and acquisition loan to finance long-term assets.

Minimal investment in replacement equipment was required during the six month period ended June 30, 2018, as the Company has been improving asset utilization and significant replenishments were made during 2015 and 2016 following the acquisitions of Muskoka Transport Limited and ProNorth Transportation. In terms of growth spending, 22 new power units were purchased during the first half of 2018 and the Company has committed \$2.3 million towards the purchase of additional rolling stock. Depending on driver recruitment, the Company may purchase up to 38 additional trucks in the latter half of 2018. Titanium keeps the average age of its fleet low in order to take advantage of extended warranty periods, reduced driver downtime and lower repair costs. The Company has a policy of replacing trucks after 6 years, vans after 10 years and flatbeds after 15 years. 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 following table sets out the Company's contractual obligations, excluding future interest payments:

(in thousands)

	<b>Total</b>	<b>1 Year</b>	<b>2 Years</b>	<b>3 Years</b>	<b>4 Years</b>	<b>5 Years</b>	<b>After 5 Years</b>
Acquisition loan <sup>(1)</sup>	3,000	375	750	750	750	375	-
Loans	24,093	8,563	6,013	3,399	2,100	1,328	2,690
Finance leases	21,479	7,681	6,935	5,079	1,520	264	-
Operating leases <sup>(2)</sup>	27,341	1,874	1,825	1,842	1,879	1,934	17,987
	<b>75,913</b>	<b>18,493</b>	<b>15,523</b>	<b>11,070</b>	<b>6,249</b>	<b>3,901</b>	<b>20,677</b>

(1) The acquisition loan is classified as current on the Company's consolidated interim financial statements as the loan is due on demand.

(2) Pertains largely to the lease of the Company's head office terminal. Upon adoption of IFRS 16 on January 1, 2019, operating leases will be presented as long-term debt. Refer to "Changes in Accounting Policies" for further disclosure on the impact this standard will have on the Company's consolidated interim financial statements.

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.

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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 head office terminal, these leases expire between January 2019 and February 2022. The lease for the Company's head office expires September 2031, with an option to purchase in March 2026.

Given the rapid growth of the Company's Logistics segment, the Company's revolving demand facility was increased from \$15 million to \$20 million during the first quarter of 2018. The portion of the Company's bank credit facilities which were unused as of June 30, 2018 include approximately \$5.3 million under the revolving demand operating facility, \$2 million under a non-revolving acquisition facility, \$7.5 million under an accordion acquisition facility and \$6 million under a finance lease loan facility. In addition, the Company has available approximately \$19.7 million in finance leasing and loan facilities through other institutions.

The Company's credit facility agreement requires the Company to maintain two covenants on a quarterly basis. These covenants are measured on a consolidated rolling twelve-month basis. The first covenant requires the Company's debt to tangible net worth ratio to be less than 3.5. Debt to tangible net worth is a ratio of total liabilities plus future minimum lease payments on non-realty operating leases to shareholder's equity less goodwill, customer lists and deferred tax assets. The second covenant requires the Company's debt service coverage ratio to be greater than 1.15. Debt service coverage is a ratio of net income before interest income and expenses, gains on sale of equipment, depreciation, amortization and non-cash items, less unfinanced capital expenditures, plus proceeds of sale of equipment, to contractually required principal and interest payments made over the prior twelve months. The Company was in compliance with all covenants as of June 30, 2018 and believes it will be in compliance with all required covenants for the next twelve months.

## **Common Shares**

In September 2017, the Company implemented a share purchase plan (the "Plan"), which allows all employees and independent contractors, but excluding insiders of the Company, to contribute up to 5% of their compensation to a maximum of \$4,800 per year towards the purchase of Titanium common shares. Contributions are matched at a rate of 100% by the Company and shares are issued from treasury in order to fund the Plan. In the case of employees, matched shares are subject to a three year vesting period. In the case of independent contractors, matched shares are issued after three years of service. The maximum number of shares approved for issuance under the Plan is reviewed by the board of directors annually. Of the shares issued to date, 203,557 have not yet vested.

