Titanium Corporation Inc.

Interim Financial Statements
(Unaudited)
May 31, 2010

NOTICE TO READER

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Titanium Corporation Inc.

Interim Balance Sheet
(Unaudited)
As at May 31, 2010

	May 31, 2010 $	August 31, 2009 $ (Audited – Note 2)
Assets		
Current assets		
Cash and cash equivalents	7,750,728	290,786
Restricted short-term investment – current portion (note 5)	2,315,589	625,401
Short-term investments	-	12,087,804
Goods and services tax receivable	207,106	100,434
Prepaid expenses	275,654	75,701
	10,549,077	13,180,126
Restricted short-term investment (note 5)	390,136	2,230,307
Equipment	58,311	84,371
	10,997,524	15,494,804
Liabilities		
Current liabilities		
Accounts payable	760,803	476,672
Accrued liabilities	626,901	108,079
	1,387,704	584,751
Government grants (note 5)	657,726	2,230,307
	2,045,430	2,815,058
Shareholders' Equity		
Share capital (note 7)	48,381,029	48,302,546
Contributed surplus (note 8)	9,121,028	8,887,821
Deficit	(48,549,963)	(44,510,621)
	8,952,094	12,679,746
	10,997,524	15,494,804

Titanium Corporation Inc.

Interim Statement of Operations, Comprehensive Loss and Deficit
(Unaudited)
For the three and nine-month period ended May 31, 2010

	Three-month period ended May 31,		Nine-month period ended May 31,	
	2010 **$**	**2009** **$**	**2010** **$**	**2009** **$**
Expenses and losses				
Research and development	2,904,027	1,176,040	5,681,661	2,505,475
Government grants recovery	(1,822,068)	(459,941)	(3,144,910)	(947,313)
General and administrative	314,424	546,825	1,335,205	1,825,222
Amortization	4,244	6,374	13,731	19,567
Foreign exchange (gain) loss	(1,610)	5,487	(3,058)	42,351
Gain on fixed assets	-	3,903	(20,517)	3,903
Stock-based compensation (note 7)	113,897	216,453	265,690	609,041
	1,512,914	1,495,141	4,127,,802	4,058,246
Interest income recovery	(12,638)	(56,075)	(88,460)	(261,165)
Net loss and comprehensive loss	1,500,276	1,439,066	4,039,342	3,797,081
Basic and diluted loss per share (note 7)	0.03	0.03	0.07	0.07
Deficit – Beginning of period	47,049,687	26,497,294	44,510,621	24,139,279
Net loss and comprehensive loss for the period	1,500,276	1,439,066	4,039,342	3,797,081
Deficit – End of period	48,549,963	27,936,360	48,549,963	27,936,360

Titanium Corporation Inc.

Interim Statement of Cash Flows

(Unaudited)

For the three and nine-month period ended May 31, 2010

	Three-month period ended May 31,		Nine-month period ended May 31,	
	2010 $	**2009 $**	**2010 $**	**2009 $**
Cash (used in) provided by				
Operating activities				
Net loss for the period	(1,500,276)	(1,439,066)	(4,039,342)	(3,797,081)
Items not affecting cash				
Stock-based compensation	113,897	209,836	265,690	590,524
Recovery of grant – net of interest	(1,822,068)	(431,330)	(3,144,910)	(862,411)
Amortization	4,244	6,374	13,731	19,567
Loss (gain) on disposal of equipment	-	3,903	(20,517)	3,903
	(3,204,203)	(1,650,283)	(6,925,348)	(4,045,498)
(Increase) decrease in goods and services tax receivable	(149,778)	47,197	(106,672)	28,158
(Increase)Decrease in prepaid expenses	(254,516)	(79,386)	(199,953)	(16,471)
Increase in accounts payable and accrued liabilities	449,448	587,936	802,953	339,137
	(3,159,049)	(1,094,536)	(6,429,021)	(3,694,674)
Financing activities				
Common shares issued on exercise of stock options	33,750	525	46,000	525
Government grant proceeds, including interest	10,156	-	1,572,329	-
	43,906	525	1,618,329	525
Investing activities				
(Decrease) increase in restricted short-term investments	(6,149)	(28,611)	149,983	(84,901)
Increase in short-term investments	4,965,357	1,596,849	12,087,804	4,110,212
Oil Sands Project development costs	-	(72,451)	-	(204,251)
Proceeds on disposal of equipment	-	600	32,846	600
Acquisition of equipment	-	(4,221)	-	(75,223)
	4,959,208	1,492,166	12,270,633	3,746,437
Increase in cash and cash equivalents	1,844,065	398,155	7,459,942	52,288
Cash and cash equivalents – Beginning of period	5,906,663	(252,540)	290,786	93,327
Cash and cash equivalents – End of period	7,750,728	145,615	7,750,728	145,615

1 Nature of business and basis of presentation

Titanium Corporation Inc. ("Titanium" or the "Company") is a corporation governed by the Canada Business Corporations Act. The Company is engaged in the business of researching and developing a separation process for the recovery of heavy minerals and bitumen from oil sands froth treatment tailings ("Oil Sands Project" or the "Project"). 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 research and development of this process. The Company has sufficient cash, short-term investments and government grants to fund its research and general and administrative costs for at least the next twelve months. Options available to the Company to fund its future cash requirements include, but are not limited to, new or additional government grants and/or the issuance of securities and/or some form of partnership or joint venture.

