Titanium Corporation Inc.

Interim Financial Statements
(Unaudited)
February 28, 2011

Titanium Corporation Inc.

Interim Balance Sheets

(Unaudited)

As at February 28, 2011 and August 31, 2010

	February 28, 2011 $	August 31, 2010 $
Assets		
Current assets		
Cash and cash equivalents	**14,719,827**	6,777,638
Short-term investments	**-**	2,267,653
Restricted short-term investment (note 6)	**427,062**	425,799
Goods and services tax receivable	**273,264**	293,146
Eligible grant funding receivable (note 6)	**337,991**	-
Prepaid expenses	**205,188**	256,577
	15,963,332	10,020,813
Equipment	**49,249**	56,899
	16,012,581	10,077,712
Liabilities		
Current liabilities		
Accounts payable	**849,594**	1,711,592
Accrued liabilities	**276,766**	815,600
	1,126,360	2,527,192
Government grants (note 6)	**-**	1,459,865
	1,126,360	3,987,057
Shareholders' Equity		
Share capital (note 8)	**59,488,107**	48,386,821
Contributed surplus (note 9)	**12,223,561**	9,198,999
Deficit	**(56,825,447)**	(51,495,165)
	14,886,221	6,090,655
	16,012,581	10,077,712

The accompanying notes are in integral part of these unaudited financial statements.

Titanium Corporation Inc.

Interim Statement of Loss, Comprehensive Loss and Deficit

(Unaudited)

For the three-month and six-month period ended February 28, 2011 and 2010

	Three Months Ended February 28		Six Months Ended February 28	
	2011	**2010**	**2011**	**2010**
Expenses and losses				
Research and development	**$ 2,399,108**	$ 1,458,507	**$ 5,247,292**	$ 2,777,634
Government grant recovery (note 6)	**(939,427)**	(994,704)	**(1,799,257)**	(1,322,842)
General and administrative	**542,299**	374,285	**1,168,436**	1,020,781
Amortization	**3,825**	4,244	**7,650**	9,487
Foreign exchange loss (gain)	**1,090**	(4,822)	**475**	(1,447)
Gain on disposal of equipment	**-**	(20,518)	**-**	(20,518)
Stock-based compensation (note 8)	**526,582**	105,128	**755,997**	151,793
	2,533,477	922,120	**5,380,593**	2,614,888
Interest income	**(39,725)**	(23,278)	**(50,311)**	(75,822)
Net loss and comprehensive loss	**2,493,752**	898,842	**5,330,282**	2,539,066
Deficit – Beginning of period	**54,331,695**	46,150,845	**51,495,165**	44,510,621
Net loss and comprehensive loss for the period	**2,493,752**	898,842	**5,330,282**	2,539,066
Deficit – End of period	**$ 56,825,447**	$ 47,049,687	**$ 56,825,447**	$ 47,049,687
Basic and diluted loss per share (note 8)	**$ 0.04**	$ 0.02	**$ 0.09**	$ 0.05

The accompanying notes are in integral part of these unaudited financial statements.

Titanium Corporation Inc.

Interim Statement of Cash Flows

(Unaudited)