On April 13, 2018, 4,426,665 outstanding warrants to acquire common shares of the Company expired.

As of August 8, 2018, there are 36,519,971 common shares of the Company outstanding. In addition, there are 1,756,500 stock options outstanding, of which 598,666 are exercisable.

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## **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 \$1,536,520 and \$2,613,652, respectively, for the three month and six month periods ended June 30, 2018 (2017 - \$1,244,416 and \$2,119,375).

The Company also currently rents its head office terminal from Caledon First Investments Limited, a company under common control. Total rent paid to this company for the three month and six month periods ended June 30, 2018 was \$488,031 and \$976,062, respectively (2017 - \$481,469 and \$962,938). The Company has committed to annual base rent of \$1,748,865, which will increase to \$2,413,123 over a 14 year period.

Trunkeast Investments Canada Limited, the Company's controlling shareholder as of June 30, 2018, provides administrative and support services to the Company on a monthly basis. For these services, the Company was charged \$7,500 and \$15,000 (2017 - \$15,000 and \$30,000) for the three month and six month periods ended June 30, 2018, respectively.

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.

# Titanium Transportation Group Inc.

Management's Discussion and Analysis for the second quarter ended June 30, 2018

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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 and do not take into account expected future growth or changes in economic conditions. Historical figures may not be a good indicator of the Company's size, due to acquisitions that are completed each year and the time that it takes to fully realize synergies. After releasing Q2 2017 results, the Company estimated that post synergy annualized revenue and EBITDA would be \$125 million and \$13 million, respectively. Actual revenue and EBITDA for the last four quarters, excluding revenue and EBITDA contributions from Xpress Group, was \$153 million and \$16 million, respectively. The difference is primarily a result of a much more rapid improvement in industry conditions than expected, as well as organic growth which is not reflected in the Company's run rates. As industry conditions continue to be positive, the Company is further adjusting its revenue and EBITDA run rates upwards to \$180 million and \$20 million, respectively.

## **NON-IFRS FINANCIAL MEASURES**

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

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

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

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

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

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

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

## **RISKS AND UNCERTAINTIES**

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

# Titanium Transportation Group Inc.

Management's Discussion and Analysis for the second quarter ended June 30, 2018

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## CHANGES IN ACCOUNTING POLICIES

The following new standards and amendments to standards are not yet effective for the period ended June 30, 2018 and have not been applied in preparing the consolidated interim financial statements:

- IFRS 16, Leases
- IFRIC 23, Uncertainty over Income tax Treatments

The Company has conducted a preliminary assessment of the effect of IFRS 16, Leases, and determined that the standard will have the following impact:

	<u>As Reported</u>	<u>Adjustments</u>	<u>Restated</u>
<b>As at June 30, 2018</b>			
Property and equipment	74,265,109	35,159,048	109,424,157
Trade and other payables	17,624,103	(618,263)	17,005,840
Finance lease liabilities	21,478,902	35,849,484	57,328,386
Deferred tax liabilities	5,637,149	(19,125)	5,618,024
Retained earnings	6,053,545	(53,048)	6,000,497
<b>Six months ended June 30, 2018</b>			
Other operating expenses	3,993,057	(850,938)	3,142,119
Depreciation	6,338,324	274,654	6,612,978
Finance costs	1,151,896	674,117	1,826,013
Income tax expense	1,268,333	(25,925)	1,242,408

The above adjustments pertain largely to the lease of the Company's head office terminal and assume that the purchase option in 2026 will be exercised. The full description of each of these recent pronouncements is available in our consolidated interim financial statements.



