Titanium Corporation Inc.

Interim Financial Statements
(Unaudited)
May 31, 2012 and 2011

July 19, 2012

To the Shareholders of
Titanium Corporation Inc.

The interim financial statements of Titanium Corporation Inc. as at and for the three and nine month periods ended May 31, 2012 and 2011 have been compiled by management.

No audit or review of this information has been performed by the company's auditors.

Titanium Corporation Inc.

Interim Statement of Financial Position

(Unaudited)

(expressed in Canadian dollars)

	May 31, 2012 $	August 31, 2011 $	September 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents	9,264,086	12,025,482	6,777,638
Short-term investments	-	-	2,267,653
Restricted short-term investment (note 4)	-	-	425,799
Goods and services tax receivable	35,856	18,777	293,146
Eligible grant funding receivable (note 4)	491,850	491,850	-
Prepaid expenses	65,010	89,224	256,577
	9,856,802	12,625,333	10,020,813
Equipment	33,341	37,913	56,899
	9,890,143	12,663,246	10,077,712
Liabilities			
Current liabilities			
Trade and other payable	106,186	456,459	1,711,592
Accrued liabilities	284,415	294,506	815,600
	390,601	750,965	2,527,192
Government grants (note 4)	-	-	1,459,865
	390,601	750,965	3,987,057
Shareholders' Equity			
Share capital (note 5)	60,076,321	59,929,848	48,386,821
Contributed surplus	13,946,980	14,099,981	9,335,684
Deficit	(64,523,759)	(62,117,548)	(51,631,850)
	9,499,542	11,912,281	6,090,655
	9,890,143	12,663,246	10,077,712

Transition to International Financial Reporting Standards (note 11)

The accompanying notes are an integral part of these financial statements.

Titanium Corporation Inc.

Interim Statement of Loss and Comprehensive Loss

(Unaudited)

For the three and nine month periods ended May 31, 2012 and 2011

(expressed in Canadian dollars)

	Three-month period ended May 31,		Nine-month period ended May 31,	
	2012 **$**	**2011** **$**	**2012** **$**	**2011** **$**
Expenses and losses				
General and administrative (note 9)	537,795	1,292,622	1,765,397	3,196,001
Research and development (note 9)	(146,817)	1,954,027	730,935	5,680,210
Other operating expenses	5,542	5,429	13,330	13,555
	396,520	3,252,078	2,509,662	8,889,766
Other income				
Interest	(35,326)	(51,858)	(103,451)	(102,169)
Net loss and comprehensive loss	361,194	3,200,220	2,406,211	8,787,595
Basic and diluted loss per share (note 6)	0.01	0.05	0.04	0.14

The accompanying notes are an integral part of these financial statements.

Titanium Corporation Inc.

Interim Statement of Changes in Shareholders' Equity

(Unaudited)

(expressed in Canadian dollars)

	Share capital $	Contributed surplus $	Deficit $	Shareholders' equity $
Balance – September 1, 2011	59,929,848	14,099,981	(62,117,548)	11,912,281
Comprehensive loss for the period	-	-	(2,406,211)	(2,406,211)
Stock-based compensation	-	(94,149)	-	(94,149)
Exercise of stock options	146,473	(58,852)	-	87,621
Balance – May 31, 2012	60,076,321	13,946,980	(64,523,759)	9,499,542

	Share capital $	Contributed surplus $	Deficit $	Shareholders' equity $
Balance – September 1, 2010	48,386,821	9,335,684	(51,631,850)	6,090,655
Comprehensive loss for the period	-	-	(8,787,595)	(8,787,595)
Private placement – net of issue costs	10,981,319	2,313,324	-	13,294,643
Stock-based compensation	-	2,118,746	-	2,118,746
Exercise of stock options	280,535	(113,012)	-	167,523
Balance – May 31, 2011	59,648,675	13,654,742	(60,419,445)	12,883,972

The accompanying notes are an integral part of these financial statements.