For the three-month and six-month period ended February 28, 2011 and 2010

	Three Months Ended February 28		Six Months Ended February 28	
	2011	**2010**	**2011**	**2010**
Cash (used in) provided by:				
Operating activities				
Net loss for the period	**$ (2,493,752)**	$ (898,842)	**$ (5,330,282)**	$ (2,539,066)
Items not affecting cash				
Stock-based compensation	**526,582**	105,128	**755,997**	151,793
Recovery of grant – net of interest	**(939,427)**	(994,704)	**(1,799,257)**	(1,322,842)
Amortization	**3,825**	4,244	**7,650**	9,487
Gain on disposal of equipment	**-**	(20,517)	**-**	(20,517)
	(2,902,772)	(1,804,691)	**(6,365,892)**	(3,721,145)
Change in non-cash working capital:				
Decrease (increase) in goods and services tax receivable	**(139,234)**	(522)	**19,882**	43,106
Decrease in prepaid expenses	**32,311**	37,883	**51,389**	54,563
(Decrease) increase in accounts payable and accrued liabilities	**(639,699)**	(25,950)	**(1,400,832)**	353,505
	(3,649,394)	(1,793,280)	**(7,695,453)**	(3,269,971)
Financing activities				
Common shares issued on exercise of stock options	**5,666**	4,900	**70,841**	12,250
Proceeds from private placement, net of issue costs	**13,299,010**	-	**13,299,010**	-
Government grant proceeds, including interest	**-**	1,562,173	**-**	1,562,173
Interest on restricted short-term investment	**701**	-	**1,401**	-
	13,305,377	1,567,073	**13,371,252**	1,574,423
Investing activities				
(Increase) decrease in restricted short-term investments	**(701)**	(3,316)	**(1,263)**	156,132
Decrease in short-term investments	**-**	4,795,281	**2,267,653**	7,122,446
Proceeds on disposition of equipment	**-**	32,847	**-**	32,847
	(701)	4,824,812	**2,266,390**	7,311,425
Increase in cash and cash equivalents	**9,655,282**	4,598,605	**7,942,189**	5,615,877
Cash and cash equivalents – Beginning of period	**5,064,545**	1,308,058	**6,777,638**	290,786
Cash and cash equivalents – End of period	**$ 14,719,827**	$ 5,906,663	**$ 14,719,827**	$ 5,906,663

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 and is now at an advanced stage of demonstration piloting of new clean technologies. These technologies are designed to recover valuable products from oil sands tailings and reduce negative environmental impacts.

The Company is 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 recoverability of amounts expended on research and development to date is dependent on the ability of the Company to complete pre-commercialization activities, commercialization at oil sands sites, and achieve future profitable operations. The Company is dependent on raising funds through the issuance of shares, government grants and/or attracting partners in order to undertake further research and commercialization of its technology.

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 three month and six month period ended February 28, 2011 may not necessarily be indicative of the results that may be expected for the year ending August 31, 2011.

The balance sheet at August 31, 2010 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, 2010. 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, 2010.

3 Comparative figures

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

4 Capital management

The Company considers its shareholders' equity and government grant balance as its capital, which at February 28, 2011 totalled $14,886,221 (August 31, 2010 - $7,550,520). 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 three and six months ended February 28, 2011.

5 Financial instruments and financial risk factors

The Company has, for accounting purposes, designated its cash and cash equivalents and restricted short-term investments as held-for-trading, which are measured at fair value. Goods and services tax receivable are classified for accounting purposes as receivables, which are measured at amortized cost which equals fair market value at inception. Accounts payables and accrued liabilities are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair market value at inception.

As of February 28, 2011, 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 and restricted short-term investments. Cash and cash equivalents and restricted 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. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at February 28, 2011, the Company had an aggregate cash and cash equivalents, restricted short-term investment, and short-term investment balance of $15,146,889 (August 31, 2010 - $9,471,090) to settle current liabilities of $1,126,360 (August 31, 2010 - $2,527,192). 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 bankers' acceptances 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. The Company has no interest-bearing debt.

Short-term investments consist of guaranteed investment certificates which have variable rates. As at February 28, 2011, if the interest rates had increased or decreased by 1% with all other variables held constant, the loss and shareholders' equity for the three month period ended February 28, 2011 would have been approximately $2,000 higher/lower (year ended August 31, 2010 - $5,600 higher/lower), as a result of lower/higher interest income from short-term investments.

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. The Company does not hold any significant balances in foreign currencies to give rise to exposure to foreign exchange risk. Any impact from fluctuations in foreign exchange rates would be minimal and therefore the Company does not hedge its foreign exchange risk.