Unaudited Condensed Consolidated Interim Financial Statements

For the second quarter ended  
June 30, 2018

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Financial Position

(unaudited)

(in Canadian dollars)

	<b>June 30 2018</b>	<b>December 31 2017</b>
<b>Assets</b>		
Current		
Cash	351,167	479,012
Trade and other receivables (note 13)	37,602,940	24,302,160
Current taxes recoverable	12,081	62,305
Finance lease receivables (note 5, 12)	2,141,083	2,109,129
Prepaid expenses and deposits	1,388,495	1,727,554
Assets held for sale (note 6)	102,197	342,138
	<u>41,597,963</u>	<u>29,022,298</u>
Finance lease receivables (note 5, 12)	4,090,249	4,551,541
Property and equipment (note 7)	74,265,109	76,875,398
Deferred tax assets	459,824	249,883
Customer lists (note 8)	1,428,550	1,542,850
Goodwill (note 8)	1,968,286	1,968,286
	<u>123,809,981</u>	<u>114,210,256</u>
<b>Liabilities</b>		
Current		
Bank indebtedness (note 9, 12)	14,743,792	11,361,611
Acquisition loan (note 9)	3,000,000	3,000,000
Trade and other payables	17,624,103	12,636,579
Current taxes payable	917,329	105,492
Loans payable (note 9, 12)	8,563,032	8,696,749
Finance lease liabilities (note 9, 12)	7,680,764	7,447,435
	<u>52,529,020</u>	<u>43,247,866</u>
Loans payable (note 9, 12)	15,530,193	16,875,601
Finance lease liabilities (note 9, 12)	13,798,138	16,336,246
Deferred tax liabilities	5,637,149	5,111,236
	<u>87,494,500</u>	<u>81,570,949</u>
<i>Commitments and contingencies (note 15)</i>		
<b>Shareholders' Equity</b>		
Share capital (note 10)	22,771,239	22,585,503
Contributed surplus (note 11)	7,490,697	7,340,115
Retained earnings	6,053,545	2,713,689
	<u>36,315,481</u>	<u>32,639,307</u>
	<u>123,809,981</u>	<u>114,210,256</u>

On behalf of the Board

"Ted Daniel"

Director

"Bill Chyfetz"

Director

See accompanying notes

1.

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Comprehensive Income

(unaudited)

(in Canadian dollars)

	<b>3 months ended June 30 2018</b>	<b>3 months ended June 30 2017</b>	<b>6 months ended June 30 2018</b>	<b>6 months ended June 30 2017</b>
Revenue (note 13)	48,259,042	30,860,157	90,666,340	58,910,924
Fuel surcharge	3,550,732	1,933,644	6,619,292	3,712,303
	<u>51,809,774</u>	<u>32,793,801</u>	<u>97,285,632</u>	<u>62,623,227</u>
Operating expenses				
Carriers and independent contractors	27,773,540	16,707,673	52,166,057	31,112,581
Vehicle operating	6,656,462	4,764,965	12,919,618	9,774,265
Wages and casual labour (note 14)	8,511,760	6,145,631	16,510,747	12,001,101
Other operating (note 13)	2,145,993	1,799,847	3,993,057	3,449,878
	<u>45,087,755</u>	<u>29,418,116</u>	<u>85,589,479</u>	<u>56,337,825</u>
Income before the following	<u>6,722,019</u>	<u>3,375,685</u>	<u>11,696,153</u>	<u>6,285,402</u>
Depreciation (note 7)	3,280,718	2,612,815	6,338,324	5,183,278
Gain on sale of property and equipment	(216,916)	(69,388)	(284,530)	(345,313)
Finance costs	585,396	438,628	1,151,896	932,730
Finance income	(79,889)	(104,884)	(157,129)	(208,934)
Foreign exchange loss (gain)	(15,719)	24,946	(74,897)	(867)
Amortization of customer lists (note 8)	57,150	30,360	114,300	60,720
	<u>3,610,740</u>	<u>2,932,477</u>	<u>7,087,964</u>	<u>5,621,614</u>
Income before income taxes	3,111,279	443,208	4,608,189	663,788
Income tax expense	<u>889,554</u>	<u>144,108</u>	<u>1,268,333</u>	<u>235,404</u>
Net income and comprehensive income attributable to owners of the Company	<u>2,221,725</u>	<u>299,100</u>	<u>3,339,856</u>	<u>428,384</u>
Earnings per share:				
Basic	0.06	0.01	0.09	0.01
Diluted	0.06	0.01	0.09	0.01
Weighted average number of shares outstanding:				
Basic (note 10)	36,262,529	37,388,510	36,210,378	37,388,510
Diluted (note 10)	<u>36,490,872</u>	<u>37,388,510</u>	<u>36,389,397</u>	<u>37,388,510</u>

See accompanying notes

2.

