

ANNUAL REPORT

Fiscal 2018



titan logix corp.

August 31, 2018



COMPANY PROFILE

Founded in 1979, Titan Logix Corp. ("Titan" or "the Company") is a developer, manufacturer and marketer of innovative fluid measurement and management solutions. The Company's products include Guided Wave Radar (GWR) gauges for level measurement and overflow prevention, primarily for use in the mobile tanker truck market, level gauges for storage tanks, and communication systems for remote alarming and control. Our products are mainly used in the upstream/midstream oil and gas industry. Secondary industries for our products include the aviation, waste fluid collection, and chemical industries.

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

Titan provides advanced technology fluid management solutions, In the Field, On the Road and In the Office.

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

Titan's solutions have traditionally focused on mobile level sensor technology. Titan's recently launched telematics product, the Titan Gateway, enables data from its mobile sensors to be collected, managed and packaged for business intelligence and control.

Titan Logix Corp. is a public company listed on the TSX Venture Exchange and its shares trade under the symbol TLA.



MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) has been prepared by management as of November 27, 2018 and provides readers with an understanding of Titan Logix Corp.'s business and compares its 2018 financial results with the previous year. The following MD&A of the consolidated results of operations, financial position, and changes in cash flows should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the years ended August 31, 2018 and 2017. The Company prepares and files its consolidated financial statements in Canadian dollars and in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements and MD&A, as well as additional information regarding Titan Logix Corp., are available at www.sedar.com and on the Company's website at www.titanlogix.com. Titan Logix Corp.'s board members and its audit committee have reviewed and approved the discussion in this MD&A.

Cautionary Note Regarding Forward-Looking Statements

Some of the information contained in this MD&A may contain forward-looking statements. These forward-looking statements may include, among others, statements regarding our plans, costs, objectives or economic performance, or the assumptions underlying any of the foregoing. Forward-looking statements are based on information available at the time they are made, on the date of this report, and should not be read as guarantees of future performance or results as they are subject to risks and uncertainties, many of them beyond our control. We do not undertake any obligation to publicly update or to revise any forward-looking statements except as expressly required by applicable securities laws.

Such risks and uncertainties include, but are not limited to the following:

- *Titan's ability to successfully market to current and new customers;*
- *Industry competition;*
- *Technological developments;*
- *Uncertainties as to Titan's ability to implement its strategic plan;*
- *Titan's ability to obtain raw materials from suppliers;*
- *The impact of general economic and industry conditions;*
- *Fluctuations in oil and gas prices;*
- *Fluctuations in the level of oil and gas industry expenditures that affect demand for Titan's products and services;*
- *Fluctuations in currency rates;*
- *The ability to attract and retain key personnel or management;*
- *Expansion of products by internal growth, partnerships or acquisitions;*
- *Incorrect assessment of value of acquisitions;*
- *Inability to complete strategic acquisitions of additional business;*
- *Stock market volatility;*
- *Obtaining required approvals from regulatory authorities;*
- *Titan's ability to achieve an acceptable return on investment from new product development costs in a timely manner;*
- *and,*
- *Other risks described under the heading "Business Risks and Uncertainties" in this document.*



AN OVERVIEW OF TITAN LOGIX CORP'S MARKETS AND PRODUCTS

Titan's products enable customers to manage their assets and their supply chain more effectively including delivering business intelligence to more efficiently facilitate business decisions related to the use and disposition of their assets.

Titan has provided fluid measurement and process control solutions to its clients for almost 40 years. During this period, we have recognized that our clients require a complete solution that enables real-time monitoring of their assets at each stage in the process as they move their products to market. Some of these monitored requirements include:

- Total product volume on board/left on board;
- Theft control;
- Product identification;
- Geographic location;
- Product handling and delivery details;
- Safety metrics.

Titan's Guided Wave Radar (GWR) level gauging technologies are a part of a complete IIoT supply chain management solution. Operating independently or as part of a fully integrated data collection and analytics system, these liquid level gauging devices provide time-sensitive data for business decision and control. Titan provides a variety of application specific technology solutions based on asset tracking and customer specific SCM needs and preferences.

Titan's strategy is to research, design, develop and/or acquire field sensor products (data generators) that are:

- Safe to install, operate, and maintain;
- Cost effective to implement; that are not complicated;
- Technologically superior to competing products;
- Flexible in application to be system agnostic and platform independent;
- Forward thinking and scalable to meet customer needs today and tomorrow.

Titan's current primary market is the mobile tank gauging for the transportation of crude oil. Along with a software technology partner, Pedigree Technologies, we are expanding development in a secondary market for our GWR products as part of an IIoT supply chain management solution for the management of fresh and produced water for fracking operations. Exploration and production (E&P) companies are beginning to understand the value proposition that comes with the implementation of our joint produced water SCM solution.

CORE BUSINESS COMPETENCIES

IN THE FIELD

"In the Field" refers to Titan's ability to use its level gauging technology for the generation of inventory management data related to storage tanks and process vessels. The generated data provides our customers with intelligent inventory control. Using Titan provided sensors, customers benefit from improved control of their processes, increased efficiencies, cost savings, greater operator and plant safety, and more solutions for environmental protection. At this time, the primary market we serve in this category is fluid storage and control in the upstream, midstream and downstream oil and gas industry.

ON THE ROAD

"On the Road" refers to Titan's ability to provide level measurement in mobile tanker trucks and trailers carrying a variety of liquid assets. We currently serve the crude oil, produced water, refined fuel, used oil collection, aircraft refueling, chemical, and vacuum markets. New drilling activity employs mobile tankers to deliver necessary process fluids to well sites. The initial well head activity requires offsite transfer of process water for treatment or disposal. The production well heads not directly connected to pipeline networks require mobile transfer of crude oil to pipeline terminals and processing. Each stage stimulates mobile tanker activity. These liquids are transported in various mobile tankers. Each of these tankers requires a level measurement and overflow prevention system to enable rolling-stock inventory management, ensure against overfills (which would result in high-



impact environmental incidents), protect equipment against damage, improve the efficiency of the operation and help ensure driver safety. Titan's TD100™ provides this functionality.

Traditional methods of measuring liquid levels and volumes in transport tankers and protecting against overfills rely on manual techniques and tools such as dipsticks or mechanical float-based gauges, and in some cases electronic switches or float based electronic gauges. These devices are often inaccurate, prone to failure, and may result in spills causing losses in inventory and environmental liability. Accordingly, the demand continues to rise for automated solutions that provide reliable, high accuracy liquid level measurement, inventory management and overflow prevention.

Since 1990, Titan Logix Corp. has designed and manufactured advanced technology instruments for businesses that transport corrosive, hazardous or expensive liquids while ensuring accurate, automated inventory management of their assets combined with reduced risks of hazardous, costly, and time-consuming overfills.

Guided Wave Radar technology forms the basis of Titan's transport products, such as the TD80™, which has been in use in mobile tankers in the petroleum, petrochemical, and aviation ground support industries since 1999. The TD80™ and new TD100™ liquid level gauges are core technologies needed to automate essential measurement and control processes safely and efficiently. Guided Wave Radar uses the principle of Time Domain Reflectometry (TDR): pulses of electromagnetic energy are 'launched' by a transmitter, guided along a probe mounted in a tank containing liquid. These pulses reflect off the surface of the liquid and return up the probe to the receiver electronics. The measurement of the total 'flight' time of the pulses, calculated to a high degree of accuracy, yield a precise level and volume measurement of the liquid in the vessel.

Titan's main sales channel for our transport products is through mobile tank Original Equipment Manufacturers (OEMs), dealers, and channel partners in Canada, the U.S. and Mexico.

IN THE OFFICE

"In the Office" refers to Titan's IIoT solution offerings that enable customers to monitor their fluid assets from the convenience of their dispatch center, back office environment, or through a mobile device. Titan's recently completed data Gateway for mobile tankers, provides the ability to transmit the asset data from Titan's TD100™, Finch II and AirWeigh® products. The Titan Gateway can collect real time data on driver performance, fluid level and weight inventories, alarm conditions, and GPS location data and transmit it to cloud services. Through software technology partners this data is displayed on web enabled dashboards to provide customers with a unique view into the productivity, environmental compliance, and safety of their drivers. The supply chain management solution equips business managers with a variety of business intelligence and data analytics to more effectively measure, manage and enhance the performance of their mobile tanker fleet.



