Auditors' Report

To the Shareholders of
Titanium Corporation Inc.

We have audited the balance sheets of **Titanium Corporation Inc.** as at August 31, 2004 and 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at August 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Toronto, Canada
October 22, 2004

Grant Thornton LLP
Chartered Accountants

Titanium Corporation Inc.
Balance Sheets

August 31	2004	2003
Assets		
Current		
Cash and cash equivalents	**$ 955,316**	$ 2,314,069
Marketable securities		
(Market value, $1,549,635; 2003 - $1,013,378)	**1,549,635**	1,011,782
Commodity taxes receivable	**395,201**	25,609
Prepaids	**44,761**	35,937
	2,944,913	3,387,397
Exploration property (Note 3)	**4,902,784**	4,433,376
Oil sands project development costs (Note 4)	**6,718,901**	382,313
Nova Scotia pilot plant and exploration equipment (Note 5)	**117,388**	146,733
Office equipment and leasehold improvements (Note 6)	**106,244**	68,541
	$ 14,790,230	$ 8,418,360
Liabilities		
Current		
Payables and accruals	**$ 681,299**	$ 51,740
Shareholders' equity		
Capital stock (Note 7)	**17,538,422**	11,715,069
Warrants (Notes 7 and 8)	**1,263,239**	-
Contributed surplus (Note 10)	**1,065,289**	241,524
Deficit	**(5,758,019)**	(3,589,973)
	14,108,931	8,366,620
	$ 14,790,230	$ 8,418,360

Commitments (Note 13)

On Behalf of the Board

George D. Elliott Director

John D. Ryall Director

See accompanying notes to the financial statements.

Titanium Corporation Inc.

Statements of Operations and Deficit

For the Years Ended August 31

		2004		2003
Expenses				
Consulting	**$**	**611,392**	$	328,026
Office and administration		**488,601**		404,636
Depreciation of office equipment and leasehold improvements		**21,483**		13,182
Directors' fees		**141,500**		-
Insurance		**94,516**		51,839
Investor relations		**414,768**		28,360
Professional fees		**301,840**		222,550
Shareholders' communication and filing fees		**38,633**		34,951
Travel and promotion		**114,714**		140,492
Writedown of marketable securities		**25,625**		4,215
		2,253,072		1,228,251
Interest income		**(85,026)**		(55,713)
Net loss	**$**	**2,168,046**	$	1,172,538
Basic and diluted loss per share (Note 11)	**$**	**0.06**	$	0.03
Deficit at beginning of year	**$**	**3,589,973**	$	2,417,435
Net loss		**2,168,046**		1,172,538
Deficit at end of year	**$**	**5,758,019**	$	3,589,973

See accompanying notes to the financial statements

Titanium Corporation Inc.

Statements of Cash Flows

Years Ended August 31	**2004**	2003
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net loss	**$ (2,168,046)**	$ (1,172,538)
Write down of marketable securities	**25,625**	4,215
Options granted to consultants (Note 9)	**330,608**	167,000
Depreciation of office equipment	**21,483**	13,182
	(1,790,330)	(988,141)
Decrease (increase) in prepaids	**(8,824)**	10,800
Decrease (increase) in commodity taxes receivables	**(91,534)**	80,984
Increase (decrease) in payables and accruals	**168,197**	(52,466)
	(1,722,491)	(948,823)
Financing activities		
Common shares issued for cash	**7,339,049**	2,730,834
Investing activities		
Marketable securities	**(563,478)**	(1,015,997)
Exploration expenditures excluding depreciation of pilot plant and equipment	**(440,063)**	(1,003,090)
Oil sands project development costs, net of payables, accruals and commodity tax receivable of $183,304	**(5,912,584)**	(382,313)
Office equipment and leaseholds	**(59,186)**	(31,608)
	(6,975,311)	(2,433,008)
Net decrease in cash and cash equivalents	**(1,358,753)**	(650,997)
Cash and cash equivalents at beginning of year	**2,314,069**	2,965,066
Cash and cash equivalents at end of year	**$ 955,316**	$ 2,314,069

Cash and cash equivalents at end of year consists of:		
Cash	**$ 392,281**	$ 685,859
Term deposits with weighted average interest rate of 1.72% (2003: 1.71%)	**563,035**	1,628,210
	$ 955,316	$ 2,314,069

See accompanying notes to the financial statements

1. Nature of operations and basis of presentation

Titanium Corporation Inc. (the "Company") is a publicly held company engaged in the acquisition, exploration and development of resource properties and technologies applicable to the recovery of minerals. The Company is amalgamated under the Ontario Business Corporations Act and its shares are traded on the TSX Venture Exchange.