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Changes in Equity

Six months ended June 30, 2018 and 2017

(unaudited)

(in Canadian dollars)

	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Retained Earnings</b>	<b>Total</b>
Balances at December 31, 2017	22,585,503	7,340,115	2,713,689	32,639,307
Share issuance (note 10)	185,736	-	-	185,736
Share-based compensation expense (note 10, 11)	-	150,582	-	150,582
Net income and comprehensive income	-	-	3,339,856	3,339,856
<b>Balances at June 30, 2018</b>	<b>22,771,239</b>	<b>7,490,697</b>	<b>6,053,545</b>	<b>36,315,481</b>
Balances at December 31, 2016	26,754,964	3,681,674	5,801,648	36,238,286
Share-based compensation expense	-	133,194	-	133,194
Net income and comprehensive income	-	-	428,384	428,384
<b>Balances at June 30, 2017</b>	<b>26,754,964</b>	<b>3,814,868</b>	<b>6,230,032</b>	<b>36,799,864</b>

# Titanium Transportation Group Inc.

## Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

(in Canadian dollars)

	<b>3 months ended June 30 2018</b>	<b>3 months ended June 30 2017</b>	<b>6 months ended June 30 2018</b>	<b>6 months ended June 30 2017</b>
<b>Cash flows from operating activities</b>				
Net income	2,221,725	299,100	3,339,856	428,384
Adjustments:				
Depreciation	3,280,718	2,612,815	6,338,324	5,183,278
Gain on sale of property and equipment	(216,916)	(69,388)	(284,530)	(345,313)
Finance costs	585,396	438,628	1,151,896	932,730
Finance income	(79,889)	(104,884)	(157,129)	(208,934)
Amortization of customer lists	57,150	30,360	114,300	60,720
Share-based compensation expense	85,711	51,885	150,582	133,194
Income tax expense	889,554	144,108	1,268,333	235,404
	<u>6,823,449</u>	<u>3,402,624</u>	<u>11,921,632</u>	<u>6,419,463</u>
Net change in non-cash operating working capital	(917,451)	1,293,890	(7,818,963)	1,223,809
	<u>5,905,998</u>	<u>4,696,514</u>	<u>4,102,669</u>	<u>7,643,272</u>
Interest paid	(583,800)	(444,260)	(1,121,899)	(944,335)
Interest received	79,889	104,884	157,129	208,934
Income taxes received (paid)	14,490	(4,478)	(90,300)	(200,745)
	<u>5,416,577</u>	<u>4,352,660</u>	<u>3,047,599</u>	<u>6,707,126</u>
<b>Cash flows from investing activities</b>				
Proceeds from finance lease receivables	568,116	559,364	1,046,264	1,075,254
Acquisition of property and equipment (note 7, 12)	(985,812)	(671,830)	(1,282,776)	(812,163)
Disposition of property and equipment (note 6, 7)	682,877	1,203,959	923,873	2,079,558
	<u>265,181</u>	<u>1,091,493</u>	<u>687,361</u>	<u>2,342,649</u>
<b>Cash flows from financing activities</b>				
Proceeds from bank indebtedness (note 12)	-	-	3,421,959	-
Repayment of bank indebtedness (note 12)	(2,347,418)	(1,580,419)	-	(979,460)
Proceeds from loans payable (note 12)	946,591	-	946,591	-
Repayment of loans payable (note 12)	(2,384,054)	(1,794,666)	(4,637,711)	(3,574,780)
Repayment of finance lease liabilities (note 12)	(1,853,469)	(2,053,743)	(3,779,380)	(4,426,391)
Issuance of shares (note 10)	84,717	-	185,736	-
	<u>(5,553,633)</u>	<u>(5,428,828)</u>	<u>(3,862,805)</u>	<u>(8,980,631)</u>
Increase (decrease) in cash	128,125	15,325	(127,845)	69,144
Cash, beginning	<u>223,042</u>	<u>206,627</u>	<u>479,012</u>	<u>152,808</u>
Cash, ending	<u>351,167</u>	<u>221,952</u>	<u>351,167</u>	<u>221,952</u>

