Titanium Corporation Inc.

Balance Sheets (Prepared by Management)

		May 31 2004 (Unaudited)		August 31 2003 (Audited)
Assets				
Current				
Cash and cash equivalents	$	3,359,979	$	2,314,069
Marketable securities (Market value, $1,551,186; August 31, 2003, $1,013,378)		1,551,186		1,011,782
Receivables		299,099		32,569
Prepaids		59,271		28,977
		5,269,535		3,387,397
Oil sands project development costs (Note 2)		5,667,569		382,313
Exploration properties		4,812,135		4,433,376
Nova Scotia pilot plant and exploration equipment		124,725		146,733
Office equipment and leasehold improvements		90,575		68,541
	$	15,964,539	$	8,418,360
Liabilities				
Current				
Payables and accruals	$	1,355,078	$	51,740
Shareholders' equity				
Capital stock (Note 3)		17,633,173		11,715,069
Warrants (Notes 3 and 4)		1,263,239		-
Contributed surplus arising from stock-based compensation (Note 5)		829,231		241,524
Deficit		(5,116,182)		(3,589,973)
		14,609,461		8,366,620
	$	15,964,539	$	8,418,360

Responsibility for Financial Statements

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the August 31, 2003 audited financial statements. Only changes in accounting policies have been disclosed in these financial statements. A precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

Titanium Corporation Inc.

Statements of Operations and Deficit (Prepared by Management)
(Unaudited)

	Three Months Ended May 31		Nine Months Ended May 31	
	2004	2003	2004	2003
Expenses				
Consulting	$ 25,851	$ 37,461	$ 238,559	$ 109,922
Depreciation of office equipment and leasehold improvements	6,624	7,080	14,406	12,984
Directors' fees	34,250	-	96,750	-
Insurance	24,013	12,427	68,129	38,177
Investor relations	55,071	9,000	112,970	25,102
Gain on foreign exchange	(22,389)	-	(3,591)	-
Office and administration	129,122	107,643	320,726	287,305
Professional fees	51,258	21,104	163,524	121,500
Shareholders' communication and filing fees	57,753	42,025	226,119	96,787
Stock-based compensation	230,125	159,975	235,083	326,475
Travel and promotion	25,888	21,492	107,123	32,169
	617,566	418,207	1,579,798	1,050,421
Interest income	11,861	16,967	53,589	43,921
Net loss for the period	(605,705)	(401,240)	(1,526,209)	(1,006,500)
Deficit, beginning of period	(4,510,477)	(3,022,695)	(3,589,973)	(2,417,435)
Deficit, end of period	$ (5,116,182)	$ (3,423,935)	$ (5,116,182)	$ (3,423,935)
Basic and diluted loss per share (Note 8)	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.03)

See accompanying notes to the unaudited interim financial statements

Titanium Corporation Inc.

Statements of Cash Flows (Prepared by Management)
(Unaudited)

	Three Months Ended May 31		Nine Months Ended May 31	
	2004	2003	2004	2003
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net loss for the period	$ (605,705)	$ (401,240)	$ (1,526,209)	$ (1,006,500)
Stock-based compensation	230,125	159,975	235,083	326,475
Depreciation of office equipment and leasehold improvements	6,624	7,080	14,406	12,984
	(368,956)	(234,185)	(1,276,720)	(667,041)
Decrease (increase) in prepaids	12,186	11,730	(30,294)	6,163
Decrease (increase) in receivables	(199,063)	35,301	(266,529)	64,397
Increase (decrease) in payables and accruals	115,423	6,233	103,448	(81,679)
	(440,410)	(180,921)	(1,470,095)	(678,160)
Financing activities				
Units and common shares issued for cash	(5,477)	2,180,834	7,433,800	2,180,834
Investing activities				
Increase in marketable securities	(1,504,905)	-	(539,404)	-
Exploration expenditures excluding depreciation of pilot plant and equipment	(47,173)	(305,310)	(356,752)	(924,461)
Oil sands project development costs net of payables and accruals of $1,199,890 (3 months - $63,890)	(2,093,788)	-	(3,985,199)	-
Funds held in trust	-	(1,649,998)	-	(1,649,998)
Acquisition of office equipment and leasehold improvements	(36,440)	(7,041)	(36,440)	(28,994)
	(3,682,306)	(1,962,349)	(4,917,795)	(2,603,453)
Increase (decrease) in cash and cash equivalents for the period	(4,128,193)	37,564	1,045,910	(1,100,779)
Cash and cash equivalents, beginning of period	7,488,172	1,826,723	2,314,069	2,965,066
Cash and cash equivalents, end of period	$ 3,359,979	$ 1,864,287	$ 3,359,979	$ 1,864,287

