

# Interim Consolidated Financial Statements Q2 Fiscal 2018



**titan logix corp.**

February 28, 2018



## **Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements**

These condensed consolidated interim financial statements and related notes for the period ended February 28, 2018 have been prepared by and are the responsibility of management of Titan Logix Corp. The auditors of Titan Logix Corp. have not audited or reviewed these interim financial statements.



## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited)

	February 28, 2018 \$	August 31, 2017 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	8,151,379	13,527,827
Accounts receivable	529,124	562,035
Inventories	1,027,352	802,773
Prepaid expenses	63,503	101,491
Income tax recoverable	153,862	153,862
Current portion of investment in secured loan (note 5)	384,298	-
<b>Total current assets</b>	<b>10,309,518</b>	<b>15,147,988</b>
<b>Non-current assets</b>		
Property, plant and equipment	230,007	259,785
Intangible assets	1,521,997	1,278,147
Investment in secured loan (note 5)	4,445,729	-
<b>Total assets</b>	<b>16,507,251</b>	<b>16,685,920</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	527,660	453,616
Current portion of finance lease obligations	7,711	30,939
<b>Total current liabilities</b>	<b>535,371</b>	<b>484,555</b>
<b>Non-current liabilities</b>		
Finance lease obligations	22,575	26,504
<b>Total liabilities</b>	<b>557,946</b>	<b>511,059</b>
<b>Equity</b>		
Share capital (note 7)	5,730,279	5,730,279
Contributed surplus	726,458	718,073
Retained earnings	9,492,568	9,726,509
<b>Total equity</b>	<b>15,949,305</b>	<b>16,174,861</b>
<b>Total liabilities and equity</b>	<b>16,507,251</b>	<b>16,685,920</b>

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

On behalf of the Board

"Alvin Pyke"  
Director

"Helen Cornett"  
Director



**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)**  
(unaudited)

	Three months ended February 28		Six months ended February 28	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Revenue</b>	<b>937,860</b>	872,145	<b>1,820,000</b>	1,695,804
<b>Cost of sales</b>	<b>408,972</b>	523,443	<b>880,177</b>	1,074,030
<b>Gross profit</b>	<b>528,888</b>	348,702	<b>939,823</b>	621,774
<b>Expenses</b>				
General and administration	376,788	359,912	712,029	731,193
Marketing and sales	222,501	205,790	474,498	399,287
Engineering	25,047	36,530	65,392	57,406
Depreciation of property, plant and equipment	15,802	21,660	32,254	43,243
Amortization of intangible assets	36,982	62,777	89,980	130,568
Loss (gain) on foreign exchange	6,955	6,059	(27,656)	(34,878)
<b>Total expenses</b>	<b>684,075</b>	692,728	<b>1,346,497</b>	1,326,819
Operating loss before other items	(155,187)	(344,026)	(406,674)	(705,045)
<b>Other items</b>				
Gain (loss) on disposal of property, plant and equipment	16,165	(1,239)	16,165	4,315
Gain (loss) on disposal of non-current assets held for sale (note 6)	-	(24,471)	-	310,963
Loss on sale of marketable securities (note 5)	(57,744)	-	(82,137)	-
Finance income (note 8)	148,918	43,113	238,705	82,788
Interest on finance leases	-	(300)	-	(1,150)
<b>Total other items</b>	<b>107,339</b>	17,103	<b>172,733</b>	396,916
<b>Loss before income taxes</b>	<b>(47,848)</b>	(326,923)	<b>(233,941)</b>	(308,129)
<b>Income tax</b>	-	-	-	-
<b>Net loss and comprehensive loss</b>	<b>(47,848)</b>	(326,923)	<b>(233,941)</b>	(308,129)
<b>Loss per share (note 10)</b>				
Basic	0.00	(0.01)	(0.01)	(0.01)
Diluted	0.00	(0.01)	(0.01)	(0.01)