SELECTED ANNUAL FINANCIAL INFORMATION

Years ended August 31 (audited)	2018 \$	2017 \$	2016 \$
Revenue	4,494,588	3,512,527	3,972,800
Net earnings (loss) before income taxes	56,639	(989,725)	(4,475,425)
Net loss	(3,781)	(982,388)	(3,697,254)
EPS – Basic and diluted	0.00	(0.03)	(0.14)
Total assets	16,750,962	16,685,920	17,701,465
Long-term liabilities	nil	26,504	91,058
Dividends	nil	nil	nil

2018 HIGHLIGHTS

- Revenues for fiscal 2018 improved to \$4,494,588, a \$982,601 or 28% increase from the \$3,512,527 recorded in fiscal 2017. This improvement is primarily due to an increase in demand for the Company's guided wave radar (GWR) product line in the mobile tanker truck market as a result of the increase in oil prices.
- The gross profit for fiscal 2018 improved to \$2,217,903 or 49% of revenue compared to \$1,169,900 or 33% of revenue in fiscal 2017, an increase of \$1,048,003. This improvement is due to the increase in revenue combined with reductions in production and overhead costs with a larger percentage of these costs allocated to inventory units manufactured.
- The operating loss before other items was \$427,607, an improvement of 71% compared to \$1,466,779 in fiscal 2017. This substantial improvement in the operating loss before other items was primarily due to the improvement in the revenue and gross profit.
- The net loss after income taxes was \$3,781, an improvement of 100% compared to a net loss after taxes of \$982,388 in fiscal 2017. This improvement was primarily a result of the increase in revenue and gross profit combined with an increase in finance income.
- During the last half of fiscal 2018 the Company completed development of the Company's next generation digital GWR product, the TD100™ which was introduced to the market in the fourth quarter of the fiscal year.

FISCAL 2018 RESULTS OF OPERATIONS

	Year ended August 31			
	2018	2017	Increase (Decrease)	
	\$	\$	\$	%
Revenue	4,494,588	3,512,527	982,061	28
Cost of sales	2,276,685	2,342,627	(65,942)	(3)
Gross profit	2,217,903	1,169,900	1,048,003	90
Gross margin (%)	49	33		48
Expenses				
General and administration	1,352,163	1,417,237	(65,074)	(5)
Marketing and sales	935,625	767,744	167,881	22
Engineering	186,423	96,736	89,687	93
Depreciation and amortization	222,385	336,759	(114,374)	(34)
(Gain) loss on foreign exchange	(51,086)	18,203	(69,289)	(381)
Total expenses	2,645,510	2,636,679	8,831	0
Net loss	(3,781)	(982,388)	978,607	100
EPS - Diluted	0.00	(0.03)	0.03	100



Revenue and gross profit

The Company's revenue is largely derived from instrument sales of its GWR product line of technologies (TD80™, Finch II and related components) throughout Canada and the U.S. These technologies are sold primarily into the mobile tanker truck market, servicing upstream/midstream customers. For fiscal 2018 revenue increased by 28% to \$4,494,588 as compared to \$3,512,527 for fiscal 2017, due to improved industry conditions. The year-over-year improvement in revenues is largely due to the improvement in demand for instruments in the U.S. market, and to a lesser degree, increased sales to the Canadian market. Revenues generated from the Canadian market increased by 12% to \$1,984,531 year-over-year and accounted for 21% of the year-over-year improvement.

Sales outside of Canada, primarily to the U.S, for fiscal 2018 increased by \$771,203 or 44% to \$2,510,057 as compared to \$1,738,854 in fiscal 2017. These sales accounted for 56% of the revenues in fiscal 2018 (2017 – 50%) and are transacted in U.S. dollar currency. Revenue was recorded at an average exchange rate of \$1.28 Canadian during the year. This compares with \$1.32 Canadian for the prior year. Any change in the exchange rate affects the value at which transactions are recorded. Growth in unit sales in fiscal 2018 as compared to fiscal 2017 mitigated the decrease in exchange rates used to translate these revenues.

As a percentage of revenue, sales of the Company's GWR product line of technologies contributed 91% to sales in fiscal 2018 as compared to 83% in fiscal 2017. The increase in sales of this product line as a percentage of revenue is primarily due to the reduction in the revenue from the TPZ and 3500 Controller product line that was sold in fiscal 2017 and other storage tank products.

Gross profit improved to \$2,217,903, or 49% as a percentage of sales for fiscal 2018 compared with \$1,169,900, or 33% as a percentage of sales for the previous year. Cost of sales decreased slightly by \$65,942 to \$2,276,685 in fiscal 2018, as compared to fiscal 2017. Cost of sales consists primarily of materials, direct labour and production overhead costs. Cost of sales also includes expenses for service and engineering related support and sustainment costs. The decrease in the cost of sales year-over-year was largely due to a reduction in the unallocated overhead expense included in cost of sales as compared with the corresponding previous periods. Due to cost reduction initiatives undertaken in the previous fiscal year, production and overhead costs decreased in the current fiscal year. This reduction in costs, combined with a larger percentage of these costs being absorbed in the cost of finished goods inventory, resulted in a significant reduction in the unallocated overhead expense included in cost of sales. This compares with a significantly higher unallocated overhead expense included in cost of sales in the corresponding previous period due to higher costs, excess capacity, and lower finished goods inventory builds. The reduction in cost of sales combined with an increased percentage of sales of higher margin products resulted in the improved gross margin.

Expenses, general and administration

General and administrative expenses (G&A) for fiscal 2018 were \$1,352,163, a decrease of \$65,074 or 5% from the \$1,417,237 recorded in fiscal 2017. The decrease year-over-year is primarily a result of a decrease in compensation, travel and IT costs partially offset by an increase in consulting fees. G&A, as a percentage of revenue, was 30% for fiscal 2018 compared to 40% for fiscal 2017.

Expenses, marketing and sales

Marketing and sales expenses for fiscal 2018 were \$935,625 an increase of \$167,881 or 22% from the \$767,744 recorded in fiscal 2017. The increase year-over-year is primarily a result of increased compensation, trade show expense and third-party product trial costs compared to the prior period, partially offset by a decrease in intellectual property related professional fee expenses. As a percentage of revenue, marketing and sales expenses were 21% for fiscal 2018 as compared to 22% for fiscal 2017.

Expenses, engineering

Engineering expenses are incurred primarily for new product assessment and the preparation and introduction of new third-party products into Titan's product suite. Engineering expenses for fiscal 2018 were \$186,423 an increase of \$89,687 or 93% when compared with \$96,736 in fiscal 2017. The year-over-year increase is primarily due to increased cost for the evaluation of new third-party products for inclusion into the product line and a decrease in time dedicated to capitalized project development activities. During the fiscal year the development team released to production the next generation of digital GWR proprietary product, the TD100™, that was introduced to the market in the fourth quarter of the fiscal year.



Expenses, depreciation and amortization

Depreciation and amortization expenses included in operating expenses in fiscal 2018 totalled \$222,385 compared to \$336,759 in the previous fiscal year. This decrease in depreciation and amortization expenses is largely due to the reduction in intangible assets including software and fully amortized product development costs. Additional depreciation expenses recorded in cost of sales in fiscal 2018 totalled \$12,838, compared to \$13,894 in the previous fiscal year.

Expenses, foreign exchange

Changes in the value of the Canadian dollar during the period and management of conversion of receipts from U.S. revenue resulted in a gain of \$51,086 on foreign currency exchange in fiscal 2018 consisting of a realized gain on exchange of \$19,209 and an unrealized gain of \$31,877. This compares to a loss of \$18,203 in the previous fiscal year which consisted of a \$44,440 unrealized loss on exchange offset by a realized gain of \$26,237.

Operating loss and net loss

The operating loss before other items and income taxes was \$427,607 for fiscal 2018 as compared to an operating loss before other items and income taxes of \$1,466,779 in fiscal 2017. The improvement in the operating loss before taxes and other items was primarily due to the increase in revenue and the improvement in gross profit.

Due to uncertainties related to the realization of tax loss carry-forwards no provision for deferred income tax recovery was recorded in the current fiscal year. Current tax expense of \$60,420 was recorded in fiscal 2018 due to a change in prior year estimates of income tax recoverable. This compares to a recovery recorded in fiscal 2017 of \$7,337 due to a change in prior year estimates.

The net loss after income taxes was \$3,781 for fiscal 2018 as compared to a net loss of \$982,388 in fiscal 2017. This 100% improvement was primarily due to the increase in revenue and the improvement in gross profit combined with an increase in finance income partially offset by the \$307,275 gain recorded in the previous year on the sale of the TPZ 3310 and 3500 controller product line. The fiscal 2018 year-over-year increase in finance income of \$376,782 is primarily from \$373,047 of interest income on the investment in the secured loan and \$42,684 of dividend income on its investments in marketable securities, which offset the loss on the sale of its marketable securities of \$82,137.

