Titanium Corporation Inc.

Financial Statements
Stub Year Ended December 31, 2017
and Year Ended August 31, 2017

April 25, 2018

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 December 31, 2017 and August 31, 2017 and the statements of loss and comprehensive loss, changes in shareholders' equity (deficit) and cash flows for the four month period ended December 31, 2017 and for the year ended August 31, 2017, 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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Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Titanium Corporation Inc. as at December 31, 2017 and August 31, 2017 and its financial performance and its cash flows for the four month period ended December 31, 2017 and the year ended August 31, 2017 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Titanium Corporation Inc.
Statement of Financial Position

(expressed in Canadian dollars)

	December 31, 2017 $	August 31, 2017 $
Assets		
Current assets		
Cash and cash equivalents	1,997,731	1,340,339
Short term investments	3,038,108	3,024,084
Goods and services tax receivable	19,506	15,873
Prepaid expenses	31,964	38,536
	5,087,319	4,418,832
Equipment (note 5)	9,653	10,577
Total assets	5,096,962	4,429,409
Liabilities		
Current liabilities		
Trade and other payables	215,969	41,928
Accrued liabilities	154,043	163,191
Deferred compensation (note 6)	341,552	240,083
Total liabilities	711,564	445,202
Shareholders' Equity		
Share capital (note 8)	70,418,766	68,002,318
Contributed surplus	16,470,130	17,030,434
Deficit	(82,503,498)	(81,048,545)
Total shareholders' equity	4,385,398	3,984,207
Total liabilities and shareholders' equity	5,096,962	4,429,409

Subsequent events (note 19)

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 four month period ended December 31, 2017 and year ended August 31, 2017

(expressed in Canadian dollars)

	Four month period ended December 31, 2017 $	Year ended August 31, 2017 $
Expenses		
General and administrative (note 13)	800,661	1,847,694
Research and development (note 13)	672,706	827,966
Amortization, interest and finance expenses (note 13)	967	387,598
	1,474,334	3,063,258
Other income		
Interest	(19,381)	(36,523)
Net loss and comprehensive loss	1,454,953	3,026,735
Basic and diluted loss per share (note 10)	0.02	0.04

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

Titanium Corporation Inc.

Statement of Changes in Shareholders’ Equity (Deficit)

For the four month period ended December 31, 2017 and year ended August 31, 2017

(expressed in Canadian dollars)

	Share capital $	Contributed surplus $	Deficit $	Shareholders’ equity(deficit) $
Balance – September 1, 2017	68,002,318	17,030,434	(81,048,545)	3,984,207
Comprehensive loss for the four month period	-	-	(1,454,953)	(1,454,953)
Proceeds on exercise of warrants	1,012,500			1,012,500
Fair value of warrants exercised with common share issuance	550,472	(550,472)	-	-
Equity-based compensation	-	283,019	-	283,019
Proceeds on exercise of stock options	560,625	-	-	560,625
Fair value of stock options exercised	292,851	(292,851)	-	-
				-
Balance – December 31, 2017	70,418,766	16,470,130	(82,503,498)	4,385,398

	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

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

Titanium Corporation Inc.

Statement of Cash Flows

For the four month period ended December 31, 2017 and year ended August 31, 2017

(expressed in Canadian dollars)

	Four month period ended December 31, 2017 $	Twelve month period ended August 31, 2017 $
Cash (used in) provided by		
Operating activities		
Net loss for the year	(1,454,953)	(3,026,735)
Items not affecting cash		
Amortization	924	2,889
Accrued interest income	(14,021)	(24,084)
Amortization of debt issue costs (note 7)	-	346,625
	(1,468,050)	(2,701,305)
Net change in non-cash working capital items		
Equity and deferred compensation expense	384,486	1,073,552
Goods and services tax receivable	(3,634)	(99)
Prepaid expenses and other assets	6,572	6,386
Trade and other payables and accrued liabilities	164,893	(8,852)
	(915,733)	(1,630,318)
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 8)	560,625	28,308
Exercise of warrants (note 9)	1,012,500	-
Common shares issued, net of issue costs (note 8)	-	6,356,696
Loan facility (note 7)	-	(1,005,920)
	1,573,125	5,379,084
Increase in cash and cash equivalents	657,392	745,596
Cash and cash equivalents – beginning of period	1,340,339	594,743
Cash and cash equivalents – end of year	1,997,731	1,340,339

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

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 April 25, 2018. These financial statements are presented in Canadian dollars, which is the Company's functional currency.

