MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTH PERIODS ENDED MAY 31, 2013

Titanium Corporation Inc. ("Titanium" or the "Company") has prepared the following management's discussion and analysis (the "MD&A") to provide information to assist in understanding the financial results for the three and nine month period ended May 31, 2013. This MD&A should be read in conjunction with Titanium's unaudited condensed financial statements as at and for the three and nine months ended May 31, 2013, as well as the audited financial statements for the fiscal year ended August 31, 2012 including the notes thereto (collectively, the "Financial Statements"). This MD&A is dated as at and based on information available to management as of July 18, 2013. The Company is a development stage company whose common shares are listed on the TSX Venture Exchange under the symbol "TIC".

The above referenced material is available on Titanium's website at www.titaniumcorporation.com or it can be found, along with additional information about Titanium, including the Company's annual information form for the year ended August 31, 2012 (the "AIF"), on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

The Financial Statements and this MD&A have been prepared in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook") which incorporate International Financial Reporting Standards ("IFRS"). All amounts included in this MD&A are in Canadian dollars, unless otherwise specified.

This MD&A contains forward-looking statements and information that reflects the current expectations of management about the future results, performance, achievements, prospects or opportunities for Titanium. These statements generally can be identified by use of forward-looking words such as "may", "will", "expect", "estimate", "anticipate", "believe", "project", "should" or "continue" or the negative thereof or similar variations. Forward-looking information is provided in this document in the discussion of Titanium's research and development plans under the heading "Titanium's Business" and Titanium's business plans for fiscal 2013 under the headings "Update" and "Next Steps". Titanium provides forward-looking information in order to describe management's expectations and assist shareholders in understanding our financial position as at and for the periods ended on the dates presented in this MD&A. Readers are cautioned that this information may not be appropriate for other purposes. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond Titanium's control, which could cause actual results, performance or achievements to differ materially from those that are disclosed in or implied by such forward-looking statements. Forward-looking information is subject to significant risks and

uncertainties and is based on a number of Titanium's expectations and assumptions which may prove to be incorrect regarding future prices for zircon and bitumen, stable currency exchange rates between the Canadian and US dollars, expected capital expenditures and Titanium's expected future research and development activities. The material risks, uncertainties and other factors that could influence actual results include, but are not limited to:

- *Commercialization of the Creating Value from Waste ™ ("CVW™") project on the timetable anticipated or at all;*
- *The commercialization of the CVW™ process is dependent upon oil sands producers to adopt and integrate the CVW™ process into their operations and provide froth treatment tailings volumes as feedstock to the CVW™ process;*
- *Commodity price fluctuations are beyond our control and may affect the ability of oil sands producers to enter into commercial projects with us;*
- *Heavy mineral price fluctuations are beyond our control and may have a material adverse effect on our business operating results, financial condition and profitability;*
- *Potential fluctuations in our financial and business results make forecasting difficult and may restrict our access to funding for our commercialization plan;*
- *Access to the necessary sources of capital to finance the CVW™ project;*
- *Uncertainty related to the cost to build and operate the CVW™ project;*
- *Operational, execution or technical difficulties in connection with successfully completing research activities and building and operating the CVW™ project;*
- *Development timeline delays and problems, including negative impacts on Titanium's technologies caused by unforeseen development costs;*
- *Results of research activities;*
- *Reliance on a small number of key people to carry out Titanium's business and research activities;*
- *Competitors who may develop alternate solutions or Titanium's intellectual property may not be adequately protected; and/or*
- *Changes to environment laws and regulations which may add significant cost to or impair the permitted operation of the CVW™ project.*

While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this forward-looking information except as required by applicable securities laws. This forward-looking information represents our views as of the date of this MD&A and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from

those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations.
There can be no assurance that this forward-looking information will prove to be accurate as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. These factors are not intended to represent a complete list of the factors that could affect the Company. Additional information on these and other factors are disclosed elsewhere in this MD&A and in other reports filed with the securities regulatory authorities in Canada from time to time and available on SEDAR.