The Company has conducted a preliminary independent technical valuation of its Nova Scotia Titanium Mineral Sands Project, the results of which indicate that the mining of the deposit is possible under specified economic conditions generally accepted by the mining industry.

The recoverability of the carrying values of this property is dependent upon the feasibility of the project, the preservation of the Company's interest in the underlying mineral claims, and the future profitable production therefrom or alternatively upon the Company's ability to dispose of its interest on an advantageous basis. Changes in future conditions could require a material write down of the carrying value.

In June 2003, the Company entered into a three-way two year exclusivity agreement with Syncrude Canada Ltd. ("Syncrude") and a major titanium dioxide pigment producer to develop the commercial feasibility of extracting and producing titanium bearing minerals and zircon as by-products of bitumen extraction from oil sands produced by Syncrude's centrifuge plant.

The Company is in the exploration and development stage and has not commenced operations. It is therefore dependent upon its ability to continue obtaining financing necessary to complete the development of its projects.

2. Summary of significant accounting policies.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less.

Marketable securities

Marketable securities are valued at the lower of cost and market value.

Exploration property

All direct costs associated with exploration property are capitalized as incurred. If the property proceeds to development, these costs become part of preproduction and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off.

2. Summary of significant accounting policies (continued)

Exploration property (continued)

The amounts capitalized at any time represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties.

Oil sands project development costs

All direct costs which meet the generally accepted criteria for deferral related to the oil sands project are capitalized as incurred.

Pilot plant, exploration equipment and related depreciation

The pilot plant and exploration equipment are recorded at cost. Depreciation is recorded on the declining balance basis at an annual rate of 20% and is charged to exploration properties.

Office equipment, leasehold improvements and related depreciation

Office equipment is recorded at cost. Depreciation is recorded on the declining balance basis at an annual rate of 20%.

Leasehold improvements are recorded at cost. Depreciation is recorded on the straight line basis at an annual rate of 20%.

Significant accounting change - stock - based compensation

The company has adopted the recognition of stock compensation expense for option awards to employees in the financial statements based on the estimated fair value at the grant date for options granted after September 1, 2003. The Company, as permitted by CICA Handbook Section 3870, has adopted this section prospectively. In fiscal 2003, the Company elected to disclose pro-forma net loss and net loss per share data for stock-based compensation.

The Company had previously adopted provisions of Section 3870 relating to stock-based compensation to non-employees.

Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

2. Summary of significant accounting policies (continued)

Loss per common share (LPS)

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. The effect of potential issuances of shares under options and warrants would be anti-dilutive, and accordingly basic and diluted LPS are the same.

3. Exploration properties	**2004**	**2003**
Nova Scotia Titanium Mineral Sands Project	**$ 4,902,784**	$ 4,433,376

Nova Scotia Titanium Mineral Sands Project

The Nova Scotia Titanium Mineral Sands Project is located in western Nova Scotia near the community of Truro (7.5 Km to the east of the property) along the Hants/Colchester county line starting 2 kilometres south of Admiral Rock and follows the Shubenacadie River northward to the eastern reaches of Cobequid Bay. Exploration activity has been focused on a group of 629 contiguous claims under exploration licenses. In addition to drilling, the Company has completed extensive testing of the mineral content of the sand from this area.

4. Oil sands project development cost

In August 2003, the Company began incurring costs related to the oil sands project development. These include expenditures pertaining to the exclusivity agreement, equipment costs and other costs related to the procuring of land and building and the development of the pilot plant project in the Province of Saskatchewan.

