

Titanium Corporation Inc.

Financial Statements
August 31, 2017 and 2016



November 21, 2017

Independent Auditor's Report

To the Shareholders of Titanium Corporation Inc.

We have audited the accompanying financial statements of Titanium Corporation Inc., which comprise the statements of financial position as at August 31, 2017 and August 31, 2016 and the statements of loss, comprehensive loss, changes in shareholders' equity (deficit) and cash flows for the years ended August 31, 2017 and August 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Titanium Corporation Inc. as at August 31, 2017 and August 31, 2016 and its financial performance and its cash flows for the years ended August 31, 2017 and August 31, 2016 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Titanium Corporation Inc.

Statement of Financial Position

(expressed in Canadian dollars)

	August 31, 2017 \$	August 31, 2016 \$
Assets		
Current assets		
Cash and cash equivalents	1,340,339	594,743
Short term investments	3,024,084	-
Accounts receivable and goods and services tax	15,873	15,774
Prepaid expenses	38,536	44,922
	<u>4,418,832</u>	<u>655,439</u>
Equipment (note 4)	<u>10,577</u>	<u>10,296</u>
Total assets	<u>4,429,409</u>	<u>665,735</u>
Liabilities		
Current liabilities		
Trade and other payables	41,928	54,274
Accrued liabilities	163,191	159,697
Deferred compensation (note 5)	240,083	320,871
	<u>445,202</u>	<u>534,842</u>
Loan facility (note 6)	-	659,293
Total liabilities	<u>445,202</u>	<u>1,194,135</u>
Shareholders' Equity		
Share capital (note 7)	68,002,318	61,247,412
Contributed surplus	17,030,434	16,245,998
Deficit	<u>(81,048,545)</u>	<u>(78,021,810)</u>
Total shareholders' equity (deficit)	<u>3,984,207</u>	<u>(528,400)</u>
Total liabilities and shareholders' equity	<u>4,429,409</u>	<u>665,735</u>
Reporting and recoverability (note 1)		
Subsequent events (note 16)		

Approved by the Board of Directors

"Scott Nelson" Director

"Eric W. Slavens" Director

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

Titanium Corporation Inc.
Statement of Loss and Comprehensive Loss
For the years ended August 31, 2017 and 2016

(expressed in Canadian dollars)

	2017	2016
	\$	\$
Expenses		
General and administrative (note 12)	1,847,694	1,864,505
Research and development (note 12)	827,966	702,652
Amortization, interest and finance expenses (note 12)	387,598	368,559
	<hr/> 3,063,258	<hr/> 2,935,716
Other income		
Interest	(36,523)	(4,736)
	<hr/> 3,026,735	<hr/> 2,930,980
Net loss and comprehensive loss		
	<hr/> 3,026,735	<hr/> 2,930,980
Basic and diluted loss per share (note 9)	<hr/> 0.04	<hr/> 0.05

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

Titanium Corporation Inc.

Statement of Changes in Shareholders' Equity(Deficit)

For the years ended August 31, 2017 and 2016

(expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Deficit \$	Shareholders' equity(deficit) \$
Balance – September 1, 2016	61,247,412	16,245,998	(78,021,810)	(528,400)
Comprehensive loss for the year	-	-	(3,026,735)	(3,026,735)
Proceeds on issuance of common shares, net of share issue costs	6,356,696	-		6,356,696
Fair value of warrants issued in connection with common share issuance	(279,717)	279,717		-
Equity-based compensation	-	1,154,338		1,154,338
Proceeds on exercise of stock options and RSUs	28,308	-		28,308
Fair value of stock options exercised	19,180	(19,180)		-
Fair value of RSUs exercised	630,439	(630,439)		-
Balance – August 31, 2017	68,002,318	17,030,434	(81,048,545)	3,984,207
	Share capital \$	Contributed surplus \$	Deficit \$	Shareholders' equity(deficit) \$
Balance – September 1, 2015	60,256,945	14,757,098	(75,090,830)	(76,787)
Comprehensive loss for the year	-	-	(2,930,980)	(2,930,980)
Equity-based compensation	-	1,422,520		1,422,520
Proceeds on exercise of stock options	506,375	-		506,375
Fair value of stock options exercised	336,422	(336,422)		-
Fair value of DSUs released	147,670	(147,670)		-
Fair value of warrants	-	550,472		550,472
Balance – August 31, 2016	61,247,412	16,245,998	(78,021,810)	(528,400)

