

**TITANIUM CORPORATION INC.  
(A Development Stage Company)**

**UNAUDITED FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED FEBRUARY 28,  
2006**

Responsibility for Financial Statements

The accompanying financial statements for Titanium Corporation Inc. 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, 2005 audited financial statements. Only changes in accounting information have been disclosed in these financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. 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.

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**Titanium Corporation Inc.**  
**(A Development Stage Company)**

**Balance Sheets**

(Unaudited)

	February 28, 2006	August 31, 2005
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 1,511,714	\$ 2,024,499
Short term investments	23,923,675	24,018,813
Marketable securities (Market value, \$nil; August 31, 2005, \$581,178)	-	567,450
Commodity taxes receivable	96,152	51,477
Prepays	<u>107,302</u>	<u>51,075</u>
	25,638,843	26,713,314
Oil Sands Project development costs (Note 2)	10,642,038	9,214,530
Office equipment and leasehold improvements	<u>77,354</u>	<u>85,744</u>
	<u>\$ 36,358,235</u>	<u>\$ 36,013,588</u>

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**Liabilities**

Current		
Payables and accruals	\$ <u>556,123</u>	\$ <u>696,508</u>
Shareholders' equity		
Capital stock (Note 3)	45,876,382	43,512,498
Warrants	4,127,436	3,735,111
Contributed surplus (Note 5)	1,374,052	2,000,105
Deficit	<u>(15,575,758)</u>	<u>(13,930,634)</u>
	<u>35,802,112</u>	<u>35,317,080</u>
	<u>\$ 36,358,235</u>	<u>\$ 36,013,588</u>

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Nature of operations (Note 1)

**Titanium Corporation Inc.**  
**(A Development Stage Company)**  
**Statements of Loss and Deficit**  
**(Unaudited)**

	Cumulative, since Inception on (October 6, 1997) to February 28, 2006	Three Months Ended February 28,		Six Months Ended February 28,	
		2006	2005	2006	2005
<b>Expenses</b>					
Consulting	\$ 2,505,247	\$ 354,321	156,169	\$ 537,338	\$ 324,052
Office and administration	2,077,106	126,742	149,271	239,522	253,042
Depreciation and amortization	86,646	5,391	7,583	10,783	15,166
Directors' fees	372,500	39,500	44,750	79,000	77,000
Insurance	385,777	35,463	29,574	69,120	61,143
Investor relations	784,930	57,834	32,919	68,654	66,421
Loss on foreign exchange	30,507	8,947	3,596	25,660	6,389
Professional fees	1,597,164	120,864	152,678	214,906	223,194
Shareholders' communication and filing fees	444,205	51,884	77,577	151,134	89,475
Stock-based compensation	1,645,683	299,514	95,524	485,892	191,048
Travel and promotion	878,994	81,521	44,237	159,419	105,373
Exploration properties and related plant and equipment costs written-off	5,453,766	-	-	-	-
	<u>16,262,525</u>	<u>1,181,981</u>	<u>793,878</u>	<u>2,041,428</u>	<u>1,412,303</u>
<b>Interest income</b>	<u>(706,269)</u>	<u>(194,543)</u>	<u>(3,209)</u>	<u>(396,304)</u>	<u>(9,615)</u>
<b>Net loss</b>	<u>\$ 15,556,256</u>	<u>\$ 987,438</u>	<u>\$ 790,669</u>	<u>\$ 1,645,124</u>	<u>\$ 1,402,688</u>
<b>Basic and diluted loss</b>					
<b>per share (Note 8)</b>		\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.03
<b>Deficit at beginning of period</b>					
	\$ -	\$ 14,588,320	\$ 6,370,038	\$ 13,930,634	\$ 5,758,019
<b>Net loss</b>	15,556,256	987,438	790,669	1,645,124	1,402,688
<b>Shares purchased for cancellation</b>					
	19,502	-	-	-	-
<b>Deficit at end of period</b>	<u>\$ 15,575,758</u>	<u>\$ 15,575,758</u>	<u>\$ 7,160,707</u>	<u>\$ 15,575,758</u>	<u>\$ 7,160,707</u>

