

Titanium Corporation Inc.

Condensed Interim Financial Statements
(Unaudited)

February 28, 2014 and August 31, 2013

April 22, 2014

**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 periods ended February 28, 2014 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
As at (Unaudited)

(expressed in Canadian dollars)

	February 28, 2014 \$	August 31, 2013 \$
Assets		
Current assets		
Cash and cash equivalents	2,888,091	4,134,452
Research tax credits receivable (note 4)	317,071	317,071
Goods and services tax receivable	13,403	58,932
Eligible grant funding receivable (note 4)	629,194	841,134
Prepaid expenses	6,681	46,256
	<u>3,854,440</u>	<u>5,397,845</u>
Equipment	<u>23,143</u>	<u>26,825</u>
Total assets	<u>3,877,583</u>	<u>5,424,670</u>
Liabilities		
Current liabilities		
Trade and other payable	21,319	163,154
Accrued liabilities	366,901	349,824
	<u>388,220</u>	<u>512,978</u>
Deferred Compensation (note 5)	<u>-</u>	<u>196,667</u>
Total liabilities	388,220	709,645
Shareholders' Equity		
Share capital (note 5)	60,256,945	60,104,658
Contributed surplus	14,638,685	14,248,259
Deficit	<u>(71,406,267)</u>	<u>(69,637,892)</u>
Total shareholders' equity	<u>3,489,363</u>	<u>4,715,025</u>
Total liabilities and shareholders' equity	<u>3,877,583</u>	<u>5,424,670</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, 2014 and 2013

(expressed in Canadian dollars)

	Three month period ended February 28,		Six month period ended February 28,	
	2014 \$	2013 \$	2014 \$	2013 \$
Expenses and losses				
General and administrative (note 8)	695,731	569,763	1,158,088	1,053,734
Research and development (note 8)	337,386	580,021	625,372	1,433,665
Other operating expenses	3,397	3,728	9,435	8,154
	1,036,514	1,153,512	1,792,895	2,495,553
Other income				
Interest	(18,208)	(20,170)	(24,520)	(49,878)
	1,018,306	1,133,342	1,768,375	2,445,675
Net loss and comprehensive loss				
	1,018,306	1,133,342	1,768,375	2,445,675
Basic and diluted loss per share (note 6)	\$0.02	\$0.02	\$0.03	\$0.04

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, 2013	60,104,658	14,248,259	(69,637,892)	4,715,025
Comprehensive loss for the period	-	-	(1,768,375)	(1,768,375)
Issuance of shares (note 5)	152,287	(152,287)	-	-
Stock-based compensation (note 5)	-	346,046	-	346,046
DSUs converted to equity settled plan (note 5)	-	196,667	-	196,667
Balance – February 28, 2014	60,256,945	14,638,685	(71,406,267)	3,489,363
	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

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, 2014 and 2013

(expressed in Canadian dollars)

	Three month period ended February 28,		Six month period ended February 28,	
	2014 \$	2013 \$	2014 \$	2013 \$
Cash (used in) provided by				
Operating activities				
Net loss for the period	(1,018,306)	(1,133,342)	(1,768,375)	(2,445,675)
Items not affecting cash				
Amortization	1,841	1,632	3,682	3,265
Stock-based compensation	268,706	7,824	346,045	20,167
Government grant recoveries	-	(427,726)	(34,074)	(1,177,152)
	(747,759)	(1,551,612)	(1,452,722)	(3,599,395)
Net change in non-cash working capital items				
Goods and services tax receivable	(4,179)	(20,028)	45,529	13,546
Research Tax Credits receivable	-	400,000	-	400,000
Eligible grant funding receivable	-	(102,302)	-	(102,302)
Prepaid expenses and other assets	19,787	19,532	39,575	39,064
Trade and other payables and accrued liabilities	(69,085)	(347,625)	(124,757)	285,007
	(801,236)	(1,602,035)	(1,492,375)	(2,964,080)
Investing activities				
Disposal of equipment	-	-	-	(637)
Financing activities				
Government grant proceeds	17,008	-	246,014	1,236,010
(Decrease) in cash and cash equivalents	(784,228)	(1,602,035)	(1,246,361)	(1,728,707)
Cash and cash equivalents – beginning of period	3,672,319	8,259,191	4,134,452	8,385,863
Cash and cash equivalents – end of period	2,888,091	6,657,156	2,888,091	6,657,156

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

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2014 and 2013

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 TSX 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 considered to be a development stage enterprise as it has yet to earn any revenues from its planned operations. The Company is devoting substantially all of its efforts toward commercializing its proprietary technology. Currently there are no contractual rights or obligations related to the oil sands project. The recoverability of amounts expended on R&D 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. While the Company has been successful in obtaining the necessary financing to develop the business to this point, there are no assurances that the Company will be successful in the future in these endeavors.

