

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

**UNAUDITED FINANCIAL STATEMENTS**

**THREE MONTHS ENDED NOVEMBER 30, 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, 2006 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.

The auditors of Titanium Corporation Inc. have not performed a review of the unaudited financial statements for the three months ended November 30, 2006.

**Titanium Corporation Inc.**  
(A Development Stage Company)  
Balance Sheets  
(Expressed in Canadian Dollars)  
(Unaudited)

	<b>November 30, 2006</b>	August 31, 2006
<b>Assets</b>		
Current		
Cash	\$ 26,269	\$ 239,172
Short term investments	21,943,006	23,179,780
Commodity taxes receivable	31,663	76,968
Prepays	<u>6,029</u>	<u>37,052</u>
	<b>22,006,967</b>	23,532,972
Oil Sands Project development costs (Note 3)	14,148,129	13,212,493
Office equipment and leasehold improvements	<u>109,410</u>	<u>118,411</u>
	<b>\$ 36,264,506</b>	<b>\$ 36,863,876</b>
<b>Liabilities</b>		
Current		
Payables and accruals	<u>\$ 583,624</u>	<u>\$ 1,008,368</u>
Shareholders' equity		
Capital stock (Note 4)	46,757,170	46,751,330
Warrants (Note 5)	4,087,198	4,087,198
Contributed surplus (Note 6)	2,559,904	2,125,406
Deficit	<u>(17,723,390)</u>	<u>(17,108,426)</u>
	<b>35,680,882</b>	<b>35,855,508</b>
	<b>\$ 36,264,506</b>	<b>\$ 36,863,876</b>

Nature of operations and basis of presentation (Note 1)

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

	Three Months Ended November 30		Cumulative Since Inception on October 6, 1997 to November 30
	2006	2005	2006
<b>Expenses</b>			
Consulting	\$ 141,501	\$ 183,017	\$ 2,993,499
Office and administration	94,817	112,780	2,440,492
Depreciation and amortization	9,001	5,392	117,346
Directors' fees	43,750	39,500	487,250
Insurance	33,554	33,657	478,595
Investor relations	28,634	10,820	831,327
(Gain) Loss on foreign exchange	(7,706)	16,713	48,549
Professional fees	52,225	94,042	1,842,552
Shareholders' communication and filing fees	27,213	99,250	604,019
Stock-based compensation	370,444	186,378	2,738,411
Travel and promotion	108,806	77,898	1,116,737
Exploration properties and related plant and equipment costs written-off	-	-	5,453,766
	<u>902,239</u>	<u>859,447</u>	<u>19,152,543</u>
<b>Interest income</b>	<u>(265,386)</u>	<u>(201,761)</u>	<u>(1,390,568)</u>
<b>Loss before income taxes</b>	<b>636,853</b>	657,686	17,761,975
<b>Income tax recovery</b>	<u>(21,889)</u>	<u>-</u>	<u>(58,087)</u>
<b>Net loss</b>	<u>\$ 614,964</u>	<u>\$ 657,686</u>	<u>\$ 17,703,888</u>
<b>Basic and diluted loss per share (Note 9)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	
<b>Deficit at beginning of period</b>	<b>\$ 17,108,426</b>	<b>\$ 13,930,634</b>	<b>\$ -</b>
<b>Net loss</b>	<b>614,964</b>	657,686	17,703,888
<b>Shares purchased for cancellation</b>	<u>-</u>	<u>-</u>	<u>19,502</u>
<b>Deficit at end of period</b>	<u>\$ 17,723,390</u>	<u>\$ 14,588,320</u>	<u>\$ 17,723,390</u>