Titanium Corporation Inc.

Interim Statement of Cash Flows

(Unaudited)

For the three and nine month periods ended May 31, 2012 and 2011

(expressed in Canadian dollars)

	Three-month period ended May 31,		Nine-month period ended May 31,	
	2012 $	2011 $	2012 $	2011 $
Cash (used in) provided by				
Operating activities				
Net loss for the period	(361,194)	(3,200,220)	(2,406,211)	(8,787,595)
Items not affecting cash				
Amortization	2,082	3,825	6,059	11,475
Stock-based compensation	40,933	1,105,656	(94,149)	2,118,746
Government grant recovery	-	(915,346)	-	(2,714,603)
	(318,179)	(3,006,085)	(2,494,300)	(9,371,977)
Net change in non-cash working capital items				
Goods and services tax receivable	(20,440)	174,382	(17,079)	194,264
Prepaid expenses and other assets	(46,492)	69,194	24,214	120,583
Trade and other payables and accrued liabilities	(118,745)	(200,584)	(360,364)	(1,601,416)
	(503,856)	(2,963,093)	(2,847,530)	(10,658,546)
Investing activities				
Purchase of equipment	-	-	(1,487)	
Decrease in short-term investments	-	(701)	-	(1,964)
Proceeds on sale of short-term investments	-	-	-	2,267,653
		(701)	(1,487)	2,265,689
Financing activities				
Proceeds from exercise of stock options	-	96,682	87,621	167,523
Proceeds from private placement, net of issue costs	-	(4,367)	-	13,294,643
Government grant proceeds	-	824,207	-	825,608
	-	916,522	87,621	14,287,774
(Decrease) increase in cash and cash equivalents	(503,856)	(2,047,272)	(2,761,396)	5,894,917
Cash and cash equivalents – Beginning of period	9,767,942	14,719,827	12,025,482	6,777,638
Cash and cash equivalents – End of period	9,264,086	12,672,555	9,264,086	12,672,555

The accompanying notes are an integral part of these financial statements.

1 Reporting entity

Titanium Corporation Inc. (the “Company”) is a public company domiciled in, and governed by, the laws of Canada. Titanium was formed upon the amalgamation of Titanium Corporation of Canada Limited and NAR Resources Ltd. under the *Business Corporations Act* (Ontario) on July 24, 2001. On March 19, 2009, the Company was continued under the Canada Business Corporations Act. The Company does not have any subsidiaries.

The Company’s principal business office is Suite 1400, 10025 – 106th Street, Edmonton, Alberta, T5J 1G4 and the Company’s registered office is located at Suite 101, 50 Richmond Street East, Toronto, Ontario, M5C 1N7. The Company’s shares are listed on the Toronto Stock Venture Exchange under the ticker symbol “TIC”.

Titanium Corporation’s mission is *“Creating Value from Waste™” (CVW™)*. The Company has developed innovative *CVW™* technologies that recover valuable heavy minerals, bitumen, solvent and water from oil sands waste tailings. The recovery of bitumen, associated solvents and water will result in important and timely environmental improvements for the oil sands industry. In 2011, the Company completed a twelve month demonstration pilot which culminated several years of progressive research and development (“R&D”) of its proprietary technologies.

The Company is in the pre-commercialization stage as it has yet to earn any revenues and is devoting substantially all of its efforts toward commercialization 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 development and commercialization of its technology. The Company may not be successful in these endeavours.

2 Basis of presentation and adoption of IFRS

These financial statements of the Company have been approved by the Board of Directors on July 19, 2012. These interim financial statements are presented in Canadian dollars, which is the Company’s functional currency.

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim financial statements. In these interim financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 11, these financial statements have been prepared using the historical cost basis and the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at September 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 11 discloses the impact of the transition to IFRS on the Company's reported financial positions, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended August 31, 2011.

