TITANIUM CORPORATION INC.

(A Development Stage Company)

FINANCIAL STATEMENTS

AUGUST 31, 2006 and 2005

PricewaterhouseCoopers LLP
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Auditors' Report

To the Shareholders of
Titanium Corporation Inc.

We have audited the consolidated balance sheet of **Titanium Corporation Inc.** as at August 31, 2006 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at August 31, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated October 14, 2005.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants
Toronto, Canada
November 27, 2006

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Titanium Corporation Inc.
(A Development Stage Company)
Balance Sheets
(Expressed in Canadian Dollars)

August 31	2006	2005
Assets		
Current		
Cash	**$ 239,172**	$ 2,024,499
Short term investments	**23,179,780**	24,018,813
Marketable securities	**-**	567,450
Commodity taxes receivable	**76,968**	51,477
Prepaids	**37,052**	51,075
	23,532,972	26,713,314
Oil Sands Project development costs (Note 3)	**13,212,493**	9,214,530
Office equipment and leasehold improvements (Note 4)	**118,411**	85,744
	$ 36,863,876	$ 36,013,588

Liabilities		
Current		
Payables and accruals	**$ 1,008,368**	$ 696,508
Shareholders' equity		
Capital stock (Note 5)	**46,751,330**	43,512,498
Warrants (Note 6)	**4,087,198**	3,735,111
Contributed surplus (Note 8)	**2,125,406**	2,000,105
Deficit	**(17,108,426)**	(13,930,634)
	35,855,508	35,317,080
	$ 36,863,876	$ 36,013,588

Commitments (Note 11)

On Behalf of the Board

"George Elliott" Director

"Eric W. Slavens" Director

See accompanying notes to the financial statements.

Titanium Corporation Inc.
(A Development Stage Company)
Statements of Loss and Deficit
For the Years Ended August 31
(Expressed in Canadian Dollars)

	2006	2005	Cumulative, Since Inception on (October 6, 1997) to August 31, 2006
Expenses			
Consulting	**$ 884,089**	$ 779,137	$ 2,851,998
Office and administration	**508,091**	624,204	2,345,675
Depreciation and amortization	**32,482**	30,612	108,345
Directors' fees	**150,000**	152,000	443,500
Insurance	**128,384**	132,498	445,041
Investor relations	**86,417**	166,564	802,693
Loss on foreign exchange	**51,408**	6,389	56,255
Professional fees	**408,069**	371,213	1,790,327
Shareholders' communication and filing fees	**303,899**	64,265	576,806
Stock based compensation	**1,208,176**	551,423	2,367,967
Travel and promotion	**288,356**	285,916	1,007,931
Exploration properties and related plant and equipment costs written off	**-**	5,020,172	5,453,766
	4,049,371	8,184,393	18,250,304
Interest income	**(815,217)**	(31,942)	(1,125,182)
Net loss before income taxes	**3,234,154**	8,152,451	17,125,122
Income taxes (recovery)	**(56,362)**	20,164	(36,198)
Net loss	**3,177,792**	8,172,615	17,088,924
Basic and diluted loss per share (Note 9)	**$ 0.06**	$ 0.19	

Deficit at beginning of year	**$ 13,930,634**	$ 5,758,019	$ -
Net loss	**3,177,792**	8,172,615	17,088,924
Shares purchased for cancellation	**-**	-	19,502
Deficit at end of year	**$ 17,108,426**	$ 13,930,634	$ 17,108,426

See accompanying notes to the financial statements.

Titanium Corporation Inc.

