

**Titanium Corporation Inc.**  
**Balance Sheets**  
**(Unaudited)**

	May 31 2005	August 31 2004
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 780,201	\$ 955,316
Marketable securities (Market value, \$964,970; August 31, 2004, \$1,549,635)	958,551	1,549,635
Receivables	25,331	395,201
Prepays	<u>79,336</u>	<u>44,761</u>
	1,843,419	2,944,913
Exploration properties (Note 2)	-	4,902,784
Oil Sands Project development costs (Note 3)	8,418,334	6,718,901
Nova Scotia pilot plant and exploration equipment	-	117,388
Office equipment and leasehold improvements	<u>93,397</u>	<u>106,244</u>
	<u>\$ 10,355,150</u>	<u>\$ 14,790,230</u>

<b>Liabilities</b>		
<b>Current</b>		
Payables and accruals	<u>\$ 376,684</u>	<u>\$ 681,299</u>
<b>Shareholders' equity</b>		
Capital stock (Note 4)	20,261,586	17,538,422
Warrants (Note 5)	1,092,864	1,263,239
Contributed surplus arising from stock-based compensation (Note 6)	1,544,540	1,065,289
Deficit	<u>(12,920,524)</u>	<u>(5,758,019)</u>
	<u>9,978,466</u>	<u>14,108,931</u>
	<u>\$ 10,355,150</u>	<u>\$ 14,790,230</u>

Nature of operations (Note 1)

**Responsibility for Financial Statements**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the August 31, 2004 audited financial statements. Only changes in accounting policies have been disclosed in these financial statements. A precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

See accompanying notes to the unaudited interim financial statements

**Titanium Corporation Inc.**  
**Statements of Operations and Deficit**  
**(Unaudited)**

	Three Months Ended May 31		Nine Months Ended May 31	
	2005	2004	2005	2004
Expenses				
Consulting	\$ 161,484	\$ 25,851	\$ 485,536	\$ 238,559
Depreciation of office equipment and leasehold improvements	7,793	6,624	22,959	14,406
Directors' fees	32,250	34,250	109,250	96,750
Insurance	34,436	24,013	95,579	68,129
Investor relations	22,795	55,071	89,216	112,970
Loss (gain) on foreign exchange	-	(22,389)	6,389	(3,591)
Office and administration	142,362	129,122	395,404	320,726
Professional fees	83,953	51,258	307,147	163,524
Shareholders' communication and filing fees	35,152	57,753	124,627	226,119
Stock-based compensation	129,875	230,125	320,923	235,083
Travel and promotion	99,510	25,888	204,883	107,123
Exploration properties and related plant and equipment costs written-off (Note 2)	<u>5,020,172</u>	<u>-</u>	<u>5,020,172</u>	<u>-</u>
	5,769,782	617,566	7,182,085	1,579,798
Interest income	<u>9,965</u>	<u>11,861</u>	<u>19,580</u>	<u>53,589</u>
Net loss for the period	(5,759,817)	(605,705)	(7,162,505)	(1,526,209)
Deficit, beginning of period	<u>(7,160,707)</u>	<u>(4,510,477)</u>	<u>(5,758,019)</u>	<u>(3,589,973)</u>
Deficit, end of period	<u>\$12,920,524</u>	<u>\$ (5,116,182)</u>	<u>\$12,920,524</u>	<u>\$ (5,116,182)</u>
Basic and diluted loss per share (Note 9)	\$ (0.14)	\$ (0.01)	\$ (0.17)	\$ (0.04)