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

Titanium Corporation Inc.
Statement of Cash Flows
For the years ended August 31, 2017 and 2016

(expressed in Canadian dollars)

	2017	2016
	\$	\$
Cash (used in) provided by		
Operating activities		
Net loss for the year	(3,026,735)	(2,930,980)
Items not affecting cash		
Amortization	2,889	3,731
Accrued interest income	(24,084)	-
Amortization of loan issue costs (note 6)	346,625	273,504
	(2,701,305)	(2,653,745)
Net change in non-cash working capital items		
Deferred compensation expense	1,073,552	1,038,037
Accounts receivable and goods and services tax receivable	(99)	(7,441)
Prepaid expenses and other assets	6,386	(35,462)
Trade and other payables and accrued liabilities	(8,852)	(72,380)
	(1,630,318)	(1,730,991)
Investing activities		
Purchase of equipment	(3,170)	-
Purchase of short-term investments	(3,000,000)	-
	(3,003,170)	
Financing activities		
Exercise of stock options (note 7)	28,308	506,375
Common shares issued, net of issue costs (note 7)	6,356,696	-
Loan facility (note 6)	(1,005,920)	1,000,000
Deferred loan issue costs (note 6)	-	(63,740)
	5,379,084	1,442,635
Increase (decrease) in cash and cash equivalents	745,596	(288,356)
Cash and cash equivalents – beginning of year	594,743	883,099
Cash and cash equivalents – end of year	1,340,339	594,743

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

Titanium Corporation Inc.

Notes to Financial Statements

August 31, 2017 and 2016

1 Reporting entity and recoverability

Titanium Corporation Inc. (the “Company” or “Titanium”) 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 903 8th Avenue, SW, Calgary, Alberta, T2P 0P7 and the Company’s registered office is located at Suite 2400, 525 8th Avenue, SW, Calgary, Alberta, T2P 1G1. The Company’s common shares are listed on the TSX Venture Exchange under the ticker symbol “TIC”.

Titanium’s mission is “Creating Value from Waste™” (“CVW™”). The Company has developed innovative CVW™ technologies to recover valuable heavy minerals, bitumen, solvent and water from oil sands waste tailings. The recovery of bitumen, associated solvents and water from froth treatment tailings streams enables important and timely environmental improvements for the oil sands industry. The Company has completed demonstration piloting which culminated several years of progressive research and development (“R&D”) of its proprietary technology and is working towards the first commercial implementation of the CVW™ technology at an oil sands site.

The financial statements are prepared using International Financial Reporting Standards (“IFRS”) that are applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. 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. 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. Until commercial operations are established, the Company will continue to incur losses and is dependent on raising funds through the issuance of shares, loans, 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 endeavours.

2 Basis of presentation

These financial statements of the Company have been approved by the Board of Directors on November 21, 2017. These financial statements are presented in Canadian dollars, which is the Company’s functional currency.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the international accounting standards and IFRIC interpretations. The financial statements have been prepared under the historical cost convention except as detailed in the Company’s accounting policies disclosed in Note 3.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Titanium Corporation Inc.

Notes to Financial Statements

August 31, 2017 and 2016

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Critical accounting estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make critical accounting estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates and judgments are continually evaluated and are based on historical experience 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 judgments used in the preparation of the Company's financial statements.

a) Fair value of stock options

Determining the fair value of stock options requires judgement related to the choice of a valuation model, the estimation of stock price volatility, the expected term of the underlying instruments, the estimation of the risk free interest rate and the rate of forfeiture of the options granted (note 7).

b) Fair value of warrants

Determining the fair value of warrants requires judgment 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 (note 8).