The Company has changed its fiscal year end from August 31 to December 31. As such, the period ended December 31, 2017 is a stub year comprised of four months. The comparative audited year end August 31, 2017 is a full twelve month year.

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.

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) 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 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.

c) Fair value of stock options

Determining the fair value of stock based compensation 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.

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.

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.

Short term investments

Short term investments are comprised of certificates of investment with original maturity dates of twelve months or less 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.

Intangible assets

Internally-generated intangible assets and research and development expenditures

Expenditures on research activities are recognized as an expense in the period in which they are incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if all of the following conditions exist:

- Technical feasibility of completing the intangible asset so it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- Demonstrate how the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and,

- The ability to measure reliably the expenditures attributable to the intangible asset during its development.

The amount recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date the intangible assets first meets the conditions listed above. Subsequent to recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses.

Where no internally-generated intangible asset can be recognized, development expenditures are recognized as an expense in the period in which they are incurred.

Government Assistance

Government grants are not recognized until there is reasonable assurance that the Company has complied with the conditions contained in the grant agreements and/or when the grants will be received.

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.

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 potentially dilutive 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 assets

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.

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, and accrued liabilities. 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.

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 on or 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 on or 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 on or after that date with early adoption permitted.

The Company has evaluated the impact of adopting these standards on its financial statements, and has concluded these new standards would not have had a significant effect on the financial statements.

4 Government grants and partner contributions

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. All of the costs related to the project are recognized as R&D expenses when incurred. During the four month period ended December 31, 2017, the Company commenced the project and started incurring eligible expenditures related to the project. The Company estimates government and partner contributions for their share of eligible project expenditures is $334,000. These amounts will be received by the Company upon completion of agreed milestones outlined in the contribution agreements.

5 Equipment

	December 31, 2017 $	August 31, 2017 $
Cost	101,570	98,400
Additions	-	3,170
Disposals	-	-
Accumulated amortization	(91,917)	(90,993)
Net carrying value	9,653	10,577

6 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 four month period ended December 31, 2017, $115,206 (August 31, 2017 $750,852) was recognized as deferred compensation expense. The deferred compensation liability of $341,552 (August 31, 2017 $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.

7 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 8). 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 Agreements 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.

8 Share capital

Authorized

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

	December 31, 2017		August 31, 2017	
	Common shares #	Amount $	Common shares #	Amount $
Balance – September 1	79,169,374	68,002,318	65,332,812	61,247,412
Issued for cash on exercise of stock options	575,000	560,625	67,500	28,308
Issued for cash on exercise of warrants	750,000	1,012,500		
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		292,851	-	19,180
Reallocation from contributed surplus relating to fair value of warrants		550,472		
Issue and reallocation of fair value from contributed surplus relating to redemption of RSUs and DSUs	-	-	700,000	630,439
Balance – Closing	80,494,374	70,418,766	79,169,374	68,002,318

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 9). 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.

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) 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.

A summary of the equity plans for the periods ended December 31, 2017 and August 31, 2017 is as follows:

	December 31, 2017 #	August 31, 2017 #
Equity Award Pool (10% of common shares outstanding)	8,049,437	7,916,937
Less Awards Granted:		
Stock Options	(3,282,500)	(3,857,500)
DSUs	(1,142,311)	(1,080,281)
RSUs	(1,014,798)	(991,311)
Available Pool	2,609,828	1,987,845

The components of stock based compensation are summarized below.