Product development costs

The Company continues to invest in development activities to support and maintain its current product line and the development and introduction of new products. Total engineering related expenditures including engineering costs expensed and costs capitalized amounted to \$778,989 for fiscal 2018. This compares with \$783,035 in the comparative fiscal year. During the year, the Company continued to invest in development activities for the ongoing development of its next generation of digital GWR proprietary products. During fiscal 2018, the Company invested \$592,566 on development activities that were capitalized as compared with \$686,299 in fiscal 2017. This decrease in development expenditures is primarily due to a decrease in time dedicated to project activities. During fiscal 2018 the development team released to production the Company's next generation of digital GWR proprietary product, the TD100™. This product incorporates a variety of new features including enhanced accuracy, ability to measure level in fluids with a lower dielectric constant and support for a longer probe. The enhanced digital technology of the TD100™ allows for the development of additional features that will allow the Company to expand beyond its traditional markets.

Fourth Quarter Results

For the fourth quarter of fiscal 2018 revenue increased by 46% to \$1,447,743 as compared to \$988,773 in the comparative prior period in fiscal 2017. The increase in revenue during the quarter was largely as a result of the increased demand for the GWR product line in the new tanker construction market in the U.S. Sales outside of Canada, primarily to the U.S., in the fourth quarter were \$877,441, an increase of \$413,702 or 89% when compared to \$463,739 in the comparative quarter of fiscal 2017. Canadian sales in the fiscal quarter were \$570,302 or 39% of sales, an increase of \$45,268 or 9% when compared with sales of \$525,034 or 53% of sales in the comparative quarter of fiscal 2017.



Gross profit was \$619,081 for the fourth quarter of fiscal 2018 compared with \$290,084 for the comparative prior period. As a percentage of sales gross profit improved to 43% compared with 29% of sales in the fourth quarter of fiscal 2017. The increase in gross profit is primarily as a result of the increase in revenue and was partially offset by the negative impact of inventory impairments of \$137,617 in the fourth quarter of fiscal 2018 compared with inventory impairments of \$90,221 in the comparative prior period.

General and administrative expenses for the fourth quarter of fiscal 2018 were \$299,400 a decrease of \$17,847 or 6% from the \$317,347 recorded in the comparable prior period. The decrease is primarily a result of cost savings in compensation, professional fees and IT partially offset by an increase in business development costs. G&A, as a percentage of revenue, was 21% for the fourth quarter ended August 31, 2018 compared to 32% for the same period of fiscal 2017.

Marketing and sales expenses for the fourth quarter of fiscal 2018 were \$188,221, an increase of \$17,069 or 10% from the \$171,152 recorded in the comparable prior period. The increase is primarily a result of increased compensation. As a percentage of revenue, marketing and sales expenses were 13% for the fourth quarter of fiscal 2018 as compared to 17% for the same period of fiscal 2017.

Engineering expenses for the fourth quarter of fiscal 2018 were \$60,401 for new product research including the possible introduction of new third-party products into Titan's product suite. This compares with \$15,836 in the same period of fiscal 2017. This increase in engineering expenses as compared with the previous fiscal year is primarily due to a decrease in time dedicated to project development activities.

Net earnings and comprehensive earnings in fiscal 2018's fourth quarter was \$124,728 after tax, compared to an after tax net loss of \$338,268 reported for the fourth quarter of fiscal 2017. This 137% improvement from a net loss to net earnings was primarily due to the increase in revenue and the improvement in gross profit combined with the gain on foreign exchange and an increase in finance income.

SUMMARY OF QUARTERLY RESULTS

(\$000's, except per share amount)

Fiscal year	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	1,448	1,227	938	882	989	828	872	824
Gross profit	619	659	529	411	290	258	349	273
Operating earnings (loss) before other items and income taxes	28	(49)	(155)	(251)	(380)	(381)	(344)	(361)
Net earnings (loss) before income taxes	185	105	(48)	(186)	(346)	(336)	(327)	19
Net earnings (loss)	125	105	(48)	(186)	(338)	(336)	(327)	19
EPS - Basic	0.00	0.00	0.00	(0.01)	(0.01)	(0.01)	(0.01)	0.00
EPS - Diluted	0.00	0.00	0.00	(0.01)	(0.01)	(0.01)	(0.01)	0.00

Quarterly financial data is derived from the Company's consolidated financial statements and are prepared in accordance with IFRS.

The Company has withstood the difficult conditions in the mobile tanker truck market. Increases in oil prices over the last three quarters has resulted in an increase in the trucking of oilfield liquids and an increase in demand for the Company's guided wave radar (GWR) product line in the mobile tanker truck market resulting in an increase in quarterly revenue and a return to net earnings. The operating losses in fiscal 2017 and the first half of fiscal 2018 reflected the negative impact of lower oil and gas prices and the subsequent collapse in demand for new crude oil tankers.

The improved quarterly gross profit in fiscal 2018 when compared to fiscal 2017 is primarily a result of increased sales and an improvement in costs of sales due to cost reduction initiatives undertaken in fiscal 2017 and the reduction in production and overhead costs. Gross profits in the fourth quarters of fiscal 2018 and fiscal 2017 were negatively impacted by impairments of inventory of \$137,617 and \$90,221, respectively.



FINANCIAL CONDITION AND LIQUIDITY

The Company's principal cash requirements are for ongoing operating costs, working capital and product development costs. The Company intends to fund its liquidity needs primarily from cash flow from operations and when necessary from cash on hand. Management continues to work on maintaining an optimal inventory level and the timely collection of accounts receivable to minimize its working capital requirements. As well, the Company will continue to focus on cost management and control programs. The Company expects that current cash balances and funds from operations will be sufficient in the near-term to meet anticipated obligations and to fund intended capital expenditures and product development. As needed, the Company will assess and select funding mechanisms for long term growth including additional R&D projects, expansion of the distribution channels and corporate development activities.

Total assets of the Company were \$16,750,962 on August 31, 2018 as compared to \$16,685,920 on August 31, 2017. Cash and cash equivalents decreased by \$7,256,949 to \$6,270,878 primarily due to an investment of \$4,925,000 in a secured loan and the classification to short term investments of \$2,000,000 of guaranteed investment certificates (GIC). Accounts receivable increased by \$289,616 due to the increase in revenue. Inventories increased by \$371,192 due to component lead times and anticipated demand. Total liabilities increased by \$100,688. As at August 31, 2018, Titan had positive working capital (current assets less current liabilities) of \$10,065,265 compared to \$14,663,433 at August 31, 2017. The long-term portion of the investment in a secured loan is \$4,220,161.

Summary of Cash Flows

Operating Activities

Net cash flows used in operating activities totalled \$554,521, a \$262,231 increase compared to cash flows used in operating activities of \$292,290 in fiscal 2017. This increase in cash flows used in operating activities is primarily due to cash used in changes in non-cash working capital accounts, partially offset by the significant improvement in the net loss, when excluding non-cash items and investing activities.

Non-cash working capital generated or consumed is largely a result of the timing of cash receipts and payments in the normal course of business. Non-cash working capital used in the amount of \$405,995 in fiscal 2018 is largely a result of cash flow used for the inventory investments and an increase in accounts receivables, offset by an increase in accounts payable. This compares with non-cash working capital generated in fiscal 2017 in the amount of \$668,261, largely as a result of cash flow generated from the consumption of inventory and a reduction in taxes recoverable, partially offset by an increase in accounts receivable and a decrease in accounts payable.

Investing Activities

Net cash flows used in investing activities totalled \$6,688,057 in fiscal 2018 as compared with \$960,912 generated in fiscal 2017. This significant increase in cash invested was primarily due to a \$4,925,000 investment in secured loan (net of a \$75,000 upfront commitment fee), a \$2,000,000 GIC purchase classified as short term investments and cash used for product development. This cash used was partially offset by interest income and payments received on the secured note. Investing activity in fiscal 2017 was primarily due to the maturity of \$1,000,000 of short-term investments and proceeds of \$474,234 from the sale of assets, offset by cash used for product development.

Financing Activities

Net cash used in financing activities was \$14,371 for fiscal 2018 as a result of finance lease obligations. This compares with net cash provided of \$70,927 in fiscal 2017 as a result of proceeds from the exercise of options partially offset by finance lease obligations.

CONTRACTUAL OBLIGATIONS

The Company has no commitments for future capital assets and its only financial obligations are finance lease obligations on company vehicles and operating leases for office equipment, office spaces and its manufacturing facility.



OFF-BALANCE SHEET ARRANGEMENTS

The Company did not enter into any off-balance sheet arrangements during the current or comparable reporting period.

OUTSTANDING SHARE DATA

Titan Logix Corp. has authorization to issue an unlimited number of common shares with no par value. The common shares of the Company trade on the TSX Venture Exchange under the symbol "TLA".