Basis of measurement

The financial statements have been prepared using the historical cost convention except for the measurement of stock-based payments and warrants, which are measured initially at fair value.

Foreign currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in the statement of loss and comprehensive loss in "Amortization, interest and finance expenses".

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances net of outstanding cheques which have not cleared the bank at a period end.

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Short term investments

Short term investments are comprised of certificates of investment with original maturity dates of twelve months which are all redeemable within 30 days of the issue date. The Company's short term investments are held with Schedule 1 Canadian banks where management believes the risk of loss to be minimal.

Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is recorded on the declining balance basis at rates between 20% and 50% as appropriate for the type of equipment.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Research and development expenditures

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Where a product or process is technically and commercially feasible, production and sale are intended, a market exists, expenditures can be measured reliably and sufficient resources are available to complete the project, development costs are capitalized. No development costs have been capitalized to date.

Share capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from shareholders' equity, net of any tax effects.

Equity-based award plan

The Company has an equity-based award plan for its directors, officers, employees and consultants to encourage ownership of common shares. The equity 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 equity-based awards to officers, employees and non-executive directors at the discretion of the board of directors. The associated equity-based compensation expenses are recognized as components of general and administrative and research and development expense.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in shareholders' equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

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Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future tax profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares. The Company’s potentially dilutive common shares comprise equity based awards granted to its employees and directors and warrants issued in connection with the rights offering. The number of common shares included with respect to equity awards and warrants are computed using the treasury stock method.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets

The Company may have the following non-derivative financial assets: financial assets at fair value through profit or loss, available-for-sale financial assets, held to maturity financial assets and loans and receivables. Management determines the appropriate classification upon initial recognition. All financial assets are initially measured at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

a) Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if acquired principally for the purpose of selling or repurchasing in the short-term. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

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b) Available-for-sale financial assets

Any investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss. The Company has no assets classified as available-for-sale for the periods presented.

c) Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. The Company has no assets classified as held-to-maturity for the periods presented.

d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of cash and cash equivalents, short term investments, accounts receivable, and goods and services tax receivable. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Financial liabilities

The Company has the following non-derivative financial liabilities: trade and other payables, accrued liabilities and loan facilities. Such financial liabilities are classified as other liabilities and are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Impairment

a) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss.

Titanium Corporation Inc.

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b) Non-financial assets

Non-financial assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (“cash-generating units” or “CGUs”). Recoverable amount is the higher of an asset’s fair value less costs to dispose and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management). The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

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.

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 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. The amendment is effective January 1, 2018, for fiscal years commencing after that date with early adoption permitted.

IFRS 15 – “Revenue from Contracts with Customers”. This amendment replaces the existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers. The amendment is effective January 1, 2018, for fiscal years commencing after that date with early adoption permitted.

IFRS 16 – “Leases”. This is a new standard whereby a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset (“ROU”) is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest. This accounting treatment will typically produce a front-loaded expense profile. The new standard is effective January 1, 2019, for fiscal years commencing after that date with early adoption permitted.

The Company is currently evaluating the impact of adopting these standards on its financial statements, but does not anticipate these new standards will have a significant effect on the financial statements.

4 Equipment

	2017	2016
	\$	\$
Cost	98,400	98,400
Additions	3,170	-
Disposals	-	-
Accumulated amortization	(90,993)	(88,104)
Net carrying value	<u>10,577</u>	<u>10,296</u>

Titanium Corporation Inc.

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5 Deferred Compensation

The Company has made arrangements with its directors and officers to receive a portion of their cash compensation in the form of either Restricted Share Units ("RSUs") or Deferred Share Units ("DSUs"). During the year \$750,852 (2016 \$712,194) was recognized as deferred compensation expense. The deferred compensation liability of \$240,083 represents an estimated accrual for deferred compensation that will be approved and settled in the future through the issuance of RSUs or DSUs. Upon settlement, the outstanding liability is reclassified to contributed surplus.

