

Titanium Corporation Inc.

Condensed Interim Financial Statements
(Unaudited)

June 30, 2018 and December 31, 2017

August 27, 2018

**To the Shareholders of
Titanium Corporation Inc.**

The condensed interim financial statements of Titanium Corporation Inc. as at and for the three and six month periods ended June 30, 2018 have been compiled by management.

No audit or review of this information has been performed by the Company's auditors.

Titanium Corporation Inc.

Statement of Financial Position

(expressed in Canadian dollars)

	June 30, 2018 \$	December 31, 2017 \$
Assets		
Current assets		
Cash and cash equivalents	1,872,143	1,997,731
Short term investments	2,048,615	3,038,108
Goods and services tax receivable	65,658	19,506
Prepaid expenses	65,943	31,964
	<u>4,052,359</u>	<u>5,087,309</u>
Equipment	<u>9,043</u>	<u>9,653</u>
Total assets	<u>4,061,402</u>	<u>5,096,692</u>
Liabilities		
Current liabilities		
Trade and other payables	1,262,869	215,969
Accrued liabilities	848,733	154,043
Deferred compensation (note 5)	277,299	341,552
Total liabilities	<u>2,388,901</u>	<u>711,654</u>
Shareholders' Equity		
Share capital (note 7)	71,929,728	70,418,766
Contributed surplus	16,845,652	16,470,130
Deficit	<u>(87,102,879)</u>	<u>(82,503,498)</u>
Total shareholders' equity	<u>1,672,501</u>	<u>4,385,398</u>
Total liabilities and shareholders' equity	<u>4,061,402</u>	<u>5,096,962</u>
Commitments (note 13)		
Subsequent events (note 14)		

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

Titanium Corporation Inc.

Statement of Loss and Comprehensive Loss

For the three month periods ended June 30, 2018 and May 31, 2017

(expressed in Canadian dollars)

	Three month periods ended		Six month periods ended	
	June 30, 2018	May 31, 2017	June 30, 2018	May 31, 2017
	\$	\$		
Expenses and losses				
General and administrative (note 11)	581,204	461,422	1,181,109	946,185
Research and development (note 4 and 11)	2,479,204	202,699	3,449,037	360,183
Amortization and finance expenses (note 11)	-	570	610	275,708
	3,060,408	664,691	4,630,756	1,582,076
Other income				
Interest	(15,442)	(14,108)	(31,375)	(22,726)
	3,044,966	650,583	4,599,381	1,559,350
Net loss and comprehensive loss				
	3,044,966	650,583	4,599,381	1,559,350
Basic and diluted loss per share				
(note 9)	0.04	0.01	0.06	0.02

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

Titanium Corporation Inc.

Statement of Changes in Shareholders' Equity

For the six month period ended June 30, 2018 and the four month period ended December 31, 2017

(expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Deficit \$	Shareholders' equity \$
Balance – January 1, 2018	70,418,766	16,470,130	(82,503,498)	4,385,398
Comprehensive loss for the period	-	-	(4,599,381)	(4,599,381)
Equity-based compensation	-	281,259	-	281,259
Deferred Compensation settled with RSUs/DSUs	-	441,712	-	441,712
Proceeds on exercise of stock options	463,513	-	-	463,513
Proceeds on exercise of warrants	700,000	-	-	700,000
Fair value of stock options exercised	242,882	(242,882)	-	-
Fair value of warrants exercised	104,567	(104,567)	-	-
Balance – June 30, 2018	71,929,728	16,845,652	(87,102,879)	1,672,501
	Share capital \$	Contributed surplus \$	Deficit \$	Shareholders' equity \$
Balance – September 1, 2017	68,002,318	17,030,434	(81,048,546)	3,984,207
Comprehensive loss for the four-month period	-	-	(1,454,953)	(1,454,953)
Equity-based compensation	-	283,019	-	283,019
Proceeds on exercise of stock options	560,625	-	-	560,625
Proceeds on exercise of warrants	1,012,500	-	-	1,012,500
Fair value of stock options exercised	292,851	(292,851)	-	-
Fair value of warrants exercised	550,472	(550,472)	-	-
Balance – December 31, 2017	70,418,766	16,470,130	(82,503,498)	4,385,398

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

Titanium Corporation Inc.