Issued and Outstanding

	November 28, 2018	August 31, 2018	August 31, 2017
Common shares issued and outstanding	28,536,132	28,536,132	28,536,132
Options outstanding	180,000	180,000	545,000

During fiscal 2018, 365,000 stock options were forfeited. For the year ended August 31, 2018, the Company has recorded a reversal to stock option compensation expense of \$31,865 as compared to stock option compensation expenses recorded of \$21,243 in the comparable period.

BUSINESS OUTLOOK

The Company is well positioned to remain competitive in the current market. Original Equipment Manufacturers are ramping up new tanker builds. Titan's sensors are maintaining their strong market share of new tanker construction market. This upward trend of its existing business will sustain the Company with current revenue levels expected to continue for the upcoming fiscal year. The Company's reputation as the industry leader in its traditional market segment has led to the emergence of new opportunities in other markets. Titan will continue to gravitate towards the diversification of its product lines, geographical presence and market segments. In addition to the focus on new market opportunities the Company has targeted additional revenue streams through its diversity program to bolster its top line numbers. Management has refocused its team to accelerate the penetration of these markets and revenue streams. Along with a software technology partner, Pedigree Technologies, we are expanding development in a secondary market for our GWR products as part of a supply chain management solution for the management of fresh and produced water for fracking operations. We are forecasting revenue from this new initiative to occur in the last half of fiscal 2019.

Titan's recently released Gateway provides connection of the TD100™, Finch II and AirWeigh products to the IIoT. Initial revenue from the Gateway product is expected through the produced water initiative. Titan's expanded vision of data management has opened market opportunities to tap into the wave of data mining and analytics for business control solutions and can drive both new and retrofit decisions of its major customers. Titan is identifying and negotiating partnerships with target companies immersed in the second generation IIoT products with an eye to becoming the go-to company for data generation devices required by its existing and future customers. Titan's focus on providing timely, accurate, relevant data to its customers through IIoT solutions will enhance its market penetration in the markets it seeks to play in.

Management is encouraged by the interest shown from new and existing customers for the new TD100™ product that was introduced into production in Q4 2018 and in time will replace the TD80™. The enhanced technology of the TD100™ allows for the development of additional features that will allow the Company to expand beyond its traditional markets. The Company continues to invest in this additional product development including focusing on product cost reductions and enhanced connectivity.

BUSINESS RISKS AND UNCERTAINTIES

Titan Logix Corp. faces a number of risks that have the potential of affecting its financial condition, results of operations and cash flow. In addition to risks described elsewhere in this MD&A, the Company is exposed to various business risks which include but are not limited to the following:



Industry Factors

Titan is highly dependent upon exploration and development activity in the oil and gas industry and therefore is exposed to all of the risks associated with the uncertainties of that industry. The demand and price for Titan products depend on the activity level in the oil and gas sector, which is influenced by numerous factors over which Titan has no control, including: commodity prices; expectations about future commodity prices; the ability of oil and gas companies to raise equity capital or debt financing; supply and demand; and local and international economic, regulatory and political conditions. Global demand for hydrocarbon related products such as gasoline and natural gas impacts the worldwide drilling activity. Reduction in drilling activity results in lower demand for Titan's products.

The primary catalysts to expenditures and activity levels in the energy industry are oil and gas prices which, in turn, are influenced by supply and demand expectations. The ability to forecast the price of crude oil or natural gas is extremely difficult as many global factors affecting commodity prices are beyond the control of the Company. The Company attempts to mitigate the risk factor by assessing current drilling activity reports and future predictions from the industry associations and reporting bodies when creating product demand forecasts.

OEM production levels will vary in accordance with market demand. Reduced production levels may result in a reduced demand for Titan's products.

Economic Downturns

Economic downturns can have a negative impact on Titan's business since customers may reduce capital expenditure programs or may experience difficulty in paying for products purchased. The demand for the products distributed by the Company can vary in accordance with general economic cycles. Downturns in the North American economy, a primary market for the Company's future growth, or lack of continued improvement in the economy could have a material adverse effect on the Company's financial condition and on the results of operations.

Supply Shortages

Titan manufactures products using components supplied by a number of major suppliers. It is not customary in the industrial products distribution industry to have long-term contracts with major suppliers. Supply shortages can occur at times because of production difficulties, unanticipated demand or delivery delays and may have a short-term adverse material effect on Titan's results of operations and subsequent financial condition.

Environmental and Insurance Risk

Titan manufactures and sells products that have an impact on the environment. The Company maintains high quality standards at its production facilities and uses only reputable suppliers for raw materials and other products. Titan also maintains insurance coverage for its assets and operations, including general liability, product pollution, property, business interruption, boiler and machinery, automobile, directors and officers and other insurance. However, product failures could result in warranty and liability claims and the loss of customers. Correcting such failures or paying for such claims could require significant capital resources and have an adverse effect on operating results.

Key Employees

Future success depends on the continued efforts and performance of Titan's executive team, management team and key employees. Failure to attract and retain key employees with the necessary skills could have an adverse material impact upon the future of the business, its operating results, and its financial condition. Labour shortages may limit the growth of the Company's business and could negatively affect margins and profitability.



Employee Safety and Health

The Company's employees may face health and safety risks and hazards in the workplace, which could result in injury or lost time in the course of their employment. Alternatively, the Company could be exposed to civil and/or statutory liability to employees arising from injuries or deaths because of inadequate health and safety policies and practices. The Company cannot fully protect against all these risks, nor are all these risks insurable. The Company may become liable for damages arising from these events against any non-insured risks.

Entering New Business Lines

The Company may enter into new business lines with new acquisitions or other opportunities for growth. There is no guarantee that these new business lines will be successful in the marketplace to which they are directed. Management makes its best efforts to research and forecast future profitability of any new business ventures prior to commencing in any new endeavor, however there are underlying risks at the time of entry. The success of a new venture is also dependent on the areas of sales and marketing, customer demand, market stability, existing barriers to entry, and other factors of product introduction.

Markets and Competition

Titan is continually pursuing new customers and markets in a highly competitive environment. The market is expected to remain competitive. Titan's competition varies by product line, customer classification and geographic market. Certain companies that compete with Titan have more established and larger sales and marketing organizations, larger technical staff and significantly greater financial resources than Titan. There can be no assurance that the Company's marketing strategy will be successful.

A significant portion of the Company's revenue is derived from one product line. Consequently, a sudden decline in demand for, or production of, the product could have a material adverse effect on the Company's financial condition and results of operations.

Credit Risk

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

Liquidity Risk

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

Product and Technology Enhancements

Our future growth depends on our ability to enhance our existing products, to develop new proprietary technology that addresses the varied needs of our prospective customers and to respond to technological advances, emerging industry standards and practices in a timely and cost-effective manner. The development of technology involves significant technical and business risks. There can be no assurance that Titan will be successful in meeting customer demands in respect of performance and costs through continuous improvements in products or that Titan will have the resources available to meet continuing demands. No assurances can be given that Titan's competitors will not achieve technological advantages. The Company may fund additional research and development activities; however, there is no guarantee of return.



Cyber Risk

In the ordinary course of business Titan collects and stores sensitive data, including intellectual property, proprietary business information and identifiable personal information of its employees and customers. Unauthorized access to the Company's computer systems could result in the theft or publication of confidential information or the deletion or modification of records or could otherwise cause interruptions in the Company's operations. In addition, despite the Company's implementation of security measures, its systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. Any such system failure, accident or security breach could disrupt the Company's operations, decrease performance, increase costs, damage Titan's reputation, and we could be subject to liability. Any of these consequences could have an adverse effect on the Company's business, financial condition, results of operations and cash flow.

Proprietary Protection

Titan relies on patents, confidentiality procedures and other measures to protect its proprietary information (intellectual property). There are risks inherent in maintaining proprietary advantage and efforts to protect it may not prevent attempts to copy aspects of the technology or to obtain and use information, that Titan regards proprietary, by others.

Litigation may be necessary to enforce our intellectual property rights or defend against claims of infringement or invalidity. Intellectual property laws provide limited protection. The laws of some foreign countries do not protect proprietary rights as fully as do the laws of Canada.

Some of our intellectual property is licensed on a non-exclusive basis from third parties who may also license the same intellectual property to others, including our competitors. If necessary or desirable, we may seek further licenses under the patents or other intellectual property of others. However, there are no assurances that such licenses will be obtained or that the terms of any offered licenses would be acceptable.