See accompanying notes to the unaudited interim financial statements

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

	Three Months Ended November 30		Cumulative Since Inception on October 6, 1997 to November 30
	2006	2005	2006
Cash (used in) provided by:			
<b>Operating activities</b>			
Net (loss)	\$ (614,964)	\$ (657,686)	\$ (17,703,888)
Stock-based compensation	370,444	186,378	2,738,411
Exploration properties and related plant and equipment costs written-off	-	-	5,453,766
Depreciation and amortization	<u>9,001</u>	<u>5,392</u>	<u>117,346</u>
	<u>(235,519)</u>	<u>(465,916)</u>	<u>(9,394,365)</u>
Net changes in non-cash working capital items:			
Increase in prepaids	31,023	18,133	(6,029)
Decrease (Increase) in commodity taxes receivables	45,305	8,538	(31,663)
Increase (decrease) in payables and accruals	<u>(424,744)</u>	<u>(405,760)</u>	<u>583,624</u>
	<u>(583,935)</u>	<u>(845,005)</u>	<u>(8,848,433)</u>
<b>Financing activities</b>			
Common shares issued for cash, net of issue costs	<u>4,000</u>	<u>-</u>	<u>49,540,425</u>
<b>Investing activities</b>			
Decrease (increase) in short term investments	1,236,774	278,961	(21,943,006)
Decrease (increase) in marketable securities	-	567,450	-
Exploration expenditures Oil Sands Project development costs	<u>(869,742)</u>	<u>(317,651)</u>	<u>(12,973,575)</u>
Acquisition of office equipment and leasehold improvements	<u>-</u>	<u>(2,393)</u>	<u>(226,751)</u>
	<u>367,032</u>	<u>526,367</u>	<u>(40,665,723)</u>
<b>Net (Decrease) Increase in cash</b>	<b>(212,903)</b>	<b>(318,638)</b>	<b>26,269</b>
<b>Cash, beginning of period</b>	<b><u>239,172</u></b>	<b><u>2,024,499</u></b>	<b><u>-</u></b>
<b>Cash, end of period</b>	<b><u>\$ 26,269</u></b>	<b><u>\$ 1,705,861</u></b>	<b><u>\$ 26,269</u></b>

See accompanying notes to the unaudited interim financial statements

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

	<u>Shares issued and subscribed</u>			<u>Contributed Surplus</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<u># of Shares</u>	<u>Share Value</u>	<u>Warrant</u>			
Balance at August 31, 2005	54,586,418	43,512,498	3,735,111	2,000,105	(13,930,634)	35,317,080
Shares issued on exercise of stock options	1,004,666	2,147,199	-	-	-	2,147,199
Reallocation from contributed surplus relating to the exercise of agents options and stock options	-	1,264,695	-	(1,264,695)	-	-
Shares issued on exercise of Broker Warrants	79,567	179,025	-	-	-	179,025
Valuation of Broker Warrants exercised	-	50,287	(50,287)	-	-	-
Adjustment to share issue costs as at August 26, 2005 to reflect value of Broker Warrants issued	-	(402,374)	402,374	-	-	-
Valuation of stock options granted	-	-	-	1,389,996	-	1,389,996
Loss for the period	-	-	-	-	(3,177,792)	(3,177,792)
Balance at August 31, 2006	55,670,651	\$ 46,751,330	\$ 4,087,198	\$ 2,125,406	\$ (17,108,426)	\$ 35,855,508
Shares issued on exercise of warrants	-	-	-	-	-	-
Common shares issued net of issue costs	-	-	-	-	-	-
Valuation of stock options granted	-	-	-	436,338	-	436,338
Shares issued on exercise of agents options	-	-	-	-	-	-
Shares issued on exercise of stock options	2,500	4,000	-	-	-	4,000
Valuation of warrants	-	1,840	-	(1,840)	-	-
Reallocation from contributed surplus relating to the exercise of agents options and stock options	-	-	-	-	-	-
Valuation of warrants exercised	-	-	-	-	-	-
Loss for the year	-	-	-	-	(614,964)	(614,964)
Balance at November 30, 2006	55,673,151	46,757,170	4,087,198	2,559,904	(17,723,390)	35,680,882

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 Three Months Ended November 30, 2006

(Expressed in Canadian Dollars)

(Unaudited)

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## 1. Nature of Business 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 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 three month period ended November 30, 2006 may not necessarily be indicative of the results that may be expected for the year ending August 31, 2007.

The balance sheet at August 31, 2006 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, 2006. 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, 2006.

## 2. New Accounting Pronouncements

In January 2005, the Canadian Institute of Chartered Accountants issued four new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3251, Equity, Handbook Section 3855, Financial Instruments - Recognition and Measurement, and Handbook Section 3865, Hedges. These standards are effective for interim and annual financial statements for the Company's fiscal years beginning November, 2007.

