

Titanium Corporation Inc.

Condensed Interim Financial Statements
(Unaudited)

**November 30, 2012 and August 31
2012**

January 23, 2013

**To the Shareholders of
Titanium Corporation Inc.**

The condensed interim financial statements of Titanium Corporation Inc. as at and for the three month period ended November 30, 2012 have been compiled by management.

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

Titanium Corporation Inc.
Condensed Interim Statement of Financial Position
(Unaudited)

(expressed in Canadian dollars)

	November 30, 2012 \$	August 31, 2012 \$
Assets		
Current assets		
Cash and cash equivalents	8,259,191	8,385,863
Research Tax Credits receivable(note 4)	409,654	400,000
Goods and services tax receivable	-	43,228
Eligible grant funding receivable (note 4)	491,850	491,850
Prepaid expenses	25,946	45,478
	9,186,641	9,366,419
Equipment	30,264	31,260
Total assets	9,216,905	9,397,679
Liabilities		
Current liabilities		
Trade and other payable	475,727	174,646
Accrued liabilities	790,926	459,376
Government grants (note 4)	486,584	-
	1,753,237	634,022
Shareholders' Equity		
Share capital (note 5)	60,104,658	60,104,658
Contributed surplus	13,966,971	13,954,628
Deficit	(66,607,962)	(65,295,629)
Total shareholders' equity	7,463,667	8,763,657
Total liabilities and shareholders' equity	9,216,905	9,397,679

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

Titanium Corporation Inc.

Condensed Interim Statement of Loss and Comprehensive Loss

(Unaudited)

For the three month period ended November 30, 2012 and 2011

(expressed in Canadian dollars)

	Three-month period ended November 30,	
	2012	2011
	\$	\$
Expenses and losses		
General and administrative (note 8)	483,971	890,422
Research and development (note 8)	853,644	451,759
Other operating expenses	4,426	4,617
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	1,342,041	1,346,798
Other income		
Interest	(29,708)	(37,847)
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Net loss and comprehensive loss	1,312,333	1,308,951
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Basic and diluted loss per share (note 6)	0.02	0.02
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The accompanying notes are an integral part of these financial statements.

Titanium Corporation Inc.

Condensed Interim Statement of Changes in Shareholders' Equity (Unaudited)

(expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Deficit \$	Shareholders' equity \$
Balance – September 1, 2012	60,104,658	13,954,628	(65,295,629)	8,763,657
Comprehensive loss for the period	-	-	(1,312,333)	(1,312,333)
Stock-based compensation	-	12,343	-	12,343
Balance – November 30, 2012	60,104,658	13,966,971	(66,607,962)	7,463,667
	Share capital \$	Contributed surplus \$	Deficit \$	Shareholders' equity \$
Balance – September 1, 2011	59,929,848	14,099,981	(62,419,214)	11,610,615
Comprehensive loss for the period	-	-	(1,308,951)	(1,308,951)
Stock-based compensation	-	409,435	-	409,345
Exercise of stock options	101,034	(40,397)	-	60,637
Balance – November 30, 2011	60,030,882	14,468,929	(63,728,165)	10,771,646

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

Titanium Corporation Inc.

Condensed Interim Statement of Cash Flows

(Unaudited)

For the three month period ended November 30, 2012 and 2011

(expressed in Canadian dollars)

	Three-month period ended November 30,	
	2012	2011
	\$	\$
Cash (used in) provided by		
Operating activities		
Net loss for the period	(1,312,333)	(1,308,951)
Items not affecting cash		
Amortization	1,633	1,897
Stock-based compensation	12,343	409,345
Government grant recovery	(749,426)	-
	(2,047,783)	(897,709)
Net change in non-cash working capital items		
Goods and services tax receivable	33,574	8,038
Prepaid expenses and other assets	19,532	46,769
Trade and other payables and accrued liabilities	632,632	(504,381)
	(1,362,045)	(1,347,283)
Investing activities		
Purchase of equipment	-	(1,489)
Disposal of equipment	(637)	-
	(637)	(1,489)
Financing activities		
Proceeds from exercise of stock options	-	60,637
Government grant proceeds	1,236,010	-
	1,236,010	60,637
(Decrease) in cash and cash equivalents	(126,672)	(1,288,135)
Cash and cash equivalents – Beginning of period	8,385,863	12,025,482
Cash and cash equivalents – End of period	8,259,191	10,737,347

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

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

November 30, 2012 and 2011

1 Reporting entity and recoverability

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

These financial statements of the Company have been approved by the Board of Directors on January 23, 2013. These interim financial statements are presented in Canadian dollars, which is the Company’s functional currency.

These condensed interim financial statements have been prepared in accordance with IFRS as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended August 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

3 Significant accounting policies

Except as outlined below, these condensed interim financial statements have been prepared following the same accounting policies and methods of computation as the most recent annual financial statements as at and for the year ended August 31, 2012. Significant accounting policies are described in Note 3 of the August 31, 2012 annual financial statements.

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

November 30, 2012 and 2011

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

Determining the fair value of 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.

b) Research tax credits receivable

The research tax credits receivable are not certain until received; as such judgement is applied to determine when that receipt is delivered to be virtually certain prior to recording the credit

c) 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.