Statement of Cash Flows

For the three and six month periods ended June 30, 2018 and May 31, 2017

(expressed in Canadian dollars)

	Three month periods ended		Six month periods ended	
	June 30, 2018	May 31, 2017	June 30, 2018	May 31, 2017
	\$	\$		
Cash (used in) provided by				
Operating activities				
Net loss for the period	(3,044,966)	(650,583)	(4,599,381)	(1,559,350)
Items not affecting cash				
Amortization	-	524	610-	1,049
Accrued interest income	(2,401)	(10,587)	(15,219)	(13,499)
Equity-based compensation	148,122	73,344	281,259	122,777
Amortization of debt issue costs (note 6)	-	-	-	270,432
	(2,899,244)	400,771	(4,332,730)	(1,178,591)
Net change in non-cash working capital items				
Deferred compensation expense (note 5)	188,896	186,531	377,459	380,524
Goods and services tax receivable	(47,644)	17,600	(46,152)	4,627
Prepaid expenses and other assets	821	(31,870)	(33,979)	44,617
Trade and other payables and accrued liabilities	1,622,926	70,205	1,741,579	(79,554)
	(1,134,245)	(344,836)	(2,293,823)	(828,377)
Investing activities				
Redemption (purchase) of short-term investments	-	-	1,004,722	(3,000,000)
Financing activities				
Common shares issued, net of issue costs	-	-	-	6,356,696
Loan facility and accrued interest (note 6)	-	-	-	(1,005,918)
Exercise of stock options	-	17,612	463,513	22,994
Exercise of warrants	-	-	700,000	-
	-	17,612	2,168,235	5,373,772
(Decrease)Increase in cash and cash equivalents	(1,134,245)	(327,224)	(125,588)	1,545,396
Cash and cash equivalents – beginning of period	3,006,388	2,079,367	1,997,731	206,748
Cash and cash equivalents – end of period	1,872,143	1,752,143	1,872,143	1,752,143

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

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Notes to Condensed Interim Financial Statements

June 30, 2018 and May 31, 2017

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 these endeavours in the future.

2 Basis of presentation

These financial statements of the Company have been approved by the Board of Directors on August 27, 2018. These financial statements are presented in Canadian dollars, which is the Company’s functional currency and follow the same accounting policies and methods of application as the most recent annual audited financial statements.

The Company changed its fiscal year end from August 31 to December 31. As such, the period ended June 30, 2018 is the second reporting period in the new fiscal year. The comparative three and six-month interim periods for purposes of reporting in the transition year is May 31, 2017.

The condensed interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and IFRIC interpretations. These financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company’s audited financial statements for the four-

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month period ended December 31, 2017. The financial statements have been prepared under the historical cost convention except as detailed in the Company's accounting policies disclosed in Note 3 in the annual financial statements.

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.

3 Significant accounting policies

These condensed interim financial statements have been prepared following the same accounting policies and methods of computation as the most recent audited financial statements for the four-month period ended December 31, 2017. Significant accounting policies are described in Note 3 of the December 31, 2017 audited financial statements.

Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. These estimates and judgements 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 judgements used in the preparation of the Company's financial statements.

a) Government grants and partner project contributions

The recovery of government grants and partner project contributions requires judgement to determine when reasonable assurance exists that the Company has complied with conditions contained in the applicable contribution agreements.

b) Recognition of intangible assets

Determining the commencement of capitalization of development costs requires judgement to determine when conditions exist to capitalize costs related to the development of intangible assets.