Summary of stock options

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

	December 31, 2017		August 31, 2017	
	Number of common stock options #	Weighted average exercise price $	Number of common stock options #	Weighted average exercise price $
Outstanding – September 1	3,857,500	$ 0.78	2,850,000	$0.65
Granted	-	-	1,150,000	$1.12
Options exercised	(575,000)	$ 0.98	(67,500)	$0.42
Options expired	-	-	(75,000)	$1.75
Options outstanding	3,282,500	$ 0.74	3,857,500	$ 0.78
Options exercisable	2,132,500	$ 0.53	2,682,500	$0.63

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

Range of exercise price	Number of stock options #	Weighted average remaining contractual life years	Weighted average exercise price $	Number of options exercisable #	Weighted average exercise price $
0.00 – 0.99	1,682,500	3.13	$0.41	1,682,500	$0.41
1.00 – 1.99	1,600,000	3.22	$1.08	450,000	$1.00
	3,282,500	3.17	$0.74	2,132,500	$0.53

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
Exercise price of stock option	$1.12
Risk free interest rate	1.04%
Expected life (years)	4.4
Expected volatility	86.37%
Fair value per stock option	$0.72

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 13). 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.

Summary of DSUs

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

	December 31, 2017		**August 31, 2017**	
	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	1,080,281	$0.73	647,102	$0.74
Granted	62,030	$1.33	433,179	$0.71
Redeemed/released	-	-	-	-
DSUs outstanding	1,142,311	$0.76	1,080,281	$0.73

Summary of RSUs

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

	December 31, 2017			August 31, 2017		
	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	991,311	$0.0001	$0.68	895,502	$0.0001	$0.87
Granted	23,487	$0.0001	$1.33	795,809	$0.0001	$0.66
Exercised				(700,000)	$0.0001	$0.90
RSUs outstanding	1,014,798	$0.0001	$0.70	991,311	$0.0001	$0.68

9 Warrants

i. In connection with the Loan Agreements (note 7), 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 common share purchase warrant entitled 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 common share purchase warrants issued in connection with the loan facilities based on the Black-Scholes pricing model and was recorded as part of contributed surplus on the statement of financial position. The fair value of the common share purchase warrants were 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 Agreements and all the associated obligations were extinguished. The common share purchase warrants were exercised on October 6, 2017 and the fair value was 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 commons share purchase 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 common share purchase warrants are exercised before expiry, the fair value will be reclassified as share capital. On February 16, 2018, (note 19) 1,000,000 warrants were exercised by Mossco at an exercise price of $0.70 for gross proceeds of $700,000.

The assumptions used in the Black Scholes pricing model for the fair value of the common share purchase 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

10 Basic and diluted loss per share

Weighted average number of common shares outstanding

As the Company incurred losses for the periods ended December 31, 2017 and August 31, 2017, 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.

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

	December 31, 2017 $	August 31, 2017 $
Net loss and comprehensive loss	1,454,953	3,026,735
Weighted average number of common shares for basic and diluted loss per share	79,844,886	75,103,549
Basic and diluted loss per share	$0.02	$0.04

11 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:

	December 31, 2017 $	August 31, 2017 $
Net (loss) before income taxes	(1,454,953)	(3,026,735)
Tax calculated at applicable statutory rates applicable to loss (27%)	(392,837)	(817,218)
Change in temporary differences for which no deferred income tax asset was recognized	288,288	444,063
Stock-based compensation expense not deductible for tax purposes	103,811	289,859
Other expenses not deductible for tax purposes	738	83,296
Tax recovery	-	-

The applicable rate was 27 % (2017 – 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, 2017	14,219,000
Current change 4 month stub period	458,000
At December 31, 2017	14,677,000
Asset not recognized	(14,677,000)
Net deferred tax asset	-

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 $14,677,000 (August 31, 2017 – $14,219,000) in respect of tax losses and other deductible temporary differences amounting to $54,679,000 (August 31, 2017–$52,663,000) 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)	959,000
SR&ED expenditures	5,605,000
Deferred financing costs	44,000
Capital and non-capital losses	8,069,000
At August 31, 2017	14,677,000
Deferred tax asset not recognized	(14,677,000)
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 (August 31, 2017 - $4,824,000). These tax credits can be carried forward against future federal income tax payable.

The non-capital losses and ITC's will expire as follows:

	Federal non-capital loss carry-forwards $	Alberta non-capital loss carry-forwards $	ITC's $
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	1,655,000	1,655,000	
2038	1,083,000	1,083,000	
	29,633,000	29,633,000	4,824,000

12 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.