(A Development Stage Company)
Statements of Cash Flows
For the Years Ended August 31
(Expressed in Canadian Dollars)

	2006	2005	Cumulative, Since Inception on (October 6, 1997) to August 31, 2006
Cash (used in) provided by:			
Operating activities			
Net loss	**$ (3,177,792)**	$ (8,172,615)	$ (17,088,924)
Net changes in non-cash working capital items:			
Exploration properties and related plant and equipment costs written off	**-**	5,020,172	5,453,766
Stock-based compensation	**1,208,176**	551,423	2,367,967
Depreciation and amortization	**32,482**	30,612	108,345
	(1,937,134)	(2,570,408)	(9,158,846)
Decrease(increase) in commodity taxes receivable	**(25,491)**	343,724	(76,968)
Increase in prepaids	**14,023**	(6,314)	(37,052)
Decrease(increase) in payables and accruals	**311,860**	(266,538)	1,008,368
	(1,636,742)	(2,499,536)	(8,264,498)
Financing activities			
Common shares issued, net of issue cost settled for cash	**2,326,224**	28,211,823	49,536,425
	2,326,224	28,211,823	49,536,425
Investing activities			
Decrease (increase) in short term investments	**839,033**	(24,018,813)	(23,179,780)
Decrease in marketable securities	**567,450**	982,185	-
Exploration expenditures excluding depreciation of pilot plant and equipment	**-**	-	(5,522,391)
Oil Sands Project development costs	**(3,816,148)**	(1,596,364)	(12,103,833)
Acquisition of office equipment and leaseholds	**(65,144)**	(10,112)	(226,751)
	(2,474,809)	(24,643,104)	(41,032,755)
Net increase in cash	**(1,785,327)**	1,069,183	239,172
Cash at beginning of year	**2,024,499**	955,316	-
Cash at end of year	**$ 239,172**	$ 2,024,499	$ 239,172

See accompanying notes to the financial statements

1. Nature of Operations and Basis of Presentation

Titanium Corporation Inc. ("Titanium" or the "Company") was formed by articles of amalgamation under the Business Corporations Act (Ontario) on July 24, 2001. The Company is engaged in the business of developing a separation process for the recovery of titanium and zircon from Canada's oil sands. The Company is considered to be in the development stage as it has yet to earn any revenues and it is devoting substantially all of its efforts toward the development of this process.

To fund its past development activities, the Company has raised equity capital to achieve specific milestones set out in its business plan. In August 2005, the Company raised funds to complete the design, engineering and construction of a Phase 1 expandable production facility to be located in Fort McMurray, Alberta and for working capital purposes.

Previously the Phase 1 program was planned as a non-commercial demonstration facility to produce an industrial sized titanium feedstock sample required by pigment manufacturers. In response to continued positive market economics for zircon, the Company is now planning to redesign the first phase of its facilities to be a commercial plant and to initially prioritize the commercial production of zircon..

Management is of the opinion that additional funding is available and may be sourced in time to allow the Company to expand the Phase 1 facilities to a commercial scale zircon plant. While it has been successful in the past, there can be no assurance that it will be able to raise sufficient funds in the future.

2. Summary of Significant Accounting Policies

The financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles. These financial statements are denominated in Canadian dollars.

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 maturities at period end of twelve months or less.

2. Summary of Significant Accounting Policies (continued)

Short Term Investments

Short term investments represent investments in guaranteed investment certificates with maturity dates of more than twelve months from period end. Short term investments are carried at cost. The carrying value of the guaranteed investment certificates held by the Company approximates their fair value.

Marketable Securities

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

Oil Sands Project Development Costs

All direct costs relating to the Oil Sands Project which meet the generally accepted criteria for deferral are capitalized as incurred. These criteria include having a clearly defined process with identifiable associated costs, establishment of technical feasibility, an intention to process and sell the recovered minerals to a clearly defined market, and adequate resources exist or are expected to be available to complete the project to commercial production.

Office Equipment, Automobile, Leasehold Improvements and Related Amortization

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

Automobile is recorded at cost. Amortization is recorded on the declining balance basis at an annual rate of 30%.

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

In the year in which an asset is acquired, half the normal rate of amortization is recognized.