The financial statements are prepared on a going concern basis. An inability to raise additional financing or to achieve commercial operations, will impact the future assessment of the Company as a going concern. If the going concern assumption was not appropriate for these financial statements, the reported income and expenses and the statement of financial position would require the necessary adjustments to the carrying values of assets and liabilities, which could be material.

2 Basis of presentation

These condensed interim financial statements of the Company have been approved by the Board of Directors on April 22, 2014 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

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2014 and 2013

financial statements for the year ended August 31, 2013, 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, 2013. Significant accounting policies are described in Note 3 of the August 31, 2013 annual 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-based compensation

Determining the fair value of stock based compensation 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 believed 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.

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 financial statements.

The following standard has been issued but does not have a fixed implementation date. The Company has not yet begun the process of assessing the impact that the new standard will have on its financial statements:

IFRS 9 – “Financial Instruments”, which is the result of the first phase of the IASB's project to replace IAS 39 – “Financial Instruments: Recognition and Measurement”. The new standard replaces the current

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2014 and 2013

multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

As disclosed in the August 31, 2013 financial statements, effective January 1, 2014, Titanium adopted, as required, IAS 36 “Impairment of Assets”, and IAS 32 “Financial Instruments: Presentation”. The adoption of these policies did not result in any measurement adjustments as at January 1, 2014.

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 29.23% of eligible project costs or \$6,292,566. The government grant recovery from SDTC was recognized on a matching basis as the Company incurred 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 \$629,194; representing a 10% holdback on the value of the grant. The Company has met the key conditions under the SDTC Contribution Agreement and the funds were received subsequent to quarter end on April 9, 2014.

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

In 2012, 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 a paraffinic tailings program conducted at the Canmet Energy research facility. The Company was eligible for funding of up to \$483,000 consisting of 80% of technical salaries and 50% of the value of contracted research costs carried out by third parties related to paraffinic tailings research. Since the inception of the project, the Company received \$358,113 for qualifying project costs. For the six month period ended February 28, 2014, \$34,074 (\$112,104 – February 28, 2013) has been recognized as grant recovery and treated as a reduction of R&D expense. The Company has concluded the project and has filed final project reports with IRAP as required by the terms of the agreement.

The following summarizes the balances related to Government assistance:

	February 28, 2014	August 31, 2013
	\$	\$
Accounts Receivable - Government Grants		
SDTC - 10% holdback	629,194	629,184
NRC - IRAP claims in process	-	211,950
	<hr/>	<hr/>
Accounts receivable - Government Grants	629,194	841,134
	<hr/>	<hr/>

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2014 and 2013

	February 28, 2014	August 31, 2013
	\$	\$
Government grant recovery		
SDTC	-	1,373,344
IRAP	34,074	324,134
Government grant recoveries (note 8)	34,074	1,697,478

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. The Company has recognized accounts receivable in the amount of \$317,071 consisting of its fiscal 2012 claim in the amount of \$101,071 and fiscal 2013 SR&ED estimated claim in the amount of \$216,000.

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, 2014 and the year ended August 31, 2013 are as follows:

	February 28, 2014		August 31, 2013	
	Number of common shares #	Amount \$	Number of common shares #	Amount \$
Balance – September 1	64,179,416	\$ 60,104,658	64,179,416	\$ 60,104,658
Issued pursuant to RSU plan	245,624	152,287	-	-
Balance –	64,425,040	\$ 60,256,945	64,179,416	\$ 60,104,658

Stock-based compensation

The Company has a Stock Plan for its directors, officers, employees and consultants to encourage ownership of stock and align the longer term interest of Company shareholders. The stock plan is designed to advance the Company's interests by providing additional incentives for plan participants and to retain and attract valued directors, officers, employees and consultants. The Company grants stock-based awards to officers, employees and non-executive directors at the discretion of the board of directors. The associated stock-based compensation expenses are recognized as components of general and administrative and research and development expenses. On December 16, 2013 the Company adopted a "rolling" stock-based plan to include

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2014 and 2013

stock options, deferred share units (“DSUs”) and restricted share units (“RSUs”). The number of common share options available for grant at any time is limited to 10% (rolling) of the issued and outstanding common shares of the Company in the aggregate. The revised rolling 10% stock plan was approved by shareholders on January 23, 2014 and the stock plan is subject to annual approval by the Company’s shareholders.