Titanium's Business

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 fiscal 2011, the Company completed a twelve month demonstration pilot which culminated several years of progressive research and development ("R&D") of its proprietary technologies.

In the mining sector of Canada's oil sands industry, which is the Company's area of focus, producers surface mine deposits in northern Alberta to extract bitumen (heavy oil trapped in the sands) for further processing into synthetic crude oil. Heavy minerals occurring in these oil sands deposits are concentrated in tailings during one of the bitumen extraction steps referred to as 'froth treatment'. Oil sands producers currently use either a naphtha or paraffinic based solvent to process bitumen at the froth treatment stage. These solvent based processes result in the loss of bitumen, solvents and heavy minerals in froth treatment tailings streams which are currently deposited in tailings ponds. The combination of bitumen and solvent losses to tailings ponds results in volatile organic compound ("VOC") emissions and greenhouse gas ("GHG") emissions. Significant GHG emissions are caused by methane biogenesis ("methanogenesis") in tailings ponds. Methane, which has a CO_2e intensity of 25 times CO_2, is released into the atmosphere from tailings ponds. Scientific studies point to the solvents in froth treatment tailings as a cause of methanogenesis. The Company's technology has been developed for naphtha based and paraffinic froth treatment tailings to meet the current and future needs of all the major oil sands operators related to froth treatment tailings remediation.

Four large oil sands mining sites are currently in operation: Syncrude Canada, Suncor Energy, Canadian Natural Resources Limited ("CNRL") and Albian Sands ("Shell"). One new mining site, Imperial Oil Kearl, is currently in start-up commissioning and an additional site, Total Joslyn, has received regulatory approval. All of the current

and developing sites forecast expansions, which will significantly increase Canada's oil sands mining production in the years ahead. The growth of the oil sands industry means that increased volumes of bitumen, solvent and minerals will be generated and lost in froth treatment tailings.

To capture this opportunity, over a five year period the Company's scientists together with research, engineering and Government partners, conducted highly disciplined, phased research programs as follows:

- Phase I - initial laboratory scale work: the objective was to identify the most prospective laboratory-based solutions;
- Phase II - continuous bench scale testing: the objective was to provide scaling data for piloting; and
- Phase III - integrated pilot testing: the objective was to demonstrate the operation of the technology in an integrated continuous process.

The following summarizes the successful execution of the Company's programs:

The Company completed Phases I and II, successfully executing a two year research program endorsed by the Alberta Government and supported by a $3.5 million Alberta Energy Innovation Fund ("AEIF") grant received in March 2008. The key achievements of the program were the development of technologies to remove bitumen from heavy minerals and recover bitumen, solvents and water from froth treatment tailings. As a condition of the grant, a Government Advisory Committee to the Company was formed, comprised of representatives from the Energy and Environment Ministries, the Energy Resources Conservation Board ("ERCB"), Alberta Innovates and the AEIF grant program was extended to include partial funding of the Company's demonstration pilot program. The Company has completed all programs associated with the AEIF grant and provided final reports to the Alberta Government.

The success of the R&D program resulted in the award of a $4.9 million Federal Government grant from Sustainable Development Technologies Canada ("SDTC") in September 2009. The SDTC grant was utilized by the Company to fund one-third of the integrated demonstration pilot program. The Company engaged SNC-Lavalin as its engineering partner for pilot and full scale commercial engineering. A consortium was formed to facilitate the pilot comprised of the three naphtha based oil sands producers, Syncrude Canada, Suncor Energy and CNRL, Government (Federal and Alberta) and Sojitz Corporation of Japan. The integrated demonstration pilot was engineered and operated over an 18 month period and decommissioned in mid- 2011. Tailings from the three naphtha based oil sands operators were extensively tested during the program.