6 Loan Facilities, Deferred Financing Costs and Related Party Transactions

On October 9, 2015, the Company entered into loan agreements (the "Loan Agreements") with Mossco Capital Inc., an affiliated Canadian resident corporation controlled by Mr. Moss Kadey, ("Mossco") and David Macdonald, two of Titanium's independent directors (together, the "Lenders") considered to be related parties. The Lenders agreed to lend the aggregate principal amount of up to \$1,500,000 (collectively, the "Loans"). The Loans, were repayable in full by Titanium to the Lenders by October 9, 2017. Mossco agreed to advance up to \$1,000,000 and Mr. Macdonald agreed to advance up to \$500,000. The proceeds from the Loans were used for general corporate purposes as approved by the Company's Board of Directors in its annual budget. Interest accrued on the Loans at the rate of 12% per annum from the date of advance, standby fees at the rate of 3% per annum on any undrawn balances of the Loans (both payable monthly), and drawdown fees of 2.0% at the time of each advance of \$500,000. On December 16, 2016, the Company repaid the Loans together with accrued interest in the amount of \$1,005,920 from proceeds received on the closing of a Rights Offering (note 7). Titanium's obligations in respect of the Loans were secured by a general security agreement granted by Titanium to the Lenders under which Titanium granted security interests over all of its present and after-acquired personal property and a floating charge over all of its real property. Titanium and the Lenders entered into an intercreditor agreement to confirm the pari passu ranking of the Loans and security, including the right to payment, priority of security and realization in respect of security. The repayment of the Loans terminated the Loan Facilities and eliminated all the Company's outstanding debt obligations and related security encumbrances. In addition, the balance of the deferred finance costs were recognized in the statement of loss.

	2017	2016
	\$	\$
Loan payable	-	1,000,000
Deferred financing costs	-	(340,707)
Net carrying value	-	<u>659,293</u>

Titanium Corporation Inc.

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7 Share capital

Authorized

Unlimited number of common shares without par value have been authorized. Details of share capital balances are as follows:

	2017		2016	
	Common shares #	Amount \$	Common shares #	Amount \$
Balance – September 1	65,332,812	61,247,412	64,425,040	60,256,945
Issued for cash on exercise of stock options	67,500	28,308	700,000	506,375
Gross proceeds on issuance of common shares	13,069,062	6,534,531	-	-
Share issue costs	-	(177,835)	-	-
Fair value of warrants issued in connection with common shares	-	(279,717)	-	-
Reallocation from contributed surplus relating to fair value of stock options	-	19,180	-	336,422
Issue and reallocation of fair value from contributed surplus relating to redemption of RSUs and DSUs	700,000	630,439	207,772	147,670
Balance – August 31	79,169,374	68,002,318	65,332,812	61,247,412

On December 19, 2016, the Company closed its fully subscribed rights offering with the issuance of 13,069,062 common shares for gross aggregate proceeds of \$6,534,531 (\$0.50 per share). In connection with the offering, and in consideration for the purchase commitment under the standby purchase agreement, the Company issued 2,675,000 common share purchase warrants exercisable at \$0.70 per common share for a period of two years expiring December 21, 2018 (note 8). Related to the offering, the Company incurred \$177,835 in expenses for the offering consisting of legal, rights agent, exchange listing, and other fees. The share issue costs were recorded as a charge against share capital.

Equity-based compensation

The Company has equity plans for its directors, officers, employees and consultants to encourage ownership of common shares and align with the longer term interest of Company shareholders. The equity plans are 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 equity-based awards at the discretion of the board of directors. The associated equity-based compensation expenses are recognized as components of general and administrative and research and development expenses. The Company adopted "rolling" equity-based plans that include stock options, DSUs and RSUs. The number of common shares issuable under all such plans at any time is limited to 10% (rolling) of the issued and outstanding common shares of the Company in the aggregate. The plans are subject to annual approval by the Company's shareholders.