Costs incurred relating to the oil sands project development are as follows:

	2004	2003
Acquisition and development costs	**$ 3,077,199**	$ 273,000
Building and equipment construction costs	**3,641,702**	109,313
	$ 6,718,901	$ 382,313

5. Nova Scotia pilot plant and exploration equipment	**2004**	2003
Cost		
Pilot plant	**$ 179,406**	$ 179,406
Exploration equipment	**41,013**	41,013
	$ 220,419	$ 220,419

5. Nova Scotia pilot plant and exploration equipment (continued)

	2004	2003
Accumulated depreciation		
Pilot plant	**$ 76,066**	$ 50,233
Exploration equipment	**26,965**	23,453
	103,031	73,686
Net carrying value		
Pilot plant	**103,340**	129,173
Exploration equipment	**14,048**	17,560
	$ 117,388	$ 146,733

In late February 2002, the Company constructed a lab scale testing plant at Dalhousie University in Halifax which it is operating in a partnering effort with the Mineral Engineering Centre of Dalhousie University. The plant has been established to conduct metallurgical testing of heavy mineral concentrates obtained from mineral and oil sands in order to better assess the economic feasibility of producing titanium dioxide feedstock from such sources.

6. Office equipment and leasehold improvements

	2004	2003
Cost		
Office equipment	**$ 105,242**	$ 46,054
Leasehold improvements	**46,573**	46,573
	151,815	92,627
Accumulated depreciation		
Office equipment	**26,834**	14,628
Leasehold improvements	**18,737**	9,458
	45,571	24,086
Net carrying value		
Office equipment	**78,408**	31,426
Leasehold improvements	**27,836**	37,115
	$ 106,244	$ 68,541

7. Capital Stock

The Company is authorized to issue an unlimited number of common shares.

Common shares	Number of Shares	Amount
Balance, August 31, 2002	34,873,480	$ 8,947,999
Shares issued on the exercise of warrants	833,333	1,833,334
Shares issued on exercise of options	200,000	397,500
Shares issued on the exercise of Agents' options	266,667	500,000
Reallocation from contributed surplus relating to the exercise of stock options by consultants	-	36,236
Balance, August 31, 2003	36,173,480	11,715,069
Shares issued on the exercise of warrants	20,000	40,000
Common shares issued, net of issue costs	4,710,000	7,046,592
Warrant valuation	-	(1,263,239)
Balance, August 31, 2004	40,903,480	$ 17,538,422

7. Capital Stock (continued)

In May 2003, the Company issued 166,667 common shares for cash proceeds of $300,000. These shares were issued upon the exercise of broker's options relating to a private placement which occurred on November 29, 2001.

In 2003, 833,333 common share purchase warrants were exercised and the Company issued 833,333 common shares for cash proceeds of $1,833,334. These common share purchase warrants were granted under the November 29, 2001 private placement which was qualified by a prospectus in April 29,2002.

On March 22, 2002, the Company completed a private placement of 1,500,000 special warrants at a price of $2.00 each for gross proceeds of $3 million. Each special warrant was exercisable for no additional consideration into one common share of the Company until the earlier of: (a) the fifth business day following the date on which a receipt was issued for a prospectus by the securities regulatory authorities in the Province of Ontario, to qualify these common shares as freely tradable; and (b) March 22, 2003. The agent for this transaction was paid commissions of $150,000 and was issued a broker's option to acquire broker's warrants to purchase 120,000 common shares of the Company at a price of $2.00 per common share until September 22, 2003. In August 2003, this option was partially exercised and the Company issued 100,000 common shares for cash proceeds of $200,000. The remaining broker's warrants to purchase 20,000 common shares of the Company were exercised on September 21, 2003 for gross proceeds of $40,000.

On February 17, 2004, the Company completed a private placement financing of 4,710,000 units at a price of $1.70 per unit for gross proceeds of $8,007,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $2.00 per share until August 17, 2005. The offering was co-led by First Associates Investments Inc. and Dundee Securities Corp. (the "Agents"). Acadian Securities Inc. and Hampton Securities Ltd. acted as sub-agents on the offering. The Agents received a commission of 7% of the gross proceeds raised together with non-transferable Agents' options to purchase 376,800 units at a price of $1.70 per unit until February 17, 2005. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the Agents to purchase one common share for $2.00 until August 17, 2005.

The fair value of the warrants and Agents' options have been estimated using the Black-Scholes pricing option model. The assumptions used for the valuation of the warrants and Agents' options were:

(i) Warrants issued on private placement
Dividend yield 0%, expected volatility 100%, risk - free interest rate 4.0% and an expected life of 18 months. Value assigned to 2,355,000 warrants is $1,263,239, net of issue costs of $152,042

(ii) Agents' options
Dividend yield 0%, expected volatility 100%, risk - free interest rate 4.0% and an expected life of 12 months. Value assigned to 376,800 options is $252,457.