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



**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(unaudited)

	Common Shares #	Share Capital \$	Contributed Surplus \$	Retained Earnings \$	Total Equity \$
Balance, August 31, 2017	28,536,132	5,730,279	718,073	9,726,509	16,174,861
Share-based compensation	-	-	8,385	-	8,385
Net loss	-	-	-	(233,941)	(233,941)
<b>Balance, February 28, 2018</b>	<b>28,536,132</b>	<b>5,730,279</b>	<b>726,458</b>	<b>9,492,568</b>	<b>15,949,305</b>

	Common Shares #	Share Capital \$	Contributed Surplus \$	Retained Earnings \$	Total Equity \$
Balance, August 31, 2016	28,286,132	5,566,479	766,830	10,708,897	17,042,206
Share-based compensation	-	-	19,049	-	19,049
Shares issued – exercise of options	250,000	163,800	(70,000)	-	93,800
Net loss	-	-	-	(308,129)	(308,129)
<b>Balance, February 28, 2017</b>	<b>28,536,132</b>	<b>5,730,279</b>	<b>715,879</b>	<b>10,400,768</b>	<b>16,846,926</b>

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



**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
(unaudited)

	Three months ended February 28		Six months ended February 28	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss	(47,848)	(326,923)	(233,941)	(308,129)
Adjustments for:				
Non-cash items included in net loss				
Depreciation of property, plant and equipment	18,481	24,909	37,544	50,627
Amortization of intangible assets	36,982	62,777	89,980	130,568
Share-based compensation (note 7)	3,354	12,033	8,385	19,049
Loss on sale of marketable securities (note 5)	57,744	-	82,137	-
Loss (gain) on disposal of property, plant and equipment	(16,165)	1,239	(16,165)	(4,315)
Gain on disposal of non-current assets held for sale (note 6)	-	24,471	-	(310,963)
Finance income (note 8)	(148,918)	(43,113)	(238,705)	(82,788)
Changes in non-cash working capital (note 11)	(180,179)	110,713	(79,636)	398,213
<b>Net cash (used in) operating activities</b>	<b>(276,549)</b>	<b>(133,894)</b>	<b>(350,401)</b>	<b>(107,738)</b>
<b>Investing activities</b>				
Purchases of marketable securities (note 5)	-	-	(2,006,837)	-
Proceeds from sale of marketable securities (note 5)	1,924,700	-	1,924,700	-
Investment in secured loan (note 5)	-	-	(4,925,000)	-
Payments received on investment in secured note (note 5)	62,736	-	94,972	-
Finance income (note 8)	148,918	43,113	238,705	82,788
Maturity of short term investments	-	-	-	1,000,000
Purchases of property, plant and equipment	(5,148)	-	(8,218)	(950)
Purchase of intangible assets	-	-	-	(476)
Proceeds from disposal of property, plant and equipment	50	3,803	50	12,239
Proceeds from disposal of assets held for sale (note 6)	-	(24,471)	-	321,906
Product development costs capitalized	(171,295)	(157,541)	(333,829)	(308,689)
<b>Net cash provided by (used in) investing activities</b>	<b>1,959,961</b>	<b>(135,096)</b>	<b>(5,015,457)</b>	<b>1,106,818</b>
<b>Financing activities</b>				
Proceeds from exercise of stock options	-	93,800	-	93,800
Payment of finance lease obligation	(6,746)	(5,722)	(10,590)	(12,578)
<b>Net cash (used in) provided by financing activities</b>	<b>(6,746)</b>	<b>88,078</b>	<b>(10,590)</b>	<b>81,222</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,676,666</b>	<b>(180,912)</b>	<b>(5,376,448)</b>	<b>1,080,302</b>
Cash and cash equivalents, beginning of period	6,474,713	14,049,492	13,527,827	12,788,278
<b>Cash and cash equivalents, end of period</b>	<b>8,151,379</b>	<b>13,868,580</b>	<b>8,151,379</b>	<b>13,868,580</b>

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



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2018 and 2017

(unaudited)

### 1. NATURE OF OPERATIONS

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

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

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

### 2. BASIS OF PRESENTATION

#### Statement of compliance

These condensed consolidated interim financial statements for the three months and six months ended February 28, 2018 and February 28, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). They have been prepared in accordance with IAS 34, "Interim Financial Reporting" and do not contain all necessary annual disclosures in accordance with IFRS.