6 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 $206,089 for the six month period ended February 28, 2011, (February 28, 2010 - $898,011). The remaining balance of the grant at February 28, 2011 is $nil (August 31, 2010 - $204,688).

Restricted short-term investment represents a certificate of investment in the amount of $427,062, 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.

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 year ended August 31, 2010, the Company received $3,603,155 as a contribution for eligible expenditures incurred on the project for the period beginning September 1, 2009. As of February 28, 2011, the Company has a receivable for eligible grant spending of $337,991. On March 10, 2011, the Company was advanced a third payment of $825,000 from SDTC. The funds were to be advanced following the completion of the second phase of the oil sands tailings demonstration pilot project, which was completed by the Company during the three months ended February 28, 2011. Consequently, the Company incurred spending during the three ended February 28, 2011 that was eligible to be recovered against the payment received on March 10, 2011. Including this payment, the Company has now received a total of $4,428,155 from SDTC and has access to remaining funding of up to $491,057 for eligible expenditures on the project as long as the Company meets agreed project milestones.

The government grant recovery of 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 $1,593,168 the six month period ended February 28, 2011 (February 28, 2010 - $424,831).

The following table summarizes the balance of the grants as at February 28:

	Six month period ended February 28, 2011,		**Period from inception of grant to February,**
	2011 **$**	**2010** **$**	**2011** **$**
AEIF grant balance – Beginning of period	204,688	2,230,307	3,500,000
Interest earned – net	1,401	7,081	124,865
Eligible expenditures during the period	(206,089)	(898,011)	(3,624,865)
AEIF grant balance – End of period	-	1,339,377	-
SDTC grant balance – Beginning of period	1,255,177	1,562,173	3,603,155
Eligible expenditures during the period	(1,593,168)	(424,831)	(3,941,146)
SDTC grant balance – End of period	(337,991)	1,137,342	(337,991)
Total government grants – End of period	(337,991)	2,476,719	(337,991)

7 Oil sands project

The Company 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 cumulative amounts expensed on the Oil Sands Project to February 28, 2011 were $34.3 million (August 31, 2010 - $29.1). No revenue has been earned to date on the Oil Sands Project. Currently there are no contractual rights or obligations related to the Oil Sands Project.

8 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, 2010	56,465,150	48,386,821
Private placement, net of warrant value	7,165,500	12,081,203
Exercise of stock options for cash	150,833	70,841
Reallocation from contributed surplus relating to the exercise of stock options	-	44,759
Share issue costs	-	(1,095,517)
Balance – February 28, 2011	63,781,483	59,488,107

During the three months ended February 28, 2011, the Company completed a private placement (the "Placement"), issuing 7,165,500 units (the "Units") of the Company for total gross proceeds of $14,331,000 ($2.00/Unit). Each Unit consisted of one common share and one half of one share purchase warrant (the "Warrants") (note 9). Related to the placement, the Company incurred $852,060 in cash commissions, issued 426,030 broker warrants (the "Broker Warrants") valued at $267,527 (note 9) and incurred other costs of $179,930 required to complete the Placement. The total share issue costs were recorded as a charge against capital raised and allocated between share capital and contributed surplus.

The weighted average number of common shares for the three and six month period ended February 28, 2011 is 62,583,715 and 59,525,403, respectively, (February 28, 2010 – 56,370,057 and 56,352,475, respectively). 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.

Stock Options

The following table reflects the continuity of stock options and performance stock options (the "Options"):

	Number of stock options #	**Weighted average exercise price $**
Balance – August 31, 2010	3,237,500	1.44
Options granted	3,150,000	1.72
Options exercised	(150,833)	0.47
Options expired	(225,000)	2.79
Balance – February 28, 2011	6,011,667	1.56

As of February 28, 2011 there were 2,903,333 exercisable Options (August 31, 2010 - 2,695,833). The remaining stock based compensation expense to be recognized as a charge to income over the vesting period for unvested options is $2,189,327.