From June 2010 through May 2011, the integrated demonstration pilot (Phase III) was operated at CanmetENERGY Natural Resources Canada's Devon, Alberta pilot facility. This facility is the major site for the

testing of oil sands froth treatment technologies by the oil sands industry. Over 30,000 independent sample analyses were conducted by Maxxam Analytics during the 12 month pilot program. The Company completed demonstration piloting for the three naphtha based oil sands operators achieving excellent results: overall bitumen recoveries of up to 80% and solvent recoveries of 75%, the top end of targeted ranges; removal of bitumen from heavy minerals concentrate ("HMC"); and effective thickening of tailings and recovery of water for recycling. The Company also conducted pilot testing of paraffinic froth treatment tailings for two other oil sands firms, completing four weeks of piloting at a third party site, achieving bitumen recoveries of 85%.

Following the completion of the demonstration pilot in mid-2011, the Company provided detailed technical reports and reviews to the oil sands and Government participants. During 2012, the Company met with the oil sands participants to review results and provide economic business case projections and proposals. The Company has also developed relationships with potential partners that would bring operational, marketing and financial resources to commercial ventures. The Company has been conducting minerals separation testing programs utilizing cleaned HMC to produce final zircon products. In addition to meeting with the oil sands operators, the Company has been pursuing parallel tracks for commercialization with other stakeholders.

Over the past 12 months, the Company has conducted active informational and advocacy campaigns directed toward Alberta and Canadian Government Ministries, MLAs, MPs and regulators. The feedback and support from these stakeholders has been very positive and encouraging. Significant change occurred in the oil sands industry during 2012. Business and economic challenges emerged including delayed pipeline expansion to US markets, increased US domestic production and widening discounts for Canadian crude, particularly from the oil sands. Environmental and political opposition to oil sands bitumen has grown in the United States, Europe and within Canada, particularly in the Province of British Columbia. This changed environment caused the oil sands industry to suspend expansions and review business plans. In 2012, the industry adopted a collective approach to reviewing and prioritizing environmental technologies with the formation of Canada's Oil Sands Innovation Alliance ("COSIA"). COSIA has reviewed and indentified the most prospective technologies in a Technology Roadmap for the oil sands industry. The Company's technology has been included in the top 20 prioritized technologies in COSIA's Technology Roadmap. There is a heightened sensitivity to GHG emission intensity from oil sands production, given commitments by the provincial and federal governments to reduce carbon emissions. We believe the combination of the economic benefits from additional resource recovery, a new minerals industry, reduction of environmental impacts and the active support and investment by Government favor adoption of our technology.

Update

The third fiscal quarter of 2013 marked the completion of R&D and piloting programs related to the Company's core technologies. R&D expenditures in future quarters will be substantially reduced as the Company focuses its resources primarily on commercialization. During the quarter, the Company announced improved results from the 2013 CanmetENERGY pilot and the award of key Canadian patents protecting intellectual property. The Company continued a series of meetings with the Alberta Government, the oil sands industry and COSIA regarding adoption and commercialization of its tailings technology. An independent expert report on the potential environmental improvements of implementing the Company's technology was commissioned during the quarter and is now under review.

The following are highlights for the three and nine month periods ended May 31, 2013:

- The Company announced it has been awarded the final of the three core Canadian patents that together secure its innovative green oil sands technology. The new patent is Canadian Patent No. 2662346 (Moran et al) for a novel process that recovers bitumen from froth treatment tailings.
- An important pilot program was completed during the quarter that verified the commercial potential of the bitumen, solvent and mineral extraction techniques from oil sands tailings streams. Final results of independent testing on the recent pilot at CanmetENERGY confirmed the Company's technology's ability to recover large quantities of valuable residual bitumen, solvents and minerals from oil sands tailings. The pilot achieved improved recoveries of 82 percent of residual bitumen from the oil sands tailings stream and 98 percent of the solvents. The pilot achieved all of its objectives at larger scale processing and produced a large bulk sample of heavy mineral concentrates for separation processing into samples of zircon, an essential material in the worldwide ceramics industry. These performance levels solidify confidence for commercializing Titanium's technology, the prime initiative the Company is pursuing with industry and the Government of Alberta.
- The Canadian Government provided further SDTC grant funding of $1.4 million toward the pilot and the Company has also been awarded funding of $483,000 from the National Research Council's Industrial Research Assistance Program ("NRC-IRAP"). The recent funding awards bring total Government funding toward development of the Company's technology to $10.3 million.
- To encourage the recovery of valuable resources from oil sands tailings, the Alberta Government has developed a draft fiscal framework. The framework provides clarity around royalties, capital cost treatment and other fiscal terms required for planning and investing in commercial projects.
- An independent report on the potential environmental benefits of the Company's technology is under review. In response to increasing concerns over the carbon footprint of bitumen production, the Company

commissioned a review of the contribution its CVW™ technologies could make in addressing environmental impacts of solvents and bitumen in tailings ponds and the potential environmental improvements from implementing the Company's technology. Independent scientific studies by leading University researchers have identified tailings ponds as significant sources of GHG emissions and the solvent in tailings as a source of VOC emissions. Scientific studies point to the release of methane gas from tailings ponds, a GHG that has 25 times the intensity of CO_2, as a significant source of GHG emissions. The studies point to naphtha diluents which are discharged in froth treatment tailings as a source of methanogenesis in large anaerobic settling basin tailings ponds. Scientific studies also point to naphtha dissipation into the atmosphere as a source of VOC emissions. By recovering naphtha from the froth treatment tailings stream before it is discharged to tailings ponds, the Company's technology would significantly reduce GHG and VOC emissions.

Next Steps

In order to commercialize its technology, deliver increased resource recoveries, provide environmental benefits and create a new minerals export industry, the Company is reliant on the oil sands industry and Government moving forward with on-site projects and final fiscal programs. Implementation of the Company's technology involves the construction of concentrator facilities at oil sands sites which integrate with existing oil sands operations. A minerals separation facility, employing commercial minerals technology uniquely configured for Athabasca mineral sands, would process HMC into final minerals products. The facilities may be jointly owned and operated along with strategic partners.

Next steps and current status include:

- Finalization of fiscal programs by the Alberta Government and Ministerial approval to establish royalties and incentives for heavy minerals and bitumen recovery from tailings: a draft fiscal structure has been developed.
- Review and agreement of the draft fiscal framework among the oil sands operators, Alberta Government and the Company leading to identification of a first project and business structure: draft structure is available for a first project.
- Completion of engineering and internal review processes by oil sands operators, leading to budgeting and scheduling on-site facilities projects: third party engineering review has been completed by an oil sands operator; oil sands operators are reviewing project business plans for implementation of the Company's technology.

- Finalizing the design of optimal minerals processing facilities: a final minerals flow-sheet has been developed, bulk sample HMC volumes have been produced at the recent CanmetENERGY pilot, shipped to Australia and larger volume minerals separation testing is underway.
- Partnering, joint venture and financing arrangements: relationships have been established with potential partners that can be activated when a first project is agreed.
- Agreements among partners to build and operate the commercial facilities: pending decisions by industry and Government on the first project.
- Front end engineering and design ("FEED") for bitumen recovery and minerals processing facilities, followed by detailed engineering leading to the procurement and construction phase: preliminary engineering and cost estimates have been completed for concentrator and minerals facilities.

Currently, the Company may be regarded as engaged in the "pre-commercialization" phase whereby ongoing consultations, planning and negotiations are taking place. The oil sands operators have disciplined internal review processes prior to sanctioning on-site projects followed by more detailed FEED. The Company's objective is to work closely with the oil sands operators and Government to reach commercial agreements during this process.

