

# Interim Consolidated Financial Statements Q2 Fiscal 2019



**titan logix corp.**

February 28, 2019



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

These interim consolidated financial statements and related notes for the period ended February 28, 2019 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 consolidated financial statements.



**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
*(unaudited)*

	February 28, 2019 \$	August 31, 2018 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	6,739,199	6,270,878
Short term investments (note 5)	2,018,049	2,000,000
Accounts receivable	896,555	851,651
Inventories	896,694	1,037,822
Prepaid expenses	43,466	99,896
Income tax recoverable	32,271	32,271
Current portion of investment in secured loan (note 5)	384,654	384,494
<b>Total current assets</b>	<b>11,010,888</b>	<b>10,677,012</b>
<b>Non-current assets</b>		
Property, plant and equipment	210,422	235,819
Intangible assets	1,470,603	1,617,970
Investment in secured loan (note 5)	3,979,920	4,220,161
<b>Total assets</b>	<b>16,671,833</b>	<b>16,750,962</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	388,913	585,243
Current portion of finance lease obligations	22,574	26,504
<b>Total current liabilities</b>	<b>411,487</b>	<b>611,747</b>
<b>Total liabilities</b>	<b>411,487</b>	<b>611,747</b>
<b>Equity</b>		
Share capital (note 6)	5,730,279	5,730,279
Contributed surplus	686,208	686,208
Retained earnings	9,843,859	9,722,728
<b>Total equity</b>	<b>16,260,346</b>	<b>16,139,215</b>
<b>Total liabilities and equity</b>	<b>16,671,833</b>	<b>16,750,962</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	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Revenue</b>	<b>1,404,828</b>	937,860	<b>2,880,389</b>	1,820,000
<b>Cost of sales</b>	<b>644,749</b>	408,972	<b>1,348,043</b>	880,177
<b>Gross profit</b>	<b>760,079</b>	528,888	<b>1,532,346</b>	939,823
<b>Expenses</b>				
General and administration	329,517	376,788	888,818	712,029
Marketing and sales	155,045	222,501	367,511	474,498
Engineering	166,470	25,047	309,098	65,392
Depreciation of property, plant and equipment	10,628	15,802	21,232	32,254
Amortization of intangible assets	73,683	36,982	147,367	89,980
Loss (gain) on foreign exchange	20,803	6,955	222	(27,656)
<b>Total expenses</b>	<b>756,146</b>	684,075	<b>1,734,248</b>	1,346,497
Operating earnings (loss) before other items	3,933	(155,187)	(201,902)	(406,674)
<b>Other items</b>				
Gain on disposal of property, plant and equipment	-	16,165	-	16,165
Loss on sale of marketable securities (note 5)	-	(57,744)	-	(82,137)
Finance income (note 7)	163,330	148,918	323,033	238,705
<b>Total other items</b>	<b>163,330</b>	107,339	<b>323,033</b>	172,733
<b>Earnings (loss) before income taxes</b>	<b>167,263</b>	(47,848)	<b>121,131</b>	(233,941)
<b>Income tax</b>	-	-	-	-
<b>Net earnings (loss) and comprehensive earnings (loss)</b>	<b>167,263</b>	(47,848)	<b>121,131</b>	(233,941)
<b>Earnings (loss) per share (note 9)</b>				
Basic	0.01	0.00	0.00	(0.01)
Diluted	0.01	0.00	0.00	(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, 2018	28,536,132	5,730,279	686,208	9,722,728	16,139,215
Net earnings	-	-	-	121,131	121,131
<b>Balance, February 28, 2019</b>	<b>28,536,132</b>	<b>5,730,279</b>	<b>686,208</b>	<b>9,843,859</b>	<b>16,260,346</b>