Stock - Based Compensation

The Company recognizes the fair value of stock based compensation over the vesting period of the options. The fair value of the options granted is calculated using an option pricing model that takes into account the exercise price, expected life of the option, expected volatility of the underlying shares, expected dividend yield, and the risk free interest rate for the term of the option.

2. Summary of Significant Accounting Policies (continued)

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 substantively 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.

Loss Per Common Share

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. Currently, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and accordingly basic and diluted loss per common share are the same.

Asset Retirement Obligation

The fair value of the liability for retirement costs related to site reclamation and abandonment 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 August 31, 2006, the Company has not incurred or committed any asset retirement obligations related to the development of its Oil Sands Project.

(Expressed in Canadian Dollars)

2. Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

Canadian GAAP 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, undiscounted future cash flows expected to result from the use of the asset and its disposition must be estimated and compared with the carrying values of those assets.

Where the undiscounted future cash flows are less than the carrying amount of the asset, the assets are written down to thier estimated fair values. Management has not identified circumstances indicating possible impairment of the Company's long-lived assets as at August 31, 2006.

3. Oil Sands Project Development Costs

Costs incurred relating to the Oil Sands Project development are as follows:

	2006 Opening Balance	Additions	Writedowns	2006 Closing Balance
Acquisition and Development Costs:	$4,732,510	$ 1,715,293	$ -	$ 6,447,803
Building and Equipment Construction Costs:	4,482,020	2,282,670	-	6,764,690
	$9,214,530	$ 3,997,963	$ -	$13,212,493

	2005 Opening Balance	Additions	Writedowns	2005 Closing Balance
Acquisition and Development Costs:	$3,077,199	$ 1,655,311	$ -	$ 4,732,510
Building and Equipment Construction Costs:	3,641,702	840,318	-	4,482,020
	$6,718,901	$ 2,495,629	$ -	$ 9,214,530

In July 2006, the Company signed a new two-year Exclusivity Agreement with Syncrude Canada Ltd. to facilitate further development of the Company's Oil Sands project to recover titanium and zircon from oil sands tailings.

(Expressed in Canadian Dollars)

4. Office Equipment and Leasehold Improvements

	2006	2005
Cost		
Office equipment	**$ 132,784**	$ 115,351
Automobile	**45,714**	-
Leasehold improvements	**48,573**	46,573
	227,071	161,924
Accumulated Amortization		
Office equipment	**59,633**	43,525
Automobile	**6,857**	-
Leasehold improvements	**42,170**	32,655
	108,660	76,180
Net Carrying Value		
Office equipment	**73,151**	71,826
Automobile	**38,857**	-
Leasehold improvements	**6,403**	13,918
	$ 118,411	$ 85,744

5. Capital Stock

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

Common Shares	**Number of Shares**	**Amount**
Balance, August 31, 2004	40,903,480	17,538,422
Common shares issued, net of issue costs	10,611,112	22,162,211
Value assigned to 10,611,112 warrants	-	(3,735,111)
Exercise of warrants for cash	2,362,526	4,725,052
Exercise of Agents' options for cash	376,800	640,560
Exercise of stock options for cash	332,500	684,000
Reallocation from contributed surplus relating to the exercise of Agents' options and stock options	-	308,182
Valuation of warrants exercised	-	1,189,182
Balance, August 31, 2005	54,586,418	$ 43,512,498
Exercise of warrants for cash	79,567	179,025
Valuation of warrants exercised	-	50,287
Exercise of stock options for cash	1,004,666	2,147,199
Reallocation from contributed surplus relating to the exercise of Agents' options and stock options	-	1,264,695
Adjustment to share issue costs as at August 26, 2005 to reflect value of Broker Warrants issued	-	(402,374)
Balance, August 31, 2006	55,670,651	$ 46,751,330

(Expressed in Canadian Dollars)