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The equity plans are 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. The cost is recognized as a component of general and administrative or research and development expenses over the vesting periods of the options with 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 are recognized as share capital.

b) DSUs

As part of the Company's long-term incentives for non-executive directors, a deferred share unit plan was established representing a component of director compensation. DSU awards vest immediately upon grant and are settled with the issuance of one common share for one DSU 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 fair value means, at any date, the higher of (i) weighted average price per share at which the common shares have traded on the TSXV during the last five (5) trading days prior to the relevant date and (ii) the closing price of the common shares on the date prior to the relevant date. 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) RSUs

As part of the Company's long-term incentives for officers and other key employees of the Company, a restricted share unit plan was established representing a component of compensation. The RSU plan provides participants with the opportunity to acquire RSUs in order to participate in the long term success of the Company. The vesting schedule for RSU awards is specified by the Board of Directors on the grant date. Once the award is vested, the RSU can be settled, at the option of the holder, with the issuance of one RSU in exchange for one common share. 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 fair value means, at any date, the higher of (i) weighted average price per share at which the common shares have traded on the TSXV during the last five (5) trading days prior to the relevant date and (ii) the closing price of the common shares on the date prior to the relevant date. The cost is recognized as a component of general and administration and/or research and development 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.

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Summary of equity plan awards

The number of common shares issuable under all plans at any time is limited to 10% (rolling) of the issued and outstanding common shares of the Company in the aggregate. A summary of the equity plan for the periods ended August 31, 2017 and 2016 is as follows:

	2017 #	2016 #
Equity Award Pool (10% of common shares outstanding)	7,916,937	6,653,281
Less Awards Granted:		
Stock Options	(3,857,500)	(2,850,000)
DSUs	(1,080,281)	(647,102)
RSUs	(991,311)	(895,502)
Available Pool	<u>1,987,845</u>	<u>2,140,677</u>

The components of stock based compensation are summarized below:

Summary of stock options

A summary of the Company's stock option activity for the year ended August 31, 2017 and 2016 is as follows:

	2017		2016	
	Number of common stock options #	Weighted average exercise price \$	Number of common stock options #	Weighted average exercise price \$
Outstanding – September 1	2,850,000	\$ 0.65	3,658,400	\$1.28
Granted	1,150,000	\$ 1.12	1,775,000	\$0.41
Options exercised	(67,500)	\$ 0.42	(700,000)	\$0.72
Options expired	(75,000)	\$ 1.75	(1,883,400)	\$1.62
Options outstanding	<u>3,857,500</u>	<u>\$ 0.78</u>	<u>2,850,000</u>	<u>\$ 0.65</u>
Options exercisable	<u>2,682,500</u>	<u>\$ 0.63</u>	<u>1,641,666</u>	<u>\$0.83</u>

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The following table summarizes the options outstanding as at August 31, 2017:

Range of exercise price	Number of common shares #	Weighted average remaining contractual life years	Weighted average exercise price \$	Number of options exercisable #	Weighted average exercise price \$
0.00 – 0.99	1,707,500	3.47	\$0.41	1,682,500	\$0.41
1.00 – 1.99	2,150,000	2.81	\$1.07	1,000,000	\$1.00
	3,857,500	3.10	\$0.78	2,682,500	\$0.63

On April 21, 2017 and July 25, 2017, the Company granted 1,150,000 stock options to officers, directors and consultants. The terms of the grants are consistent with the plan, with a vesting period of three years and a five year life after the grant date. The options are exercisable at a price of \$1.07 and \$1.37 respectively per stock option. The fair value of the stock option grants were estimated as at the grant date using the Black-Scholes option pricing model.

The weighted average assumptions used in the Black Scholes pricing model for the fair value of the stock options granted were as follows:

	August 31, 2017	August 31, 2016
Exercise price of stock option	\$1.12	\$0.41
Risk free interest rate	1.04%	0.58%
Expected life (years)	4.4	4.5
Expected volatility	86.37%	92.65%
Fair value per stock option	\$0.72	\$0.28

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 12). 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.