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c) Fair value of stock options

Determining the fair value of stock options requires judgment related to the choice of a pricing 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.

d) Fair value of warrants

Determining the fair value of warrants requires judgement 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.

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 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 on or after that date with early adoption permitted.

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

4 Government Grants and Project Cost Recovery

On October 19, 2017, the Company entered into a contribution agreement with Emissions Reduction Alberta (“ERA”) to fund a portion of the cost of the engineering design project for the implementation of Titanium's CVW™ technology at Canadian Natural Resource Limited’s (“Canadian Natural”) Horizon site. The contribution agreement provides for funding up to the lesser of \$5.0 million or 50% of the cost of the engineering design project. In addition, the Company has an agreement with Canadian Natural to fund up to \$3.7 million of the project costs. The Company is acting as the lead proponent and overall project manager, responsible for contracting with engineering and other firms required for the project, managing and funding these contracts, project controls, reporting progress against agreed milestones and collecting partner funding contributions upon milestone achievement from ERA and Canadian Natural. The direct costs related to the project are recognized as R&D expenses when incurred and recovery of project costs are recognized with collection of ERA and partner contributions. The project has incurred \$3.4 million of eligible and in-kind contributions to June 30, 2018 the milestone 2 period. As at June 30, 2018 the Company estimates ERA and partner contributions for their share of eligible project expenditures is approximately \$2,614,000 of which \$345,000 represents a 20% ERA holdback

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payable on the completion of the project. These amounts will be received by the Company upon completion of agreed milestones outlined in the contribution agreements (note 14).

5 Deferred Compensation

The Company has made arrangements with its directors and officers to receive all or part of their cash compensation in the form of either Restricted Share Units ("RSUs") or Deferred Share Units ("DSUs"). During the six-month period ended June 30, 2018, \$377,459 (May 31, 2017 \$186,531) was recognized as deferred compensation expense. The deferred compensation liability of \$277,299 represents an estimated accrual for deferred compensation that will be approved and settled in the future through the issuance of RSUs or DSUs (subsequent events note 14). Upon settlement, the outstanding liability is reclassified to contributed surplus.

6 Loan Facilities and Deferred Financing Costs

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"). Mossco agreed to advance up to \$1,000,000 and Mr. Macdonald agreed to advance up to \$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. The repayment of the Loans terminated the Loan Agreements and eliminated all the Company's outstanding debt obligations and related security encumbrances.

7 Share capital

Authorized

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

	Six month period June 30, 2018		Four month period December 31, 2017	
	Common shares #	Amount \$	Common shares #	Amount \$
Opening Balance – Jan 1, 2018 and Sep 1, 2017	80,494,374	70,418,766	79,169,374	68,002,318
Issued for cash on exercise of stock options	482,500	463,513	575,000	560,625
Issued for cash on exercise of warrants	1,000,000	700,000	750,000	1,012,500
Reallocation from contributed surplus relating to exercise stock options	-	242,882	-	292,851
Reallocation from contributed surplus relating to exercise of warrants	-	104,567	-	550,472
Closing Balance –	81,976,874	71,929,728	80,494,374	70,418,766

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

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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).

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. 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 a stock option, both the consideration received, and the fair value of the options 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) the 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 common share in exchange for one RSU. 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) the 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.

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.

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A summary of the equity plans as at June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018 #	December 31, 2017 #
Equity Award Pool (10% of common shares outstanding)	8,197,687	8,049,437
Less Awards Granted:		
Stock Options	(3,991,667)	(3,282,500)
DSUs	(1,260,457)	(1,142,311)
RSUs	(1,293,241)	(1,014,798)
Available Pool	<u>1,652,322</u>	<u>2,609,828</u>

Summary of stock options

A summary of the Company's stock option activity for the periods ended June 30, 2018 and December 31, 2017 is as follows:

	June 30, 2018		December 31, 2017	
	Number of common stock options #	Weighted average exercise price \$	Number of common stock options #	Weighted average exercise price \$
Outstanding – Jan 1, 2018 and Sep 1, 2017	3,282,500	\$ 0.74	3,857,500	\$ 0.78
Granted	1,225,000	\$ 0.83	-	-
Options exercised	(482,500)	\$ 0.96	(575,500)	\$ 0.98
Options cancelled	(33,333)	\$1.07		
Options outstanding	<u>3,991,667</u>	<u>\$ 0.74</u>	<u>3,282,500</u>	<u>\$ 0.74</u>
Options exercisable	<u>1,966,668</u>	<u>\$0.52</u>	<u>2,132,500</u>	<u>\$ 0.53</u>

The following table summarizes the options outstanding as at June 30, 2018:

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	2,775,000	3.5	\$0.57	1,650,000	\$0.41
1.00 – 1.99	1,216,667	3.9	\$1.12	316,668	\$1.07
	<u>3,991,667</u>	<u>3.6</u>	<u>\$0.74</u>	<u>1,966,668</u>	<u>\$0.52</u>

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

	June 30, 2018
Exercise price of stock options	\$0.83
Risk free interest rate	2.06%
Expected life (years)	4.4
Expected volatility	94.17%
Fair value per stock option	\$0.57

Summary of DSUs

A summary of the DSU activity for the periods ended June 30, 2018 and December 31, 2017 is as follows:

	<u>June 30, 2018</u>		<u>December 31, 2017</u>	
	Number of DSUs #	Weighted average share price at time of grant \$	Number of DSUs #	Weighted average share price at time of grant \$
Outstanding – Jan 1, 2018 and Sep 1, 2017	1,142,311	\$0.76	1,080,281	\$0.73
Granted	118,146	\$0.93	62,030	\$1.33
DSUs outstanding	<u>1,260,457</u>	<u>\$0.78</u>	<u>1,142,311</u>	<u>\$0.76</u>

Summary of RSUs

A summary of the RSU activity for the periods ended June 30, 2018 and December 31, 2017 is as follows:

	<u>June 30, 2018</u>			<u>December 31, 2017</u>		
	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 - Jan 1, 2018 and September 1	1,014,798	\$0.0001	\$0.70	991,311	\$0.0001	\$0.68
Granted	278,443	\$0.0001	\$1.19	23,487	\$0.0001	\$1.33
RSUs outstanding	<u>1,293,241</u>	<u>\$0.0001</u>	<u>\$0.81</u>	<u>1,014,798</u>	<u>\$0.0001</u>	<u>\$0.70</u>

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8 Warrants

In connection with the rights offering on which closed 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. On February 16, 2018, 1,000,000 common share purchase warrants were exercised for gross proceeds of \$700,000 and \$104,567 of the fair value of the common share purchase warrants was reclassified to share capital. The remaining 1,675,000 common share purchase warrants that are outstanding expire on December 21, 2018.

9 Basic and diluted loss per share

Weighted average number of common shares outstanding

As the Company incurred losses for each of the three and six-month periods ended June 30, 2018 and May 31, 2017, the impact of potentially issuable common shares upon the exercise of options and common share purchase warrants would be anti-dilutive, therefore basic and diluted loss per share are the same.

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

	Three month periods ended		Six month periods ended	
	June 30, 2018 \$	May 31, 2017 \$	June 30, 2018 \$	May 31, 2017 \$
Net loss and comprehensive loss	3,044,966	650,583	4,599,381	1,559,350
Weighted average number of common shares for basic and diluted loss per share	81,976,874	79,126,874	81,688,393	73,590,640
Basic and diluted loss per share	0.04	0.01	0.06	0.02

10 Segmented information

Operating segments

The Company has one reporting segment engaged in researching, developing and commercializing a separation process for the recovery of heavy minerals, bitumen, solvent 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.

