Auditors' Report

To the Shareholders of
Titanium Corporation Inc.

We have audited the balance sheets of **Titanium Corporation Inc.** as at August 31, 2005 and 2004 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at August 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Toronto, Canada
October 14, 2005

Chartered Accountants

Titanium Corporation Inc.
Balance Sheets

August 31	2005	2004
Assets		
Current		
Cash and cash equivalents	**$ 2,024,499**	$ 955,316
Short term investments	**24,018,813**	-
Marketable securities (Market value, $581,178; 2004 - $1,549,635)	**567,450**	1,549,635
Commodity taxes receivable	**51,477**	395,201
Prepaids	**51,075**	44,761
	26,713,314	2,944,913
Exploration properties (Note 3)	**-**	4,902,784
Oil Sands Project development costs (Note 4)	**9,214,530**	6,718,901
Nova Scotia pilot plant and exploration equipment (Note 5)	**-**	117,388
Office equipment and leasehold improvements (Note 6)	**85,744**	106,244
	$ 36,013,588	$ 14,790,230
Liabilities		
Current		
Payables and accruals	**$ 696,508**	$ 681,299
Shareholders' equity		
Capital stock (Note 7)	**43,512,498**	17,538,422
Warrants (Notes 7 and 8)	**3,735,111**	1,263,239
Contributed surplus (Note 10)	**2,000,105**	1,065,289
Deficit	**(13,930,634)**	(5,758,019)
	35,317,080	14,108,931
	$ 36,013,588	$ 14,790,230

Commitments (Note 13)

On Behalf of the Board

George D. Elliott Director

Eric W. Slavens Director

See accompanying notes to the financial statements.

Titanium Corporation Inc.

Statements of Operations and Deficit

For the Years Ended August 31

		2005		2004
Expenses				
Consulting	**$**	**1,330,560**	$	611,392
Office and administration		**624,204**		488,601
Depreciation and amortization		**30,612**		21,483
Directors' fees		**152,000**		141,500
Insurance		**132,498**		94,516
Investor relations		**166,564**		414,768
Professional fees		**371,213**		301,840
Shareholders' communication and filing fees		**84,429**		38,633
Travel and promotion		**285,916**		114,714
Writedown of marketable securities		**-**		25,625
Exploration properties and related plant and equipment costs written off (Notes 3 and 5)		**5,020,172**		-
		8,198,168		2,253,072
Interest income		**(25,553)**		(85,026)
Net loss	**$**	**8,172,615**	$	2,168,046
Basic and diluted loss per share (Note 11)	**$**	**0.19**	$	0.06
Deficit at beginning of year	**$**	**5,758,019**	$	3,589,973
Net loss		**8,172,615**		2,168,046
Deficit at end of year	**$**	**13,930,634**	$	5,758,019

See accompanying notes to the financial statements

Titanium Corporation Inc.
Statements of Cash Flows

Years Ended August 31	**2005**	2004
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net loss	**$ (8,172,615)**	$ (2,168,046)
Write down of marketable securities	**-**	25,625
Exploration properties and related plant and equipment costs written off	**5,020,172**	-
Stock-based compensation	**551,423**	330,608
Depreciation and amortization	**30,612**	21,483
	(2,570,408)	(1,790,330)
Net changes in non-cash working capital items:		
Increase in prepaids	**(6,314)**	(8,824)
Decrease in commodity taxes receivables	**343,724**	186,524
Decrease in payables and accruals	**(266,538)**	(293,165)
	(2,499,536)	(1,905,795)
Financing activities		
Common shares issued, net of issue cost settled for cash	**28,211,823**	7,339,049
Investing activities		
Increase in short term investments	**(24,018,813)**	-
Decrease (increase) in marketable securities	**982,185**	(563,478)
Exploration expenditures excluding depreciation of pilot plant and equipment	**-**	(440,063)
Oil Sands Project development costs	**(1,878,110)**	(5,912,584)
Net change in non-cash working capital relating to oil sands development costs	**281,746**	183,304
Acquisition of office equipment and leaseholds	**(10,112)**	(59,186)
	(24,643,104)	(6,792,007)
Net increase (decrease) in cash and cash equivalents	**1,069,183**	(1,358,753)
Cash and cash equivalents at beginning of year	**955,316**	2,314,069
Cash and cash equivalents at end of year	**$ 2,024,499**	$ 955,316

