

Titanium Corporation Inc.

Condensed Interim Financial Statements
(Unaudited)

February 28, 2013 and August 31 2012

April 29, 2013

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

The condensed interim financial statements of Titanium Corporation Inc. as at and for the three and six month period ended February 28, 2013 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)

	February 28, 2013 \$	August 31, 2012 \$
Assets		
Current assets		
Cash and cash equivalents	6,657,156	8,385,863
Research tax credits receivable (note 4)	-	400,000
Goods and services tax receivable	29,682	43,228
Eligible grant funding receivable (note 4)	594,152	491,850
Prepaid expenses	6,414	45,478
	<u>7,287,404</u>	<u>9,366,419</u>
Equipment	<u>28,632</u>	<u>31,260</u>
Total assets	<u>7,316,036</u>	<u>9,397,679</u>
Liabilities		
Current liabilities		
Trade and other payable	88,087	174,646
Accrued liabilities	830,942	459,376
Government grants (note 4)	58,858	-
	<u>977,887</u>	<u>634,022</u>
Shareholders' Equity		
Share capital (note 5)	60,104,658	60,104,658
Contributed surplus	13,974,795	13,954,628
Deficit	<u>(67,741,304)</u>	<u>(65,295,629)</u>
Total shareholders' equity	<u>6,338,149</u>	<u>8,763,657</u>
Total liabilities and shareholders' equity	<u>7,316,036</u>	<u>9,397,679</u>

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 and six month period ended February 28, 2013 and 2012

(expressed in Canadian dollars)

	Three-month period ended February 28,		Six-month period ended February 28,	
	2013 \$	2012 \$	2013 \$	2012 \$
Expenses and losses				
General and administrative (note 8)	569,763	165,556	1,053,734	1,055,977
Research and development (note 8)	580,021	490,493	1,433,665	942,252
Other operating expenses	3,728	3,171	8,154	7,788
	1,153,512	659,219	2,495,553	2,006,017
Other income				
Interest	(20,170)	(30,278)	(49,878)	(68,125)
Net loss and comprehensive loss	1,133,342	628,941	2,445,675	1,937,892
Basic and diluted (loss) per share (note 6)	\$(0.02)	\$(0.01)	\$(0.04)	\$(0.03)

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	-	-	(2,445,675)	(2,445,675)
Stock-based compensation	-	20,167	-	20,167
Balance – February 28, 2013	60,104,658	13,974,795	(67,741,304)	6,338,149
	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	-	-	(1,937,892)	(1,937,892)
Stock-based compensation	-	(135,082)	-	(135,082)
Exercise of stock options	146,473	(58,852)	-	87,621
Balance – February 29, 2012	60,076,321	13,906,047	(64,357,106)	9,625,263

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

Titanium Corporation Inc.

Condensed Interim Statement of Cash Flows

(Unaudited)

For the three and six month period ended February 28, 2013 and 2012

(expressed in Canadian dollars)

	Three -month period ended February 28,		Six -month period ended February 28,	
	2013 \$	2012 \$	2013 \$	2012 \$
Cash (used in) provided by				
Operating activities				
Net loss for the period	(1,133,342)	(628,941)	(2,445,675)	(1,937,892)
Items not affecting cash				
Amortization	1,632	2,080	3,265	3,977
Stock-based compensation	7,824	(544,427)	20,167	(135,082)
Government grant recovery	(427,726)	-	(1,177,152)	-
	(1,551,612)	(1,171,288)	(3,599,395)	(2,068,996)
Net change in non-cash working capital items				
Goods and services tax receivable	(20,028)	(4,677)	13,546	3,361
Research Tax Credits receivable	400,000	-	400,000	-
Eligible grant funding receivable	(102,302)	-	(102,302)	-
Prepaid expenses and other assets	19,532	23,939	39,064	70,706
Trade and other payables and accrued liabilities	(347,625)	155,637	285,007	(348,745)
	(1,602,035)	(996,389)	(2,964,080)	(2,343,674)
Investing activities				
Purchase of equipment	-	-	-	(1,489)
Disposal of equipment	-	-	(637)	-
	-	-	(637)	(1,489)
Financing activities				
Proceeds from exercise of stock options	-	26,984	-	87,621
Government grant proceeds	-	-	1,236,010	-
	-	26,984	1,236,010	87,621
(Decrease) in cash and cash equivalents	(1,602,035)	(969,405)	(1,728,707)	(2,257,540)
Cash and cash equivalents – Beginning of period	8,259,191	10,737,347	8,385,863	12,025,482
Cash and cash equivalents – End of period	6,657,156	9,767,942	6,657,156	9,767,942

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

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2013 and 2012

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 510, 840 6 Ave., SW, Calgary, Alberta, T2P 3A8 and the Company’s registered office is located at Suite 1000, 36 Toronto Street, Toronto, Ontario, M5C 2C5. 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 condensed interim financial statements of the Company have been approved by the Board of Directors on April 29, 2013 and 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)

February 28, 2013 and 2012

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)

February 28, 2013 and 2012

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 first 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 and has not been accrued to date. 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 \$58,858 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.