The policies applied in these financial statements are based on IFRS issued and outstanding as of May 31, 2012. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending August 31, 2012 could result in restatement of these financial statements, including the transition adjustments recognized on change-over to IFRS.

The financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended August 31, 2011.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. These estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the actual results. Management considers the following areas to be those where critical accounting policies affect the significant estimates and judgements used in the preparation of the Company's financial statements.

a) Fair value of stock options and performance based stock options

Determining the fair value of stock options and performance based stock options requires judgement related to the choice of a pricing model, the estimation of stock price volatility, the expected term of the underlying instruments and the estimation of the risk free interest rate.

The measurement of compensation expense related to performance based stock options also requires estimates and judgements to be made in determining the probability that performance milestones will be met and the resulting number of options that will ultimately vest.

b) Government grants

The recovery of government grants requires judgement to determine when reasonable assurance exists, when the Company complies with conditions contained in government grant agreements.

c) Fair value of warrants

Determining the fair value of warrants requires judgment related to the choice of a pricing model, the estimation of stock price volatility, the expected term of the underlying instruments and the estimation of the risk free interest rate.

Foreign currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in the statement of loss and comprehensive loss in "other operating expenses".

Government grants

The Company periodically receives financial assistance under Government incentive programs. Government grants are recognized initially as deferred revenue at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognized as an adjustment to research and development expense on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Company for the cost of an asset are recognized in profit and loss on a systematic basis over the useful life of the asset. Forgivable loans from the government are treated as government grants when there is reasonable assurance that the Company will meet the terms for forgiveness of the loan.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances net of outstanding cheques which have not cleared the bank at a period end. Also included are short-term investments with maturity dates of three months or less, which are subject to an insignificant risk of changes in value.

Short-term investments

Short-term investments are comprised of certificates of investment with original maturity dates of twelve months but which are all redeemable within 30 days of the issue date. The Company's short-term investments are held with Schedule 1 Canadian banks where management believes the risk of loss to be minimal.

Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is recorded on the declining balance basis at rates between 20% and 50% as appropriate for the type of equipment.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Research and development expenditures

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Where a product or process is technically and commercially feasible, production and sale are intended, a market exists, expenditures can be measured reliably and sufficient resources are available to complete the project, development costs are capitalized. No development costs have been capitalized to date.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Share-based payment transactions

The Company grants stock options to directors and employees of the Company. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. The fair value of options granted is recognized as share-based payment expense, with a corresponding increase in contributed surplus, over the period that the individual becomes unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the number of share options for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date.

Warrants

The Company issued warrants in connection with its most recent financing. Fair value of the warrants is measured at the date of issue using the Black-Scholes pricing model. The fair value of warrants is included as a component of Contributed Surplus.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits, and deductable temporary differences to the extent that it is probable that future tax profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Taxes on income, if any, in interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares. The Company’s potentially dilutive common shares comprise of stock options granted to its employees and directors and warrants issued as part of the Company’s most recent equity financing. The number of shares included with respect to stock options and warrants is computed using the treasury stock method.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets

The Company may have the following non-derivative financial assets: financial assets at fair value through profit or loss, available-for-sale financial assets, held to maturity financial assets and loans and receivables. Management determines the appropriate classification upon initial recognition. All financial assets are initially measured at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

a) Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if acquired principally for the purpose of selling or repurchasing in the short-term. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has no assets classified as fair value through profit or loss for the periods presented.

b) Available-for-sale financial assets

Any investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss. The Company has no assets classified as available-for-sale for the periods presented.

c) Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. The Company has no assets classified as held-to-maturity for the periods presented.

d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise goods and services tax receivable, a grant funding receivable, cash and cash equivalents and short-term investments are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Financial liabilities

The Company may have the following non-derivative financial liabilities: bank overdrafts and trade and other payables. Such financial liabilities are classified as other liabilities and are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized costs using the effective interest method.