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Summary of DSUs

A summary of the DSU activity for the years ended August 31, 2017 and 2016 is as follows:

	2017		2016	
	Number of DSUs #	Weighted average share price at time of grant \$	Number of DSUs #	Weighted average share price at time of grant \$
Outstanding – September 1	647,102	\$0.74	388,012	\$0.91
Granted	433,179	\$0.71	466,863	\$0.67
Redeemed/released	-	-	(207,773)	\$0.88
DSUs outstanding	1,080,281	\$0.73	647,102	\$0.74

Summary of RSUs

A summary of the RSU activity for the periods ended August 31, 2017 and 2016 is as follows:

	2017			2016		
	Number of RSUs #	Exercise price \$	Weighted Average share price at time of grant \$	Number of RSUs #	Exercise price \$	Weighted Average share price at time of grant \$
Outstanding September 1	895,502	\$0.0001	\$0.87	-	-	-
Granted	795,809	\$0.0001	\$0.66	895,502	\$0.0001	\$0.87
Exercised	(700,000)	\$0.0001	\$0.87	-	-	-
RSUs outstanding	991,311	\$0.0001	\$0.68	895,502	\$0.0001	\$0.87

8 Warrants

- i. In connection with the loan facilities (note 6) the Lenders were issued 750,000 non-transferable common share purchase warrants which were allocated proportionally to the Lenders on the basis of their committed amounts. Each warrant entitles the holder to acquire one common share of Titanium at a price of \$1.35 per common share prior to October 9, 2017. A value of \$550,472 was attributed to the warrants issued in connection with the loan facilities based on the Black-Scholes pricing model and has been recorded as part of contributed surplus on the statement of financial position. Fair value of the

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warrants was deferred and amortized using the effective interest rate method. All deferred costs have been expensed and recognized as finance expense up until December 16, 2016 at which time the loan facility and all the associated obligations were extinguished. The warrants were exercised on October 6, 2017 (note 16) and the fair value will be reclassified as share capital.

The assumptions used in the Black Scholes pricing model for the fair value of the warrants were as follows:

Exercise price of warrants	\$1.35
Risk free interest rate	0.56%
Expected life	2.0
Expected volatility	104.75%
Fair value per whole warrant	\$0.734

- ii. In connection with the Rights Offering on December 19, 2016, and in consideration for the purchase commitment by certain investors under the standby purchase agreement, the Company issued 2,675,000 common share purchase warrants exercisable at \$0.70 per common share for a period of two years expiring December 21, 2018. A value of \$279,717 was attributed to the warrants issued to standby purchasers in connection with the rights offering based on the Black-Scholes pricing model and was recorded as part of contributed surplus on the statement of financial position. If the warrants are exercised before expiry, the fair value will be reclassified as share capital.

The assumptions used in the Black Scholes pricing model for the fair value of the warrants were as follows:

Exercise price of warrants	\$0.70
Risk free interest rate	0.82%
Expected life	2.0
Expected volatility	64.15%
Fair value per whole warrant	\$0.105

9 Basic and diluted loss per share

Weighted average number of common shares outstanding

As the Company incurred losses for the years ended August 31, 2017 and 2016, the impact of potentially issuable common shares upon the exercise of DSUs, RSUs, stock options and warrants would be anti-dilutive, therefore basic and diluted loss per share are the same.

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

	2017 \$	2016 \$
Net loss and comprehensive loss	3,026,735	2,930,980
Weighted average number of common shares for basic and diluted loss per share	75,103,549	65,133,749
Basic and diluted loss per share	<u>\$0.04</u>	<u>\$0.05</u>

10 Income taxes

The tax recovery on the Company's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the entity as follows:

	2017 \$	2016 \$
Net (loss) before income taxes	<u>(3,026,735)</u>	<u>(2,930,980)</u>
Tax calculated at applicable statutory rates applicable to loss (27%)	(817,218)	(791,365)
Change in temporary differences for which no deferred income tax asset was recognized	444,063	444,195
Stock-based compensation expense not deductible for tax purposes	289,859	280,270
Other expenses not deductible for tax purposes	<u>83,296</u>	<u>66,899</u>
Tax recovery	<u>-</u>	<u>-</u>

The applicable rate was 27 % (2016 – 27%). Deferred income taxes are computed at 27%. The movement in deferred income tax assets and (liabilities) during the year is as follows:

	Deferred tax asset \$
At September 1, 2016	13,774,000
Current year change	<u>445,000</u>
At August 31, 2017	14,219,000
Asset not recognized	<u>(14,219,000)</u>
Net deferred tax asset	<u>-</u>

Deferred income tax assets are recognized for loss carry-forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. Based on this test, the Company did not recognize deferred income tax assets of \$14,219,000 (2016 – \$13,774,000) in respect

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of tax losses and other deductible temporary differences amounting to \$52,663,000 (2016– \$51,018,000) that can be carried forward against future taxable income.