Common share issue costs relating to the private placement were $960,408 of which $252,457 was the non-cash value attributed to the 376,800 Agents' options. The share issue costs were allocated between common shares and warrants on a pro-rata basis.

8. Common share purchase warrants and Agents' options

The following table reflects the continuity of warrants and Agents' options:

Expiry Date	Exercise Price	2002 Opening Balance	Issued	Exercised	Expired	2003 Closing Balance
December 2002	$2.50	69,197	-	-	(69,197)	-
January 2003	$2.50	438,102	-	-	(438,102)	-
May 2003	$2.20	833,333	-	(833,333)	-	-
May 2003	$1.80	166,667	-	(166,667)	-	-
September 2003	$2.00	120,000	-	(100,000)	-	20,000
		1,627,299	-	(1,100,000)	(507,299)	20,000

Expiry Date	Exercise Price	2003 Opening Balance	Issued	Exercised	Expired	2004 Closing Balance
September 2003	$2.00	20,000	-	(20,000)	-	-
February 2005	$1.70	-	376,800	-	-	376,800
August 2005	$2.00	-	2,355,000	-	-	2,355,000
		20,000	2,731,800	(20,000)	-	2,731,800

9. Common share purchase plan

The Company has a stock option plan (the "Plan") which is restricted to directors, officers, key employees and consultants of the Company. The number of common shares subject to options granted under the Plan (and under all other management options and employee stock purchase plans) is limited to 4,000,000 common shares in the aggregate, and with respect to any one optionee, to 5% of the number of issued and outstanding common shares of the Company at the date of the grant of the option. Options issued under the Plan may be exercised during a period determined by the board of directors which cannot exceed five years.

Effective February 26, 2003, all options granted subsequently under the Plan will vest and become exercisable by the holder over a period of 18 months, with 1/6 of the options being granted vesting at the end of each 3 month period following the grant.

9. Common share purchase plan (continued)

The following table reflects the continuity of stock options granted under the Plan.

	NUMBER OF STOCK OPTIONS		WEIGHTED AVERAGE EXERCISE PRICE	
	2004	2003	**2004**	2003
			$	
Opening Balance	**2,713,075**	2,218,075	**2.20**	2.14
Options granted	**1,095,000**	820,000	**1.97**	2.27
Options cancelled/expired	**(530,000)**	(125,000)	**2.22**	2.00
Options exercised	**-**	(200,000)	-	1.99
Ending Balance	**3,278,075**	2,713,075	**2.15**	2.20

The following table reflects the stock options outstanding as at August 31, 2004:

Expiry Date	Exercise Price ($)	Options Outstanding
April 2005	2.07	280,000
November 2005	2.20	25,000
July 2006	2.20	590,000
February 2007	2.33	375,000
April 2007	2.00	243,075
June 2007	1.95	50,000
November 2007	2.18	110,000
January 2008	2.20	600,000
March 2008	2.45	10,000
August 2008	2.67	25,000
January 2009	1.97	500,000
February 2009	1.98	200,000
March 2009	2.06	100,000
April 2009	2.02	60,000
May 2009	1.87	60,000
July 2009	1.85	50,000
		3,278,075

During the year ended August 31, 2004, 1,095,000 stock options were granted to directors, officers and consultants of the Company. These options will be expensed in the statement of operations and deficit or capitalized to oil sands project development costs as they vest. Of the 1,095,000 options granted, 382,500 have vested and accordingly, $571,308 was recorded as contributed surplus. Of the $571,308 recorded as contributed surplus, $330,608 was recorded as stock-based compensation and $240,700 was capitalized to oil sands project development costs.

The following is the Company's pro-forma loss applying fair value method to 720,000 options granted to employees in fiscal 2003:

	Loss	Loss per share
As reported	$1,172,538	$0.03
Pro forma	$2,203,590	$0.06

9. Common share purchase plan (continued)

In fiscal 2003 the Company applied the fair value methods of accounting for stock-based awards to non-employees and accordingly, $167,000 was recorded as consulting expense and contributed surplus relating to 100,000 options granted to non-employees during the year.