Impairment

a) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss.

b) Non-financial assets

Non-financial assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or “CGUs”). Recoverable amount is the higher of an asset’s fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management). The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

New standards and amendments issued but not yet adopted

Certain new standards, amendments to standards and interpretations are not yet effective for the current reporting period, and therefore have not been applied in preparing the interim financial statements. Unless otherwise noted the following standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profits or loss or at fair value through other comprehensive income ("OCI").

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

The Company has not yet assessed the impact of this standard.

IFRS 13, *Fair Value Measurement*, *is* a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. Adoption of IFRS 13 is not expected to have a significant impact on the Company.

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. Adoption of this amendment is not expected to have a significant impact on the Company.

4 Government assistance

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 matched the Company's expenditure and represented half of the total program expenses of $7 million for a two year program. The program was completed on March 31, 2011. The recovery of the AEIF grant recognized in the income statement was $206,089 for the year ended August 31, 2011 (August 31, 2010 – $2,038,720).

As a condition of the grant, the Company issued a letter of credit (“LC”) to the Province of Alberta, which, under certain circumstances, would allow the Province of Alberta to recover the balance of funds advanced. The LC was secured by restricted cash and was reduced as eligible expenditures were incurred. The letter of credit expired on June 30, 2011 and the associated cash became unrestricted.

Sustainable Development Technology Canada (“SDTC”) Contribution Agreement

In January 2010, the Company entered into a Contribution Agreement with SDTC, to financially assist the Company in developing and demonstrating its *CVW* ™ technology. Under the terms of the agreement SDTC contributed up to the lesser of 30.75% of eligible project costs or $4,919,212. The government grant recovery from SDTC is recognized on a matching basis as the Company incurs expenditures on the specific projects under the terms of the Contribution Agreement.

The funding received to date of $4,427,362, has been spent in its entirety and the Company has an amount recoverable of $491,850, representing a 10% holdback on the value of the original grant. The Company has met the key conditions under the SDTC Contribution Agreement for recovery of this balance.

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

	May 31, 2012 $	August 31, 2011 $
AEIF grant balance – Beginning of period	-	204,688
Interest earned – net	-	1,401
Eligible expenditures during the period	-	(206,089)
AEIF grant balance – End of period	-	-
SDTC grant balance – Beginning of period	(491,850)	1,255,177
SDTC grant received during the period	-	824,207
Eligible expenditures during the period	-	(2,571,234)
SDTC grant balance – End of period	(491,850)	(491,850)
Total government grants – End of period	(491,850)	(491,850)

Scientific Research and Experimental Development (SR&ED) Tax Incentive Program

The Alberta SR&ED tax credit program provides a refundable tax credit to qualified corporations that incur eligible R&D expenditures in the province. During the three month period ended May 31, 2012, the company received $400,000 (maximum available refundable credit) in respect of its fiscal 2010 SR&ED claim, which was recognized as a reduction of R&D expense in the period. The Company is in the process of finalizing is fiscal 2011 SR&ED claim, at which time, the related benefit will be recorded as a reduction of R&D expense.

5 Share capital

Authorized
Unlimited number of common shares without par value

	2012		2011	
	Number of common shares #	Amount $	Number of common shares #	Amount $
Balance – September 1	64,064,716	59,929,848	56,465,150	48,386,821
Private placement – net of warrant value and issue costs	-	-	7,165,500	12,081,203
Share issue costs	-	-	-	(1,099,884)
Issued for cash pursuant to option plan	89,700	87,906	327,166	167,523
Reallocation from contributed surplus relating to the exercise of stock options	-	58,567	-	113,012
Balance – May 31	64,154,416	60,076,321	63,957,816	59,648,675

Stock option plan

The Company has a stock option plan (the "Plan") for directors, officers, employees and certain key 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 10% of the issued and outstanding common shares (rolling 10% plan) in the aggregate. Except for Performance Options granted, options 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. All of the current options expire five years from the grant date unless the options are forfeited sooner. In accordance with the regulations of the TSX Venture Exchange, the rolling 10% Stock Option Plan is subject to annual approval by the Company's shareholders.