2 Summary of significant accounting policies

The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by GAAP for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ended May 31, 2010 may not necessarily be indicative of the results that may be expected for the year ending August 31, 2010.

The balance sheet at August 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for annual financial statements. The interim financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual financial statements for the year ended August 31, 2009. For further information, refer to the financial statements and notes thereto included in the Company's annual financial statements for the year ended August 31, 2009.

a) Recent accounting pronouncements

i) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which applies retrospectively without restatement to interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at May 31, 2010.

ii) Financial Instruments

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"), was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The amendments to section 3862 apply to the annual financial statements for the fiscal year ending August 31, 2010.

b) Comparative figures

Certain prior period comparative figures have been reclassified to conform to the current period's financial statement presentation

3 Capital management

The Company considers its shareholders' equity and government grant balance as its capital, which at May 31, 2010 totalled $9,609,820 (August 31, 2009 - $14,910,053). The Company does not have any bank debt or externally imposed capital requirements to which it is subject. The Company's capital management objectives are to manage its cash and short-term investments prudently; to minimize the expenditures on general and administrative costs so that more funds are available for research and development to continue to advance the Oil Sands Project forward; and to access available government funding for research and development.

Management reviews its capital management approach on an ongoing basis and believes that its current approach, given the relative size and stage of development of the Company, is appropriate. There were no changes in the Company's approach to capital management during the quarter ended May 31, 2010.

4 Financial instruments and financial risk factors

The Company has, for accounting purposes, designated its cash and cash equivalents and short-term investments as held-for-trading, which are measured at fair value. Payables and accruals are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair market value.

As of May 31, 2010, the Company estimates that both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

Financial risk

The Company’s activities expose it to a variety of financial, credit, liquidity and market risks, including interest rate and foreign exchange rate risks.

Financial risk management is carried out by the Company’s management team with guidance from the Audit Committee and the Board of Directors. The Board of Directors also provides guidance for enterprise risk management.

Credit risk

Credit risk is the risk of loss associated with a counterparty’s inability to fulfill its payment obligations. The Company’s credit risk is primarily attributable to cash and cash equivalents, restricted cash, and short-term investments. Cash and cash equivalents, restricted cash and short-term investments are held with Schedule I Canadian Chartered banks which are reviewed by management. Management believes that the credit risk concentration with respect to financial instruments is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. As at May 31, 2010, the Company had an aggregate cash and cash equivalents, restricted cash and short-term investment balance of $10,456,453 (August 31, 2009 - $15,234,298) to settle current liabilities of $1,387,704 (August 31, 2009 - $ 584,751). Most of the Company’s financial liabilities have contractual terms of 30 days or less.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

a) Interest rate risk

The Company's current policy is to invest excess cash in high interest cash accounts and guaranteed investment certificates issued by Schedule I Canadian banks. The Company periodically monitors its investments and the creditworthiness of the banks it holds investments in.

b) Foreign currency risk

The Company's reporting and functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. Some research and development expense is denominated in US dollars and to a lesser extent Australian dollars. Management believes the foreign exchange risk derived from currency conversions is low and therefore does not hedge its foreign exchange risk.

5 Government funding

Alberta Energy Innovation Fund ("AEIF") 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 assist the Company in its research in recovering heavy minerals and bitumen from oil sands froth treatment tailings streams. The Grant is matching the Company's expenditure and represents half of the total program expenditure of $7 million for a two year program with spending to be completed by March 31, 2011. The Company has issued a letter of credit ("LC") to the Province of Alberta in relation to the Grant, which, under certain circumstances, will allow the Province of Alberta to recover the balance of funds advanced. The LC is secured by the restricted cash and will reduce as eligible expenditures are incurred.

The government grant recovery for AEIF is recognized on a matching basis as the Company incurs expenditures on the specific projects under the terms of the grant. The recovery of the AEIF grant recognized in the income statement is $952,316 and $1,850,327 for the three and nine month periods ended May 31, 2010 (May 31, 2009 - $459,941 three months, $947,313 nine months).