The stock plan is comprised of the following components:

a) Stock options

Once a stock option is granted, the compensation costs for options granted is based on the estimated fair values of the options at the time of grant. This cost is recognized in general and administrative and research and development expenses over the vesting periods of the options and a corresponding increase to contributed surplus, within shareholders’ equity. Upon exercise of the stock option, both the consideration received and the fair value of the option amortized are recognized as share capital.

b) Deferred share units (“DSU’s)

As part of the Company’s long-term incentives for non-executive directors a deferred stock unit plan was established representing a component of director compensation. The Award plan was initially established on April 29, 2013 as a cash settled plan. On December 16, 2013 the Company revised the plan for the purpose of reducing cash expenses, whereby DSU awards would be settled with common shares. The revised plan was approved by the Company’s shareholders on January 23, 2014. DSU awards vest immediately upon grant and are settled with issuance of common shares when a director’s service ceases. The compensation expense for DSUs awarded to non-executive directors is based on the fair values at the time the award is granted. The expense is recognized as a component of general and administration expense with a corresponding increase to contributed surplus within shareholders’ equity. Upon redemption, the fair value of the award is reclassified from contributed surplus to share capital.

c) Restricted share units (“RSU’s)

As part of the Company’s long-term incentives for officers and other key employees of the Company, the RSU plan provides participants with the opportunity to acquire RSUs in to order participate in the long term success of the Company. The vesting schedule of RSU awards are specified by the Board on the grant date. Once the award is vested, the RSU is settled with the issuance of the Company’s common shares. The compensation expense for RSUs awarded is based on the fair values of the award at the time of grant and amortized over the specified vesting period. The cost is recognized as a component of general and administration expense with a corresponding increase to contributed surplus, within shareholders’ equity. Upon redemption, the fair value of the award is reclassified from contributed surplus to share capital.

Summary of stock based awards

As of February 28, 2014, the Company was entitled to grant 6,442,504 stock based awards within the 10% rolling plan of which 4,175,490 have been granted. Of the total granted, 3,815,400 were issued as stock options and 360,090 were issued as DSUs. The components of stock based compensation are summarized below:

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2014 and 2013

Summary of stock options

A summary of the Company's stock option activity for the six month period ended February 28, 2014 and fiscal year ended August 31, 2013 as follows:

	February 28 , 2014		August 31, 2013	
	Number of common stock options #	Weighted average exercise price \$	Number of common stock options #	Weighted average exercise price \$
Outstanding – September 1	3,940,400	1.23	4,403,734	1.47
Granted Options	-	-	1,050,000	1.00
Options forfeited/cancelled	(75,000)	1.11	(363,334)	(1.41)
Options expired	(50,000)	0.21	(1,150,000)	(1.87)
Options outstanding	3,815,400	1.25	3,940,400	1.23
Options exercisable	3,315,400	1.28	3,065,399	1.30

The following table summarizes the options outstanding as at February 28, 2014:

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	857,000	0.56	0.67	857,000	0.67
1.00 – 1.99	2,133,400	2.80	1.19	1,633,400	1.27
2.00 – 2.99	825,000	1.87	2.00	825,000	2.00
	3,815,400	2.38	1.25	3,315,400	1.28

Stock-based compensation expense has been presented in the statement of loss and comprehensive loss as a non-cash component of research and development and general and administrative expense (note 8). The fair value of each stock 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.

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2014 and 2013

Summary of DSUs

A summary of the DSU activity for the six month period ended February 28, 2014 and fiscal year ended August 31, 2013 as follows:

	February 28, 2014		August 31, 2013	
	Number of DSUs #	Weighted average share price at time of grant \$	Number of DSUs #	Weighted average grant price \$
Outstanding – September 1	333,330	0.90	333,330	0.90
Granted November 30, 2013	14,664	0.51	-	-
Granted February 28, 2014	12,096	0.62	-	-
DSUs outstanding	360,090	0.87	333,330	0.90

At August 31, 2013, \$196,666 was recognized as stock based compensation expenses for the DSUs issued during the prior fiscal year and the corresponding liability was included as part of accrued liabilities. With the amendment to the DSU plan to an equity settled plan on January 23, 2014, the accounting impact of the change was to reclassify the \$196,666 from accrued liabilities to contributed surplus.