Foreign Exchange and Foreign Sales

The Company's products are marketed and sold in the U.S. and some other foreign countries which expose the Company to currency exchange risks. Foreign currency risk arises from fluctuations in the value of foreign currencies and the degree of volatility of these currencies relative to the Canadian dollar. The Company is subject to foreign currency risk in that it has both current assets and liabilities denominated in foreign currencies. It is management's opinion that a change in foreign currency exchange rates could affect the Company's results of operations and cash flows, but would not materially impair or enhance its ability to pay its foreign exchange obligations. The Company does not use hedging tools to reduce its exposure to foreign currency risk. In addition to exchange risk, international sales are subject to inherent risks such as regulatory requirements, delays from custom brokers or government agencies, or other trade barriers. The Company is also subject to risks related to cultural, political, legal and economic factors.

ADDITIONAL INFORMATION

Additional information relating to Titan Logix Corp., including its 2018 Audited Financial Statements, is available on SEDAR at www.sedar.com or on its website, www.titanlogix.com.



Grant Thornton LLP

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

Independent Auditor's Report

To the Shareholders of Titan Logix Corp.

We have audited the accompanying consolidated financial statements of Titan Logix Corp. which comprise the consolidated statements of financial position as at August 31, 2018 and August 31, 2017, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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



appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Titan Logix Corp. as at August 31, 2018 and August 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Edmonton, Canada
November 27, 2018

Grant Thornton LLP
Chartered Professional Accountants



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	August 31, 2018 \$	August 31, 2017 \$
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	6,270,878	13,527,827
Short term investments (note 10)	2,000,000	-
Accounts receivable (note 5)	851,651	562,035
Inventories (note 6)	1,037,822	802,773
Prepaid expenses	99,896	101,491
Income tax recoverable	32,271	153,862
Current portion of investment in secured loan (note 10)	384,494	-
Total current assets	10,677,012	15,147,988
Non-current assets		
Property, plant and equipment (note 7)	235,819	259,785
Intangible assets (note 9)	1,617,970	1,278,147
Investment in secured loan (note 10)	4,220,161	-
Total assets	16,750,962	16,685,920
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	585,243	453,616
Current portion of finance lease obligations (note 12)	26,504	30,939
Total current liabilities	611,747	484,555
Non-current liabilities		
Finance lease obligations (note 12)	-	26,504
Total liabilities	611,747	511,059
Equity		
Share capital (note 15)	5,730,279	5,730,279
Contributed surplus	686,208	718,073
Retained earnings	9,722,728	9,726,509
Total equity	16,139,215	16,174,861
Total liabilities and equity	16,750,962	16,685,920

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

On behalf of the Board

"Alvin Pyke"
Director

"Helen Cornett"
Director



CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended August 31,	2018 \$	2017 \$
Revenue	4,494,588	3,512,527
Cost of sales	2,276,685	2,342,627
Gross profit	2,217,903	1,169,900
Expenses		
General and administration	1,352,163	1,417,237
Marketing and sales	935,625	767,744
Engineering	186,423	96,736
Depreciation of property, plant and equipment (notes 7 and 17)	58,212	83,588
Amortization of intangible assets (notes 9 and 17)	164,173	253,171
(Gain) loss on foreign exchange	(51,086)	18,203
Total expenses	2,645,510	2,636,679
Operating loss before other items	(427,607)	(1,466,779)
Other items		
Gain on disposal of property, plant and equipment	16,165	11,549
Gain on disposal of non-current assets held for sale (note 8)	-	307,275
Loss on impairment of property, plant and equipment	-	(14,056)
Loss on sale of marketable securities (note 10)	(82,137)	-
Finance income (note 16)	550,218	173,436
Interest on finance leases	-	(1,150)
Total other items	484,246	477,054
Earnings (loss) before income taxes	56,639	(989,725)
Income tax expense (recovery) (note 14)		
Current	60,420	(7,337)
Deferred	-	-
Total income tax expense (recovery)	60,420	(7,337)
Net loss and comprehensive loss	(3,781)	(982,388)
Loss per share (note 18)		
Basic	0.00	(0.03)
Diluted	0.00	(0.03)

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



CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Shares #	Share Capital \$	Contributed Surplus \$	Retained Earnings \$	Total Equity \$
Balance at August 31, 2016	28,286,132	5,566,479	766,830	10,708,897	17,042,206
Share-based compensation	-	-	21,243	-	21,243
Shares issued - exercise of options (note 15)	250,000	163,800	(70,000)	-	93,800
Net loss	-	-	-	(982,388)	(982,388)
Balance at August 31, 2017	28,536,132	5,730,279	718,073	9,726,509	16,174,861
Share-based compensation (note 15)	-	-	(31,865)	-	(31,865)
Net loss	-	-	-	(3,781)	(3,781)
Balance at August 31, 2018	28,536,132	5,730,279	686,208	9,722,728	16,139,215

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



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31,	2018	2017
	\$	\$
Cash provided by (used in)		
Operating activities		
Net loss	(3,781)	(982,388)
Non-cash items included in net loss		
Impairment of inventory (note 6)	136,143	128,145
Depreciation of property, plant and equipment (note 7)	71,050	97,482
Amortization of intangible assets (note 9)	164,173	253,171
Share-based compensation (note 15)	(31,865)	21,243
Loss on sale of marketable securities (note 10)	82,137	-
Gain on disposal of property, plant and equipment	(16,165)	(11,549)
Gain on disposal of non-current assets held for sale (note 8)	-	(307,275)
Loss on impairment of property, plant and equipment	-	14,056
Finance income (note 16)	(550,218)	(173,436)
Changes in non-cash working capital (note 20)	(405,995)	668,261
Net cash (used in) operating activities	(554,521)	(292,290)
Investing activities		
Purchases of marketable securities (note 10)	(2,006,837)	-
Proceeds from sale of marketable securities (note 10)	1,924,700	-
Investment in secured loan (note 10)	(4,925,000)	-
Payments received on investment in secured loan (note 10)	333,333	-
Finance income (note 16)	537,230	173,436
(Purchase) maturity of short term investments (note 16)	(2,000,000)	1,000,000
Purchase of property, plant and equipment (note 7)	(47,537)	(3,642)
Purchase of intangible assets (note 9)	(15,865)	(16,288)
Proceeds from disposal of property, plant and equipment	50	19,471
Proceeds from disposal of assets held for sale (note 8)	-	474,234
Product development costs capitalized (note 9)	(592,566)	(686,299)
Receipt of investment tax credits (note 9)	104,435	-
Net cash (used in) provided by investing activities	(6,688,057)	960,912
Financing activities		
Proceeds from exercise of stock options	-	93,800
Payment of finance lease obligation	(14,371)	(22,873)
Net cash (used in) provided by financing activities	(14,371)	70,927
Net (decrease) increase in cash and cash equivalents	(7,256,949)	739,549
Cash and cash equivalents, beginning of year	13,527,827	12,788,278
Cash and cash equivalents, end of year	6,270,878	13,527,827
Interest paid	2,852	6,810

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

1. NATURE OF OPERATIONS

Titan Logix Corp. (the "Company") is a public company incorporated and domiciled in Canada and its common shares trade on the TSX Venture Exchange under the symbol TLA. The head office for the Company is located in Edmonton, Alberta, Canada. The address of the Company's registered office is #2600 10180 101 Street, Edmonton, AB T5J 3Y2.

Titan Logix Corp. is a developer, manufacturer and marketer of innovative fluid measurement and management solutions. The Company's Guided Wave Radar (GWR) solutions are primarily used in the upstream/midstream oil and gas industry. Secondary industries for its products include the aviation, waste fluid collection, and chemical industries. The Company's products are designed to be part of a complete Supply Chain Management solution. The ultimate solution consists of the Company's products integrated with best-in-class data management to enable end-to-end Industrial Internet of Things solutions for our customers' Supply Chain Management.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements for the year ended August 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company for the year ended August 31, 2018 were authorized for issue in accordance with a resolution of the directors on November 27, 2018.