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

November 30, 2012 and 2011

4 Government assistance

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. On October 27, 2012 the Contribution Agreement was modified to include additional funding of \$ 1,373,344 for further commercialization work undertaken by the Company. During the quarter 90% (\$1,236,010) of the additional funding was received, the remaining 10% holdback (\$137,334) will be received upon completion of the fourth milestone. The terms of the agreement were amended and SDTC will contribute in total, the lesser of 29.23% of eligible project costs or \$6,292,566. The government grant recovery from SDTC is recognized on a matching basis as the Company incurs eligible expenditures on the specific projects identified in the Contribution Agreement.

Total funding received to date has been \$5,663,372. The Company has an amount receivable of \$491,850, representing a 10% holdback on the value of the original grant and a deferred grant balance of \$486,584 that will be subsequently recognized as the Company incurs eligible expenditures for the projects currently underway. The Company has met the key conditions under the SDTC Contribution Agreement for recovery of the receivable balance.

The following table summarizes the balance of the grants as at November 30, 2012:

	November 30, 2012 \$
SDTC deferred grant balance – Beginning of period	-
SDTC grant received during the period	1,236,010
Eligible expenditures during the period	(749,426)
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SDTC deferred grant balance – End of period	486,584

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. In fiscal 2012, the Company recognized \$800,000 of refundable tax credits related to fiscal 2010 and 2011 SR&ED claims. In fiscal 2012, the company received in cash \$400,000 (maximum available refundable credit) in respect of its fiscal 2010 SR&ED and has filed its fiscal 2011 SR&ED claim recognizing the maximum refundable credit of \$400,000 as accounts receivable.

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

November 30, 2012 and 2011

5 Share capital

Authorized

Unlimited number of common shares without par value have been authorized. Share capital balances for the three month period ended November 30, 2012 and the year ended August 31, 2012 are as follows:

	November 30, 2012		August 31, 2012	
	Number of common shares #	Amount \$	Number of common shares #	Amount \$
Balance – September 1	64,179,416	\$ 60,104,658	64,064,716	\$ 59,929,848
Issued for cash				
pursuant to option plan	-	-	114,700	104,621
Reallocation from contributed surplus relating to the exercise of stock options	-	-	-	70,189
Balance	64,179,416	\$ 60,104,658	64,179,416	\$ 60,104,658

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.

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November 30, 2012 and 2011

Summary of options

As of November 30, 2012, the Company was entitled to grant 6,417,942 stock options and performance stock options of which 4,265,400 have been granted.

A summary of the Company's option activity for the three month period ended November 30, 2012 and fiscal year ended August 31, 2012 as follows:

	November 30, 2012		August 31, 2012	
	Number of common stock options #	Weighted average exercise price \$	Number of common stock options #	Weighted average exercise price \$
Outstanding –				
September 1	4,403,734	1.47	5,618,434	1.57
Granted	-	-	75,000	1.75
Options exercised	-	-	(114,700)	0.91
Options forfeited/expired	(138,334)	1.89	(1,175,000)	2.04
Options outstanding	4,265,400	1.45	4,403,734	1.47
Options exercisable	4,227,900	1.45	4,353,734	1.47

The following table summarizes the options outstanding as at November 30, 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	1,082,000	1.73	0.65	1,082,000	0.65
1.00 – 1.99	1,358,400	2.73	1.33	1,320,900	1.32
2.00 – 2.99	1,825,000	1.70	2.02	1,825,000	2.02
	4,265,400	2.04	1.45	4,227,900	1.45

The stock-based compensation calculated for the three months ended November 30, 2012 was \$12,343 (three months ended November 30, 2011 – \$409,346). The stock-based compensation has been presented in the statement of loss and comprehensive loss as a component of research and development and general and administrative expense (note 8). 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.

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6 Basic and diluted loss per share

Weighted average number of common shares outstanding

As the Company incurred a loss for the three month periods ended November 30, 2012 and November 30, 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 November 30,	
	2012 \$	2011 \$
Net loss and comprehensive loss	1,312,333	1,308,951
Weighted average number of common shares for basic and diluted loss per share	64,179,416	64,075,104
Basic and diluted loss per share	<u>\$ 0.02</u>	<u>\$ 0.02</u>

7 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 and solvents 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.

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Notes to Condensed Interim Financial Statements

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8 Expenses by nature

General and administrative expenses consist of the following:

	Three-month period ended November 30,	
	2012 \$	2011 \$
Compensation and benefits	199,861	201,620
Stock-based compensation (note 5)	12,343	321,460
Investor relations and regulatory	22,364	99,251
Consulting and professional fees	86,571	79,435
Directors' fees	75,965	71,121
Travel	44,390	62,286
Rent, insurance and office	42,477	55,249
	<u>483,971</u>	<u>890,422</u>

Research and development expenses consist of the following:

	Three-month period ended November 30,	
	2012 \$	2011 \$
Pilot plant, rent and other	1,439,095	194,760
Compensation and benefits	163,975	169,113
Stock-based compensation (note 5)	-	87,886
Government grant recovery (note 4)	(749,426)	-
	<u>853,644</u>	<u>451,759</u>

9 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.

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

November 30, 2012 and 2011

The Company considers its shareholders' equity and government grant balance as its capital, which at November 30, 2012 totalled \$7,701,934 (August 31, 2012 – \$8,725,407). 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 November 30, 2012.