	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>

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	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss)	167,263	(47,848)	121,131	(233,941)
Adjustments for:				
Non-cash items included in net income (loss)				
Depreciation of property, plant and equipment	13,884	18,481	27,747	37,544
Amortization of intangible assets	73,683	36,982	147,367	89,980
Share-based compensation	-	3,354	-	8,385
Loss on sale of marketable securities (note 5)	-	57,744	-	82,137
(Gain) on disposal of property, plant and equipment	-	(16,165)	-	(16,165)
Finance income	(163,330)	(148,918)	(323,033)	(238,705)
Changes in non-cash working capital (note 10)	266,251	(180,179)	(43,676)	(79,636)
<b>Net cash provided by (used in) operating activities</b>	<b>357,751</b>	<b>(276,549)</b>	<b>(70,464)</b>	<b>(350,401)</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)	50,000	-	50,000	(4,925,000)
Payments received on investment in secured note (note 5)	100,000	62,736	200,000	94,972
Finance income	157,314	148,918	313,114	238,705
Purchase of short term investments	(18,049)	-	(18,049)	-
Purchase of property, plant and equipment	-	(5,148)	(2,350)	(8,218)
Proceeds from disposal of property, plant and equipment	-	50	-	50
Product development costs capitalized	-	(171,295)	-	(333,829)
<b>Net cash provided by (used in) investing activities</b>	<b>289,265</b>	<b>1,959,961</b>	<b>542,715</b>	<b>(5,015,457)</b>
<b>Financing activities</b>				
Payment of finance lease obligation	(1,984)	(6,746)	(3,930)	(10,590)
<b>Net cash (used in) provided by financing activities</b>	<b>(1,984)</b>	<b>(6,746)</b>	<b>(3,930)</b>	<b>(10,590)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>645,032</b>	<b>1,676,666</b>	<b>468,321</b>	<b>(5,376,448)</b>
Cash and cash equivalents, beginning of period	6,094,167	6,474,713	6,270,878	13,527,827
<b>Cash and cash equivalents, end of period</b>	<b>6,739,199</b>	<b>8,151,379</b>	<b>6,739,199</b>	<b>8,151,379</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, 2019 and 2018

(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 #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 condensed consolidated interim financial statements for the three months and six months ended February 28, 2019 and February 28, 2018 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 interim consolidated financial statements of the Company for the six months ended February 28, 2019 were authorized for issue in accordance with a resolution of the directors on April 16, 2019.

#### 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 consolidated 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, 2018.

#### Changes in accounting policies

##### IFRS 9 - Financial Instruments

The Company adopted IFRS 9 retrospectively on September 1, 2018. The adoption of this standard did not have a significant impact to the interim condensed consolidated financial statements. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2019 and 2018

(unaudited)

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

#### Changes in accounting polices (cont'd)

IFRS 9 has eliminated the previous IAS 39 categories for held to maturity, loans and receivables and available for sale financial assets. A financial asset is now classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPTL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the new standard are never separated. Instead the hybrid financial instrument as a whole is assessed for classification. The Company's financial assets which consist of cash and cash equivalents, short term investments, accounts receivable, and investment in secured loan are classified at amortized cost and are measured at amortized cost using the effective interest method, less any impairment.

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. The Company's trade and other receivables and its investment in secured loan are subject to the expected credit loss model under IFRS 9. The Company applies the simplified approach to providing for expected credit losses. The adoption of the expected credit loss impairment model did not have a significant impact on the carrying amounts of the Company's financial assets on the transition date.

#### IFRS 15 - Revenue from Contracts with Customers

The Company adopted 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. IFRS 15 replaced 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.

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 had no material impact on the timing or the amount of sales revenue or warranty provisions recognized. The adoption of this standard did not have a material impact on the Company's financial statements, and as such did not result in any adjustment in the amounts previously recognized in the consolidated financial statements.

#### New standards and interpretations not yet adopted

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

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.





## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2019 and 2018

(unaudited)

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

As at	February 28, 2019	August 31, 2018
	\$	\$
Cash on hand and balances with banks	1,486,605	1,065,642
Guaranteed investment certificates	5,252,594	5,205,236
	<b>6,739,199</b>	<b>6,270,878</b>

### 5. INVESTMENTS

#### Short term investments

As at	
<b>August 31, 2018</b>	<b>\$ 2,000,000</b>
Addition to short term investments	18,049
<b>February 28, 2019</b>	<b>\$ 2,018,049</b>

Short term investments consist of guaranteed investment certificates (GICs) not cashable on demand, or with original maturities greater than three months. During the six months ended February 28, 2019, the Company's investments in GICs, including its GICs classified as short term investments, generated finance income of \$88,840 (February 28, 2018 - \$44,132) (note 7).