Cash and cash equivalents at end of year consists of:		
Cash	**$ 438,992**	$ 392,281
Term deposits with weighted average interest rate of 2.21% (2004: 1.72%)	**1,585,507**	563,035
	$ 2,024,499	$ 955,316

See accompanying notes to the financial statements

1. Nature of operations and basis of presentation

Titanium Corporation Inc. ("Titanium" or the "Company") was formed by articles of amalgamation under the Business Corporations Act (Ontario) on July 24, 2001. The Company is engaged in the business of developing a separation process for the recovery of titanium and zircon from Canada's oil sands. The Company is considered to be in the development stage as it has yet to earn any revenues and it is devoting substantially all of its efforts toward the development of this process.

To fund its past development activities, the Company has raised equity capital to achieve specific milestones set out in its business plan. In August 2005, the Company raised funds that will be used to complete the design, engineering and construction of a Phase 1 expandable production facility to be located in Fort McMurray, Alberta and for working capital purposes.

Phase 1 is a significant step towards commercial scale production and will provide selected pigment manufacturers large scale quantities of feedstock for testing as part of securing long-term sales contracts. The Phase 1 facilities will not be designed to operate at a scale that will generate positive cash flow but will be designed to be expandable to a commercial scale once a production decision is made.

Management is of the opinion that additional funding is available and may be sourced in time to allow the Company to expand the Phase 1 facilities to a commercial scale plant. While it has been successful in the past, there can be no assurance that it will be able to raise sufficient funds in the future.

2. Summary of significant accounting policies

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less.

Short term investments

Short term investments represent investments in guaranteed investment certificates with maturity dates of more than three months. Short term investments are carried at cost which approximates fair value.

Marketable securities

Marketable securities are valued at the lower of cost and market value.

Exploration properties

All direct costs associated with exploration properties are capitalized as incurred. If the property proceeds to development, these costs become part of preproduction and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off.

The amounts capitalized at any time represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties. During the year, exploration properties were written off as explained in Note 3.

Oil Sands Project development costs

All direct costs relating to the Oil Sands Project which meet the generally accepted criteria for deferral are capitalized as incurred. These criteria include having a clearly defined process with identifiable associated costs, establishment of technical feasibility, an intention to process and sell the recovered minerals to a clearly defined market, and adequate resources exist or are expected to be available to complete the project to commercial production.

Pilot plant, exploration equipment and related depreciation

The pilot plant and exploration equipment are recorded at cost. Depreciation is recorded on the declining balance basis at an annual rate of 20% and is charged to exploration properties. During the year, the pilot plant and exploration equipment were written off as disclosed in Note 3.

Office equipment, leasehold improvements and related depreciation

Office equipment is recorded at cost. Depreciation is recorded on the declining balance basis at an annual rate of 20%.

Leasehold improvements are recorded at cost. Depreciation is recorded on the straight line basis at an annual rate of 20%.

Stock - based compensation

The Company has adopted the recognition of stock compensation expense for grants of options to officers, directors and employees in the financial statements based on the estimated fair value at the grant date for options granted after September 1, 2003. The Company, as permitted by CICA Handbook Section 3870, has adopted this section prospectively.

Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

2. Summary of significant accounting policies (continued)

Loss per common share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. The effect of potential issuances of shares under options and warrants would be anti-dilutive, and accordingly basic and diluted loss per common share are the same.

Sources of GAAP

Effective September 1, 2004, the Company adopted the new CICA Handbook Section 1100, "Generally Accepted Accounting Principles". This section establishes standards for financial reporting in accordance with GAAP and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not explicitly dealt with in the primary sources of GAAP. The adoption of this section did not have any significant impact on the Company's financial statements.

Asset retirement obligation

Effective September 1, 2004, the Company adopted the CICA Handbook Section 3110, "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. At August 31, 2005, the Company has not incurred or committed any asset retirement obligations related to the development of its Oil Sands Project.

Impairment of long-lived assets

Effective September 1, 2004 the Company adopted the recommendations of CICA Handbook Section 3063 "Impairment of Long-lived Assets" on a prospective basis. Section 3063 requires that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated.