The unaudited condensed consolidated interim financial statements of the Company for the six months ended February 28, 2018 were authorized for issue in accordance with a resolution of the directors on April 18, 2018.

#### Principles of consolidation

These condensed consolidated interim 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 condensed consolidated interim financial statements.

#### Functional and presentation currency

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements, in all material respects, follow the same accounting policies and method of application as the annual audited consolidated financial statements of the preceding fiscal year except as noted below. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended August 31, 2017.

The Financial Instruments significant accounting policy note was updated in the first and second quarter of fiscal 2018 to include the Company's investments in marketable securities and its investment in a secured note.

#### 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.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2018 and 2017

(unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

*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.

*Loans and receivables:*

In addition to its cash, cash equivalents 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.

#### **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 is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company. The full extent of the impact has not yet been determined

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





## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2018 and 2017

(unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### New standards and interpretations not yet adopted (cont'd)

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. Management is evaluating the impact the standard will have on its operating leases.

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

As at	February 28, 2018 \$	August 31, 2017 \$
Cash on hand and balances with banks	8,151,379	3,527,827
Guaranteed investment certificates	-	10,000,000
	<b>8,151,379</b>	<b>13,527,827</b>

### 5. INVESTMENTS

In order to increase investment returns the Company invested in certain fixed income and equity securities.

#### Investments in marketable securities

As at	\$
<b>August 31, 2017</b>	-
Addition to investment in marketable securities, at cost	2,006,837
Unrealized loss on marketable securities	(24,393)
<b>November 30, 2017</b>	1,982,444
Sale of investment in marketable securities, at cost	(1,924,700)
Reversal of unrealized loss on marketable securities	24,393
Realized loss on sale of marketable securities	(82,137)
<b>February 28, 2018</b>	-

During the six months ended February 28, 2018 dividend income of \$42,684 (February 28, 2017 - \$nil) related to investments in marketable securities was included in finance income (note 8).

#### Investment in secured loan

As at	\$
<b>August 31, 2017</b>	-
Addition to investment in secured loan	4,925,000
Principal repayments	(94,973)
<b>February 28, 2018</b>	<b>4,830,027</b>



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2018 and 2017

(unaudited)

### 5. INVESTMENTS (cont'd)

#### Investment in secured loan (cont'd)

As at	February 28, 2018 \$	August 31, 2017 \$
Current portion of investment in secured loan	384,298	-
Long-term portion of investment in secured loan	4,445,729	-
	<b>4,830,027</b>	-

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 amounted to \$62,737 in the three-month period ended February 28, 2018 and \$94,973 for the six-month period ended February 28, 2018. The principal payment due February 28, 2018 was received March 1, 2018 and included in the current portion of the secured loan. 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 six months ended February 28, 2018, the Company's investment in the secured loan to Greypoint Capital Inc. generated finance income of \$144,068 (February 28, 2017 - \$nil) at an effective interest rate is 9.28% (note 8).

### 6. DISPOSAL OF ASSETS HELD FOR SALE

In September 2016 the Company sold assets related to its TPZ 3310 and 3500 Controller product lines. These products were level measurement gauges and alarm systems for the oilfield storage and control industry. Under the terms of the sale agreement of the Company received proceeds of \$450,294 prior to a holdback of \$23,940. The carrying value of assets sold included inventory of \$156,016 and property, plant and equipment of \$10,943. The sale of the assets resulted in a gain on disposal of \$307,275 for the year ended August 31, 2017 after an adjustment to the gain of \$310,963 recorded in the six months ended February 28, 2017. 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.

### 7. SHARE CAPITAL

#### a) Authorized

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

#### b) Issued

The Company has 28,536,132 issued common shares (August 31, 2017 – 28,536,132).