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11 Expenses by nature

General and administrative expenses consist of the following:

	<u>Three month periods ended</u>		<u>Six month periods ended</u>	
	<u>June 30,</u>	<u>May 31,</u>	<u>June 30,</u>	<u>May 31,</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	\$	\$	\$	\$
Compensation and benefits	184,748	127,923	377,335	261,926
Directors' fees – deferred compensation (note 5)	92,709	64,500	185,084	135,000
Equity-based compensation (note 7)	77,457	54,688	153,801	92,073
Consulting and professional fees	49,216	73,491	114,320	133,110
Deferred compensation expense (note 5)	63,812	87,531	127,625	176,524
Rent, insurance and office	31,917	26,956	79,540	56,645
Investor relations and regulatory	64,257	9,448	106,305	55,808
Travel	17,088	16,885	37,099	35,099
	<u>581,204</u>	<u>461,422</u>	<u>1,181,109</u>	<u>946,185</u>

Research and development expenses consist of the following:

	<u>Three month periods ended</u>		<u>Six month periods ended</u>	
	<u>June 30,</u>	<u>May 31,</u>	<u>June 30,</u>	<u>May 31,</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	\$	\$	\$	\$
Projects and other	2,641,592	61,260	3,358,385	82,240
Compensation and benefits	164,724	88,283	328,596	178,239
Equity-based compensation (note 7)	70,665	18,656	127,458	30,704
Deferred compensation expense (note 5)	32,375	34,500	64,750	69,000
<i>subtotal</i>	<u>2,909,356</u>	<u>202,699</u>	<u>3,879,189</u>	<u>360,183</u>
Recovery of project costs	(430,152)	-	(430,152)	-
R&D Costs net	<u>2,479,204</u>	<u>202,699</u>	<u>3,449,037</u>	<u>360,183</u>

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Notes to Condensed Interim Financial Statements

June 30, 2018 and May 31, 2017

Amortization, interest and finance expenses:

	Three month periods ended		Six month periods ended	
	June 30, 2018	May 31, 2017	June 30, 2018	May 31, 2017
	\$	\$	\$	
Amortization of loan issue costs (note 6)	-	-	-	269,082
Standby and draw down charges (note 6)	-	-	-	-
Interest	-	-	-	5,577
Amortization of fixed assets	-	524	610	1,049
Foreign exchange loss	-	46	-	57
	-	570	610	275,708

12 Capital management

The Company considers its shareholders' equity as its capital, which at June 30, 2018 totalled \$1,672,501. 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 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.

13 Commitments – FEED Study Project with Emissions Reduction Alberta and Canadian Natural

On October 19, 2017, the Company entered into a contribution agreement with ERA whereby ERA has agreed to contribute 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. On September 28, 2017 Canadian Natural confirmed its commitment to fund up to \$3.7 million with the signing of a Front End Engineering Design Study Agreement. 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 cost is fully funded.

14 Subsequent Events

i. Deferred Compensation

On July 3, 2018 the Company issued RSUs and DSUs under each of the Company's shareholder approved RSU Plan and DSU Plan, respectively for the settlement of an aggregate of \$102,010 in deferred compensation. The Company issued 9,301 RSUs to an officer for settlement of \$7,813 of deferred compensation and 110,369 DSUs to non-executive directors for settlement of \$92,709 of deferred compensation. As a result of the issuance of these equity awards, the deferred compensation liability was reduced in aggregate by \$102,010 and the corresponding credit was included as contributed surplus.

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ii. Government Grant and Partner Contributions

On July 8, 2018, the Company received \$211,425 in gross proceeds from Canadian Natural as their contribution towards the achievement of the first milestone for the engineering design project. On August 17, 2018, the Company announced the successful completion of the second milestone of the FEED Study project. In conjunction with the milestone completion, the Company invoiced project partners \$1,626,311 for eligible expenses and in-kind contributions incurred up until June 30, 2018. On August 17, 2018 \$946,900 was received as ERA's contribution towards the second milestone. The balance is expected to be received in the next quarter.