TITANIUM CORPORATION INC.
(A Development Stage Company)

FINANCIAL STATEMENTS
AUGUST 31, 2008 and 2007

PRICEWATERHOUSECOOPERS

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November 21, 2008

Auditors' Report

To the Shareholders of
Titanium Corporation Inc.

We have audited the balance sheets of **Titanium Corporation Inc.** as at August 31, 2008 and 2007 and the statements of loss, comprehensive loss and deficit and cash flows for each of the years in the two-year period ended August 31, 2008. 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, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the two-year period ended August 31, 2008 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada

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

August 31	2008	2007
Assets		
Current		
Cash	$ 93,327	$ -
Restricted cash (Note 3)	192,894	-
Short term investments	16,971,677	20,547,208
Commodity taxes receivable	53,311	42,302
Prepaids	104,686	36,780
	17,415,895	20,626,290
Restricted cash (Note 3)	3,330,742	-
Oil sands project development costs (Note 4)	15,338,909	14,823,946
Office equipment and leasehold improvements (Note 5)	86,907	95,720
	$ 36,172,453	$ 35,545,956

	2008	2007
Liabilities		
Current		
Bank indebtedness	$ -	$ 57,285
Payables and accruals	549,815	243,394
	549,815	300,679
Government grant (Note 3)	3,330,742	-
Shareholders' equity		
Capital stock (Note 6)	48,300,891	47,968,417
Contributed surplus (Note 8)	8,130,284	7,385,444
Deficit	(24,139,279)	(20,108,584)
	32,291,896	35,245,277
	$ 36,172,453	$ 35,545,956

See accompanying notes to the financial statements

Approved on Behalf of the Board:

"E.W. Slavens"
Director

"G. Pridham"
Director

Titanium Corporation Inc.

(A Development Stage Company)
Statements of Loss, Comprehensive Loss and Deficit
For the Years Ended August 31
(Expressed in Canadian Dollars)

	2008	2007	Cumulative, Since Inception on (October 6, 1997) to August 31, 2008
Expenses			
Corporate, general and administrative	**$ 2,860,431**	$ 2,390,773	$ 15,571,430
Research and development costs	**1,192,739**	474,793	1,667,532
Stock based compensation	**682,960**	1,012,600	4,063,527
Depreciation and amortization	**23,314**	33,802	165,461
Exploration properties and related plant and equipment costs written off	**-**	-	5,453,766
	4,759,444	3,911,968	26,921,716
Interest income	**(728,749)**	(911,810)	(2,765,741)
Net loss before income taxes	**4,030,695**	3,000,158	24,155,975
Income taxes (recovery) (Note 14)	**-**	-	(36,198)
Net loss and comprehensive loss	**4,030,695**	3,000,158	24,119,777
Basic and diluted loss per share (Note 9)	**$ 0.07**	$ 0.05	

Deficit at beginning of year	**$ 20,108,584**	$ 17,108,426	$ -
Net loss	**4,030,695**	3,000,158	24,119,777
Shares purchased for cancellation	**-**	-	19,502
Deficit at end of year	**$ 24,139,279**	$ 20,108,584	$ 24,139,279

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)

	2008	2007	Cumulative, Since Inception on (October 6, 1997) to August 31, 2008
Cash (used in) provided by:			
Operating activities			
Net loss	**$ (4,030,695)**	$ (3,000,158)	$ (24,119,777)
Net changes in non-cash working capital items:			
Exploration properties and related plant and equipment costs written off	**-**	-	5,453,766
Stock-based compensation	**841,565**	1,088,445	4,297,977
Depreciation and amortization	**23,314**	33,802	165,461
	(3,165,816)	(1,877,911)	(14,202,573)
(Increase) decrease in commodity taxes receivable	**(11,009)**	34,666	(53,311)
(Increase) decrease in prepaids	**(67,906)**	272	(104,686)
Increase (decrease) in payables and accruals	**305,393**	(798,714)	548,787
Increase in government grant	**3,330,742**	-	3,330,742
	391,404	(2,641,687)	(10,481,041)
Financing activities			
Common shares issued for cash	**203,699**	1,175,075	50,915,199
Investing activities			
Decrease (increase) in short term investments	**3,575,531**	2,632,572	(16,971,677)
(Increase) in restricted cash	**(3,523,636)**	-	(3,523,636)
Exploration expenditures excluding depreciation of pilot plant and equipment	**-**	-	(5,522,391)
Oil sands project development costs	**(481,885)**	(1,451,306)	(14,070,764)
Acquisition of office equipment and leaseholds	**(14,501)**	(11,111)	(252,363)
	(444,491)	1,170,155	(40,340,831)
Net increase (decrease) in cash	**150,612**	(296,457)	93,327
(Bank indebtedness) Cash, beginning of year	**(57,285)**	239,172	-
Cash (Bank indebtedness), end of year	**$ 93,327**	$ (57,285)	$ 93,327