Cash and cash equivalents at end of period consists of:

Cash	$ 305,196	$ 288,537
Term deposits	3,054,783	1,575,750
	$ 3,359,979	$ 1,864,287

See accompanying notes to the unaudited interim financial statements

1. Accounting Policies

The management of Titanium Corporation Inc. (the "Company") has prepared these unaudited financial statements for the nine months ended May 31, 2004, in accordance with Canadian generally accepted accounting principles for interim financial statements. These financial statements should be read in conjunction with the August 31, 2003 audited financial statements.

These unaudited interim financial statements follow the same accounting policies as the August 31, 2003 audited financial statements, except for the following:

Stock - Based Compensation

CICA Handbook Section 3870 requires that compensation cost for option awards to employees be recognized in the financial statements at fair value for options granted in fiscal years beginning on or after January 1, 2004. The Company, as permitted by CICA Handbook Section 3870, has adopted this section prospectively for option awards granted on or after September 1, 2003. The pro forma expense, using the intrinsic value based method, for awards granted for both the three and nine month periods ended May 31, 2003 was $18,730 and $1,044,580, respectively.

The Company had previously adopted provisions of Section 3870 relating to stock-based compensation to non-employees

The disclosures in these interim financial statements may not conform in all respects to Canadian generally accepted accounting principles for annual financial statements.

In the opinion of management, all adjustments considered necessary for a fair presentation have been included in these financial statements. Operating results for the nine months ended May 31, 2004 are not indicative of the results that may be expected for the full year ending August 31, 2004.

2. Oil sands project development costs

Costs incurred relating to the oil sands project development at August 31, 2003 and May 31, 2004 are as follows:

	May 31 2004 (Unaudited)	August 31 2003 (Audited)
Acquisition and development costs	$ 2,009,223	$ 273,000
Building and equipment construction costs	3,658,346	109,313
	$ 5,667,569	$ 382,313

3. Capital Stock

Authorized - unlimited number of common shares
Issued

Common shares	Number of Shares	Amount
Balance, August 31, 2003 (audited)	36,173,480	$ 11,715,069
Exercise of warrants	20,000	40,000
Common shares issued, net of issue costs	4,710,000	7,141,343
Warrant valuation	-	(1,263,239)
Balance, May 31, 2004 (unaudited)	40,903,480	$ 17,633,173

3. Capital Stock (continued)

On February 17, 2004, the Company completed a private placement financing of 4,710,000 units at a price of $1.70 per unit for gross proceeds of $8,007,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $2.00 per share until August 17, 2005. The offering was co-led by First Associates Investments Inc. and Dundee Securities Corp. (the "Agents"). Acadian Securities Inc. and Hampton Securities Ltd. acted as sub-agents on the offering. The Agents received a commission of 7% of the gross proceeds raised together with non-transferable agent's options to purchase 376,800 units at a price of $1.70 per unit until February 17, 2005. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the Agents to purchase one common share for $2.00 until August 17, 2005.