Principles of consolidation

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

Functional and presentation currency

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

Significant accounting estimates and judgments

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

Judgments

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

a) *Internally generated research costs*

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

2. BASIS OF PRESENTATION (cont'd)

Significant accounting estimates and judgments (cont'd)

a) Internally generated research costs (cont'd)

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

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

b) Determination of cash generating units

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

c) Impairment of intangible assets

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

d) Deferred income taxes

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

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

e) Leases

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

Estimates

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

a) Valuation and impairment of intangible assets

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

2. BASIS OF PRESENTATION (cont'd)

Estimates (cont'd)

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

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

c) Valuation of inventory

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

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

d) Valuation of accounts receivables

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

e) Valuation of investment in secured loan

The Company recognized its investment in the secured loan at fair value less transaction costs. The valuation of the investment in secured loan is based on management's best estimate of the collectability of the principal balance as per the terms of the loan participation agreement. Management monitors the investment in secured loan for indications of impairment on an ongoing basis.

f) Share-based compensation

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

2. BASIS OF PRESENTATION (cont'd)

Estimates (cont'd)

g) Warranties

The Company estimates a provision for warranty costs as the actual future claims to fulfill warranty expenses are unknown. Management bases its estimate on historical costs associated with warranty costs as well as the number of expected warranty claims outstanding. At August 31, 2018 and August 31, 2017 no material warranty claims were expected and therefore no provision was recorded.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

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

a) Foreign currency

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

b) Cash and cash equivalents

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

c) Short term investments

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

d) Accounts receivable

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

e) Inventories

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

f) Property, plant and equipment

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) Property, plant and equipment (cont'd)

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

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

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

g) Intangible assets

Product development costs:

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

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

Capitalized costs include the cost of materials consumed in development activities and payroll and employee benefit expenses associated with product development. Capitalized costs also include third-party development costs.

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

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

Other intangible assets:

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

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

h) Impairment of non-financial assets

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

h) Impairment of non-financial assets (cont'd)

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

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

i) Finance leases

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

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

j) Warranty provisions

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

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

k) Revenue recognition

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

l) Cost of sales

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

m) Financial instruments

The Company recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the financial instrument. The Company classifies its financial instruments at initial recognition in the following categories depending on the purpose for which the instruments were acquired.

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

The Company classified its investment in marketable securities at "fair value through profit or loss".

The Company's investments in marketable securities are initially recognized at fair value. Subsequently, they are measured at fair value with gains and losses arising from changes in the fair value included in the profit or loss in the period in which they arise. 'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Company measures the fair value of an instrument using the quoted price in an active market for its investments. A market is regarded as active if transactions for the assets take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Dividends earned from such investments are recognized in profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

m) Financial instruments (cont'd)

Loans and receivables:

In addition to its cash, cash equivalents, short term investments and accounts receivable the Company classified its investment in the secured note as "loans and receivables".

These financial instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's investment in the secured loan was recognized when the cash was advanced and recognized at fair value less transaction costs. Subsequently, the loan is measured at amortized cost using the effective interest method, less any impairment. Any changes in value are recognized in the profit or loss. Interest income is recognized by applying the effective interest rate.

Impairment of financial assets

At each reporting date the Company assesses whether there is objective evidence that its investments are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably. Objective evidence that financial assets, which include its investments in marketable securities and its secured loan, are impaired can include:

- default or delinquency by a borrower;
- indications that the borrower will enter bankruptcy;
- the disappearance of an active market for a security; or
- other observable data such as adverse changes in the payment status of the borrower.

Impairment losses on investment in the secured loan carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss.

Other financial liabilities:

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

n) Comprehensive income (loss)

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

o) Share-based compensation

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

p) Investment tax credits

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

q) Income taxes

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

Current tax

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

Deferred tax

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

r) Earnings per share

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

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

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

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

IFRS 9 - Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes guidance on recognition and de-recognition of financial assets and financial liabilities, extensive changes to IAS 39's guidance on the classification and measurement of financial assets, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company's management does not expect any material impact from the adoption of IFRS 9 on these consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. This standard outlines a single comprehensive model for determining the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

s) Changes in accounting policies and new standards and interpretations not yet adopted (cont'd)

Under IAS 18, the previous standard, the amount of revenue was equal to the fair value of the consideration received or receivable, which was the price negotiated with the customer. Under IFRS 15, the transaction price is equal to the amount of consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer, which will continue to be the price negotiated with the customer. The Company generates revenues from product sales. Revenue for the sale of product is recognized at the point in time when control or ownership of the product is transferred to the customer, generally when the products are shipped, and when collectability is probable. The Company's standard warranty period is not considered to be a distinct performance obligation. Warranties are accounted for as warranty obligations and the estimated cost of satisfying them is recognized at the time the necessity of such provision is evident. The adoption of IFRS 15 has no material impact on the timing or the amount of sales revenue or warranty provisions recognized. The Company will adopt IFRS 15 – Revenue from Contracts with Customers on September 1, 2018 using the modified retrospective approach where the cumulative impact of adoption would be recognized in retained earnings as of September 1, 2018 and comparatives would not be restated. The adoption of this standard is not expected to have a material impact on the Company's financial statements, and as such should not result in any adjustment in the amounts previously recognized in the consolidated financial statements.

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

As at	August 31, 2018 \$	August 31, 2017 \$
Cash on hand and balances with banks	1,065,642	3,527,827
Guaranteed investment certificates	5,205,236	10,000,000
	6,270,878	13,527,827

5. ACCOUNTS RECEIVABLE

As at	August 31, 2018 \$	August 31, 2017 \$
Trade receivables	799,998	541,808
Allowance for doubtful accounts	(11,884)	(17,908)
Net trade receivables	788,114	523,900
Other receivables	63,537	38,135
	851,651	562,035

During the year ended August 31, 2018, the allowance for doubtful accounts was reduced by receivables written off of \$6,024 (2017 - \$2,257).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

6. INVENTORIES

As at	August 31, 2018 \$	August 31, 2017 \$
Raw materials	319,373	178,314
Work in progress and finished goods	718,449	624,459
	1,037,822	802,773

During the year ended August 31, 2018, inventory write-downs of \$146,862 (2017 – \$128,145) were included in cost of sales. There were reversals of write-downs of \$10,719 (2017 – \$nil) that were taken in previous periods. During the year ended August 31, 2018, the carrying amount of inventory charged to costs of sales was \$1,732,214 (2017 - \$1,498,381).

7. PROPERTY, PLANT AND EQUIPMENT

	Land \$	Production and computer equipment \$	Research and development equipment \$	Office furniture and rental equipment \$	Automotive equipment \$	Leasehold improvements \$	Total \$
Cost							
As at August 31, 2016	-	431,179	201,614	240,051	187,865	85,562	1,146,271
Additions	-	2,692	950	-	-	-	3,642
Disposals	-	(5,700)	-	(12,532)	(100,685)	(5,313)	(124,230)
Impairments	-	(37,679)	(1,585)	-	-	-	(39,264)
Reclassified as held for sale	30,000	-	-	-	-	-	30,000
As at August 31, 2017	30,000	390,492	200,979	227,519	87,180	80,249	1,016,419
Additions	-	47,537	-	-	-	-	47,537
Disposals	-	-	(2,020)	-	(44,750)	-	(46,770)
As at August 31, 2018	30,000	438,029	198,959	227,519	42,430	80,249	1,017,186
Accumulated depreciation							
As at August 31, 2016	-	269,461	116,265	218,257	61,088	78,237	743,308
Depreciation	-	31,909	17,167	9,284	32,874	6,248	97,482
Disposals	-	(3,494)	-	(10,560)	(39,581)	(5,313)	(58,948)
Impairments	-	(23,997)	(1,211)	-	-	-	(25,208)
As at August 31, 2017	-	273,879	132,221	216,981	54,381	79,172	756,634
Depreciation	-	27,503	13,682	7,319	21,602	944	71,050
Disposals	-	-	(1,567)	-	(44,750)	-	(46,317)
As at August 31, 2018	-	301,382	144,336	224,300	31,233	80,116	781,367
Net book value							
As at August 31, 2017	30,000	116,613	68,758	10,538	32,799	1,077	259,785
As at August 31, 2018	30,000	136,647	54,623	3,219	11,197	133	235,819

At August 31, 2018, the Company determined that no indicators of asset impairment existed, therefore no asset impairment analysis was required.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

7. PROPERTY, PLANT AND EQUIPMENT (cont'd)

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

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

8. DISPOSAL OF ASSETS HELD FOR SALE

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

9. INTANGIBLE ASSETS

	Technology licenses \$	Software licenses \$	Software \$	Product development costs \$	Total \$
Cost					
As at August 31, 2016	104,660	43,787	73,411	1,331,953	1,553,811
Additions	-	16,288	-	686,299	702,587
Disposals	-	(44,257)	(52,955)	-	(97,212)
As at August 31, 2017	104,660	15,818	20,456	2,018,252	2,159,186
Additions	-	15,865	-	592,566	608,431
SR&ED, investment tax credits (note 25)	-	-	-	(104,435)	(104,435)
Disposals	-	(15,818)	-	-	(15,818)
De-recognition	-	-	-	(840,816)	(840,816)
As at August 31, 2018	104,660	15,865	20,456	1,665,567	1,806,548
Accumulated amortization					
As at August 31, 2016	63,175	22,225	53,727	585,953	725,080
Amortization	3,829	23,351	15,786	210,205	253,171
Disposals	-	(44,257)	(52,955)	-	(97,212)
As at August 31, 2017	67,004	1,319	16,558	796,158	881,039
Amortization	3,829	15,820	3,566	140,958	164,173
Disposals	-	(15,818)	-	-	(15,818)
De-recognition	-	-	-	(840,816)	(840,816)
As at August 31, 2018	70,833	1,321	20,124	96,300	188,578
Net book value					
As at August 31, 2017	37,656	14,499	3,898	1,222,094	1,278,147
As at August 31, 2018	33,827	14,544	332	1,569,267	1,617,970

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

9. INTANGIBLE ASSETS (cont'd)

Impairment

Product development costs

At August 31, 2018, all product development costs are being amortized as the developed products have been commercialized. The Company determined that no indicators of asset impairment or impairment reversals existed, therefore no asset impairment test was required at August 31, 2018.