See accompanying notes to the unaudited interim financial statements

**Titanium Corporation Inc.**  
**Statements of Cash Flows**  
(Unaudited)

	Three Months Ended May 31		Nine Months Ended May 31	
	2005	2004	2005	2004
Decrease in cash and cash equivalents				
Operating activities				
Net loss for the period	\$ (5,759,817)	\$ (605,705)	\$ (7,162,505)	\$ (1,526,209)
Stock-based compensation	129,875	230,125	320,923	235,083
Exploration properties and related plant and equipment costs written-off (Note 2)	5,020,172	-	5,020,172	-
Depreciation of office equipment and leasehold improvements	<u>7,793</u>	<u>6,624</u>	<u>22,959</u>	<u>14,406</u>
	(601,977)	(368,956)	(1,798,451)	(1,276,720)
Net changes in non-cash working capital items				
(Increase) decrease in prepaids	25,206	12,186	(34,575)	(30,294)
Decrease (increase) in receivables	67,510	(199,063)	369,870	(266,529)
Increase (decrease) in payables and accruals	<u>106,391</u>	<u>115,423</u>	<u>(460,745)</u>	<u>103,448</u>
	(402,870)	(440,410)	(1,923,901)	(1,470,095)
Financing activities				
Common shares issued for cash	<u>604,000</u>	<u>(5,477)</u>	<u>2,246,983</u>	<u>7,433,800</u>
Investing activities				
Decrease (increase) in marketable securities	(7,878)	(1,504,905)	591,084	(539,404)
Exploration expenditures excluding depreciation of pilot plant and equipment	-	(47,173)	-	(356,752)
Oil Sands Project development costs	(462,047)	(2,157,678)	(1,235,298)	(5,185,089)
Net change in non-cash working capital relating to oil sands development costs	12,189	63,890	156,129	1,199,890
Acquisition of office equipment and leasehold improvements	<u>(2,795)</u>	<u>(36,440)</u>	<u>(10,112)</u>	<u>(36,440)</u>
	(460,531)	(3,682,306)	(498,197)	(4,917,795)
Increase (decrease) in cash and cash equivalents for the period	(259,401)	(4,128,193)	(175,115)	1,045,910
Cash and cash equivalents, beginning of period	<u>1,039,602</u>	<u>7,488,172</u>	<u>955,316</u>	<u>2,314,069</u>
Cash and cash equivalents, end of period	<u>\$ 780,201</u>	<u>\$ 3,359,979</u>	<u>\$ 780,201</u>	<u>\$ 3,359,979</u>

Cash and cash equivalents at end of period consists of:

Cash	\$ 724,655	\$ 305,196
Term deposits	<u>55,546</u>	<u>3,054,783</u>
	<u>\$ 780,201</u>	<u>\$ 3,359,979</u>

See accompanying notes to the unaudited interim financial statements

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# Titanium Corporation Inc.

## Notes to Financial Statements

### For the Three and Nine Months Ended May 31, 2005

#### (Unaudited)

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#### 1. Accounting Policies and Nature of Operations

The management of Titanium Corporation Inc. (the "Company") has prepared these unaudited financial statements for the three and nine months ended May 31, 2005, in accordance with Canadian generally accepted accounting principles for interim financial statements. These financial statements should be read in conjunction with the August 31, 2004 audited financial statements.

The disclosures in these interim financial statements may not conform in all respects to Canadian generally accepted accounting principles for annual financial statements.

In the opinion of management, all adjustments considered necessary for a fair presentation have been included in these financial statements.

These unaudited interim financial statements follow the same accounting policies as the August 31, 2004 audited financial statements except for the following:

#### **Sources of GAAP**

Effective September 1, 2004, the Company adopted the new CICA Handbook Section 1100, "Generally Accepted Accounting Principles". This section establishes standards for financial reporting in accordance with GAAP and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not explicitly dealt with in the primary sources of GAAP. The adoption of this section did not have any significant impact on the Company's financial statements.

#### **Asset retirement obligation**

Effective September 1, 2004, the Company adopted the CICA Handbook Section 3110, "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. At May 31, 2005, the Company has not incurred or committed any asset retirement obligations related to the development of its Oil Sands Project.

#### **Impairment of long-lived assets**

Effective September 1, 2004 the Company adopted the recommendations of CICA Handbook Section 3063 "Impairment of Long-lived Assets" on a prospective basis. Section 3063 requires that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated.

If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. With the exception of the write-off of the exploration properties and related pilot plant and equipment, management believes that there has been no impairment of the Company's long-lived assets as at May 31, 2005 and the adoption of Section 3063 has no effect on the current financial statements.

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# Titanium Corporation Inc.

## Notes to Financial Statements

### For the Three and Nine Months Ended May 31, 2005

(Unaudited)

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#### 1. Accounting Policies and Nature of Operations (Continued)

##### **Nature of Operations**

The Company does not have sufficient cash to fund the Oil Sands Project through to commercial development and therefore will require additional funding and project financing, which if not raised, would result in project development delays. Management is of the opinion that additional financing is available and may be sourced in time to allow the Company to continue its planned activities in the normal course. While it has been successful in the past, there can be no assurance it will be able to raise sufficient funds in the future.

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the "going concern" assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used.