The fair value of the warrants and agent's options have been estimated using the Black-Scholes pricing option model. The assumptions used for the valuation of the warrants and agent's options were:

(i) Warrants issued on private placement
Dividend yield 0%, expected volatility 100%, risk - free interest rate 4.0% and an expected life of 18 months. Value assigned to 2,355,000 warrants is $1,263,239, net of issue costs of $152,042

(ii) Agent's options
Dividend yield 0%, expected volatility 100%, risk - free interest rate 4.0% and an expected life of 12 months. Value assigned to 376,800 options is $252,457.

Common share issue costs relating to the private placement was $865,657 of which $252,457 was the value attributed to the 376,800 agent's options. The share issue costs were allocated between common shares and warrants on a pro-rata basis.

4. Warrants and Agent's Options

The following table reflects the continuity of warrants and agent's options:

Expiry Date	Exercise Price	August 31 2003 Balance	Issued	Exercised	Expired	May 31 2004 Balance
September 2003	$2.00	20,000	-	(20,000)	-	-
February 2005	$1.70	-	376,800	-	-	376,800
August 2005	$2.00	-	2,355,000	-	-	2,355,000
		20,000	2,731,800	(20,000)	-	2,731,800

5. Contributed Surplus Arising from Stock-based Compensation

The following table reflects the continuity of contributed surplus:

Balance, August 31, 2003 relating to non-employee compensation (audited)	$	241,524
Compensation charged to statement of operations		235,083
Compensation charged to oil sands project development costs		100,167
Compensation charged to capital stock relating to agent's options (Note 3)		252,457
Balance, May 31, 2004 (unaudited)	$	829,231

6. Stock Option Plan

The Company has a stock option plan (the "Plan") which is restricted to directors, officers, key employees and 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 4,000,000 common shares in the aggregate, and with respect to any one optionee, to 5% of the number of issued and outstanding common shares of the Company at the date of the grant of the option. Options issued under the Plan may be exercised during a period determined by the board of directors which cannot exceed five years.

Effective February 26, 2003, all options granted subsequently 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.

The following table reflects the continuity of stock options for the nine months ended May 31, 2004:

	NUMBER OF STOCK OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, August 31, 2003 (audited)	2,713,075	$ 2.20
Options granted	1,045,000	$ 1.98
Options cancelled	(380,000)	$ 2.22
Balance, May 31, 2004 (unaudited)	3,378,075	$ 2.15

During the nine month period ended May 31, 2004, the following options to acquire common shares of the Company were granted:

(1) Options to acquire 25,000 common shares at price of $2.20 per share expiring November 7, 2005.
(2) Options to acquire 600,000 common shares at a price of $1.97 per share expiring January 14, 2009.
(3) Options to acquire 200,000 common shares at a price of $1.98 per share expiring February 25, 2009.
(4) Options to acquire 60,000 common shares at price of $1.87 per share expiring May 26, 2009.
(5) Options to acquire 100,000 common shares at a price of $2.06 per share expiring March 17, 2009.
(6) Options to acquire 60,000 common shares at a price of $2.02 per share expiring April 20, 2009.

6. Stock Option Plan (continued)

The following table reflects the stock options outstanding as of May 31, 2004:

Expiry Date	Exercise Price ($)	Options Outstanding
April 2005	2.07	350,000
November 2005	2.20	25,000
July 2006	2.20	645,000
February 2007	2.33	400,000
April 2007	2.00	243,075
June 2007	1.95	50,000
November 2007	2.18	110,000
January 2008	2.20	600,000
March 2008	2.45	10,000
August 2008	2.67	25,000
January 2009	1.97	500,000
February 2009	1.98	200,000
March 2009	2.06	100,000
April 2009	2.02	60,000
May 2009	1.87	60,000
		3,378,075

During the nine months ended May 31, 2004, 1,045,000 stock options were issued to directors, officers and consultants of the Company. These options will be expensed in the statement of operations and deficit or capitalized to oil sands project development costs as they vest. Of the 1,045,000 options granted, 191,666 have vested and accordingly $335,250 was recorded as stock-based compensation and contributed surplus. For the purposes of the 191,666 vested options, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the assumptions as listed below.