At August 31, 2017, the Company determined that an indicator of asset impairment existed, namely the significant decline in sales in the Company's primary market, mobile tank gauging for the crude oil industry. The market uncertainty impacted the earnings potential of the Company's CGUs; therefore, an asset impairment test was performed at August 31, 2017. Upon completion of the asset impairment testing, the Company concluded that there was no asset impairment required at August 31, 2017. The Company also concluded that there were no reversals of previous asset impairment required at August 31, 2017.

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

10. INVESTMENTS

Short term investments

As at	\$
August 31, 2017	-
Addition to short term investments	2,000,000
August 31, 2018	2,000,000

Short term investments consist of guaranteed investment certificates (GICs) not cashable on demand, or with original maturities greater than three months. During the year ended August 31, 2018, the Company's investments in GICs, including its GICs classified as short term investments, generated finance income of \$96,964 (August 31, 2017 - \$160,330) (note 16).

Investments in marketable securities

As at	\$
August 31, 2017	-
Addition to investment in marketable securities, at cost	2,006,837
Proceeds from sale of investment in marketable securities	(1,924,700)
Realized loss on sale of marketable securities	(82,137)
August 31, 2018	-

During the year ended August 31, 2018, dividend income of \$42,684 (August 31, 2017 - \$nil) related to investments in marketable securities was included in finance income (note 16).

Investment in secured loan

As at	\$
August 31, 2017	-
Addition to investment in secured loan	4,925,000
Principal repayments	(333,333)
Amortization of commitment fee	12,988
August 31, 2018	4,604,655



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

10. INVESTMENTS (cont'd)

Investment in secured loan (cont'd)

As at	August 31, 2018 \$	August 31, 2017 \$
Current portion of investment in secured loan	384,494	-
Long-term portion of investment in secured loan	4,220,161	-
	4,604,655	-

On November 6, 2017, the Company entered into a loan participation agreement with Greypoint Capital Inc. (as administrative agent) and Greypoint Capital L.P. (as co-lender). Pursuant to the loan participation agreement, the Company has co-invested \$5 million of a \$10 million five-year secured loan to a company in the energy services industry (the "Borrower"). The loan is secured by a first priority security interest in the Borrower's real estate and equipment and a second priority security interest on the working capital assets of the Borrower. The loan is for a 60-month term and bears interest at the 30-day bankers' acceptance rate plus 7.5%, with a payment of \$33,333 principal plus interest paid monthly. The Borrower may prepay the loan at any time subject to set terms. Principal repayments of \$333,333 were received in the year ended August 31, 2018. The terms of the agreement included an upfront commitment fee from the Borrower of \$75,000 and therefore the Company recorded the initial value of the investment in secured loan at an amortized cost of \$4,925,000. The \$75,000 commitment fee is amortized over the term of the loan and included in interest income.

During the year ended August 31, 2018, the Company's investment in the secured loan to Greypoint Capital Inc. generated finance income of \$373,047 (August 31, 2017 - \$nil) at an effective interest rate is 9.28% (note 16).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	August 31, 2018 \$	August 31, 2017 \$
Trade payables	257,058	165,859
Other payables and accrued liabilities	328,185	287,757
	585,243	453,616

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

12. FINANCE LEASE OBLIGATIONS

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

As at	August 31, 2018			August 31, 2017		
	Current portion of finance lease obligations \$	Finance lease obligations after one year \$	Total finance lease obligations \$	Current portion of finance lease obligations \$	Finance lease obligations after one year \$	Total finance lease obligations \$
Lease payments	27,887	-	27,887	33,782	27,887	61,669
Finance charges	1,383	-	1,383	2,843	1,383	4,226
Net present value	26,504	-	26,504	30,939	26,504	57,443

The Company enters into financing lease arrangements for its automotive equipment. The terms of the leases are from 30 to 36 months. For the year ended August 31, 2018, the net book value of the leased automotive equipment is \$11,197 (2017 - \$32,799).

For the year ended August 31, 2018, the fair value of the finance lease obligations has been estimated at \$26,504 (2017 - \$57,443). This amount reflects present value and takes into account estimated market interest rates on borrowings with similar terms.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

13. CREDIT FACILITIES

The Company maintains a general security agreement with its chartered bank with respect to corporate credit cards held. At August 31, 2018 and 2017 total credit available was \$100,000.

14. INCOME TAXES

a) Income tax expense (recovery)

For the years ended August 31,	2018	2017
	\$	\$
Current tax expense (recovery)		
Current period	-	-
Adjustment for prior years	60,420	(7,337)
Deferred tax expense (recovery):		
Origination and reversal of temporary differences	89,299	(253,501)
Change in tax rates	(2,056)	-
Change in unrecognized deductible temporary differences	(87,243)	253,501
Total income tax expense (recovery)	60,420	(7,337)

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

For the years ended August 31,	2018	2017
	\$	\$
Income (loss) before income taxes	56,639	(989,725)
Statutory income tax rate	27.00%	27.00%
Expected income taxes	15,293	(267,226)
Increase (decrease) resulting from:		
Non-deductible expenses	64,791	12,497
Change in unrecognized assets	(87,243)	253,501
Change in tax rates and rate differences	7,218	1,228
Change in estimates related to previous years	60,420	(7,337)
Other	(59)	-
	60,420	(7,337)

b) Deferred tax assets and liabilities

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

As at	August 31, 2018	August 31, 2017
	\$	\$
Non-capital losses	423,702	329,965
Intangible assets, net of investment tax credits	(423,702)	(329,965)
	-	-



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

14. INCOME TAXES (cont'd)

b) Deferred tax assets and liabilities (cont'd)

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

As at	August 31, 2018 \$	August 31, 2017 \$
Deductible temporary differences	965,660	438,720
Tax losses	4,764,323	4,517,191
	5,729,983	4,955,911

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

For the year ended August 31, 2018, the Company has \$4,335,746 (2017 - \$4,488,958) of Canadian non-capital loss carryforwards, of which \$1,241,862 have not been recognized and begin to expire in 2036.

15. SHARE CAPITAL

a) Authorized

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

b) Issued

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

	#	August 31, 2018 \$	#	August 31, 2017 \$
Issued, beginning of year	28,536,132	5,730,279	28,286,132	5,566,479
Shares issued on exercise of options	-	-	250,000	163,800
Issued, end of year	28,536,132	5,730,279	28,536,132	5,730,279

c) Share-based compensation

The Company has a stock option plan for directors, officers, employees and consultants and permits the issue of options to purchase common shares of the Company. Subject to approval by the Board of Directors and the TSX Venture Exchange, a maximum of 3,000,000 (August 31, 2017 – 3,000,000) common shares are reserved for issue under this plan. The number of options and exercise price is set by the Board of Directors of the Company at the time of issue, provided that the exercise price shall not be less than the market price of the common shares on the stock exchange on which such shares are traded. The options issued vest in accordance with vesting schedules determined at the time of grant and may be exercised for a period not longer than five years from the time of issue.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

15. SHARE CAPITAL (cont'd)

At August 31, 2018, the Company has 180,000 (2017 – 545,000) options outstanding, which expire on dates between September 2019 and February 2021. The continuity of the Company's outstanding and exercisable options is as follows:

	August 31, 2018		August 31, 2017	
	Number of options outstanding #	Weighted average exercise price \$	Number of options outstanding #	Weighted average exercise price \$
Outstanding, beginning of year	545,000	0.69	1,005,000	0.64
Exercised	-	-	(250,000)	0.38
Forfeited	(365,000)	0.58	(210,000)	0.83
Outstanding, end of year	180,000	0.90	545,000	0.69
Exercisable, end of year	180,000	0.90	370,000	0.74

The following table summarizes information about stock options outstanding and exercisable as at August 31, 2018.