See accompanying notes to the financial statements

Titanium Corporation Inc.

(A Development Stage Company)
Statements of Shareholders' Equity
(Expressed in Canadian Dollars)

	Shares Issued # of Shares	Shares Issued Share Value	Warrants	Contributed Surplus	Accumulated Deficit	Total
Balance at August 31, 2006	55,670,651	$ 46,751,330	$ 4,087,198	$ 2,125,406	$ (17,108,426)	$ 35,855,508
Valuation of stock options granted	-	-	-	1,214,852	-	1,214,852
Shares issued on exercise of stock options	537,000	1,175,075	-	-	-	1,175,075
Reallocation from contributed surplus relating to the exercise of stock options	-	42,012	-	(42,012)	-	-
Expiration of warrants	-	-	(4,087,198)	4,087,198	-	-
Loss for the year	-	-	-	-	(3,000,158)	(3,000,158)
Balance at August 31, 2007	56,207,651	$ 47,968,417	$ -	$ 7,385,444	$ (20,108,584)	$ 35,245,277
Shares issued on exercise of stock options	101,666	203,699	-	-	-	203,699
Reallocation from contributed surplus relating to the exercise of stock options	-	128,775	-	(128,775)	-	-
Valuation of stock options granted	-	-	-	873,615	-	873,615
Loss for the period	-	-	-	-	(4,030,695)	(4,030,695)
Balance at August 31, 2008	**56,309,317**	**$ 48,300,891**	**$ -**	**$ 8,130,284**	**$ (24,139,279)**	**$ 32,291,896**

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 heavy minerals and bitumen from oil sands tailings. 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 development of this process.

To fund its development activities, the Company has raised equity capital. Cash and short term investments (including restricted cash of $3,523,636) amounted to $20,588,640 at August 31, 2008. In addition to its investment in pilot facilities in Regina, Saskatchewan, to further its development program, the Company has constructed and operated on-site pilot facilities at an oil sands site near Fort McMurray, Alberta. The facilities are utilized on a test basis to process oil sands froth treatment tailings, taken directly from the tailings pipeline. The processes are being developed to recover heavy minerals as a concentrate and to remove and recover bitumen. The processing of heavy mineral concentrate by separation into valuable heavy minerals, primarily zircon, is being tested at the Company's Regina facilities. Process design and testing is on-going.

Following the successful completion of development and testing, the Company's business plan is to commercialize minerals and bitumen recovery from tailings at open pit oil sands mining and extraction sites. As such, in the course of commercialization, the Company will require an agreement granting access to tailings from oil sands operators to achieve its business plan. Additional funding will be required for commercialization. While the Company has been successful raising funds 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.

Short Term Investments

Short term investments are placed in guaranteed investment certificates and bankers' acceptances with original maturity dates of less than twelve months from period end. The Company's short-term investments are held with Schedule A Canadian banks where management believes the risk of loss to be minimal.

2. Summary of Significant Accounting Policies (continued)

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.

Research and Development Costs

Expenditures that are related to research and development activities are expensed as incurred.

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.

Government Grant

The Company periodically receives financial assistance under government incentive programs. Government assistance relating to research and development costs is reflected as a reduction of the related expenses.

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. The fair value is allocated between stock based compensation expense and the oil sands project development asset based on the nature of the employee's responsibilities.