<u>Stock options not vested</u>

A summary of stock options not vested at May 31, 2004 are follows:

(i) 416,667 stock options exercisable at $1.97 and expiring January 14, 2009
Dividend yield 0%, expected volatility 100%, risk - free interest rate of 4.0% and an expected life of five years. Value assigned to the 416,667 stock options was $625,000.

(ii) 166,667 stock options exercisable at $1.98 and expiring February 25, 2009
Dividend yield 0%, expected volatility 100%, risk - free interest rate of 4.0% and an expected life of 5 years. Value assigned to the 166,667 stock options was $251,666.

(iii) 16,667 stock options exercisable at $2.20 and expiring November 7, 2005
Dividend yield 0%, expected volatility 100%, risk - free interest rate of 4.0% and an expected life of 5 years. Value assigned to the 16,667 stock options was $19,834.

(iv) 60,000 stock options exercisable at $1.87 and expiring May 26, 2009
Dividend yield 0%, expected volatility 100%, risk - free interest rate of 4.0% and an expected life of 5 years. Value assigned to the 60,000 stock options was $85,200.

6. Stock Option Plan (continued)

(v) 100,000 stock options exercisable at $2.06 and expiring March 17, 2009
Dividend yield 0%, expected volatility 100%, risk - free interest rate of 4.0% and an expected life of 5 years. Value assigned to the 100,000 stock options was $157,000.

(vi) 60,000 stock options exercisable at $2.02 and expiring April 20, 2009
Dividend yield 0%, expected volatility 100%, risk - free interest rate of 4.0% and an expected life of 5 years. Value assigned to the 60,000 stock options was $92,400.

7. Income Taxes

The benefit of the loss for the period has not been recognized in these unaudited interim financial statements.

Estimated taxable income for the period is nil. Based upon the level of historical taxable income it cannot be reasonably estimated at this time if it is more likely than not the Company will realize the benefits from future income tax assets relating to temporary differences between tax values and accounting values. Accordingly, an equivalent estimated taxable temporary difference valuation allowance has been provided.

The estimated taxable temporary difference valuation allowance will be adjusted in the period that it is determined that it is more likely than not that some portion or all of the future tax assets will be realized.

Refer to the August 31, 2003 audited financial statements for additional information on the tax position of Company.

8. Basic and fully diluted loss per share

The basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Fully diluted loss per share is the same as basic loss per share. The effect of common share purchase options, warrants and agent's options on the net loss for the periods presented is not reflected as to do so would be anti-dilutive.

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

	Three Months Ended May 31		Nine Months Ended May 31	
	2004	2003	2004	2003
Basic loss per share	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.03)
Numerator:				
Net loss for the period	$ (605,705)	$ (401,240)	$ (1,526,209)	$ (1,006,500)
Denominator:				
Weighted average number of common shares	40,903,480	35,325,880	38,025,146	35,098,102

9. Related Party Transactions

The Company was charged $Nil and $200,000 for the three and nine months ended May 31, 2004, respectively, by a corporation controlled by a director that provided the services of the chief executive officer.

The Company was charged $8,174 and $38,684 for the three and nine months ended May 31, 2004, respectively, by a corporation partially owned by the former chief financial officer of the Company that provided bookkeeping, corporate secretarial and transfer agency services.

The Company was charged $2,500 and $2,500 for the three and nine months ended May 31, 2004, respectively, for the services of the new chief financial officer of the Company.

10. Other Events

Effective November 13, 2003, the Company and a corporation controlled by a director that provides the services of the president agreed to rescind the termination agreement which had previously provided for the termination of the services of Mr. George Elliott as chief executive officer. Mr. Elliott re-assumed his position as chief executive officer and the amounts paid in connection with the termination agreement have been expensed in the current period.

11. Comparative Figures

Certain prior period comparative figures have been reclassified to conform with the current period's financial statement presentation.