Following FEED, detailed engineering and construction for an initial site implementation is estimated to take approximately 30 months. Under the terms of the Government funding, the Company is required to develop an industry wide solution for froth treatment tailings. As a result of its collaboration with oil sands operators and Government, the Company expects to identify a first adopter of the technology and negotiate the terms for commercialization.

The Company has reached this advanced stage because of its successful development and demonstration piloting of sustainable technology. The Company's technology offers a compelling value proposition for the recovery of currently wasted resources, the establishment of a new minerals industry and environmental improvements through the reduction of harmful GHG and VOC emissions and reduced river water consumption. The Company remains confident that with Government support and the heightened focus on the social license to operate, the oil sands industry will continue to move forward.

Financial Information & Analysis

Summary of Selected Quarterly Results

The following table summarizes the financial data of the Company for the most recently completed eight quarters ($ millions except per share data):

	Q3 May 31, 2013	Q2 Feb 28, 2013	Q1 Nov 30, 2012	Q4 Aug 31, 2012
STATEMENT OF LOSS				
Net Loss	$ 1.5	$ 1.1	$ 1.3	$ 0.5
Basic and Diluted Loss per Share	$ 0.02	$ 0.02	$ 0.02	$ 0.01
	Q3 May 31, 2012	**Q2 Feb 29, 2012**	**Q1 Nov 30, 2011**	**Q4 Aug 31, 2011**
STATEMENT OF LOSS				
Net Loss	$ 0.5	$ 0.6	$ 1.4	$ 1.7
Basic and Diluted Loss per Share	$ 0.01	$ 0.01	$ 0.02	$ 0.03

The Company is in the development stage and it has yet to earn any revenues. Quarterly losses are comprised of Research and Development ("R&D") and General and Administrative ("G&A") expenditures. Changes in quarterly losses are primarily dependent on the level of R&D activity that the Company has engaged in developing the CVW™ suite of technologies.

The following summarizes the Company's financial results for the three and nine month period ended May 31, 2013 as compared to the same period in 2012 and for the year ended August 31, 2012:

- Net loss of $1.5 million for the three month period ended May 31, 2013 increased by $1.0 million from $0.5 million in the comparative three month period ended May 31, 2012 as a result of the operation of the HMC bulk minerals processing and paraffinic tailings pilots at CanmetENERGY's research facility. Pilot work commenced in September of 2012 and concluded in the current quarter ended May 31, 2013. On a year to date basis, R&D spending, before government grant recoveries, was $3.9 million for the nine month period ended May 31, 2013, offset by $1.7 million in government grant recoveries. For the nine month period ended May 31, 2013, net R&D spending of $2.2 million was $1.4 million higher than in the comparative period due to the operational costs associated with piloting. As a development stage company, the net loss was in line with expectations.
- G&A expense was higher by $0.2 million for the three month period ended May 31, 2013 compared to the three month period ended May 31, 2012 as a result of the deferred compensation charges of $0.3 million related to deferred share units ("DSU's") to non-executive directors. None of these charges were paid out in cash in the quarter. Except for the increases in deferred and stock-based compensation, all

other G&A expenses remained lower by $0.1 million for the three month period ended May 31, 2013 to the comparable period in the prior year. On a year to date basis, G&A expense was higher for the nine month period ended May 31, 2013 by $0.1 related to the $0.5 million deferred and stock-based compensation expense which was offset by lower spending of $0.3 million on all other G&A expenses for the comparative nine month period.