Foreign Currency Translation and Transactions

The Company employs the temporal method of translation for its integrated operations. Under this method, monetary assets and liabilities are translated at the period-end rates and all other assets and liabilities are translated at applicable historical exchange rates. Revenue and expense items are translated at the rate of exchange in effect at the date the transactions are recognized in income, with the exception of amortization which is translated at the historical rate for the associated asset. Realized exchange gains and losses and currency translation adjustments are included in income. The Company does not have any self sustaining operations.

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, 2008, the Company has not incurred or committed any asset retirement obligations related to the development of its Oil Sands Project.

Financial Instruments, Comprehensive Income and Hedges

The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 1530, "Comprehensive Income", 3861 "Financial Instruments - Disclosure and Presentation" and 3865, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis; accordingly, comparative amounts for prior periods have not been restated. The Company has adopted these new standards effective September 1, 2007.

2. Summary of Significant Accounting Policies (continued)

Financial Instruments, Comprehensive Income and Hedges (continued)

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and
- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated except for the requirement to restate currency translation adjustment as part of other comprehensive income. Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Under adoption of these new standards, the Company designated its cash and cash equivalents and short-term investments as held-for-trading, which are measured at fair value. The Company's marketable securities are designated as available-for-sale and are presented at market value with the gain or loss realized in the accumulated other comprehensive income. Accounts receivable and prepaid expenses are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Impact upon adoption of sections 1530, 3855, 3861 and 3865

The Company has evaluated the impact of sections 1530, 3855, 3861 and 3865 on its financial statements and determined that no adjustments are currently required.

2. Summary of Significant Accounting Policies (continued)

Future Accounting Changes

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, "Capital Disclosures", Handbook Section 3862, "Financial Instruments – Disclosures", and Handbook Section 3863, "Financial Instruments – Presentation". These new standards are effective for interim and annual financial statements for the Company's reporting period beginning on September 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments — Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

Accounting Policy Choice for Transaction Costs

On June 1, 2007, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants ("CICA") issued Abstract No. 166, Accounting Policy Choice for Transaction Costs (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective August 31, 2007 and requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement. The Company has evaluated the impact of EIC-166 and has determined that no adjustments are currently required.

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian Generally Accepted Principles with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. These new standards are effective for interim and annual financial statements for the Company's reporting period beginning on September 1, 2011.

(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 their estimated fair values. Management has not identified circumstances indicating possible impairment of the Company's long-lived assets as at August 31, 2008.

Comparative Information

Certain comparative figures have been reclassified to conform with current period financial statement presentation.

3. Government Grant

On March 28, 2008, the Company was awarded a $3.5 million Energy Innovation Fund Grant (The "Grant") from the Province of Alberta to allow the Company to continue its research into the value added opportunities and environmental benefits of recovering hydrocarbons and heavy minerals from oil sands tailings streams. Titanium is matching the value of the Grant which represents half of the total program expenditure of $7 million for a two year project (The "Project"). The Grant will be recognized in income on a matching basis as the Company incurs expenditures on the Project.

Restricted cash represents $3.33 million of government grant proceeds which will be used to settle applicable expenditures related to the contract.

The Company has issued a Letter of Credit to the Province of Alberta in relation to the Grant, which will allow the Province of Alberta to recover the balance of funds advanced under certain circumstances. The Letter of Credit is secured by the restricted cash, and will reduce as expenditures are incurred.

The following table reflects the balance of the Grant as at August 31, 2008:

Amount granted - March 31, 2008	$ 3,500,000
Eligible expenditures during the period	(192,894)
Interest earned during the period	23,636
Balance - end of period	$ 3,330,742

(Expressed in Canadian Dollars)

4. Oil Sands Project Development Costs

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

	2008 Opening Balance	Additions	Writedowns	2008 Closing Balance
Acquisition and Development Costs:	$ 7,583,702	$ 514,963	$ -	$ 8,098,665
Building and Equipment Construction Costs:	7,240,244	-	-	7,240,244
	$14,823,946	$ 514,963	$ -	$15,338,909