National Research Council of Canada - Industrial Research Assistance Program (“IRAP”)

The Company entered into a funding Contribution Agreement with National Research Council of Canada as represented by IRAP to assist with research costs related to the paraffinic tailings program currently under way at the CanmetEnergy research facility. The Company is eligible under the terms of the agreement to receive project funding for 80% of technical salaries and 50% of the value of contracted research costs carried out by third parties related to paraffinic tailings research. The maximum funding available for the paraffinic tailings research project is \$483,000. For the three and six month period ended February 28, 2013, \$112,104 has been recognized as grant recovery and treated as reduction of R&D expense. As at February 28, 2013, \$9,802 has been received in cash and the balance of \$102,302 is included in accounts receivable for unfunded claims that qualify for under the IRAP Contribution Agreement.

The following summarizes the balances related to Government assistance as at February 28, 2013:

	February 28, 2013 \$	August 31, 2012 \$
Accounts Receivable - Government Grants		
SDTC - 10% holdback	491,850	491,850
NRC - IRAP processed claims	102,302	-
Accounts receivable - Government Grants	594,152	491,850

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	February 28, 2013 \$	August 31, 2012 \$
Deferred Government grant balance		
SDTC Deferred grant balance - beginning of period	-	-
SDTC Funding received during period	1,236,010	-
Eligible Expenditures incurred during the period	(1,177,152)	-
	<hr/>	<hr/>
Ending deferred Government grant	58,858	-
	<hr/>	<hr/>
Government grant recovery		
SDTC	1,177,152	-
IRAP	112,104	-
	<hr/>	<hr/>
Government grant recoveries (note 8)	1,289,256	-
	<hr/>	<hr/>

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. The company has received in cash \$800,000 (maximum available refundable credit) in respect of its fiscal 2010 and 2011 SR&ED claims. The Company is in the process of preparing its fiscal 2012 SR&ED claim and will recognize the associated refundable tax credit once finalized.

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5 Share capital

Authorized

Unlimited number of common shares without par value have been authorized. Share capital balances for the six month period ended February 28, 2013 and the year ended August 31, 2012 are as follows:

	February 28, 2013		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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Summary of options

As of February 28, 2013, the Company was entitled to grant 6,417,942 stock options and performance stock options of which 3,365,400 have been granted.

A summary of the Company's option activity for the six month period ended February 28, 2013 and fiscal year ended August 31, 2012 as follows:

	February 28, 2013		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	(1,038,334)	2.02	(1,175,000)	2.04
Options outstanding	3,365,400	1.30	4,403,734	1.47
Options exercisable	3,340,400	1.30	4,353,734	1.47

The following table summarizes the options outstanding as at February 28, 2013:

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	1.48	0.65	1,082,000	0.65
1.00 – 1.99	1,358,400	2.48	1.33	1,333,400	1.32
2.00 – 2.99	925,000	2.90	2.00	925,000	2.00
	3,365,400	2.28	1.30	3,340,400	1.30

The stock-based compensation expense calculated for the three and six months ended February 28, 2013 was \$7,824 and \$20,167, respectively (three and six months ended February 28, 2012 was a recovery due to the forfeiture of options of \$544,427 and \$135,081 respectively). 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 and six month periods ended February 28, 2013 and February 28, 2012, 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 February 28,		Six-month period ended February 28,	
	2013 \$	2012 \$	2013 \$	2012 \$
Net loss and comprehensive loss	1,133,342	628,941	2,445,675	1,937,892
Weighted average number of common shares for basic and diluted loss per share	64,179,416	64,145,075	64,179,416	64,110,090
Basic and diluted (loss) per share	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ (0.03)

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.

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2013 and 2012

8 Expenses by nature

General and administrative expenses consist of the following:

	Three-month period ended February 28,		Six-month period ended February 28,	
	2013 \$	2012 \$	2013 \$	2012 \$
Compensation and benefits	197,039	198,925	396,900	400,544
Stock-based compensation (note 5)	7,824	(444,057)	20,167	(122,597)
Investor relations and regulatory	101,813	104,061	124,177	203,312
Consulting and professional fees	97,063	153,562	183,634	232,997
Directors' fees	69,117	65,098	145,082	136,219
Travel	44,699	31,263	89,089	93,549
Rent, insurance and office	52,208	56,704	94,685	111,953
	<u>569,763</u>	<u>165,556</u>	<u>1,053,734</u>	<u>1,055,977</u>

Research and development expenses consist of the following:

	Three-month period ended February 28,		Six-month period ended February 28,	
	2013 \$	2012 \$	2013 \$	2012 \$
Pilot plant, rent and other	975,803	398,984	2,414,903	593,744
Compensation and benefits	144,043	191,879	308,018	360,992
Stock-based compensation (note 5)	-	(100,370)	-	(12,484)
Government grant recovery (note 4)	(539,825)	-	(1,289,256)	
	<u>580,021</u>	<u>490,493</u>	<u>1,433,665</u>	<u>942,252</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.

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(Unaudited)

February 28, 2013 and 2012

The Company considers its shareholders' equity and government grant deferred balance as its capital, which at February 28, 2013 totalled \$6,397,007 (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 February 28, 2013.