Refer to note 12 for supplemental cash flow information.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2018 and 2017

(unaudited)

### 1. REPORTING ENTITY

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

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

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

### 2. BASIS OF PRESENTATION

#### Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the most recent annual consolidated financial statements of the Company, including the notes thereto, for the year ended December 31, 2017.

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

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 7, 2018.

#### Basis of Measurement

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

#### Functional and Presentation Currency

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

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2018 and 2017

(unaudited)

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### 2. BASIS OF PRESENTATION - continued

#### Seasonality of Interim Operations

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

#### Use of Estimates

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

#### Use of Judgment

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

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2018 and 2017

(unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### **New Standards Adopted**

*IFRS 9, Financial Instruments*, was issued by the IASB on November 12, 2009 and replaced IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. This standard became effective on January 1, 2018 and the adoption of this standard did not have a material impact on the Company's condensed consolidated interim financial statements.

*IFRS 15, Revenue from Contracts with Customers*, which replaced IAS 18, Revenue, became effective on January 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. New estimates and judgemental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. Adoption of this standard did not have a material impact on the Company's condensed consolidated interim financial statements.

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

*IFRIC 23, Uncertainty over Income Tax Treatments*, was issued by IASB on June 7, 2017. The interpretation provides guidance on the accounting for current and deferred tax assets and liabilities in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 requires the entity to contemplate whether uncertain tax treatments should be considered separately or as a group based on the predictability of the resolution. In addition, the entity should assess if the tax authority will accept uncertain tax treatments, and in the case where it is not probable, the interpretation requires the entity to reflect the uncertainty with disclosure of the most likely amount and the expected value of the income tax payable or recoverable. The interpretation is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company will be conducting a detailed assessment of the effect of this standard on the condensed consolidated interim financial statements over the next three months.

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2018 and 2017

(unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

*IFRS 16, Leases*, was issued by the IASB on January 13, 2016, superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019. Although early adoption is permitted, the Company does not intend to adopt IFRS 16 until this standard becomes effective. The Company intends to adopt this standard retrospectively, without modifications, to allow for comparability of operating results. The Company has conducted a preliminary assessment of the effect of this standard and determined that the standard will have the following impact:

	<b>As Reported</b>	<b>Adjustments</b>	<b>Restated</b>
<b>As at June 30, 2018</b>			
Property and equipment	74,265,109	35,159,048	109,424,157
Trade and other payables	17,624,103	(618,263)	17,005,840
Finance lease liabilities	21,478,902	35,849,484	57,328,386
Deferred tax liabilities	5,637,149	(19,125)	5,618,024
Retained earnings	6,053,545	(53,048)	6,000,497
<b>Three months ended June 30, 2018</b>			
Other operating expenses	2,145,993	(425,469)	1,720,524
Depreciation	3,280,718	137,327	3,418,045
Finance costs	585,396	336,645	922,041
Income tax expense	889,554	(12,853)	876,701
<b>Six months ended June 30, 2018</b>			
Other operating expenses	3,993,057	(850,938)	3,142,119
Depreciation	6,338,324	274,654	6,612,978
Finance costs	1,151,896	674,117	1,826,013
Income tax expense	1,268,333	(25,925)	1,242,408

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

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

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2018 and 2017

(unaudited)