6. Common Share Purchase Warrants and Agents' Options

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

Expiry Date	Exercise Price	2005 Opening Balance	Issued	Exercised	Expired	2005 Closing Balance
Agent's Options:						
February 2005	$1.70	376,800	-	(376,800)	-	-
Warrants:						
August 2005	$2.00	2,355,000	-	(2,216,940)	(138,060)	-
August 2005	$2.00	-	188,400	(145,586)	(42,814)	-
August 2007	$3.25	-	10,611,112	-	-	10,611,112
		2,731,800	10,799,512	(2,739,326)	(180,874)	10,611,112

Expiry Date	Exercise Price	2006 Opening Balance	Issued	Exercised	2006 Closing Balance	Black-Scholes Value
Broker Warrants:						
August 2007	$2.25	-	636,667 (*)	(79,567)	557,100	$ 352,087
Warrants:						
August 2007	$3.25	10,611,112	-	-	10,611,112	3,735,111
		10,611,112	636,667	(79,567)	11,168,212	$ 4,087,198

(*) During the year, share issue costs were adjusted to reflect the value of 636,667 Broker Warrants issued on August 26, 2005. The value assigned to these warrants and charged against share capital was $402,374. The warrants were valued using the Black-Scholes pricing model with the following assumptions; dividend yield 0%, expected volatility 45%, a risk free interest rate of 4.15%, and an expected life of 2 years.

(Expressed in Canadian Dollars)

7. 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 6,000,000 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 prior to February 26, 2003 may be exercised during a period determined by the board of directors which cannot exceed five years. 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.

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

	NUMBER OF STOCK OPTIONS		WEIGHTED AVERAGE EXERCISE PRICE	
	2006	2005	**2006**	2005
			$	
Opening Balance	**3,944,166**	3,278,075	**2.56**	2.15
Options granted	**550,000**	1,175,000	**2.77**	3.46
Options cancelled/expired	**(530,000)**	(176,409)	-	2.06
Options exercised	**(1,004,666)**	(332,500)	**2.14**	2.06
Ending Balance	**2,959,500**	3,944,166	**2.68**	2.56

As at August 31, 2006, there were 3,031,167 (2005 - 2,920,833) exercisable stock options. The remaining expense is to be recognized as a charge to income over the vesting period for unvested options is $1,154,958.

The following table reflects the stock options outstanding as at August 31, 2006:

Expiry Date	Weighted Average Exercise Price ($)	Options Outstanding
2007	2.26	525,000
2008	2.31	135,000
2009	1.98	694,500
2010	3.46	1,130,000
2011	2.84	475,000
		2,959,500

(Expressed in Canadian Dollars)

7. Common Share Purchase Plan (continued)

During the year ended August 31, 2006, 550,000 (2005: 1,175,000) 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 options granted 79,169 (2005: 157,500) have vested and accordingly, $335,313 (2005: $232,998) was recorded as contributed surplus. Of the $335,313 (2005: $232,998) recorded as contributed surplus, $267,578 (2005: $177,615) was recorded as stock-based compensation and $67,735 (2005: $55,383) was capitalized to Oil Sands Project development costs.

During 2006, 399,154 (2005: 625,832) options granted in prior years had vested. Accordingly, $1,054,684 (2005: $935,944) was recorded as contributed surplus. Of the $1,054,684 (2005: $935,944) recorded as contributed surplus, $940,598 (2005: $373,808) was recorded as stock-based compensation and $114,086 (2005: $562,136) was capitalized to Oil Sands Project Development Costs.

The fair value of all options granted in fiscal 2006 and 2005 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 3.65% (2005: 4%); volatility factor of the expected market price of the Company's common stock of 57% (2005: 47%); and a weighted average expected life of the options of 5 years (2005 - 5 years).