13 Expenses by nature

General and administrative expenses consist of the following:

	Four month period ended December 31, 2017 $	Year ended August 31, 2017 $
Compensation and benefits	286,923	518,622
Consulting and professional fees	163,812	243,346
Director fees - deferred compensation (note 6)	100,000	254,990
Equity-based compensation (note 8)	98,316	233,052
Deferred compensation expense (note 6)	53,831	341,237
Investor relations and regulatory	40,873	79,467
Rent, insurance and office	39,061	120,395
Travel	17,845	56,585
	800,661	1,847,694

Research and development expenses consist of the following:

	Four month period ended December 31, 2017 $	Year ended August 31, 2017 $
Projects, rent and other	316,322	177,221
Compensation and benefits	224,045	406,472
Deferred compensation expense (note 6)	61,375	154,625
Equity-based compensation (note 8)	70,964	89,648
	672,706	827,966

Amortization, interest and finance expenses:

	Four month period ended December 31, 2017 $	Year ended August 31, 2017 $
Amortization of loan issue costs (note 7)	-	346,625
Standby and draw down charges (note 7)	-	3,218
Interest (note 7)	-	35,007
Amortization of fixed asset	924	2,889
Foreign exchange (gain) loss	43	(141)
	967	387,598

14 Compensation of key management

Compensation awarded to key management[(i)] included:

	Four month period ended December 31, 2017 $	Year ended August 31, 2017 $
Salaries and short-term employee benefits	510,968	925,094
Equity-based compensation	169,280	322,700
Directors' fees-deferred	100,000	254,900
Deferred compensation expense	115,206	495,862
	895,454	1,998,646

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

15 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 December 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 have 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.

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 December 31, 2017, the Company had aggregate cash and cash equivalents of $1,997,731 (August 31, 2017 - $1,340,339) to settle current cash settled liabilities of $370,010 (August 31, 2017 - $205,119). 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.

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.

16 Capital management

The Company considers its shareholders' equity as its capital, which at December 31, 2017 totalled $4,385,398 (August 31, 2017 –$3,984,207) 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 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

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

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. On September 28, 2017 the Company announced that Canadian Natural had confirmed its commitment to fund up to $3.7 million with the signing of a Front End Engineering Design ("FEED") 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.

18 Related Party Transaction

The Company entered into loan agreements on October 9, 2015 with the Lenders, both directors of the Company, pursuant to which the Lenders agreed to lend to the Company the aggregate principal amount of up to $1.5 million. On December 16, 2016, in connection with the closing of the Company's rights offering, the outstanding loans of $1.0 million were repaid in full, the loan facilities were terminated and all of the debt obligations of the Company were eliminated. In connection with entering into the loan agreements, Titanium issued 750,000 non-transferable common share purchase warrants of the Company to the Lenders which were allocated proportionally on the basis of their committed amounts. Each warrant entitled the holder to acquire one common share of Titanium at a price of $1.35 per Common Share prior to October 9, 2017. The warrants were exercised on October 6, 2017 resulting in the issuance of an aggregate 750,000 common shares of the Company to the Lenders for proceeds of $1,012,500.

19 Subsequent Events

i. Deferred Compensation

On January 2, 2018 the Company issued 270,042 RSUs under the Company's shareholder approved RSU Plan for the settlement of $324,050 in deferred compensation owed to certain officers of the Company on December 31, 2017. As a result of the issuance of these RSUs, the deferred compensation liability was reduced by $ 324,050 and the corresponding credit was included as contributed surplus.

ii. Stock Option Exercise

On January 10, 2018, certain officers of the Company exercised 450,000 stock options that were due to expire on April 29, 2018. The Company received $450,000 in gross proceeds from the transaction.

iii. Warrant Exercise

On February 16, 2018, Mossco an affiliated Canadian resident corporation controlled by Mr. Moss Kadey, exercised in full its 1,000,000 non-transferable common share purchase warrants which had been issued pursuant to the terms of a warrant certificate issued by the Company on December 21, 2016 as consideration for entering into a standby purchase agreement dated November 9, 2016 among Titanium and a number of standby purchasers, including Mossco, in connection with the Company's rights offering which closed on December 19, 2016.

The common share purchase warrants were exercised at a price of $0.70 per share and resulted in the issuance of 1,000,000 common shares of Titanium for total proceeds of $700,000. No commissions or placement fees were paid in respect of the exercise of the common share purchase warrants.