### 4. OPERATING SEGMENTS

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

	<b>Truck Transportation</b>	<b>Logistics</b>	<b>Corporate</b>	<b>Elimination</b>	<b>Total</b>
<b>Three months ended June 30, 2018</b>					
Revenue - external	28,567,695	23,242,079	-	-	51,809,774
Revenue - internal	1,179,778	-	-	(1,179,778)	-
Total revenue	29,747,473	23,242,079	-	(1,179,778)	51,809,774
Depreciation	3,166,822	113,896	-	-	3,280,718
Finance costs	543,586	41,810	-	-	585,396
Finance income	(79,889)	-	-	-	(79,889)
Income (loss) before income taxes	1,209,827	2,320,181	(418,729)	-	3,111,279
Income taxes (recoveries)	352,568	637,919	(100,933)	-	889,554
Capital expenditures	2,235,403	-	-	-	2,235,403
<b>Three months ended June 30, 2017</b>					
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

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2018 and 2017

(unaudited)

### 4. OPERATING SEGMENTS - continued

	<b>Truck Transportation</b>	<b>Logistics</b>	<b>Corporate</b>	<b>Elimination</b>	<b>Total</b>
<b>Six months ended, June 30, 2018</b>					
Revenue - external	53,643,727	43,641,905	-	-	97,285,632
Revenue - internal	2,095,129	-	-	(2,095,129)	-
<b>Total revenue</b>	<b>55,738,856</b>	<b>43,641,905</b>	<b>-</b>	<b>(2,095,129)</b>	<b>97,285,632</b>
Depreciation	6,110,532	227,792	-	-	6,338,324
Finance costs	1,080,398	71,498	-	-	1,151,896
Finance income	(157,129)	-	-	-	(157,129)
Income (loss) before income taxes	1,049,311	4,370,287	(811,409)	-	4,608,189
Income taxes (recoveries)	290,913	1,178,663	(201,243)	-	1,268,333
Capital expenditures	4,744,363	-	-	-	4,744,363
<b>Six months ended, June 30, 2017</b>					
Revenue - external	41,687,926	20,935,301	-	-	62,623,227
Revenue - internal	552,829	-	-	(552,829)	-
<b>Total revenue</b>	<b>42,240,755</b>	<b>20,935,301</b>	<b>-</b>	<b>(552,829)</b>	<b>62,623,227</b>
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

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

	<b>3 months ended June 30 2018</b>	<b>3 months ended June 30 2017</b>	<b>6 months ended June 30 2018</b>	<b>6 months ended June 30 2017</b>
Canada	27,681,538	21,172,422	53,033,448	40,386,945
United States	24,128,236	11,621,379	44,252,184	22,236,282
	<b>51,809,774</b>	<b>32,793,801</b>	<b>97,285,632</b>	<b>62,623,227</b>

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2018 and 2017

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### 5. FINANCE LEASE RECEIVABLES

During the six month period ended June 30, 2018, the Company entered into new finance leases totaling \$1,164,702, which are receivable over 36 to 72 months with interest rates of 6% to 6.25%.

### 6. ASSETS HELD FOR SALE

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

Balance, December 31, 2017	342,138
Disposals	(663,392)
Reclassification from property and equipment	<u>423,451</u>
Balance, June 30, 2018	<u>102,197</u>

### 7. PROPERTY AND EQUIPMENT

	<b>Land, Buildings and Leaseholds</b>	<b>Furniture and Equipment</b>	<b>Rolling Stock</b>	<b>Total</b>
<b>Cost</b>				
Balances, December 31, 2017	10,759,543	5,703,938	85,200,245	101,663,726
Reacquisition of rolling stock relating to finance lease receivables	-	-	519,071	519,071
Other additions	17,116	146,286	4,580,961	4,744,363
Sale of rolling stock relating to finance lease receivable	-	-	(1,226,640)	(1,226,640)
Other disposals	-	(14,079)	-	(14,079)
Reclassification to assets held for sale	-	-	(1,163,708)	(1,163,708)
Balances, June 30, 2018	<u>10,776,659</u>	<u>5,836,145</u>	<u>87,909,929</u>	<u>104,522,733</u>
<b>Accumulated depreciation</b>				
Balances, December 31, 2017	763,185	2,906,748	21,118,395	24,788,328
Depreciation	252,840	684,888	5,400,596	6,338,324
Sale of rolling stock relating to finance lease receivable	-	-	(119,905)	(119,905)
Other disposals	-	(8,866)	-	(8,866)
Reclassification to assets held for sale	-	-	(740,257)	(740,257)
Balances, June 30, 2018	<u>1,016,025</u>	<u>3,582,770</u>	<u>25,658,829</u>	<u>30,257,624</u>
<b>Net carrying amounts</b>				
At December 31, 2017	9,996,358	2,797,190	64,081,850	76,875,398
At June 30, 2018	<u>9,760,634</u>	<u>2,253,375</u>	<u>62,251,100</u>	<u>74,265,109</u>