See accompanying notes to the unaudited interim financial statements

**Titanium Corporation Inc.**  
**(A Development Stage Company)**  
**Statements of Cash Flows**  
(Unaudited)

	Cumulative, since Inception on (October 6, 1997) to February 28, 2006	Three Months Ended February 28,		Six Months Ended February 28,	
	2006	2006	2005	2006	2005
Decrease in cash and cash equivalents					
<b>Operating activities</b>					
Net loss	\$ (15,556,256)	\$ (987,438)	(790,669)	\$ (1,645,124)	\$ (1,402,688)
Stock-based compensation	1,645,683	299,514	95,524	485,892	191,048
Exploration properties and related plant and equipment costs written-off	5,453,766	-	-	-	-
Depreciation and amortization	86,646	5,391	7,583	10,783	15,166
	<u>(8,370,161)</u>	<u>(682,533)</u>	<u>(687,562)</u>	<u>(1,148,449)</u>	<u>(1,196,474)</u>
Net changes in non-cash working capital items:					
Increase in prepaids	(107,302)	(74,360)	(104,542)	(56,227)	(59,781)
Decrease (increase) in commodity taxes receivables	(96,152)	(53,213)	71,379	(44,675)	302,360
Increase (decrease) in payables and accruals	736,195	445,447	(86,137)	39,687	(567,135)
	<u>(7,837,420)</u>	<u>(364,659)</u>	<u>(806,862)</u>	<u>(1,209,664)</u>	<u>(1,521,030)</u>
<b>Financing activities</b>					
Common shares issued for cash	48,817,677	1,587,973	1,593,982	1,587,974	1,642,982
Common shares purchased for cancellation	(19,502)	-	-	-	-
	<u>48,798,175</u>	<u>1,587,973</u>	<u>1,593,982</u>	<u>1,587,974</u>	<u>1,642,982</u>
<b>Investing activities</b>					
Decrease (increase) in short term investments	(23,923,675)	(183,823)	-	95,138	-
Decrease (increase) in marketable securities	-	-	(1,647)	567,450	598,962
Exploration expenditures excluding depreciation of pilot plant and equipment	(5,522,391)	-	-	-	-
Oil Sands Project development costs	(9,658,904)	(772,595)	(280,616)	(1,371,218)	(773,251)
Net change in non-cash working capital relating to Oil Sands Project development costs	(180,072)	(461,044)	(29,890)	(180,072)	143,940
Acquisition of office equipment and leasehold improvements	(164,000)	-	-	(2,393)	(7,317)
	<u>(39,449,042)</u>	<u>(1,417,462)</u>	<u>(312,153)</u>	<u>(891,095)</u>	<u>(37,666)</u>
<b>Increase (Decrease) in cash and cash equivalents for the period</b>	1,511,713	(194,148)	474,967	(512,785)	84,286
<b>Cash and cash equivalents, beginning of period</b>	-	1,705,861	564,635	2,024,499	955,316
<b>Cash and cash equivalents, end of period</b>	<u>\$ 1,511,713</u>	<u>\$ 1,511,713</u>	<u>\$ 1,039,602</u>	<u>\$ 1,511,714</u>	<u>\$ 1,039,602</u>
<b>Cash and cash equivalents at end of period consists of:</b>					
Cash				\$ 528,080	\$ 984,056
Term deposits				983,634	55,546
				<u>\$ 1,511,714</u>	<u>\$ 1,039,602</u>

See accompanying notes to the unaudited interim financial statements

**Titanium Corporation Inc.**  
**(A Development Stage Company)**  
**Statements of Shareholders' Equity**  
(Unaudited)

	<b>Shares issued and subscribed</b>		<b>Warrant</b>	<b>Contributed Accumulated</b>		<b>Total</b>
	<b># of Shares</b>	<b>Share Value</b>		<b>Surplus</b>	<b>deficit</b>	
Balance at August 31, 2004	<b>40,903,480</b>	<b>17,538,422</b>	1,263,240	1,065,289	<b>(5,758,019)</b>	14,108,932
Shares issued on exercise of warrants	<b>2,362,526</b>	<b>4,725,052</b>	-	-	-	4,725,052
Common shares issued net of issue costs	<b>10,611,112</b>	<b>22,162,211</b>	-	-	-	22,162,211
Valuation of stock options granted	-	-	-	1,168,942	-	1,168,942
Shares issued on exercise of agents options	<b>376,800</b>	<b>640,560</b>	-	-	-	640,560
Shares issued on exercise of stock options	<b>332,500</b>	<b>684,000</b>	-	-	-	684,000
Valuation of warrants	-	<b>(3,735,111)</b>	3,735,111	-	-	-
Reallocation from contributed surplus relating to the exercise of agents options and stock options	-	<b>308,182</b>	-	(308,182)	-	-
Valuation of warrants exercised	-	<b>1,189,182</b>	(1,189,182)	-	-	-
Expired warrants and adjustment	-	-	(74,058)	74,056	-	(2)
Loss for the year	-	-	-	-	<b>(8,172,615)</b>	(8,172,615)
Balance at August 31, 2005	<b>54,586,418</b>	<b>43,512,498</b>	3,735,111	2,000,105	<b>(13,930,634)</b>	35,317,080
Shares issued on exercise of stock options	<b>724,666</b>	<b>1,552,199</b>	-	-	-	1,552,199
Reallocation from contributed surplus relating to the exercise of agents options and stock options	-	<b>1,168,235</b>	-	(1,168,235)	-	-
Shares issued on exercise of Broker Warrants	<b>15,900</b>	<b>35,775</b>	-	-	-	35,775
Valuation of Broker Warrants exercised	-	<b>10,049</b>	(10,049)	-	-	-
Adjustment to share issue costs as at August 26, 2005 to reflect value of Broker Warrants issued	-	<b>(402,374)</b>	402,374	-	-	-
Valuation of stock options granted	-	-	-	542,182	-	542,182
Loss for the period	-	-	-	-	<b>(1,645,124)</b>	(1,645,124)
Balance at February 28, 2006	<b>55,326,984</b>	<b>\$ 45,876,382</b>	\$ 4,127,436	\$ 1,374,052	<b>\$ (15,575,758)</b>	\$ 35,802,112