If the fair value is less than the carrying amount of the asset, impairment is recognized. With the exception of the write-off of the exploration properties and related pilot plant and equipment (described in Note 3), management believes that there has been no impairment of the Company's long-lived assets as at August 31, 2005 and the adoption of Section 3063 has no effect on the current financial statements.

3. Exploration properties

	2005	2004
Nova Scotia Titanium Mineral Sands Project	$ -	$ 4,902,784

Due to the Company's focus on the Oil Sands Project in Western Canada, the Company has decided not to undertake additional work or expenditures on the exploration properties and, accordingly, all costs of $4,920,391 have been written-off during the year. In addition, all the related pilot plant and exploration equipment cost of $99,781 were written off.

4. Oil Sands Project development cost

Costs incurred relating to the Oil Sands Project development are as follows:

	2005	2004
Acquisition and development costs	**$ 4,732,510**	$ 3,077,199
Building and equipment construction costs	**4,482,020**	3,641,702
	$ 9,214,530	$ 6,718,901

In May 2005, the Company extended until May 2006, the three-way exclusivity agreement with Syncrude ("Syncrude") and a major titanium dioxide pigment producer to develop the commercial feasibility of extracting and producing titanium bearing minerals and zircon as by-products of bitumen extraction from oil sands produced by Syncrude's centrifuge plant.

5. Nova Scotia pilot plant and exploration equipment

	2005	2004
Cost		
Pilot plant	**$ -**	$ 179,406
Exploration equipment	**-**	41,013
	$ -	$ 220,419
Accumulated depreciation		
Pilot plant	**$ -**	$ 76,066
Exploration equipment	**-**	26,965
	-	103,031
Net carrying value		
Pilot plant	**-**	103,340
Exploration equipment	**-**	14,048
	$ -	$ 117,388

6. Office equipment and leasehold improvements	**2005**	2004
Cost		
Office equipment	**$ 115,351**	$ 105,242
Leasehold improvements	**46,573**	46,573
	161,924	151,815
Accumulated depreciation		
Office equipment	**43,525**	26,834
Leasehold improvements	**32,655**	18,737
	76,180	45,571
Net carrying value		
Office equipment	**71,826**	78,408
Leasehold improvements	**13,918**	27,836
	$ 85,744	$ 106,244

7. Capital Stock

The Company is authorized to issue an unlimited number of common shares.

Common shares	**Number of Shares**	**Amount**
Balance, August 31, 2003	36,173,480	$ 11,715,069
Shares issued on the exercise of warrants	20,000	40,000
Common shares issued, net of issue costs	4,710,000	7,046,592
Value assigned to 2,355,000 warrants		(1,263,239)
Balance, August 31, 2004	40,903,480	17,538,422
Common shares issued, net of issue costs	10,611,112	22,162,211
Value assigned to 10,611,112 warrants		(3,735,111)
Exercise of warrants for cash	2,362,526	4,725,052
Exercise of Agents' options for cash	376,800	640,560
Exercise of stock options for cash	332,500	684,000
Reallocation from contributed surplus relating to the exercise of Agents' options and stock options	-	308,182
Valuation of warrants exercised	-	1,189,182
Balance, August 31, 2005	54,586,418	$ 43,512,498

7. 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 entitled 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 Agents' 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 Agents' options were estimated using the Black-Scholes pricing option model. The assumptions used for the valuation of the warrants and Agents' 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) Agents' 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 were $960,408 of which $252,457 was the non-cash value attributed to the 376,800 Agents' options. The share issue costs were allocated between common shares and warrants on a pro-rata basis.

332,500 stock options were exercised during 2005 resulting in the issuance of 332,500 common shares. Each stock option was exercisable into common shares at $2.06 per share.

376,800 Agents' options were exercised during 2005 resulting in the issuance of 376,800 common shares and 188,400 warrants. Each warrant was exercisable into common shares of the Company at $2.00 per warrant until August 17, 2005. Of the 188,400 warrants issued, 42,814 expired and 145,586 were exercised.

On August 25, 2005, the Company completed a private placement financing of 10,611,112 units at a price of $2.25 for net proceeds of $22,162,211 after allocating share issue costs of $1,712,791. Each unit is comprised of one common share in the capital of the Company and one whole warrant . Each warrant will be exercisable for one common share at an exercise price of $3.25 per common share until August 25, 2007. BMO Nesbitt Burns Inc. acted as lead agent in a syndicate with GMP Securities Limited, Clarus Securities Inc., Paradigm Capital Inc., Acadian Securities Inc., Dundee Securities Corporation and First Associates Investments Inc.