8. Contributed Surplus

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

	Amount
Balance, August 31, 2004	$ 1,065,289
Stock option compensation expense	551,423
Stock option compensation charged to Oil Sands Project development costs	617,519
Options exercised	(55,725)
Agents' options exercised	(252,457)
Expired warrants	74,056
Balance, August 31, 2005	2,000,105
Stock option compensation expense	1,389,997
Options exercised	(1,264,696)
Balance, August 31, 2006	$ 2,125,406

(Expressed in Canadian Dollars)

9. 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 anti-dilutive and therefore, basic loss per share is equal to fully diluted loss per share

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

	2006	2005
Numerator:		
Net loss	**$ 3,177,792**	$ 8,172,615
Denominator:		
Weighted average number of common shares	**55,073,853**	41,829,203

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. The Company was charged $424,500 (2005 - $150,333) during the year by Auxilium. Included in this amount is a bonus of $137,500 (2005 - $nil) paid to this Company during the year.

Harbour Capital Corporation ("Harbour")

Under the terms of a consulting agreement expiring August 31, 2006, $267,170 (2005 - $200,000) was paid to Harbour, a company controlled by a director of the Company to provide the services of Executive Chairman. Included in this amount is a performance bonus of $50,000 (2005 - $nil) that was also paid to Harbour. This agreement was amended and renewed for a term of 12 months, commencing September 1, 2006, during which time Harbour will be paid $100,000 per year.

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

(Expressed in Canadian Dollars)

11. 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 three years are as follows:

Office Space:

2007	$ 57,752
2008	38,501
	$ 96,253

Land Lease:

2007	$ 98,160
2008	98,160
	$ 196,320

12. Supplementary Cash Flow Information

	2006	2005
Cash paid for interest	$ -	$ 2,429
Cash paid for income taxes	(56,361)	17,735
Stock compensation capitalized to oil sands development costs	181,821	617,519
	$ 125,460	$ 637,683

13. Financial Instruments

At August 31, 2006, 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.

14. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

(Expressed in Canadian Dollars)

15. 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:

	2006	2005
Net loss before income taxes reflected in the statements of operations	$ 3,234,154	$ 8,152,451
Expected income tax recovery at statutory rate	1,216,573	2,955,000
Non-deductible consulting (stock compensation) expense	(454,473)	(218,000)
Other non-deductible items	(5,423)	(52,000)
Effect of change in income tax rates	(484,416)	(165,000)
Valuation allowance	(328,623)	(2,499,836)
Income tax (recovery) reflected in the statement of operations	$ (56,362)	$ 20,164

The following table reflects the future income tax assets at August 31, 2006 and 2005:

	2006	2005
Future income tax assets:		
Unclaimed non-capital losses	$ 4,608,594	$ 5,375,000
Scientific research and development (SR&ED) expenditure pool	2,019,074	-
Excess of unclaimed exploration and development expenditures and undepecreciated capital cost over carrying values	-	341,000
Unclaimed common stock issue costs	330,959	686,000
Other	16,861	-
	6,975,488	6,402,000
Less valuation allowance	(5,477,865)	(6,402,000)
Total future tax assets	1,497,623	-
Future income tax liabilities:		
Excess of book value over unclaimed exploration and development expenditures, undepreciated capital cost and cumulative eligible capital property	(1,497,623)	-
Net future tax	$ -	$ -

Under the Income Tax Act (Canada), certain expenditures are classified as SR&ED expenditures and are grouped into a pool for tax purposes, which are 100% deductible in the year in which they are incurred. The expenditure pool can be carried forward indefinately and fully deducted in any subsequent year. The SR&ED expenditure pool at August 31, 2006 was $6,215,832 (2005 - $nil)

The Company has also earned investment tax credits on SR&ED expenditures at August 31, 2006 of $1,324,331 (2005 - $nil), which can offset Canadian income taxes otherwise payable in future years up to 2015.

(Expressed in Canadian Dollars)

15. Income Taxes (continued)

As at August 31, 2006, the Company has Canadian tax losses carried forward of $14,228,494 (2005 - $14,923,000) which expire as follows:

2007	$ 1,039,818
2008	282,336
2009	1,502,266
2010	1,114,190
2014	1,983,101
2015	4,786,419
2026	3,520,364
	$14,228,494