Performance options

In the prior fiscal year ended August 31, 2011, the Company granted 1,850,000 performance stock options (the "Performance Stock Options") to officers and directors (August 31, 2010 – nil). 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. On June 30, 2011, 925,000 of the performance stock options vested, as approved by the board of Directors of the Company, with the completion of a technical and economic feasibility study enabling consideration by a first adopter of the CVW™ Technology. On June 1, 2012, 925,000 of the performance stock options were terminated as the Company did not conclude a definitive agreement with an oil sands operator (first adopter) for the development of the Corporation's process by the target date of June 1, 2012. Subject to the vesting of these Performance 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 is estimated at the grant date using the Black Scholes option pricing model with the expense being recognized over the expected vesting term. 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 is recorded in the period of the change. The resulting stock -based compensation expense specific to the Performance Stock Options recognized in the three and nine months ended May 31, 2012 was $nil and a recovery of $544,427. The recovery was the result of changes in management's revised expectations of the timing of achieving a definitive agreement with an oil sands operator (first adopter) for the development of the Corporation's process by the target date of June 1, 2012. The fair value attributed to the performance options granted on January 24, 2011, was $1.32, using the Black-Scholes Option Pricing Model.

Summary of options

As of May 31, 2012, the Company was entitled to grant 6,415,442 stock options and performance stock options of which 5,353,734 have been granted.

A summary of the Company's option activity for the nine month period ended May 31, 2012 and 2011 as follows:

	2012 Outstanding options		2011 Outstanding options	
	Number of common shares #	Weighted average exercise price $	Number of common shares #	Weighted average exercise price $
Outstanding – September 1	5,618,434	1.57	3,237,500	1.44
Options granted	75,000	1.75	3,150,000	1.72
Options exercised	(89,700)	0.98	(327,166)	0.49
Options forfeited/expired	(250,000)	2.21	(335,000)	2.66
	5,353,734	1.56	5,725,334	1.58
Options exercisable – May 31	4,366,234	1.46	2,996,171	1.40

The fair value attributed to the options granted during the second quarter of 2012 was $1.21, using the Black-Scholes Option Pricing Model. The assumptions used in the calculation of the fair value of the grant are noted below:

Risk free interest rate	1.16%
Expected Life	3.68 years
Expected volatility	104%
Annual pre-vest forfeiture rate	1.35%

The following table summarizes the options outstanding as at May 31, 2012:

Range of exercise price	Number of common shares #	Weighted average remaining contractual life	Weighted average exercise price $	Number of options exercisable #	Weighted average exercise price $
0.00 – 0.99	1,107,000	2.23	0.65	1,107,000	0.66
1.00 – 1.99	1,391,734	3.23	1.33	1,329,234	1.31
2.00 – 2.99	2,855,000	2.61	2.02	1,930,000	2.02
	5,353,734	2.69	1.56	4,366,234	1.46

The aggregate share-based compensation, including the Performance Stock Options, calculated for the three and nine months ended May 31, 2012 was $40,933 and a recovery of ($94,149), respectively (three and nine months ended May 31, 2011 – $1,105,656 and $2,118,746, respectively). The recovery in the nine month period ended May 31, 2012 was the result of changes in management's expectations of the timing of achieving the milestones required under the Performance Stock Options, specifically a definitive agreement with an oil sands operator (first adopter) for the development of the Corporation's process by the target date of June 1, 2012. The revised estimate has been presented in the statement of loss and comprehensive loss as a component of research and development and general and administrative expense (note 9). The fair value of each option is accounted for in the statement of loss and comprehensive loss, over the vesting period of the options, and the related credit is recorded in contributed surplus.