#### 2. Exploration Properties

Due to the Company's focus on the Oil Sands Project in Western Canada, the Company has decided not to undertake additional work or expenditures on the exploration properties and, accordingly, all costs of \$4,920,391 have been written-off during the period. In addition all the related pilot plant and exploration equipment costs of \$99,781 were written off.

#### 3. Oil Sands Project Development Costs

Costs incurred relating to the Oil Sands Project development at May 31, 2005 and August 31, 2004 are as follows:

	May 31 2005	August 31 2004
Acquisition and development costs	\$ 4,330,268	\$ 3,077,199
Building and equipment construction costs	<u>4,088,066</u>	<u>3,641,702</u>
	<u>\$ 8,418,334</u>	<u>\$ 6,718,901</u>

In May 2005, the Company extended until May 2006, the three-way exclusivity agreement with Syncrude ("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.

**Titanium Corporation Inc.**  
**Notes to Financial Statements**  
**For the Three and Nine Months Ended May 31, 2005**  
**(Unaudited)**

4. Capital Stock

Authorized - unlimited number of common shares  
 Issued

Common shares	Number of Shares	Amount
Balance, August 31, 2004	40,903,480	\$ 17,538,422
Exercise of warrants for cash	463,211	926,422
Exercise of Agents' options for cash	376,800	640,560
Exercise of stock options for cash	330,000	680,000
Reallocation from contributed surplus relating to the exercise of Agents' options and stock options	-	305,807
Valuation of warrants exercised	-	170,375
Balance, May 31, 2005	42,073,491	\$ 20,261,586

5. Warrants and Agents' Options

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

Expiry Date	Exercise Price	August 31 2004 Balance	Issued	Exercised	Expired	May 31 2005 Balance
Agent's Options:						
February 2005	\$1.70	376,800	-	(376,800)	-	-
Warrants:						
August 2005 (1)	\$2.00	-	188,400	(145,586)	-	42,814
August 2005	\$2.00	2,355,000	-	(317,625)	-	2,037,375
		2,731,800	188,400	(840,011)	-	2,080,189

(1) During the period, 376,800 Agents' options were exercised for proceeds of \$640,560. Each option was exercisable into one common share and one-half common share purchase warrant.

The following table reflects the continuity of warrant valuation :

	NUMBER OF WARRANTS	AMOUNT
Balance, August 31, 2004	2,355,000	\$ 1,263,239
Warrants exercised during the period	(317,625)	(170,375)
	2,037,375	1,092,864
Warrants issued for which no value was ascribed	42,814	-
Balance, May 31, 2005	2,080,189	\$ 1,092,864

**Titanium Corporation Inc.**  
**Notes to Financial Statements**  
**For the Three and Nine Months Ended May 31, 2005**  
**(Unaudited)**

6. Contributed Surplus Arising from Stock-based Compensation

The following table reflects the continuity of contributed surplus:

Balance, August 31, 2004 relating to stock option compensation	\$ 1,065,289
Stock option compensation expense	320,923
Stock option compensation charged to Oil Sands Project development costs	464,135
Options exercised	(53,350)
Agents' options exercised	(252,457)
<b>Balance, May 31, 2005</b>	<b>\$ 1,544,540</b>

7. Common Share Purchase Plan

Effective February 26, 2003, all options granted subsequently under the Plan 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.

Effective February 23, 2005, the Company amended its stock option plan to increase the number of common shares reserved for issuance under the plan from 4,000,000 to 5,000,000 common shares.

The following table reflects the continuity of stock options for the nine months ended May 31, 2005:

	NUMBER OF STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, August 31, 2004	3,278,075	\$ 2.15
Options granted	1,175,000	\$ 3.46
Options cancelled	(276,407)	\$ 2.00
Options exercised	(330,000)	\$ 2.06
Option adjustment	100,000	\$ 2.20
<b>Balance, May 31, 2005</b>	<b>3,946,668</b>	<b>\$ 2.56</b>

The following table reflects the stock options outstanding as of May 31, 2005:

Expiry Date	Weighted Average Exercise Price (\$)	Options Outstanding
2006	2.20	690,000
2007	2.26	530,000
2008	2.22	635,000
2009	1.98	986,668
2010	3.56	<u>1,105,000</u>
		<u><b>3,946,668</b></u>

For the purposes of the 1,175,000 options issued to employees and consultants, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the assumptions: dividend yield 0%, expected volatility 68%, risk - free interest rate of 4.0% and an expected life of five years. These options will be expensed in the statement of operations and deficit or capitalized to Oil Sands Project development costs as they vest.