	2007 Opening Balance	Additions	Writedowns	2007 Closing Balance
Acquisition and Development Costs:	$6,447,803	$ 1,135,899	$ -	$ 7,583,702
Building and Equipment Construction Costs:	6,764,690	475,554	-	7,240,244
	$ 13,212,493	$ 1,611,453	$ -	$ 14,823,946

(Expressed in Canadian Dollars)

5. Office Equipment and Leasehold Improvements

	2008	2007
Cost		
Office equipment	$ 152,395	$ 137,894
Automobile	45,714	45,714
Leasehold improvements	48,573	48,573
	246,682	232,181
Accumulated Amortization		
Office equipment	84,529	69,374
Automobile	26,673	18,514
Leasehold improvements	48,573	48,573
	159,775	136,461
Net Carrying Value		
Office equipment	67,866	68,520
Automobile	19,041	27,200
Leasehold improvements	-	-
	$ 86,907	$ 95,720

(Expressed in Canadian Dollars)

6. Capital Stock

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

Common Shares	Number of Shares	Amount
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 25, 2005 to reflect value of Broker Warrants issued	-	(402,374)
Balance, August 31, 2006	55,670,651	$ 46,751,330
Exercise of stock options for cash	537,000	1,175,075
Reallocation from contributed surplus relating to the exercise of stock options	-	42,012
Balance, August 31, 2007	56,207,651	$ 47,968,417
Exercise of stock options for cash	101,666	203,699
Reallocation from contributed surplus relating to the exercise of stock options	-	128,775
Balance, August 31, 2008	**56,309,317**	**$ 48,300,891**

(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	
	2008	2007	**2008**	2007
Opening Balance	**2,430,000**	2,959,500	**$2.60**	$2.68
Options granted	**1,475,000**	500,000	**1.96**	2.10
Options cancelled/expired	**(578,334)**	(492,500)	**(2.73)**	(2.84)
Options exercised	**(101,666)**	(537,000)	**2.32**	2.15
Ending Balance	**3,225,000**	2,430,000	**$2.33**	$2.60

The fair value of the 1,475,000 options granted has been estimated at the date of grant using a Black-Scholes option pricing model, using the following assumptions: a weighted average risk free interest rate of 3.45% - 3.69%; volatility factors of the expected market price of the Company's common stock of 47.0% - 61.3%; and an expected life of 5 years.

As at August 31, 2008 there were 2,225,833 (2007 - 2,046,665) exercisable stock options. The remaining expense to be recognized as a charge to income over the vesting period for unvested options is $798,711 (2007 - $350,131)

(Expressed in Canadian Dollars)

7. Common Share Purchase Plan (continued)

The following table reflects the stock options outstanding as of August 31, 2008:

Expiry Date	Weighted Average Exercise Price ($)	Options Outstanding	Weighted Average Remaining Life (Years)	Options Vested	Weighted Average Exercise Price ($) (Vested)
2009	1.94	290,000	0.54	290,000	1.94
2010	3.33	800,000	1.55	800,000	3.33
2011	2.40	705,000	2.88	705,000	2.40
2012	2.21	505,000	4.30	180,833	2.20
2013	1.80	925,000	4.56	250,000	2.00
		3,225,000		2,225,833	

The following table reflects the stock options outstanding as of August 31, 2007:

Expiry Date	Weighted Average Exercise Price ($)	Options Outstanding	Weighted Average Remaining Life (Years)	Options Vested	Weighted Average Exercise Price ($) (Vested)
2007	2.18	100,000	0.23	100,000	2.18
2008	2.45	10,000	0.56	10,000	2.45
2009	1.97	470,000	1.55	470,000	1.97
2010	3.41	950,000	2.54	783,333	3.41
2011	2.44	900,000	3.77	683,332	2.50
		2,430,000		2,046,665	

(Expressed in Canadian Dollars)

8. Contributed Surplus

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

	Amount
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
Stock option compensation expense	1,214,852
Options exercised	(42,012)
Expired warrants	4,087,198
Balance, August 31, 2007	7,385,444
Stock option compensation expense	682,960
Stock option compensation charged to research and development costs	190,655
Options exercised	(128,775)
Balance, August 31, 2008	$ 8,130,284

9. Loss Per Common Share - Basic and Diluted

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 diluted loss per share.