- R&D spending, net of government grant recoveries was $0.8 million for the three month period ended May 31, 2013, $0.9 million higher than the three month period ended May 31, 2012 as the Company operated pilot programs at the CanmetENERGY facility for the HMC bulk minerals sample and technical work related to the larger volume paraffinic program. For the three month period ended May 31, 2012, R&D expense was lower as the Company recorded a $0.4 million recovery related to refundable SR&ED tax credits filed in the period.
- The Company had $5.3 million in cash at May 31, 2013 as compared to $8.4 million at August 31, 2012. All of the cash balances are liquid and are held in interest bearing cash accounts with major Canadian chartered banks. The decrease in cash of $1.3 million and $3.1 million respectively for the three and nine month periods ended May 31, 2013 relate to R&D activities and G&A expenses incurred which were offset by the receipt of $1.3 million in government grant funding.
- The Company has accounts receivable in the amount of $0.8 million, of which $0.6 million is receivable from SDTC and represents the 10% holdback on the total grant of $6.2 million. The Company has completed the final milestone and is compiling the final reporting required under the agreement to receive the 10% holdback. The remaining balance of $0.2 million is a receivable from NRC – IRAP for eligible research expenditures incurred during the current quarter related to project work on paraffinic tailings.

Research and Development Expenditures

Below is a summary of the R&D expenditures by major category ($ thousands):

	Three months ended			Nine months ended		
	May 31, 2013	May 31, 2012	Increase (decrease)	May 31, 2013	May 31, 2012	Increase (decrease)
Compensation and benefits	$ 134	$ 189	$ (55)	$ 442	$ 550	$ (108)
Pilot plant, rent and other	1,024	94	930	3,439	688	2,751
Government grant/SR&ED recovery	(385)	(400)	15	(1,674)	(400)	(1,274)
Stock-based compensation	30	3	27	30	(9)	39
	$ 803	**$ (114)**	**$ 917**	**$2,237**	**$ 829**	**$ 1,408**

- For the three and nine month periods ended May 31, 2013, R&D spending, before government grant recovery, was $1.2 million and $3.9 million respectively, as compared to $0.3 million and $1.2 million for the three and nine month periods ended May 31, 2012. The increase in R&D spending in both the three and nine month periods relates to piloting conducted at CanmetENERGY on larger volume paraffinic tailings and pre-commercialization minerals development. These R&D activities have been offset by additional government grant funding for the three and nine month periods ended May 31, 2013 of $0.4 million and $1.7 million respectively, as eligible expenditures were incurred under the SDTC and NRC-IRAP contribution agreements. As the Company incurred project expenditures, the pro rata portion of the funding was recognized as an offset to R&D expenses.
- Compensation and benefits were lower in the current quarter due to a reduction of one technical employee. Stock-based compensation expense recognized in the three and nine month periods ended May 31, 2013 was $0.03 million related to the grant of stock options on April 29, 2013.

General and Administrative Expenditures

The following table provides details of G&A expenditures for the periods noted ($ thousands):

	Three months ended			Nine months ended		
	May 31, 2013	May 31, 2012	Increase (decrease)	May 31, 2013	May 31, 2012	Increase (decrease)
Compensation and benefits	$188	$ 190	$ (2)	$ 584	$ 590	$ (6)
Consulting and professional fees	96	146	(50)	279	379	(100)
Directors fees	68	76	(8)	213	212	1
Travel	15	65	(50)	104	160	(56)
Rent, insurance and office	44	65	(21)	139	177	(38)
Investor relations and regulatory	31	24	7	156	228	(72)
Deferred compensation expense	287	-	287	287	-	287
Stock-based compensation	54	39	15	74	(85)	159
	$ 783	**$ 605**	**$ 178**	**$ 1,836**	**$ 1,661**	**$ 175**

- G&A expense for the three and nine month periods ended May 31, 2013 was $0.8 million and $1.8 million respectively compared to $0.6 million and $1.7 million for the same periods ended May 31, 2012. The increase in G&A expenditures in the current quarter is mainly attributed to the deferred and stock based compensation that was recognized in the quarter. All other G&A expenses are lower on a quarter and year to date basis. With the uncertainty over timing of commercial projects, the Company has focused on cash conservation and rationalization of overheads where possible.

- Interest income decreased to $0.02 million for the three month period ended May 31, 2013 from $0.04 million for the same period in fiscal 2012, reflecting a decrease in the Company's cash balances over the comparable three month period ended May 31, 2012.