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Notes to Financial Statements  
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**3. Oil Sands Project Development Costs**

Capitalized costs incurred relating to the Oil Sands Project development at November 30, 2006 and August 31, 2006 are as follows:

	November 30, 2006	August 31, 2006
Acquisition and development costs	\$ 6,899,901	\$ 6,447,803
Building and equipment construction costs	<u>7,248,228</u>	<u>6,764,690</u>
	<u>\$14,148,129</u>	<u>\$13,212,493</u>

**4. Capital Stock**

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

<b>Common Shares</b>	<b>Number of Shares</b>	<b>Amount</b>
Balance, August 31, 2006	55,670,651	\$ 46,751,330
Exercise of stock options for cash	2,500	4,000
Reallocation from contributed surplus relating to the exercise of stock options	-	1,840
Balance, November 30, 2006	<u>55,673,151</u>	<u>\$ 46,757,170</u>

**5. Common Share Purchase Warrants**

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

Expiry Date	Exercise Price	August 31, 2006 Balance	Issued	Exercised	November 30, 2006 Balance	Black- Scholes Value
<b>Broker Warrants:</b>						
August 2007	\$2.25	557,100	-	-	557,100	\$ 352,087
<b>Warrants:</b>						
August 2007	\$3.25	10,611,112	-	-	10,611,112	3,735,111
		<u>11,168,212</u>	<u>-</u>	<u>-</u>	<u>11,168,212</u>	<u>\$ 4,087,198</u>

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**6. Contributed Surplus**

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

Balance, August 31, 2006	\$ 2,125,406
Stock option compensation expense	370,444
Stock option compensation charged to Oil Sands Project development costs	65,894
Options exercised	(1,840)
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Balance, November 30, 2006	\$ 2,559,904

**7. 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 6,000,000 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 prior to February 26, 2003 may be exercised during a period determined by the board of directors which cannot exceed five years. 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 three months ended November 30, 2006:

	Number of Stock Options	Weighted Average Exercise Price
Balance, August 31, 2006	2,959,500	\$ 2.68
Options granted	425,000	1.98
Options exercised	(2,500)	1.60
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Balance, November 30, 2006	3,382,000	\$ 2.59

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

The following table reflects the stock options outstanding as of November 30, 2006:

Expiry Date	Weighted Average Exercise Price (\$)	Options Outstanding
2007	2.26	525,000
2008	2.31	135,000
2009	1.98	692,000
2010	3.46	1,130,000
2011	2.43	<u>900,000</u>
		<u>3,382,000</u>

During the three months ended November 30, 2006, 425,000 (November 30, 2005 - 75,000) stock options were granted by the Company. Accordingly, \$371,025 (November 30, 2005 - \$90,000) will be expensed in the statement of operations and deficit as these options vest.

The following stock options were granted during the three months ended November 30, 2006:

Expiry Date	Exercise Price (\$)	Number
September 8, 2011	1.98	<u>425,000</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: risk free interest rate of 3.99%; volatility factor of the expected market price of the Company's common stock of 44.31%; and an expected life of 5 years.

**8. 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.

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 Notes to Financial Statements  
 For the Three Months Ended November 30, 2006  
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**9. 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 November 30,	
	2006	2005
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
<u>Numerator:</u>		
Net loss for the period	\$ (614,964)	\$ (657,686)
<u>Denominator:</u>		
Weighted average number of common shares	55,672,079	54,586,418

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**10. 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. The Company was charged \$71,750 (2005 - \$71,750) during the period by Auxilium.

**Harbour Capital Corporation ("Harbour")**

Under the terms of a consulting agreement \$25,000 (2005 - \$50,000) was paid to Harbour, a company controlled by a director of the Company to provide the services of Executive Chairman. This agreement was amended and renewed for a term of 12 months, commencing September 1, 2006, during which time Harbour will be paid \$100,000 per year.

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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**11. Supplementary Cash Flow Information**

	Three Months Ended	
	November 30,	
	2006	2005
Non-cash investing activity:		
Stock compensation charged to Oil Sands Project development costs	\$ <u>65,894</u>	\$ <u>62,638</u>

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**12. Comparative Figures**

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