#### Investment in secured loan

As at	
<b>August 31, 2018</b>	<b>\$ 4,604,655</b>
Amendment Fee	(50,000)
Principal repayments	(200,000)
Amortization of commitment fee and amendment fee	9,919
<b>February 28, 2019</b>	<b>\$ 4,364,574</b>

As at	February 28, 2019	August 31, 2018
	\$	\$
Current portion of investment in secured loan	384,654	384,494
Long-term portion of investment in secured loan	3,979,920	4,220,161
	<b>4,364,574</b>	<b>4,604,655</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. 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 finance income.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2019 and 2018

(unaudited)

### 5. INVESTMENTS (cont'd)

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

In December 2018 the credit agreement with the Borrower was amended for temporary covenant amendments, subject to an amendment fee. The \$50,000 amendment fee is amortized over the remaining term of the loan and included in finance income.

During the six months ended February 28, 2019, the Company's investment in the secured loan to Greypoint Capital Inc. generated finance income of \$227,200 (February 28, 2018 - \$144,068) at an effective interest rate is 9.28% (note 7).

#### Investments in marketable securities

During the six months ended February 28, 2018 the Company invested in marketable securities at a cost of \$2,006,837 that generated dividend income of \$42,684 during that period (note 7). The investments in marketable securities were sold during the six months ended February 28, 2018 and a loss on sale of the marketable securities of \$82,137 was recognized in profit and loss.

### 6. 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, 2018 – 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, 2018 – 3,000,000) common shares are reserved for issue under this plan. The number of options and exercise price is set by the Board of Directors of the Company at the time of issue, provided that the exercise price shall not be less than the market price of the common shares on the stock exchange on which such shares are traded. The options issued vest in accordance with vesting schedules determined at the time of grant and may be exercised for a period not longer than five years from the time of issue.

At February 28, 2019, the Company has 120,000 (August 31, 2018 – 180,000) options outstanding, which expire on dates between January 2020 and January 2021. The continuity of the Company's outstanding and exercisable options is as follows:

	Six months ended February 28, 2019		Twelve months ended August 31, 2018	
	Number of options outstanding #	Weighted average exercise price \$	Number of options outstanding #	Weighted average exercise price \$
Outstanding, beginning of period	180,000	0.90	545,000	0.69
Forfeited	(60,000)	1.23	(365,000)	0.58
<b>Outstanding, end of period</b>	<b>120,000</b>	<b>0.73</b>	<b>180,000</b>	<b>0.90</b>
<b>Exercisable, end of period</b>	<b>120,000</b>	<b>0.73</b>	<b>180,000</b>	<b>0.90</b>



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2019 and 2018

(unaudited)

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

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

The following table summarizes information about stock options outstanding and exercisable as at February 28, 2019.

Exercise price	Options outstanding	Average remaining life (in years)	Options vested	Options not vested
\$ 1.14	20,000	0.89	20,000	-
\$ 0.65	100,000	1.87	100,000	-
<b>Total, end of period</b>	<b>120,000</b>		<b>120,000</b>	<b>-</b>

During the six months ended February 28, 2019 and February 28, 2018 no options were granted, 60,000 stock options that had a weighted average exercise price of \$1.23 were forfeited.

### 7. FINANCE INCOME

	Three months ended February 28		Six months ended February 28	
	2019	2018	2019	2018
	\$	\$	\$	\$
Interest from investment in secured loan	114,458	112,766	227,200	144,068
Interest from investments in guaranteed investment certificates	45,358	15,938	88,840	44,132
Dividend income	-	17,044	-	42,684
Other interest income	3,514	3,170	6,993	7,821
	<b>163,330</b>	<b>148,918</b>	<b>323,033</b>	<b>238,705</b>

### 8. NATURE OF EXPENSES

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

	Three months ended February 28		Six months ended February 28	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Employee salaries and benefits</b>				
Included in cost of sales	141,527	105,040	281,472	208,468
Included in total expenses	457,860	567,226	1,162,674	1,094,473
<b>Total employee salaries and benefits</b>	<b>599,387</b>	<b>672,266</b>	<b>1,444,146</b>	<b>1,302,941</b>
<b>Depreciation and amortization</b>				
Included in cost of sales	3,256	2,679	6,515	5,290
Included in total expenses	84,311	52,784	168,599	122,234
<b>Total depreciation and amortization</b>	<b>87,567</b>	<b>55,463</b>	<b>175,114</b>	<b>127,524</b>



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2019 and 2018

(unaudited)