The fair value of the warrants were estimated using the Black-Scholes pricing option model. The assumptions used for the valuation of the warrants were: Dividend yield 0%, expected volatility 47%, risk - free interest rate 2.75% and an expected life of 24 months. Value assigned to 10,611,112 warrants is $3,735,111.

8. Common share purchase warrants and Agents' options

The following table reflects the continuity of the number of warrants and Agents' options:

Expiry Date	Exercise Price	2003 Opening Balance	Issued	Exercised	Expired	2004 Closing Balance
Agent's Options:						
February 2005	$1.70	-	376,800	-	-	376,800
Warrants:						
August 2005	$2.00	-	2,355,000	-	-	2,355,000
September 2003	$2.00	20,000	-	(20,000)	-	-
		20,000	2,731,800	(20,000)	-	2,731,800

Expiry Date	Exercise Price	2004 Opening Balance	Issued	Exercised	Expired	2005 Closing Balance
Agent's Options:						
February 2005	$1.70	376,800	-	(376,800)	-	-
Warrants:						
August 2005	$2.00	2,355,000	-	(2,216,940)	(138,060)	-
August 2005	$2.00	-	188,400	(145,586)	(42,814)	-
August 2007	$3.25	-	10,611,112	-	-	10,611,112
		2,731,800	10,799,512	(2,739,326)	(180,874)	10,611,112

9. Common share purchase 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 will 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.

Effective February 23, 2005, the Company amended its stock option plan to increase the number of common shares reserved for issuance under the plan from 4,000,000 to 5,000,000 common shares.

9. Common share purchase plan (continued)

The following table reflects the continuity of stock options granted under the Plan.

	NUMBER OF STOCK OPTIONS		WEIGHTED AVERAGE EXERCISE PRICE $	
	2005	2004	**2005**	2004
Opening Balance	**3,278,075**	2,713,075	**2.15**	2.20
Options granted	**1,175,000**	1,095,000	**3.46**	1.97
Options cancelled/expired	**(276,409)**	(530,000)	**2.00**	2.22
Options exercised	**(332,500)**	-	**2.06**	-
Option adjustment	**100,000**	-	**2.20**	-
Ending Balance	**3,944,166**	3,278,075	**2.56**	2.15

As at August 31, 2005, there were 2,920,833 (2004 - 2,565,575) exercisable stock options

The following table reflects the stock options outstanding as at August 31, 2005:

Expiry Date	Weighted Average Exercise Price ($)	Options Outstanding
2006	2.20	690,000
2007	2.26	530,000
2008	2.22	635,000
2009	1.98	984,166
2010	3.56	1,105,000
		3,944,166

During the year ended August 31, 2005, 1,175,000 (2004: 1,095,000) stock options were granted 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 options granted, 157,500 (2004: 382,500) have vested and accordingly, $232,998 (2004: $571,308) was recorded as contributed surplus. Of the $232,998 (2004: $571,308) recorded as contributed surplus, $177,615 (2004: $330,608) was recorded as stock-based compensation and $55,383 (2004: $240,700) was capitalized to Oil Sands Project development costs.

During 2005, 625,832 options granted in prior years had vested. Accordingly, $935,944 was recorded as contributed surplus. Of the $935,944 recorded as contributed surplus, $373,808 was recorded as stock-based compensation and $562,136 was capitalized to Oil Sands Project development costs.

9. Common share purchase plan (continued)

The fair value of all options granted in fiscal 2005 and 2004 has been estimated at the date of grant using a Black-Scholes option pricing model. The current year's valuation was calculated with the following assumptions: weighted average risk free interest rate of 4% (2004: 4%); volatility factor of the expected market price of the Company's common stock of 47% (2004: 100%); and a weighted average expected life of the options of 5 years (2004 - 5 years).