See accompanying notes to the unaudited interim financial statements

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**Titanium Corporation Inc.**  
**(A Development Stage Company)**  
**Notes to Financial Statements**  
For the Six Months Ended February 28, 2006  
(Unaudited)

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**1. Accounting Policies and Nature of Operations**

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 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.

Previously the Phase 1 program was planned as a non-commercial demonstration facility to produce an industrial sized titanium feedstock sample required by pigment manufacturers. In response to continued positive market economics for zircon, the Company is now planning to redesign the first phase of its facilities to be a commercial plant and to initially prioritize the commercial production of zircon.

Management is of the opinion that additional funding is available and may be sourced in time to allow the Company to build the commercial scale zircon 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.

The unaudited financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by Canadian generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended February 28, 2006 may not necessarily be indicative of the results that may be expected for the year ending August 31, 2006.

The balance sheet at August 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by Canadian generally accepted accounting principles for annual financial statements. The interim financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual financial statements for the year ended August 31, 2005. For further information, refer to the financial statements and notes thereto included in the Company's annual financial statements for the year ended August 31, 2005.

**Titanium Corporation Inc.**  
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**Notes to Financial Statements**  
For the Six Months Ended February 28, 2006  
(Unaudited)

**2. Oil Sands Project development costs**

Capitalized costs incurred relating to the Oil Sands Project development at February 28, 2006 and August 31, 2005 are as follows:

	February 28, 2006	August 31, 2005
Acquisition and development costs	\$ 5,599,944	\$ 4,732,510
Building and equipment construction costs	<u>5,042,094</u>	<u>4,482,020</u>
	<b><u>\$10,642,038</u></b>	<b><u>\$ 9,214,530</u></b>

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.

**3. Capital Stock**

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

Common shares	Number of Shares	Amount
Balance, August 31, 2005	54,586,418	\$ 43,512,498
Exercise of stock options for cash	724,666	1,552,199
Reallocation from contributed surplus relating to the exercise of stock options	-	1,168,235
Exercise of Broker Warrants for cash	15,900	35,775
Valuation of Broker Warrants exercised	-	10,049
Adjustment to share issue costs as at August 26, 2005 to reflect value of Broker Warrants issued	-	(402,374)
February 28, 2006	55,326,984	\$ 45,876,382

**4. Common share purchase warrants**

The following table reflects the continuity of common share purchase warrants:

Expiry Date	Exercise Price	August 31, 2005 Balance (Audited)	Issued	Exercised	Expired	February 28, 2006 Balance (Unaudited)
<b>Broker Warrants:</b>						
August 2007	\$2.25	-	636,667 (*)	(15,900)	-	620,767
<b>Warrants:</b>						
August 2007	\$3.25	10,611,112	-	-	-	10,611,112
		10,611,112	636,667	(15,900)	-	11,231,879

(\*) Adjustment of share issue costs as at August 26, 2005 to reflect value of Broker Warrants issued.

**Titanium Corporation Inc.**  
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**Notes to Financial Statements**  
For the Six Months Ended February 28, 2006  
(Unaudited)

**5. Contributed Surplus**

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

Balance, August 31, 2005	\$ 2,000,105
Stock option compensation expense	485,892
Stock option compensation charged to Oil Sands Project development costs	56,290
Options exercised	(1,168,235)
Balance, February 28, 2006	\$ 1,374,052

**6. 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 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.

The following table reflects the continuity of stock options for the six months ended February 28, 2006:

	Number of Stock Options	Weighted Average Exercise Price
Balance, August 31, 2005	3,944,166	\$ 2.56
Options granted	400,000	2.77
Options exercised	(724,666)	2.14
Balance, February 28, 2006	3,619,500	\$ 2.67

The following table reflects the stock options outstanding as of February 28, 2006:

Expiry Date	Weighted Average Exercise Price (\$)	Options Outstanding	Weighted Average Remaining Life (yrs)
2006	2.20	623,334	0.40
2007	2.26	525,000	1.35
2008	2.22	135,000	2.14
2009	1.98	831,166	3.23
2010	3.50	1,180,000	4.16
2011	2.77	325,000	4.94
		<u>3,619,500</u>	<u>2.88</u>

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**Titanium Corporation Inc.**  
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**Notes to Financial Statements**

For the Six Months Ended February 28, 2006  
(Unaudited)

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**6. Common Share Purchase Plan (continued)**

During the six months ended February 28, 2006, 400,000 (February 28, 2005 - 700,000) stock options were granted by the Company. Accordingly, \$532,500 (February 28, 2005 - \$1,846,915) will be expensed in the statement of operations and deficit as these options vest.

The following stock options were granted in during the six months ended February 28, 2006:

<u>Expiry Date</u>	<u>Exercise Price (\$)</u>	<u>Number</u>
November 29, 2010	2.30	75,000
January 19, 2006	3.17	100,000
February 23, 2006	2.75	<u>225,000</u>
		<u>400,000</u>

The fair value of the options granted has been estimated at the date of grant using a Black-Scholes option pricing model. The current period's valuation was calculated with the following assumptions: weighted average risk free interest rate of 3.60% (February 28, 2005 - 4.0%); volatility factor of the expected market price of the Company's common stock of 57% (February 28, 2005 - 47%); and a weighted average expected life of the options of 5 years (February 28, 2005 - 5 years).

During the six months ended February 28, 2006, 457,499 (February 28, 2005 - 326,667) options granted in prior periods had vested. Accordingly, \$542,182 (February 28, 2005 - \$485,800) was recorded as contributed surplus. Of the \$542,182 (February 28, 2005 - \$485,800) recorded as contributed surplus, \$485,892 (February 28, 2005 - \$191,048) was recorded as stock-based compensation and \$56,290 (February 28, 2005 - \$294,752) was capitalized to Oil Sands Project development costs.

As at February 28, 2006, \$1,741,522 relating to unvested stock options remains to be expensed in the statement of loss and deficit. This amount will be expensed periodically as the options vest.

**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.

**Titanium Corporation Inc.**  
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For the Six Months February 28, 2006  
(Unaudited)

**8. Basic and diluted loss per common 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. Diluted loss per share is the same as basic loss per share. The effect of common share purchase warrants and stock 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 February 28,		Six Months Ended February 28,	
	2006	2005	2006	2005
Basic and diluted loss per share	<b>0.02</b>	0.02	<b>\$ 0.03</b>	\$ 0.03
<u>Numerator:</u>				
Net loss for the period	<b>987,438</b>	790,669	<b>\$ 1,645,124</b>	\$ 1,402,688
<u>Denominator:</u>				
Weighted average number of common shares	<b>55,038,233</b>	41,309,697	<b>54,812,326</b>	41,108,334

**9. Related Party Transactions**

The Company was charged \$71,750 (2005 - \$ 6,833) and \$143,500 (2005 - \$6,833) respectively for the three and six months ended February 28, 2006 by a corporation controlled by a director that provided his services of President and Chief Executive Officer. A bonus of \$137,500 (2005 - \$nil) was also paid to this company during the six months ended February 28, 2006.

The Company was charged \$50,000 (2005 - \$50,000) and \$100,000 (2005 - \$100,757) respectively for the three and six months ended February 28, 2006 by a corporation controlled by a director that provided his services of Executive Chairman. A bonus of \$50,000 (2005 - \$nil) was also paid to this company during the six months ended February 28, 2006. Payables and accruals at February 28, 2006 were \$53,500 (2005 - \$nil).

The Company was charged \$nil (2005 - \$16,522) and \$14,241 (2005 - \$25,961) for the three and six months ended February 28, 2006 by corporations partially owned by an officer of the Company that provided bookkeeping and corporate secretarial services. Payables and accruals at February 28, 2006 were \$2,600 (2005 - \$6,804). As of November 30, 2005, these corporations were no longer related to the Company.

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

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**Titanium Corporation Inc.**  
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**Notes to Financial Statements**  
For the Six Months February 28, 2006  
(Unaudited)

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**10. Supplementary cash flow information**

	Three Months Ended February 28,		Six Months Ended February 28,	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Non-cash investing activity:				
Stock compensation charged to Oil Sands Project development costs	\$ (6,348)	\$ 154,218	\$ 56,290	\$ 294,752
Amortization capitalized to Oil Sands Project	\$ -	\$ 5,869	\$ -	\$ 11,738

**11. Comparative Figures**

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