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

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### 8. GOODWILL AND INTANGIBLES

	<b>Goodwill</b>	<b>Customer Lists</b>	<b>Total</b>
Balances, December 31, 2017	1,968,286	1,542,850	3,511,136
Amortization	-	(114,300)	(114,300)
Balances, June 30, 2018	1,968,286	1,428,550	3,396,836

### 9. LONG-TERM DEBT

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

	<b>Effective Interest Rate</b>	<b>Year of Maturity</b>	<b>Carrying Amount</b>
Bank indebtedness	PRIME+1.00%	N/A	14,743,792
Acquisition loan	PRIME+1.50%	2023	3,000,000
Loans payable	2.95% - 5.75%	2018-2031	24,093,225
Finance lease liabilities	2.56% - 4.09%	2018-2023	21,478,902
			63,315,919
Current portion			33,987,588
			29,328,331

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

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

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

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### 10. SHARE CAPITAL

#### Authorized

Unlimited number of common shares with no par value

	<b>Common Shares #</b>	<b>Share Capital \$</b>
<b>Issued</b>		
Balances, December 31, 2017	36,191,828	22,585,503
Shares issued as part of share purchase plan	300,887	185,736
Balances, June 30, 2018	36,492,715	22,771,239

In September 2017, the Company implemented a share purchase plan (the "Plan"), which allows all employees and independent contractors, but excluding insiders of the Company, to contribute up to 5% of their compensation to a maximum of \$4,800 per year towards the purchase of Titanium common shares. Contributions are matched at a rate of 100% by the Company and shares are issued from treasury in order to fund the Plan. In the case of employees, matched shares are subject to a three year vesting period. In the case of independent contractors, matched shares are issued after three years of service. The maximum number of shares approved for issuance under the Plan is reviewed by the board of directors annually. Of the shares issued to date, 192,662 have not vested. During the three month and six month period ended June 30, 2018, the Company recognized an expense of \$23,021 and \$38,498, respectively, relating to the Plan, with a corresponding increase to contributed surplus.

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

	<b>3 months ended June 30 2018</b>	<b>3 months ended June 30 2017</b>	<b>6 months ended June 30 2018</b>	<b>6 months ended June 30 2017</b>
Issued common shares, beginning	36,367,848	37,388,510	36,191,828	37,388,510
Effect of unvested common shares	(167,753)	-	(131,894)	-
Effect of issued common shares	62,434	-	150,444	-
Weighted average number of common shares	36,262,529	37,388,510	36,210,378	37,388,510
Dilutive effect of restricted common shares and stock options	228,343	-	179,019	-
Weighted average number of diluted common shares	36,490,872	37,388,510	36,389,397	37,388,510

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2018 and 2017

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### 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, 2018, 288,000 stock options were issued to various directors and employees. Each stock option entitles the holder to acquire a common share of the Company at an exercise price of \$1.50 per common share. During the period, 15,000 stock options were forfeited. No other stock options expired, were exercised or were forfeited during the reporting period. As at June 30, 2018, there were 1,809,000 (December 31, 2017 - 1,536,000) stock options outstanding with a weighted average exercise price of \$1.78 (December 31, 2017 - \$1.83) and weighted average remaining life of 7.6 years (December 31, 2017 - 7.7 years). Of the stock options outstanding as at June 30, 2018, 1,034,000 were held by key management personnel. In addition, of the total options outstanding, 598,666 are fully vested and exercisable at a price of \$1.50. During the three and six month period ended June 30, 2018, the Company recognized an expense of \$62,690 and \$112,084, respectively, relating to stock options with a corresponding increase to contributed surplus.