Restricted short-term investment represents a certificate of investment in the amount of $2,705,725 which is pledged to the Company's bank as security for the letter of credit of government grant proceeds and interest earned on the proceeds which will be used to settle eligible expenditures related to the Project. Of the total restricted investment, $2,315,589 is current and reflects the matching grant portion of eligible expenditures incurred, net of interest earned, while $390,136 pertains to the portion of the grant which has not yet been spent.

Sustainable Development Technology Canada ("SDTC") Contribution Agreement

In January 2010, the Company entered into a Contribution Agreement with SDTC, effective September 1, 2009, to financially assist the Company in developing and demonstrating its technology. Under the terms of the agreement SDTC will contribute to the Company up to the lesser of 30.75% of eligible project costs or $4,919,212. The contribution is payable in stages when the Company meets agreed project milestones as set out in the agreement. During the second quarter, the Company received $1,562,173 as an initial contribution for eligible expenditures incurred on the project for the period beginning September 1, 2009. As of May 31, 2010, the unexpended portion of the first contribution was $267,590. Under the terms of the Contribution Agreement the Company has access to remaining funding of up to $3,357,119 for eligible expenditures on the project as long as the Company meets agreed project milestones.

The government grant recovery for SDTC is recognized on a matching basis as the Company incurs expenditures on the specific projects under the terms of the contribution agreement. The recovery of the SDTC funding recognized in the income statement is $859,752 and $1,294,583 for the three and nine month periods ended May 31, 2010

The following table summarizes the balances of the AEIF and SDTC grants as at May 31:

	Nine-month period ended May 31,		Period from inception of grant to May 31,
	2010 **$**	**2009** **$**	**2010** **$**
AEIF grant balance – Beginning of period	2,230,307	3,330,742	3,500,000
Interest earned – net	10,156	84,901	120,519
Eligible expenditures during the period	(1,850,327)	(947,312)	(3,230,383)
AEIF grant balance – End of period	390,136	2,468,331	390,136
SDTC funding received	1,562,173	-	1,562,173
Eligible expenditures during the period	(1,294,583)	-	(1,294,583)
SDTC grant balance – End of period	267,590	-	267,590
Total government grants – End of period	657,726	2,468,331	657,726

6 Oil sands project

Titanium meets the criteria of an enterprise in the development stage which requires additional disclosure about the Project and the costs incurred to date. The Oil Sands Project is described in note 1 and the amounts expensed on the Project to May 31, 2010 were $25.3 million ($15.6 million to May 31, 2009). No revenue has been earned to date on the Project.

7 Share capital

Authorized

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

Issued and outstanding

	Number of shares #	Amount $
Balance – August 31, 2009	56,314,317	48,302,546
Exercise of stock options for cash	133,333	46,000
Reallocation from contributed surplus relating to the exercise of stock options	-	32,483
Balance – May 31, 2010	56,447,650	48,381,029

The weighted average number of common shares for the nine month period ended May 31, 2010 is 56,384,274 (August 31, 2009 – 56,310,769). Currently, the effect of potential issuance of common shares upon the exercise of options would be anti-dilutive since the Company is in a net loss position and accordingly basic and diluted loss per common share are the same.

The following table reflects the continuity of stock options:

	Number of stock options #	Weighted average exercise price $
Balance – August 31, 2009	3,235,000	2.03
Options granted	975,000	0.71
Options exercised	(133,333)	(0.35)
Options expired	(675,000)	(3.46)
Options cancelled	(146,667)	(1.27)
Balance – May 31, 2010	3,255,000	1.44

As of May 31, 2010 there were 2,472,500 exercisable stock options (August 31, 2009 – 2,314,166). The remaining stock based compensation expense to be recognized as a charge to income over the vesting period for unvested options is $286,261.

During the three and nine-month period ended May 31, 2010, the Company granted nil and 975,000 options to officers, directors and consultants. The terms of the grant are consistent with the Plan and are exercisable at a weighted average price of $0.71 per option. The fair value of the share options granted during the period are estimated as at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in the calculation are noted below:

Risk-free interest rate	2.16%
Expected life	5 years
Expected volatility	85%
Fair value per option	$0.47

The following table reflects the stock options outstanding as of May 31, 2010:

Exercise price	**Weighted average exercise price** $	**Options outstanding** #	**Weighted average remaining life (years**	**Options exercisable** #	**Weighted average exercise price (exercisable)** $
$0.00 – $0.99	0.60	1,485,000	4.34	702,500	0.55
$1.00 – $1.99	1.76	375,000	1.76	375,000	1.76
$2.00 – $2.99	2.17	1,295,000	2.42	1,295,000	2.17
$3.00 – $3.99	3.17	100,000	0.64	100,000	3.17
	1.44	3,255,000	3.16	2,472,500	1.69

8 Contributed surplus

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

	$
Balance – August 31, 2009	8,887,821
Stock-based compensation expense	265,690
Reallocation of contributed surplus on options exercised	(32,483)
Balance – May 31, 2010	9,121,028