The components of the unrecognized deferred tax asset are as follows:

Components of deferred tax assets:	Deferred tax asset
	\$
Capital assets (tangible and intangible)	905,000
SR&ED expenditures	5,605,000
Capital and non-capital losses	7,709,000
At August 31, 2016	14,219,000
Deferred tax asset not recognized	(14,219,000)
Net deferred tax asset	-

The Company did not recognize the benefits of non-refundable federal research and development investment tax credits (“ITCs”) amounting to \$4,824,000 (2016 - \$4,824,000). These tax credits can be carried forward against future federal income tax payable.

The non-capital losses and non-refundable research and development tax expenditures will expire as follows:

	Federal non- capital loss carry- forwards	Alberta non- capital loss carry- forwards	Federal investment tax credits
	\$	\$	\$
2023	-	-	91,000
2024	-	-	551,000
2025	-	-	231,000
2026	3,556,000	3,556,000	473,000
2027	1,737,000	1,737,000	300,000
2028	-	-	279,000
2029	4,193,000	4,193,000	517,000
2030	3,114,000	3,114,000	861,000
2031	4,877,000	4,877,000	1,026,000
2032	2,274,000	2,274,000	182,000
2033	652,000	652,000	313,000
2034	2,773,000	2,773,000	-
2035	1,954,000	1,954,000	-
2036	1,765,000	1,765,000	-
2037	1,657,000	1,657,000	-
	<u>28,552,000</u>	<u>28,552,000</u>	<u>4,824,000</u>

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11 Segmented information

Operating segments

The Company has one reporting segment engaged in the commercialization of its proprietary CVW™ technology for the recovery of bitumen, solvent, 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.

12 Expenses by nature

General and administrative expenses consist of the following:

	2017 \$	2016 \$
Compensation and benefits	518,622	504,026
Deferred compensation expense (note 5)	341,237	342,888
Equity-based compensation (note 7)	233,052	241,243
Director fees - deferred compensation (note 5)	254,990	239,330
Consulting and professional fees	243,346	277,528
Rent, insurance and office	120,395	105,344
Investor relations and regulatory	79,467	97,416
Travel	56,585	56,730
	<u>1,847,694</u>	<u>1,864,505</u>

Research and development expenses consist of the following:

	2017 \$	2016 \$
Compensation and benefits	406,471	346,060
Projects, rent and other	177,221	142,016
Deferred compensation expense (note 5)	154,625	129,976
Equity-based compensation (note 7)	89,648	84,600
	<u>827,965</u>	<u>702,652</u>

Amortization, interest and finance expenses:

	2017 \$	2016 \$
Amortization of loan issue costs (note 6)	346,625	273,504
Standby and draw down charges (note 6)	3,218	50,055
Interest (note 6)	35,007	41,041
Amortization of fixed asset	2,889	3,731
Foreign exchange (gain) loss	(141)	228
	<u>387,598</u>	<u>368,559</u>

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13 Compensation of key management

Compensation awarded to key management⁽ⁱ⁾ included:

	2017 \$	2016 \$
Salaries and short-term employee benefits	925,094	850,086
Equity-based compensation	322,700	325,843
Directors' fees-deferred	254,900	239,330
Deferred compensation expense	495,862	472,864
	<u>1,998,646</u>	<u>1,888,123</u>

⁽ⁱ⁾ Key management includes all directors and officers of the Company.

14 Financial instruments and financial risk factors

The Company has for accounting purposes, designated its cash and cash equivalents, short term investments, goods and services tax receivable, as loans and receivables. Trade, other payables, accrued liabilities and loans are classified for accounting purposes as other financial liabilities.