The estimated fair value of stock options was calculated using the Black-Scholes option pricing model with the following assumptions: i) the expected life of each stock option is between 3.5 and 8.5 years; ii) the risk free rate is between 1.89% and 2.17%; iii) the dividend yield will be \$NIL; and iv) expected volatility is 60.21%. Volatility was determined using the Company's trading data from the first day of trading to January 22, 2018. Variables used in the Black-Scholes option pricing model are based on highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate.

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

### 12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	<b>Cash Flows</b>		<b>Non-Cash Changes</b>		
	<b>Balance Dec 31 2017</b>		<b>New Leases</b>	<b>Reacquired Leases</b>	<b>Balance June 30 2018</b>
Finance lease receivables	6,660,670	(1,046,264)	1,164,702	(547,776)	6,231,332

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

	<b>Cash Flows</b>		<b>Non-Cash Changes</b>		
	<b>Balance December 31 2017</b>		<b>New Leases /Loans</b>	<b>Foreign Exchange Movement</b>	<b>Balance June 30 2018</b>
Bank indebtedness	11,361,611	3,421,959	-	(39,778)	14,743,792
Loan payable	25,572,350	(3,691,120)	2,211,996	-	24,093,226
Finance lease liabilities	23,783,681	(3,779,380)	1,249,591	225,010	21,478,902
	60,717,642	(4,048,541)	3,461,587	185,232	60,315,920

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2018 and 2017

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### 13. RELATED PARTY TRANSACTIONS AND BALANCES

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

	<b>3 months ended</b>	<b>3 months ended</b>	<b>6 months ended</b>	<b>6 months ended</b>
	<b>June 30 2018</b>	<b>June 30 2017</b>	<b>June 30 2018</b>	<b>June 30 2017</b>
Provided truck transportation services to Vision Extrusions Group Limited, Vision Profile Extrusions Ltd. and Sunview Patio Doors Ltd., companies under common control	1,536,520	1,244,416	2,613,652	2,119,375
Paid rent to Caledon First Investments Limited, a company under common control	(488,031)	(481,469)	(976,062)	(962,938)
Paid management fees to Trunkeast	(7,500)	(15,000)	(15,000)	(30,000)
	<u>1,040,989</u>	<u>747,947</u>	<u>1,622,590</u>	<u>1,126,437</u>

Included in trade and other receivables as at June 30, 2018 is a total of \$485,565 due from these related companies.

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

### 14. WAGES AND CASUAL LABOUR

Included in wages and casual labour are the following:

	<b>3 months ended</b>	<b>3 months ended</b>	<b>6 months ended</b>	<b>6 months ended</b>
	<b>June 30 2018</b>	<b>June 30 2017</b>	<b>June 30 2018</b>	<b>June 30 2017</b>
Share-based compensation expense	85,711	51,885	150,582	133,194
Employee benefits	99,315	110,418	273,696	242,802
Key management personnel:				
Salaries and benefits	237,061	206,481	469,826	422,804
Share-based compensation expense	30,416	23,264	56,706	56,178

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

# Titanium Transportation Group Inc.

## Notes to Condensed Consolidated Interim Financial Statements

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### 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	1,873,862
Between one and five years	7,480,115
More than five years	17,987,226

Operating leases that were charged to income during the three month and six month period ended June 30, 2018 totaled \$642,316 and \$1,278,730 (2017 - \$604,474 and \$1,227,626).

- b) As at June 30, 2018, the Company was committed to purchasing \$2.3 million in rolling stock.
- c) The Company has a letter of credit outstanding for \$665,843 in favour of Caledon First Investments Limited, a company under common control, as a security deposit required under the lease for its head office terminal.
- d) The Company is regularly subject to litigation in the normal course of business. In the opinion of management, the outcome of current pending claims, in aggregate, is not likely to be material to the financial condition or results of operations of the Company.