Liquidity and Capital Resources

The Company had $5.3 million in cash at May 31, 2013, compared to $8.4 million at August 31, 2012. On a year to date basis the cash balance decreased by $3.1 million as the Company paid for expenses related to the operation of the pilot offset by the receipt of $1.2 million in cash from government grants. The cash balance decreased by $1.3 million for the three month period ended May 31, 2013 as the Company paid for expenses related to operation of the pilot at CanmetENERGY. The Company's cash balances consist of interest bearing cash accounts held at Schedule I Canadian chartered banks. 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 its technologies. The recoverability of amounts expended on R&D to date is dependent on the ability of the Company to complete pre-commercialization activities, commercialization at oil sands sites, and the ability of the Company to 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 endeavors.

The Company has sufficient cash and remaining government grants to fund its R&D and G&A costs for a period in excess of twelve months. As the Company conducts discretionary R&D and engineering projects, consideration for eligible grant funding will be pursued. Options available to the Company to fund its future cash requirements include, but are not limited to, new or additional government grants and/or issuances of securities and/or some form of partnership or joint venture; however, as noted above, the Company may not be successful at these endeavors.

The following is a summary of the cash flows for the periods noted:

- Cash used in operating activities for the three and nine month periods ended May 31, 2013 was $1.5 million and $4.5 million respectively and compared to $0.5 million and $2.8 million respectively for the three month period ended May 31, 2012. The increased use of cash in operating activities is related to the R&D piloting activities undertaken in the current fiscal year. This increase in spending was offset by government grant recoveries, reduced G&A expenses and changes in working capital.

- Cash provided by financing activities for the three month period ended May 31, 2013 was $0.1 million related to funds received from NRC – IRAP for eligible R&D expenditures. On a year to date basis total cash received from government grant funding was $1.3 million consisting of $1.2 million from SDTC and the

remaining $0.1 million from NRC- IRAP. Cash received from financing activities for the nine month period ended May 31, 2012 was $0.1 million related to proceeds received from the exercise of stock options.

Financial Instruments and Financial Risk Factors

The Company has, for accounting purposes, designated its cash and cash equivalents as fair value through profit and loss, which are measured at fair value; and goods and services tax receivables, government grant receivables, as loans and receivables. Accounts payable and accrued liabilities are classified for accounting purposes as other financial liabilities. The Company estimates that both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent because of the short-term nature of the assets. This discussion on risks is not all-inclusive and other factors may currently, or in the future, affect the Company. Please refer to our statement of risks and uncertainties more particularly described and updated in the Company's annual information form for the year ended August 31, 2012 on SEDAR *(www.sedar.com).*

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 of the Company. The Board of Directors of the Company 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. Cash and cash equivalents 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 May 31, 2013, the Company had aggregate cash and cash equivalents of $5.3 million ($8.4 million, August 31, 2012 and $9.3 million, May 31, 2012) to settle current liabilities of $1.3 million ($0.6 million, August 31, 2012 and $0.4 million May 31, 2012). Except for the liability associated with

the non-executive directors' DSUs, most of the Company's financial liabilities have contractual terms of 30 days or less with the remaining due within one year.

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 interest bearing cash accounts, 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. As at May 31, 2013, the Company has no bankers' acceptances, guaranteed investment certificates or interest-bearing debt.

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 expenses are 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.

The Company manages the risks relating to the financial instruments by holding cash in interest bearing accounts at Schedule I Canadian chartered banks. The income statement includes interest income and foreign exchange loss which are associated with the Company's financial instruments.

Related Party Transactions

The Company does not have any related party transactions.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Other Information

Outstanding Share Data - as at July 18, 2013:

Number of common shares issued and outstanding:	64,179,416
Number of options to purchase common shares:	4,015,400

Compliance

Mr. Neil Dawson, of Australia, and a registered member of AusIMM is the independent consultant who acts as the Qualified Person for the Company on the CVW ™ project.