The fair value of all options granted in fiscal 2004 and 2003 has been estimated at the date of grant using a Black-Scholes option pricing model. The current year's valuation was calculated with the following assumptions: weighted average risk free interest rate of 4% (2003 - 4.5%); volatility factor of the expected market price of the Company's common stock of 100% (2003 - 100%); and a weighted average expected life of the options of 5 years (2003 - 5 years).

10. Contributed surplus

The following table reflects the continuity of contributed surplus relating to stock options:

	Amount
Balance, August 31, 2002	$ 110,760
Stock option compensation expense	167,000
Options exercised	(36,236)
Balance, August 31, 2003	241,524
Stock option compensation expense	330,608
Stock option compensation charged to oil sands development project	240,700
Agents' options	252,457
Balance, August 31, 2004	$ 1,065,289

11. Loss per common share

The basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is the same as basic loss per share. The effect of common share purchase options, warrants and Agents' options on the net loss is not reflected as to do so would be anti-dilutive.

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

	2004	2003
Numerator:		
Net loss	**$ 2,168,046**	$ 1,172,538
Denominator:		
Weighted average number of common shares	**38,708,631**	35,180,672

12. Related party transactions

The Company was charged $250,000 in fiscal 2004 and $493,613 in fiscal 2003 for consulting and other services by directors and/or officers and/or corporations controlled by them. Of these amounts, $nil in fiscal 2004 and $302,009 in fiscal 2003 were charged to exploration properties and the oil sands project.

The Company was charged $45,061 in fiscal 2004 and $49,504 in fiscal 2003 by a corporation partially owned by the former chief financial officer of the Company that provided bookkeeping, corporate secretarial and transfer agency services.

12. Related party transactions (continued)

The Company was charged $12,500 in fiscal 2004 by a corporation controlled by the new chief financial officer of the Company for the services in his capacity as the chief financial officer.

Payables and accruals at August 31, 2004 and 2003 included amounts payable to related parties in the amount of $nil and $3,342, respectively.

The related party transactions were in the normal course of operations and were measured at the exchange amounts.

13. Commitments

The Company has entered into agreements to lease land and office space for various periods until 2008. Minimum annual rent and land lease payable in each of the next four years are as follows:

Office Space:

2005	$	212,000
2006		88,000
	$	300,000

Land Lease:

2005	$	53,000
2006		53,000
2007		53,000
2008		53,000
	$	212,000

14. Income taxes

The following table reconciles the expected income tax recovery at the statutory income tax rate to the amounts recognized in the statements of operations:

	2004	2003
Net loss reflected in the statements of operations	**$ 2,168,046**	$ 1,172,538
Expected income tax recovery at statutory rate	**819,000**	457,000
Non-deductible consulting (stock compensation) expense	**(125,000)**	(65,000)
Other non-deductible items	**(16,000)**	(8,000)
Effect of change in income tax rates	**275,000**	-
Valuation allowance	**(953,000)**	(384,000)
Income tax recovery reflected in the statement of operations	**$ -**	$ -

The following table reflects the future income tax assets at August 31, 2004 and 2003.

	2004	2003
Future income tax assets		
Unclaimed non-capital losses	**$ 2,861,000**	$ 2,033,000
Excess of unclaimed exploration and development expenditures and undepecreciated capital cost over carrying values	**28,000**	7,000
Unclaimed common stock issue costs	**369,000**	182,000
	3,258,000	2,222,000
Less unrecognized amount	**3,258,000**	2,222,000
	$ -	$ -

14. Income taxes (continued)

At August 31, 2004, the Company had unclaimed exploration and development expenditures and undepreciated capital costs of $11,918,000, unamortized common share issue costs of $777,000 and non-capital losses of $7,535,000 available to reduce future taxable income.

The non-capital losses expire as follows:

2005	$ 738,000
2006	779,000
2007	1,040,000
2008	283,000
2009	1,502,000
2010	1,153,000
2014	2,080,000
	$ 7,575,000

15. Financial instruments

At August 31, 2004, the Company's financial instruments consisted of cash and cash equivalents, marketable securities, commodity taxes receivable and payables and accruals. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The Company estimates that the fair value of these financial instruments approximate the carrying values.