Summary of RSUs

On December 16, 2013 RSUs were awarded to executive officers in lieu of \$122,812 cash compensation. The vesting of the awards were aligned with shareholder approval of the RSU plan at the Company's annual general meeting on January 23, 2014. Following the approval by shareholders, the RSUs were released and 245,624 common shares were issued by the Company.

A summary of the RSU activity for the six month period ended February 28, 2014 and fiscal year ended August 31, 2013 as follows:

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2014 and 2013

	February 28, 2014		August 31, 2013	
	Number of RSUs #	Share price at time of grant/release \$	Number of RSUs #	Share price at time of grant \$
Outstanding – September 1	-		-	-
Granted	245,624	0.62	-	-
Released – shares issued	(245,624)	0.62	-	-
RSUs outstanding	-	-	-	-

Stock based compensation expense related to stock awards for the three and six month period ended February 28, 2014 and February 28, 2013 is as follows:

	Three month period ended February 28,		Six month period ended February 28,	
	2014 \$	2013 \$	2014 \$	2013 \$
Stock options – G&A	46,027	7,824	116,411	20,167
Stock options – R&D	24,784	-	54,238	-
	70,811	7,824	170,649	20,167
Deferred share units (DSUs)	45,609	-	23,110	-
Restricted share units(RSUs)	152,287	-	152,287	-
Stock-based compensation expense	268,706	7,824	346,046	20,167
Stock-based compensation by nature (note 8)				
Stock-based compensation – G&A	243,923	7,824	291,808	20,167
Stock-based compensation – R&D	24,784	-	54,238	-
	268,706	7,824	346,046	20,167

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 period ended February 28, 2014 and February 28, 2013, 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.

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2014 and 2013

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,	
	2014 \$	2013 \$	2014 \$	2013 \$
Net loss and comprehensive loss	1,018,306	1,133,342	1,768,375	2,445,675
Weighted average number of common shares for basic and diluted loss per share	64,277,666	64,179,416	64,228,269	64,179,416
Basic and diluted loss per share	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ 0.04</u>

7 Segmented information

Operating segments

The Company has one reporting segment engaged in researching and developing a recovery process for bitumen, solvents, valuable heavy minerals and water 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.

8 Expenses by nature

General and administrative expenses consist of the following:

	Three month period ended February 28,		Six month period ended February 28,	
	2014 \$	2013 \$	2014 \$	2013 \$
Compensation and benefits	102,984	197,039	246,465	396,900
Consulting and professional fees	150,584	97,063	267,467	183,634
Stock-based compensation (note 5)	243,923	7,824	291,808	20,167
Directors' fees	55,069	69,117	110,437	145,082
Rent, insurance and office	42,335	52,208	79,856	94,685
Investor relations and regulatory	60,898	101,813	93,540	124,177
Travel	39,938	44,699	68,515	89,089
	<u>695,731</u>	<u>569,763</u>	<u>1,158,088</u>	<u>1,053,734</u>

Titanium Corporation Inc.

Notes to Condensed Interim Financial Statements

(Unaudited)

February 28, 2014 and 2013

Research and development expenses consist of the following:

	Three month period ended February 28,		Six month period ended February 28,	
	2014 \$	2013 \$	2014 \$	2013 \$
Pilot plant, rent and other	206,771	975,803	392,528	2,414,903
Compensation and benefits	105,831	144,043	212,680	308,018
Stock-based compensation (note 5)	24,784	-	54,238	-
Government grant recovery (note 4)	-	(539,825)	(34,074)	(1,289,256)
	<u>337,386</u>	<u>580,021</u>	<u>625,372</u>	<u>1,433,665</u>

9 Capital disclosures

The 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.

The Company considers its shareholders' equity as its capital, which at February 28, 2014 totalled \$3,489,363 (August 31, 2013 - \$4,715,025). The Company does not have any bank debt or externally imposed capital requirements. The 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 commercialization of the developed technology and research and development; and to access available government funding for research and development where possible.

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, 2014.