#### 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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2018 and 2017

(unaudited)

### 7. SHARE CAPITAL (cont'd)

#### c) Share-based compensation (cont'd)

At February 28, 2018, the Company has 505,000 (August 31, 2017 – 545,000) options outstanding, which expire on dates between January 2019 and February 2021. The continuity of the Company's outstanding and exercisable options is as follows:

	Six months ended February 28, 2018		Twelve months ended August 31, 2017	
	Number of options outstanding #	Weighted average exercise price \$	Number of options outstanding #	Weighted average exercise price \$
Outstanding, beginning of period	545,000	0.64	1,005,000	0.64
Exercised	-	-	(250,000)	0.38
Forfeited	(40,000)	0.70	(210,000)	0.83
<b>Outstanding, end of period</b>	<b>505,000</b>	<b>0.69</b>	<b>545,000</b>	<b>0.69</b>
<b>Exercisable, end of period</b>	<b>330,000</b>	<b>0.75</b>	<b>370,000</b>	<b>0.74</b>

The following table summarizes information about stock options outstanding and exercisable as at February 28, 2018.

Exercise price	Options outstanding	Average remaining life (in years)	Options vested	Options not vested
\$ 1.28	40,000	0.88	40,000	-
\$ 1.14	40,000	1.89	40,000	-
\$ 0.65	100,000	2.87	100,000	-
\$ 0.57	100,000	2.93	100,000	-
\$ 0.57	225,000	2.93	50,000	175,000
<b>Total, end of period</b>	<b>505,000</b>		<b>330,000</b>	<b>175,000</b>

During the six months ended February 28, 2018 and February 28, 2017 no options were granted, 40,000 stock options that had a weighted average exercise price of \$0.70 were forfeited.

Compensation expense is recognized evenly over the vesting period of the stock options. For the six months ended February 28, 2018, share based compensation and a corresponding credit to contributed surplus of \$8,385 was recorded (six months ended February 28, 2017 - \$19,049).



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2018 and 2017

(unaudited)

### 8. FINANCE INCOME

	Three months ended February 28		Six months ended February 28	
	2018	2017	2018	2017
	\$	\$	\$	\$
Interest from investment in secured loan	112,766	-	144,068	-
Interest from investments in guaranteed investment certificates	15,938	39,267	44,132	74,833
Dividend income	17,044	-	42,684	-
Other interest income	3,170	3,846	7,821	7,955
	<b>148,918</b>	<b>43,113</b>	<b>238,705</b>	<b>82,788</b>

### 9. NATURE OF EXPENSES

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

	Three months ended February 28		Six months ended February 28	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Employee salaries and benefits</b>				
Included in cost of sales	105,040	97,757	208,468	208,948
Included in total expenses	567,226	511,518	1,094,473	990,133
<b>Total employee salaries and benefits</b>	<b>672,266</b>	<b>609,275</b>	<b>1,302,941</b>	<b>1,199,081</b>
<b>Depreciation and amortization</b>				
Included in cost of sales	2,679	3,249	5,290	7,384
Included in total expenses	52,784	84,437	122,234	173,811
<b>Total depreciation and amortization</b>	<b>55,463</b>	<b>87,686</b>	<b>127,524</b>	<b>181,195</b>

### 10. LOSS PER SHARE

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

	Three months ended February 28		Six months ended February 28	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net loss (numerator for basic and diluted loss per share)	(47,848)	(326,923)	(233,941)	(308,129)
Weighted average number of shares outstanding – basic (denominator for basic loss per share)	28,536,132	28,375,688	28,536,132	28,330,662
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	28,375,688	28,536,132	28,330,662
Basic loss per share	0.00	(0.01)	(0.01)	(0.01)
Effect of dilutive securities	-	-	-	-
Diluted loss per share	0.00	(0.01)	(0.01)	(0.01)

For the three and six months ended February 28, 2018 there were 505,000 antidilutive options (2017 – 755,000). 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.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2018 and 2017