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**Titanium Corporation Inc.**  
**Notes to Financial Statements**  
**For the Three and Nine Months Ended May 31, 2005**  
**(Unaudited)**

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7. Common Share Purchase Plan (continued)

During the nine months ended May 31, 2005, 509,165 stock options vested. Accordingly, \$785,058 was credited to contributed surplus. Of the \$785,058 credited to contributed surplus, \$320,923 was record as stock-based compensation and \$464,135 was capitalized to Oil Sands Project development costs.

8. Income Taxes

The benefit of the loss for the period has not been recognized in these unaudited interim financial statements.

Estimated taxable income for the period is nil. Based upon the level of historical taxable income it cannot be reasonably estimated at this time if it is more likely than not the Company will realize the benefits from future income tax assets relating to temporary differences between tax values and accounting values. Accordingly, an equivalent estimated taxable temporary difference valuation allowance has been provided.

The estimated taxable temporary difference valuation allowance will be adjusted in the period that it is determined that it is more likely than not that some portion or all of the future tax assets will be realized.

Refer to the August 31, 2004 audited financial statements for additional information on the tax position of Company.

9. Basic and diluted loss per share

The basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. 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 for the periods presented 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:

	Three Months Ended May 31		Nine Months Ended May 31	
	2005	2004	2005	2004
Basic and diluted loss per share	\$ (0.14)	\$ (0.01)	\$ (0.17)	\$ (0.04)
<u>Numerator:</u>				
Net loss for the period	\$ (5,759,817)	\$ (605,705)	\$ (7,162,505)	\$ (1,526,209)
<u>Denominator:</u>				
Weighted average number of common shares	41,993,113	40,903,480	41,403,260	38,025,146

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**Titanium Corporation Inc.**  
**Notes to Financial Statements**  
**For the Three and Nine Months Ended May 31, 2005**  
**(Unaudited)**

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10. Related Party Transactions

**Auxilium Corporation ("Auxilium")**

The Company entered into an agreement with Auxilium, a corporation controlled by a director, to provide the services of President and Chief Executive Officer. The agreement is for a term of 3 years, commencing February 23, 2005, during which time Auxilium will be paid \$275,000 per year plus a \$12,000 per year vehicle allowance. Auxilium was also granted 500,000 options to purchase common shares of the Company at a price of \$3.40, vesting over a 3 year period. The Company was charged \$71,751 (2004 - \$nil) and \$78,583 (2004 - \$nil) for the three and nine months ended May 31, 2005 by Auxilium. Accounts payable at May 31, 2005 were \$30,985 (2004 - \$nil).

**Harbour Capital Corporation ("Harbour")**

The Company entered into an agreement with Harbour, a corporation controlled by a director, to provide the services of Executive Chairman. The agreement is for a term of 18 months, commencing January 19, 2005, during which time Harbour will be paid \$200,000 per year. The Company was charged \$50,000 (2004 - \$nil) and \$150,000 (2004 - \$200,000) for the three and nine months ended May 31, 2005.

The Company was charged \$10,500 (2004 - \$nil) and \$27,500 (2004 - \$nil) for the three and nine months ended May 31, 2005 respectively, for the services of the Chief Financial Officer of the Company.

The Company was charged \$7,555 (2004 - \$8,174) and \$33,516 (2004 - \$38,684) for the three and nine months ended May 31, 2005 respectively by a corporation partially owned by an officer of the Company that provided bookkeeping and corporate secretarial services. Accounts payable at May 31, 2005 were \$2,552 (2004 - \$nil).

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

11. Supplemental Cash Flow Information

	Three Months Ended May 31		Nine Months Ended May 31	
	2005	2004	2005	2004

Non-cash investing activity:

Stock compensation charged to oil sands development costs	\$ 169,383	\$ -	\$ 464,135	\$ -
Depreciation of oil sands charged to exploration expenditures	\$ 5,869	\$ 6,459	\$ 17,607	\$ 12,918

12. Commitments

The Company has committed to the process of designing, engineering and installation of a bulk sampling facility to be erected at the oil sands tailings site in Ft. McMurray, Alberta. Estimated construction costs over the next three months are \$625,000.