10. Contributed surplus

The following table reflects the continuity of contributed surplus relating to stock options:

	Amount
Balance, August 31, 2003	$ 241,524
Stock option compensation expense	330,608
Stock option compensation charged to Oil Sands Project development costs	240,700
Agents' options	252,457
Balance, August 31, 2004	1,065,289
Stock option compensation expense	551,423
Stock option compensation charged to Oil Sands Project development costs	617,519
Options exercised	(55,725)
Agents' options exercised	(252,457)
Expired warrants	74,056
Balance, August 31, 2005	$ 2,000,105

11. Loss per common share

The basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is the same as basic loss per share. The effect of common share purchase options, warrants and Agents' options on the net loss 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:

	2005	2004
Numerator:		
Net loss	**$ 8,172,615**	$ 2,168,046
Denominator:		
Weighted average number of common shares	**41,829,203**	38,708,631

12. Related party transactions

Auxilium Corporation ("Auxilium")
The Company entered into an agreement with Auxilium, a corporation controlled by a director, to provide the services of President and Chief Executive Officer. The agreement is for a term of 3 years, commencing February 23, 2005, during which time Auxilium will be paid $275,000 per year plus a $12,000 per year vehicle allowance. Auxilium was also granted 500,000 options to purchase common shares of the Company at a price of $3.40, vesting over a 3 year period. The Company was charged $150,333 (2004 - $nil) during the year by Auxilium.

Harbour Capital Corporation ("Harbour")
The Company entered into an agreement with Harbour, a corporation controlled by a director, to provide the services of Executive Chairman. The agreement is for a term of 18 months, commencing January 19, 2005, during which time Harbour will be paid $200,000 per year. The Company was charged $200,000 (2004 - $250,000) during the year by Harbour.

The Company was charged $40,833 (2004 - $12,500) for the services of the Chief Financial Officer of the Company.

The Company was charged $65,334 (2004 - $45,061) by corporations partially owned by an officer of the Company that provided bookeeping and corporate secretarial services. Accounts payable at August 31, 2005 were $13,470 (2004 - $1,464).

These related party transactions were in the normal course of operations and were measured at the exchange amounts.

13. Commitments

The Company has entered into agreements to lease land and office space for various periods until 2008. Minimum annual rent and land lease payable in each of the next three years are as follows:

Office Space:

2006	$	88,000

Land Lease:

2006	$	53,000
2007		53,000
2008		53,000
	$	159,000

14. Supplementary cash flow information

		2005		2004
Non-cash investing activity:				
Stock compensation charged to oil sands development costs	$	617,519	$	240,700
Depreciation of oil sands charged to exploration expenditures	$	-	$	29,345

15. Income taxes

The following table reconciles the expected income tax recovery at the statutory income tax rate to the amounts recognized in the statements of operations:

	2005	2004
Net loss reflected in the statements of operations	**$ 8,172,615**	$ 2,168,046
Expected income tax recovery at statutory rate	**2,955,000**	819,000
Non-deductible consulting (stock compensation) expense	**(218,000)**	(125,000)
Other non-deductible items	**(52,000)**	(16,000)
Effect of change in income tax rates	**(165,000)**	275,000
Valuation allowance	**(2,520,000)**	(953,000)
Income tax recovery reflected in the statement of operations	**$ -**	$ -

The following table reflects the future income tax assets at August 31, 2005 and 2004.

	2005	2004
Future income tax assets		
Unclaimed non-capital losses	**$ 5,375,000**	$ 2,861,000
Excess of unclaimed exploration and development expenditures and undepecreciated capital cost over carrying values	**341,000**	28,000
Unclaimed common stock issue costs	**686,000**	369,000
	6,402,000	3,258,000
Less valuation allowance	**6,402,000**	3,258,000
	$ -	$ -

At August 31, 2005, the Company had temporary differences between tax and carrying values of exploration properties and Oil Sands Project development costs of $945,000, unamortized common share issue costs of $1,900,000 and non-capital losses of $14,923,000 available to reduce future taxable income.

The non-capital losses expire as follows:

2006	$ 779,000
2007	1,040,000
2008	283,000
2009	1,502,000
2010	1,153,000
2014	2,080,000
2015	8,086,000
	$14,923,000

16. Financial instruments

At August 31, 2005, the Company's financial instruments consisted of cash and cash equivalents, marketable securities, commodity taxes receivable and payables and accruals. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The Company estimates that the fair value of these financial instruments approximate the carrying values.

17. Comparative figures

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