### 9. EARNINGS (LOSS) PER SHARE

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

	Three months ended February 28		Six months ended February 28	
	2019	2018	2019	2018
	\$	\$	\$	\$
Net earnings (loss) (numerator for basic and diluted earnings (loss) per share)	167,263	(47,848)	121,131	(233,941)
Weighted average number of shares outstanding – basic (denominator for basic earnings (loss) per share)	28,536,132	28,536,132	28,536,132	28,536,132
Effect of dilutive securities				
Stock options converted to common shares	-	-	-	-
Weighted average number of shares outstanding – diluted (denominator for diluted earnings (loss) per share)	28,536,132	28,536,132	28,536,132	28,536,132
Basic earnings (loss) per share	0.01	0.00	0.00	(0.01)
Effect of dilutive securities	-	-	-	-
Diluted earnings (loss) per share	0.01	0.00	0.00	(0.01)

For the six months ended February 28, 2019 there were 120,000 antidilutive options (2018 – 505,000). 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.

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

	Three months ended February 28		Six months ended February 28	
	2019	2018	2019	2018
	\$	\$	\$	\$
Accounts receivable	67,415	(111,428)	(44,904)	32,911
Inventories	189,349	(159,961)	141,128	(224,579)
Prepaid expenses	26,351	24,811	56,430	37,988
Accounts payable and accrued liabilities	(16,864)	66,399	(196,330)	74,044
	266,251	(180,179)	(43,676)	(79,636)

### 11. 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	
	2019	2018	2019	2018
	\$	\$	\$	\$
Salaries and short-term employee benefits	122,552	178,973	247,535	337,155
Termination benefits	-	-	242,390	-
Share-based compensation	-	3,354	-	8,385
	122,552	182,327	489,925	345,540

During the six months ended February 28, 2019 and 2018, there were no long-term employee benefits or post-employment benefits recognized. Short-term employee benefits consist of salaries, bonuses, director fees, and all other short-term benefits.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2019 and 2018

(unaudited)

### 12. 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	February 28, 2019	August 31, 2018
	\$	\$
Share capital	5,730,279	5,730,279
Contributed surplus	686,208	686,208
Retained earnings	9,843,859	9,722,728
	<b>16,260,346</b>	<b>16,139,215</b>

### 13. FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT

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

### 14. FINANCIAL RISK MANAGEMENT

The Company is exposed to a number of risks as a result of holding financial instruments including 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.

#### 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 February 28, 2019 of \$908,439 (August 31, 2018 - \$863,535). The Company's allowance for doubtful accounts as at February 28, 2019 amounted to \$11,884 (August 31, 2018 - \$11,884). As at February 28, 2019, the percentages of past due trade accounts receivable were as follows: 2% past due 61 to 90 days (August 31, 2018– 5%) and 9% past due greater than 90 days (August 31, 2018 – 10%) 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, 2019 of \$4,467,667 (August 31, 2018 - \$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 February 28, 2019, 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.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 28, 2019 and 2018

(unaudited)

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

#### b) Liquidity risk

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

#### c) Market risk

##### Interest rate risk

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

At February 28, 2019, based on management's interest rate risk sensitivity analysis, a one-half percent change in market interest rates would have had an impact of approximately \$14,780 (six months ended February 28, 2018 - \$13,566) 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, 2019, the Company held net financial assets of US\$1,005,257 (February 28, 2018 - US\$613,263) 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 loss by approximately \$66,191 (six months ended February 28, 2018 - \$39,276).

### 15. SEGMENTED REPORTING

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

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

Revenues	Three months ended February 28		Six months ended February 28	
	2019	2018	2019	2018
	\$	\$	\$	\$
Canada	469,592	489,233	1,038,584	942,580
United States and other	935,236	448,627	1,841,805	877,420
	1,404,828	937,860	2,880,389	1,820,000

For the six months ended February 28, 2019 revenue from a single customer made up 13% of total revenue in the period and for the six months ended February 28, 2018, no revenue from a single customer of the Company exceeded 10% of total revenue in the period.

At February 28, 2019, non-current assets held in Canada were \$5,655,554 (August 31, 2018 - \$6,067,960) and in the United States were \$5,391 (August 31, 2018 - \$5,990).

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Phone: (877) 462-4085

**Exchange Listing:**

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

**Investor Information:**

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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

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