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

	2008	2007
Basic and diluted loss per share	**$ 0.07**	$ 0.05
Numerator:		
Net loss	**$ 4,030,695**	$ 3,000,158
Denominator:		
Weighted average number of common shares	**56,277,564**	56,025,079

(Expressed in Canadian Dollars)

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 one year, commencing February 23, 2008, during which time Auxilium will be paid $275,000 per year plus a $12,000 per year vehicle allowance and a performance bonus as determined annually by the Board of Directors. The Company was charged $430,850 (2007 - $424,500) during the year by Auxilium. Included in this amount is a bonus of $143,850 (2007 - $137,500) paid to this Company during the year.

Harbour Capital Corporation ("Harbour")

Under the terms of a consulting agreement which expired on August 31, 2007, $100,000 was paid to Harbour during fiscal 2007 to provide the services of Executive Chairman. Harbour is a company that was controlled by a director of the Company. No comparable amount was paid to Harbour in fiscal 2008 as the director and Executive Chairman resigned effective August 31, 2007.

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

11. Commitments

The Company has entered into agreements to lease premises for research and office use for various periods. Future minimum annual lease amounts payable are as follows:

2009	168,041
2010	68,445
2011	37,623
2012	28,710
	$ 302,819

12. Supplementary Cash Flow Information

	2008	2007
Stock compensation expensed as research and development costs	**158,605**	75,845
Stock compensation capitalized to oil sands development costs	**32,050**	126,407
	$ 190,655	$ 202,252

(Expressed in Canadian Dollars)

13. Financial Instruments

At August 31, 2008, the Company's financial instruments consisted of cash, restricted cash, short term investments, commodity taxes receivable and payables and accruals. The Company estimates that the fair value of these financial instruments approximate the carrying values. 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.

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:

	2008	2007
Net loss before income taxes reflected in the statements of operations	**$ 4,030,695**	$ 3,000,158
Expected income tax recovery at statutory rate	**1,348,699**	1,080,433
Non-deductible consulting (stock based) compensation expense	**(281,594)**	(364,627)
Other non-deductible items	**(4,894)**	(5,703)
Effect of change in income tax rates	**(456,907)**	(195,990)
Valuation allowance	**(605,304)**	(514,113)
Income tax reflected in the statement of operations	**$ -**	$ -

The following table reflects the future income tax assets at August 31, 2008 and 2007:

	2008	2007
Future income tax assets:		
Unclaimed non-capital losses	**$ 4,300,408**	$ 5,431,718
Scientific research and development (SR&ED) expenditure pool	**1,775,915**	1,272,801
Excess of unclaimed exploration and development expenditures and undepreciated capital cost over carrying values	**-**	-
Unclaimed common stock issue costs	**94,987**	412,444
Ontario vs Federal tax attributes transitional debit	**108,518**	-
Deferred grant revenue	**923,576**	-
Other	**5,573**	9,108
	7,208,977	7,126,071
Less valuation allowance	**(5,958,253)**	(6,217,246)
Total future tax assets	**1,250,724**	908,825
Future income tax liabilities:		
Excess of book value over unclaimed exploration and development expenditures, undepreciated capital cost and cumulative eligible capital property	**(1,250,724)**	(908,825)
Net future tax	**$ -**	$ -

(Expressed in Canadian Dollars)

14. Income Taxes (continued)

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 incurred. The expenditure pool can be carried forward indefinitely and deducted in full in any subsequent year. The SR&ED expenditure pool at August 31, 2008 is $6,217,474 (2007 - $4,099,354).

The Company has also earned investment tax credits on SR&ED expenditures at August 31, 2008 of $1,345,593 (2007 - $872,302), which can offset Canadian income taxes otherwise payable in future years up to 2015.

As at August 31, 2008, the Company has Canadian tax losses carried forward of $16,046,604 (2007 - $17,581,293) and are available until 2028 as follows:

2008	282,336
2009	1,502,266
2010	1,114,190
2014	2,018,780
2015	5,059,308
2026	3,398,982
2027	2,388,244
2028	282,498
	$ 16,046,604