During the three month and six month period ended February 28, 2011, the Company granted 1,300,000 stock options (the "Stock 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 $1.32 per Stock Option. The fair value of the Stock 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 of the Stock Options are noted below:

Risk-free interest rate	2.09%
Expected life	5 years
Expected volatility	91.17%
Fair value per option	$0.93

The total Stock Option expense for the three and six months ended February 28, 2011 was $277,945 and $507,360, respectively, (February 28, 2010 - $105,128 and 151,793, respectively).

During the three and six month period ended February 28, 2011, the Company granted 1,850,000 performance stock options (the "Performance Stock Options") to officers, and directors. The terms of the grant are such that Performance Stock Options vest based on milestones related to certain of the Company's objectives associated with the commercialization of its technology. Subject to the vesting of these Peformance Stock Options, the Performance Stock Options are exercisable at $2.00 per share for a period of five years from the date of grant, consistent with the Company's stock option plan. The fair value of the Performance Stock Options granted during the period are estimated at the grant date using the Black-Scholes option pricing model with the expense being recognized over the expected vesting term if those terms are more likely than not to be realized. The estimate of this expense is adjusted for subsequent changes in the expected or actual outcome of the vesting requirements and any changes to this expense are recorded in the period of the change.

The assumptions used in the calculation of the Performance Stock Options are noted below:

Risk-free interest rate	2.59%
Expected life	5 years
Expected volatility	92.14%
Fair value per option	$1.32

The total Performance Stock Option expense for the three and six months ended February 28, 2011 was $248,637, (February 28, 2010 - $nil).

The following table reflects the Options outstanding as of February 28, 2011:

Exercise price	**Weighted average exercise price** $	**Options outstanding** #	**Weighted average remaining life (years)**	**Options exercisable** #	**Weighted average exercise price (exercisable)** $
$0.00 – $0.99	0.63	1,316,667	3.45	1,141,670	0.61
$1.00 – $1.99	1.42	1,675,000	3.78	591,663	1.60
$2.00 – $2.99	2.05	3,020,000	3.69	1,170,000	2.13
	1.56	6,011,667	3.66	2,903,333	1.42

The assumptions used in the Black-Scholes pricing model for the Warrants and the Broker Warrants are as noted below:

Risk-free interest rate	1.71%
Expected life	1.5 years
Expected volatility	84.36%
Fair value per whole warrant	$0.628

9 Contributed surplus

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

	$
Balance – August 31, 2010	9,198,999
Stock-based compensation	755,997
Reallocation of contributed surplus on options exercised	(44,759)
Warrants (see below)	2,313,324
Balance – February 28, 2011	12,223,561

Warrants

	Equivalent Number of Warrants	Weighted Average Exercise Price $	Amount $
Balance – August 31, 2010	-	-	-
Warrants issued on private placement (i)	3,582,750	2.50	2,249,797
Broker warrants issued on private placement (ii)	426,030	2.50	267,527
Issue costs	-	-	(204,000)
Balance – February 28, 2011	4,008,780	2.50	2,313,324

(i) As part of the Private Placement, subscribers received one half of one warrant per unit purchased. Each warrant entitles the holder to purchase one common share of the Company at a price of $2.50 until June 15, 2012. A value of $2,249,797 has been attributed to the Warrants issued under the subscription agreement based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity.

(ii) As part of the Private Placement, 426,030 Broker Warrants were issued to those brokers who facilitated the Private Placement. Each Broker Warrant was issued under the same terms as the Warrants. A value of $267,527 has been attributed to the Broker Warrants based on the Black-Scholes pricing model and has been recorded as a charge against share capital.

The assumptions used in the Black-Scholes pricing model for the Warrants and the Broker Warrants are as noted below:

Risk-free interest rate	1.71%
Expected life	1.5 years
Expected volatility	84.36%
Fair value per whole warrant	$0.628