6 Basic and diluted loss per share

Weighted average number of common shares outstanding

As the Company incurred a loss for the three and nine month periods ended May 31, 2012 and May 31, 2011, the impact of potentially issuable common shares upon the exercise of options would be anti-dilutive, basic and diluted loss per share as presented in the statement of loss and comprehensive loss are the same.

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

	Three-month period ended May 31,		Nine-month period ended May 31,	
	2012 $	2011 $	2012 $	2011 $
Net loss and comprehensive loss	361,194	3,200,220	2,406,211	8,787,595
Weighted average number of common shares for basic and diluted loss per share	64,154,416	63,934,932	64,124,973	61,011,398
Basic and diluted loss per share	0.01	0.05	0.04	0.14

7 Warrants

In fiscal 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). Related to the placement, the Company incurred $852,060 in cash commissions, issued 426,030 broker warrants (the “Broker Warrants”) valued at $267,527 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.

As at May 31, 2012, the warrants are outstanding as follows:

	Number of warrants #	Expiry
Warrants issued on private placement	3,582,750	June 15, 2012
Broker warrants issued on private placement	426,030	June 15, 2012
	4,008,780	

On June 15, 2012 the warrants expired unexercised.

8 Segmented information

Operating segments

The Company has one reporting segment engaged in researching and developing a separation process for the recovery of heavy minerals and bitumen from oil sands froth treatment tailings. As the operations comprise a single reporting segment, amounts disclosed in the financial statements represent those of the single reporting unit. In addition, all of the Company's equipment is located in Canada.

9 Expenses by nature

General and administrative expenses consist of the following:

	Three-month period ended May 31,		Nine-month period ended May 31,	
	2012 $	2011 $	2012 $	2011 $
Compensation and benefits	122,962	96,176	695,132	621,767
Stock-based compensation (note 5)	37,933	869,455	(84,665)	1,604,397
Investor relations and regulatory	24,243	72,973	227,555	208,521
Consulting and professional fees	145,599	75,239	378,596	235,332
Directors' fees	76,032	67,827	212,251	238,965
Travel	66,412	32,694	159,961	118,450
Rent, insurance and office	64,614	78,258	176,567	168,569
	537,795	1,292,622	1,765,397	3,196,001

Research and development expenses consist of the following:

	Three-month period ended May 31,		Nine-month period ended May 31,	
	2012 $	2011 $	2012 $	2011 $
Pilot plant, rent and other	93,777	2,484,494	687,520	7,408,533
Compensation and benefits	156,407	148,678	452,899	471,931
Stock-based compensation note 5)	3,000	236,201	(9,484)	514,349
Government grant recovery (note 4)	(400,000)	(915,346)	(400,000)	(2,714,603)
	(146,817)	1,954,027	730,935	5,680,210

10 Capital disclosures

The Company's objectives for managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can provide adequate returns for shareholders and benefits for other stakeholders;
- To fund capital projects for facilitation of business expansion provided there is sufficient liquidity of capital to enable the internal financing; and
- To maintain a capital base so as to maintain investor, creditor and market confidence.

The Company considers its shareholders' equity and government grant balance as its capital, which at May 31, 2012 totalled $9,499,542 (August 31, 2011 – $11,912,281). The Company does not have any bank debt or externally imposed capital requirements. The Company's capital management objectives are to manage its cash and cash equivalents 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 the Company, is appropriate. There were no changes in the Company's approach to capital management during the period ended May 31, 2012.

11 Transition to IFRS

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the three months ended February 29, 2011, the comparative information presented in these financial statements for the three months ended February 28, 2011, and the preparation of an opening IFRS statement of financial position at September 1, 2010.

The Company has applied IFRS 1, *First-Time Adoption of IFRS*, in preparing its transitional statements. IFRS 1 provides specific choices and mandates specific exceptions with respect to first-time adoption of IFRS. The significant choices applicable to the Company relate to the following:

- *Property, Plant & Equipment*: IFRS 1 provides a choice between measuring equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under Canadian GAAP. The historical cost carrying values under Canadian GAAP approximate the depreciated cost of equipment in accordance with IFRS. The Company has decided to continue to apply the cost model for equipment and has not restated equipment to fair value under IFRS. The Company has elected to use the historical cost carrying values as determined under Canadian GAAP as deemed cost, at the date of transitions to IFRS.