(unaudited)

### 11. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	Three months ended February 28		Six months ended February 28	
	2018	2017	2018	2017
	\$	\$	\$	\$
Accounts receivable	(111,428)	(55,823)	32,911	(145,748)
Inventories	(159,961)	162,386	(224,579)	538,490
Prepaid expenses	24,811	38,855	37,988	78,231
Income tax recoverable	-	48,182	-	48,182
Accounts payable and accrued liabilities	66,399	(82,887)	74,044	(120,942)
	(180,179)	110,713	(79,636)	398,213

### 12. RELATED PARTY TRANSACTION

#### Key Management Personnel Compensation

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

	Three months ended February 28		Six months ended February 28	
	2018	2017	2018	2017
	\$	\$	\$	\$
Salaries and short-term employee benefits	178,973	155,696	337,155	303,427
Share-based compensation	3,354	12,033	8,385	19,049
	182,327	167,729	345,540	322,476

During the six months ended February 28, 2018 and 2017, there were no long-term employee benefits, post-employment benefits or termination benefits recognized. Short-term employee benefits consist of salaries, bonuses, director fees, and all other short-term benefits.

### 13. CAPITAL MANAGEMENT

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

As at	February 28, 2018	August 31, 2017
	\$	\$
Finance lease obligations	22,575	26,504
Share capital	5,730,279	5,730,279
Contributed surplus	726,458	718,073
Retained earnings	9,492,568	9,726,509
	15,971,880	16,201,365



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2018 and 2017

(unaudited)

### 14. 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, 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.

### 15. FINANCIAL RISK MANAGEMENT

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

#### a) Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, accounts receivable and loans receivable. The Company's cash on deposit and short-term investments are held with reputable financial institutions, from which management believes the risk of loss is low. The Company's maximum exposure to credit risk is as indicated by the carrying amount of its cash, cash equivalents, 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 February 28, 2018 of \$547,032 (August 31, 2017 - \$579,943). The Company's allowance for doubtful accounts as at February 28, 2018 amounted to \$17,908 (August 31, 2017 - \$17,908). As at February 28, 2018, the percentages of past due trade accounts receivable were as follows: 3% past due 61 to 90 days (August 31, 2017– 1%) and 7% past due greater than 90 days (August 31, 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 February 28, 2018 of \$4,830,027. 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 February 28, 2018 the Borrower is in compliance with all terms of the loan agreement.

#### b) Equity price risk

The cost of equity investments which are subject to equity price risk at February 28, 2018 was \$nil as the Company liquidated its equity investments (August 31, 2017 - \$nil). The Company is 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 are 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.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2018 and 2017

(unaudited)

### 15. FINANCIAL RISK MANAGEMENT (cont'd)

#### 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.

#### 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 February 28, 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 \$13,566 (six months ended February 28, 2017 - \$15,017) 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 February 28, 2018, the Company held net financial assets of US\$613,263 (February 28, 2017 - US\$1,297,984) 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 \$39,276 (six months ended February 28, 2017 - \$86,193).

### 16. SEGMENTED REPORTING

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

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

Revenues	Three months ended February 28		Six months ended February 28	
	2018	2017	2018	2017
	\$	\$	\$	\$
Canada	489,233	383,974	940,139	751,806
United States and other	448,627	488,171	879,861	943,998
	<b>937,860</b>	<b>872,145</b>	<b>1,820,000</b>	<b>1,695,804</b>

For the six months ended February 28, 2018 and 2017, no revenue from a single customer of the Company exceeded 10% of total revenue in the period.

At February 28, 2018, non-current assets held in Canada were \$6,196,100 (August 31, 2017 - \$1,528,659) and in the United States were \$1,633 (August 31, 2017 - \$9,273).

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**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

**Greg McGillis, P.Eng., EE**  
Chief Technology Officer

**Angela Schultz, CPA, CMA**  
Chief Financial Officer

**Auditors:**

Grant Thornton LLP

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