Exercise price	Options outstanding	Average remaining life (in years)	Options vested	Options not vested
\$ 1.28	40,000	.37	40,000	-
\$ 1.14	40,000	1.39	40,000	-
\$ 0.65	100,000	2.37	100,000	-
Total, end of year	180,000		180,000	-

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

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

During the year ended August 31, 2018, 365,000 stock options that had a weighted average exercise price of \$0.58 were forfeited (2017 – 210,000; weighted average exercise price of \$0.83).

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

Compensation expense is recognized evenly over the vesting period of the stock options. For the year ended August 31, 2018, a reversal of share based compensation and a corresponding debit to contributed surplus of \$31,865 was recorded as a result of certain performance criteria not being met. (share based compensation expense 2017 - \$21,243).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

15. SHARE CAPITAL (cont'd)

d) Shareholder rights plan

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

16. FINANCE INCOME

For the years ended August 31,	2018	2017
	\$	\$
Interest from investment in secured loan	373,047	-
Interest from investments in guaranteed investment certificates	96,964	160,330
Dividend income	42,684	-
Other interest income	37,523	13,106
	550,218	173,436

17. NATURE OF EXPENSES

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

For the years ended August 31,	2018	2017
	\$	\$
Employee salaries and benefits		
Included in cost of sales	453,658	407,773
Included in total expenses	2,082,885	1,968,519
Total employee salaries and benefits	2,536,543	2,376,292
Depreciation and amortization		
Included in cost of sales	12,838	13,894
Included in total expenses	222,385	336,759
Total depreciation and amortization	235,223	350,653



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

18. LOSS PER SHARE

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

For the years ended August 31,	2018	2017
	\$	\$
Net loss (numerator for basic and diluted loss per share)	(3,781)	(982,388)
Weighted average number of shares outstanding – basic (denominator for basic loss per share)	28,536,132	28,434,242
Effect of dilutive securities		
Stock options converted to common shares	-	-
Weighted average number of shares outstanding – diluted (denominator for diluted loss per share)	28,536,132	28,434,242
Basic loss per share	0.00	(0.03)
Effect of dilutive securities	0.00	(0.00)
Diluted loss per share	0.00	(0.03)

For the year ended August 31, 2018, there were 180,000 antidilutive options (2017 – 595,000). The average market value of the Company's shares for purposes of this calculation were based on quoted market prices for the period during which the options were outstanding.

19. COMMITMENTS

The Company has commitments for office space and manufacturing facilities and office equipment operating leases. Future minimum payments under the terms of lease agreements are as follows:

2019	\$	73,139
2020		2,920
2021 and thereafter		7,100

20. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

For the years ended August 31,	2018	2017
	\$	\$
Accounts receivable	(289,616)	(149,959)
Inventories	(371,192)	605,232
Prepaid expenses	1,595	38,431
Income tax recoverable	121,591	242,524
Accounts payable and accrued liabilities	131,627	(67,967)
	(405,995)	668,261



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

21. RELATED PARTY TRANSACTION

Key Management Personnel Compensation

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

For the years ended August 31,	2018	2017
	\$	\$
Salaries and short-term employee benefits	613,450	609,335
Share-based compensation	(31,865)	21,243
	581,585	630,578

During the years ended August 31, 2018 and 2017, there were no long-term employee benefits, post-employment benefits or termination benefits recognized. Short-term employee benefits consist of salaries, consulting fees, bonuses, director fees, and all other short-term benefits.

22. CAPITAL MANAGEMENT

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

As at	August 31, 2018	August 31, 2017
	\$	\$
Finance lease obligations	-	26,504
Share capital	5,730,279	5,730,279
Contributed surplus	686,208	718,073
Retained earnings	9,722,728	9,726,509
	16,139,215	16,201,365

23. FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT

The following methods and assumptions were used to estimate the fair values of each class of financial instruments:

Cash and cash equivalents, short term investments, accounts receivables, accounts payable and accrued liabilities - The carrying value approximate fair value due to the short-term nature and limited credit risk of these assets and liabilities.

Investment in marketable securities – The fair value measurement of investments in marketable securities is based on the quoted market prices.

Investment in secured loan – Using the effective interest rate method, the fair value of the secured loan approximates its carrying value as the effective interest rate approximates the market interest rate.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

24. FINANCIAL RISK MANAGEMENT

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

a) Credit risk

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

The Company's maximum exposure to credit risk for accounts receivable is the carrying value of its accounts receivable balance at August 31, 2018 of \$863,535 (2017 - \$579,943). The Company's allowance for doubtful accounts as at August 31, 2018 amounted to \$11,884 (2017 - \$17,908). As at August 31, 2018, the percentages of past due trade accounts receivable were as follows: 5% past due 61 to 90 days (2017- 1%) and 10% past due greater than 90 days (2017 - 3%) prior to including the allowance for doubtful accounts. It is management's view that these balances, net of the allowance for doubtful accounts, have a low risk of not being collected.

The Company's maximum exposure to credit risk for its investment in secured loan is the carrying value of the investment in secured loan's balance at August 31, 2018 of \$4,667,667. In investing in the secured loan, the Company considered the Company's future liquidity requirements and evaluated whether the Company had plans to sell the investment in the secured loan before recovery. The Company considered general industry conditions, the credit worthiness and credit history of the Borrower. The Company also considered specific conditions related to the financial health of and business outlook for the Borrower, including business outlook, industry and sector performance, changes in technology, and operational and financing cash flow factors. The Company also took into consideration security interest issued as collateral. The Company's investment in secured loan is subject to compliance with reasonable and customary positive and negative covenants for loans of its nature. As at August 31, 2018, the Borrower is in compliance with all terms of the loan agreement. Management monitors the investment in secured loan for indications of impairment on an ongoing basis.

b) Equity price risk

The cost of equity investments which are subject to equity price risk at August 31, 2018 was \$nil (August 31, 2017 - \$nil), as the Company liquidated its equity investments in the second quarter of fiscal 2018. The Company was exposed to equity price risk as the result of changes in market conditions. Fluctuations in market prices may affect the market value of its portfolios of securities mainly for exchange traded funds. These securities were classified and accounted for as financial assets at fair value through profit and loss.

The primary investment objective is to optimize the return on surplus cash while preserving the Company's capital. The Board of Directors is responsible for the management and oversight of its investment portfolio. As part of the Company's risk management strategy, extensive corporate governance policies and practices have been applied. Each individual investment is evaluated separately, and trading guidelines specified. Economic and sector research influences the overall investment weighting. Limits are also established for the portfolio value at risk.

c) Liquidity risk

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

24. FINANCIAL RISK MANAGEMENT (cont'd)

c) Liquidity risk (cont'd)

As at August 31, 2018, contractual obligations related to financial liabilities are as follows:

	Accounts payable and accrued liabilities \$	Finance lease obligations \$
2019	585,243	26,504
Total	585,243	26,504

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

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

d) Market risk

Interest rate risk

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

At August 31, 2018, based on management's interest rate risk sensitivity analysis, a one-half percent change in market interest rates would have had an impact of approximately \$57,712 (2017 – \$61,164) on the Company's net earnings.

Currency risk

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

At August 31, 2018, the Company held net financial assets of US\$773,118 (2017 - US\$966,303) that were exposed to foreign exchange risk. Based on the Company's foreign currency exposures, with other variables unchanged, a five percent appreciation/ depreciation in the Canadian dollar would have impacted net earnings by approximately \$50,465 (2017 - \$60,568).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2018 and 2017

25. INVESTMENT TAX CREDITS

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

During the year ended August 31, 2018, investment tax credits of \$104,435 (2017 - \$nil) were recorded as a reduction of product development costs capitalized. The federal SR&ED investment tax credits have a carry forward period of twenty years.

26. SEGMENTED REPORTING

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

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

Revenues	2018 \$	2017 \$
Canada	1,984,531	1,773,673
United States and other	2,510,057	1,738,854
	4,494,588	3,512,527

For the years ended August 31, 2018 and 2017, no revenue from a single customer of the Company exceeded 10% of total revenue in the period.

At August 31, 2018, non-current assets held in Canada were \$6,067,960 (2017 - \$1,528,659) and in the United States were \$5,990 (2017 - \$9,273).

**Corporate Address:**

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

Branch Address:

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

Exchange Listing:

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

Investor Information:

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

Transfer Agent:

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

Directors:

S. Grant Reeves, BA
Chairperson of the Board

Helen Cornett, CPA, CA
Audit Committee Chairperson

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

Alvin Pyke, P.Eng.
Chief Executive Officer

Officers:

Alvin Pyke, P. Eng.
Chief Executive Officer

Angela Schultz, CPA, CMA
Chief Financial Officer

Auditors:

Grant Thornton LLP

www.titanlogix.com