- *Stock-based Compensation:* IFRS 1 allows the Company to choose not to apply IFRS 2, *Share-based Payments,* to equity instruments that vested prior to the date of transition to IFRS. The Company has therefore elected to apply IFRS 2 only to outstanding stock options that were unvested at September 1, 2010.

In preparing its opening IFRS statements of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the additional notes that accompany the tables.

a) Reconciliation of assets and liabilities

There was no significant impact on the Company's previously reported assets and liabilities upon transition to IFRS.

Reconciliation of shareholders' equity

	Note	August 31, 2011 $	May 31, 2011 $	September 1, 2010 $
Share capital under Canadian GAAP		59,929,848	59,648,675	48,386,821
Adjustments		-	-	-
Share capital under IFRS		59,929,848	59,488,107	48,386,821
Contributed surplus under Canadian GAAP		13,891,714	13,172,978	9,198,999
Adjustments	i	208,267	481,764	136,685
Contributed surplus under IFRS		14,099,981	13,654,742	9,335,684
Deficit under Canadian GAAP		(61,909,281)	(59,937,681)	(51,495,165)
Adjustments	i	(208,267)	(481,764)	(136,685)
Deficit under IFRS		(62,117,548)	(60,419,445)	(51,631,850)
Total shareholders' equity under Canadian GAAP		11,912,281	12,883,972	6,090,655
Total shareholders' equity under IFRS		11,912,281	12,883,972	6,090,655

b) Reconciliation of net loss and comprehensive loss

	Note	Three-month period ended May 31, 2011 $	Nine-month period ended May 31, 2011 $
Net loss under Canadian GAAP		(3,112,234)	(8,442,516)
Adjustments	i	(87,985)	(345,079)
Net loss under IFRS		(3,200,219)	(8,787,595)
Comprehensive loss under Canadian GAAP		(3,112,234)	(8,442,516)
Adjustments	i	(87,985)	(345,097)
Comprehensive loss under IFRS		(3,200,219)	(8,787,595)

c) Reconciliation of cash flows

There was no impact on the Company's previously reported cash flows upon transition to IFRS.

Notes to the restatements

i) Share based compensation

Under IFRS graded vesting awards are accounted for as though each installment is a separate award. IFRS does not provide for an election to treat the instruments as a pool and recognize expense on a straight line basis. Straight line basis was permissible under Canadian GAAP. Also under IFRS, the estimates of the number of equity-settled awards that vest are adjusted to the actual number that vests, unless forfeitures are due to market-based conditions. There is no choice to accrue compensation cost as if all instruments granted were expected to vest and recognize the effect of the forfeitures as they occur as elected by the Company under Canadian GAAP. The impact of transition to IFRS with respect to options granted after November 7, 2002 that vest after the date of transition, is an increase in deficit and contributed surplus by $136,685 at the date of transition. Research and development and general and administration expenses increased by $18,796 and $69,189 respectively, for the three month period ended May 31, 2011 and $62,164 and $252,914, respectively, for the nine-month period ended May 31, 2011.

ii) Presentation and classification

The Company’s statement of loss and comprehensive loss is presented by function. Accordingly, as disclosed in Note 10, certain expenses have been reclassified under IFRS. These changes are reclassifications only and there is no impact on loss or comprehensive loss as a result of these classification changes.

12 Additional IFRS information for the year ended August 31, 2011

Compensation awarded to key management[1] included:

	Year ended August 31, 2011 $
Salaries and short-term employee benefits	1,185,253
Share based compensation	2,432,104
Director fees	298,819
	3,916,176

[1]Key management includes all directors and officers of the Company.