As of August 31, 2017, the Company estimates that both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent because of the short-term nature of the assets and liabilities.

The Company has classified the financial instruments measured at fair value in accordance with a three level hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair values of the financial assets and liabilities. The fair value hierarchy has the following levels:

- (i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The Company's cash and cash equivalents and short term investments has been subject to level 2 valuation. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

Financial risk

The Company's activities expose it to a variety of financial, credit, liquidity and market risks, including interest rate and foreign exchange rate risks.

Financial risk management is carried out by the Company's management team with guidance from the Audit Committee and the Board of Directors. The Board of Directors also provides guidance for enterprise risk management.

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Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and government grant receivables. Cash and cash equivalents and short term investments are held with Schedule I Canadian Chartered banks which are reviewed by management. Management believes that the credit risk concentration with respect to financial instruments is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due by monitoring actual and projected cash flows. The Board of Directors reviews and approves the operating plan as well as any material transactions outside the ordinary course of business. The Company is dependent on raising funds through the issuance of shares, loan facilities, government grants and/or attracting partners in order to undertake further development and commercialization of its technology (note 1). As at August 31, 2017, the Company had aggregate cash and cash equivalents of \$1,340,339 (2016 - \$594,743) to settle current cash settled liabilities of \$205,119 (2016 - \$213,841). Most of the Company's financial liabilities have contractual terms of 30 days or less.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

a) Interest rate risk

The Company's current policy is to invest excess cash in interest bearing cash accounts, bankers' acceptances and guaranteed investment certificates issued by Schedule I Canadian banks. The Company periodically monitors its investments and the creditworthiness of the banks it holds investments in. Interest on the loan facility (note 6) was fixed at 12% per annum from the date of advance, payable monthly.

b) Foreign currency risk

The Company's reporting and functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. The Company does not hold any significant balances in foreign currencies to give rise to exposure to foreign exchange risk. Any impact from fluctuations in foreign exchange rates would be minimal and therefore the Company does not hedge its foreign exchange risk.

15 Capital management

The Company considers its shareholders' equity as its capital, which at August 31, 2017 totalled \$3,984,207 (August 31, 2016 - (\$528,400)) The Company does not have any bank debt or externally imposed capital requirements. The Company's capital management objectives are to manage its cash, cash equivalents and short term investments prudently; to minimize the expenditures on general and administrative costs to ensure funds

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are available to continue to advance the commercialization of CVW™ projects; and to access available government funding for research and development and commercialization.

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. The Company closed a fully subscribed Rights Offering with the issuance of 13,069,062 common shares for gross aggregate proceeds of \$6,534,531 (see notes 7) in December of 2016. The Company used a portion of the gross proceeds of the offering (\$1,005,920) to repay the outstanding principal amounts of the Loans.

16 Subsequent events and commitments

- a) On October 19, 2017, the Company announced that it had entered into a contribution agreement with ERA whereby ERA will fund up to the lesser of \$5.0 million or 50% of the cost of the engineering design project for implementation of Titanium's CVW™ technology at Canadian Natural's Horizon site. With the ERA contribution in addition to the financial commitments of each of Canadian Natural (\$3.7 million) and Titanium (\$1.5 million), the estimated \$10.2 million project is fully funded.
- b) On October 6, 2017, the Company announced that Mossco Capital Inc., an affiliated Canadian resident corporation controlled by Mr. Moss Kadey ("Mossco"), and Mr. David Macdonald exercised in full their 750,000 non-transferable common shares purchase warrants of Titanium. The common shares of Titanium were issued pursuant to the terms of the warrant certificates issued by the Company on October 13, 2015 in connection with the entering into of the loan agreements between the Company and Mossco and Mr. Macdonald. The warrants were exercised at a price of \$1.35 per share and resulted in the issuance of 750,000 common shares of Titanium for total proceeds of \$1,012,500. No commissions or placement fees were payable in respect of the exercise of the warrants. Proceeds from the exercise of the warrants will be used for general corporate purposes.