Titan Uranium Inc.
(formerly Ceduna Capital Corp.)
(a development stage company)

Interim Financial Statements
(Unadutied – Prepared by Management)

For the Nine Months Ended May 31, 2006

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended May 31, 2006.

BALANCE SHEETS

[Unaudited – Prepared by Management]

[See Note 1 - Nature of Business and Basis of Presentation]

	May 31 2006 (Unaudited) $	**August 31 2005 (Audited)** $
ASSETS		
Current		
Cash and cash equivalents	**7,489,300**	1,984,273
Accounts receivable	**138,654**	50,323
Prepaid expenses	**51,500**	52,483
Due from related parties *[note 5]*	**13,000**	—
	7,692,454	2,087,079
Property and equipment *[note 3]*	**104,913**	37,070
Resource properties *[note 4]*	**3,017,912**	1,220,048
Total assets	**10,815,279**	3,344,197
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**117,139**	185,767
Due to related parties *[note 5]*	**8,400**	9,586
Total liabilities	**125,539**	195,353
Commitments *[note 6]*		
Shareholders' equity		
Share capital *[note 7]*	**12,958,732**	4,571,165
Share subscription receivable *[note 8]*	**(29,150)**	(50,428)
Contributed surplus *[note 7]*	**1,424,873**	298,645
Deficit	**(3,664,715)**	(1,670,538)
Total shareholders' equity (deficit)	**10,689,740**	3,148,844
Total liabilities and shareholders' equity	**10,815,279**	3,344,197

See accompanying notes

On behalf of the Board:

"Arni Johannson"
Director

"Phil Olson"
Director

STATEMENTS OF OPERATIONS AND DEFICIT

For the Periods Ended May 31, 2006 and 2005

	Three Months Ended May 31, 2006	Three Months Ended May 31, 2005	Nine Months Ended May 31, 2006	Nine Months Ended May 31, 2005
	$	$	$	$
EXPENSES				
Accounting and audit	4,500	6,925	9,775	9,930
Amortisation	14,193	232	25,218	232
Consulting fees	100,756	74,750	280,758	74,930
Investor relations and marketing	89,900	22,363	368,197	24,363
Legal	5,795	20,678	31,850	73,777
Listing, filing and transfer agent fees	14,828	34,872	38,722	56,426
Office and miscellaneous	56,615	5,502	97,212	12,159
Rent and administration	8,031	1,874	24,411	2,812
Salary	72,710	-	87,083	-
Stock based compensation	356,276	-	891,638	7,804
Travel and entertainment	84,791	20,002	195,477	29,129
Interest income	(46,164)	-	(56,164)	-
Net Loss before other items	**(762,231)**	(187,198)	**(1,994,177)**	(291,562)
OTHER ITEMS				
Recovery of expenses	-	-	-	16,292
Loss for the period	**(762,231)**	(187,198)	**(1,994,177)**	(275,270)
Deficit, beginning of period	**(2,902,484)**	(1,068,561)	**(1,670,538)**	(980,489)
Deficit, end of period	**(3,664,715)**	(1,255,759)	**(3,664,715)**	(1,255,759)
Loss per share – basic and diluted	**(0.03)**	(0.23)	**(0.11)**	(0.33)
Weighted average number of common shares Outstanding – basic and diluted	**22,320,946**	822,188	**18,443,051**	822,188

See accompanying notes

STATEMENTS OF CASH FLOWS

For the Periods Ended May 31, 2006 and 2005

	Three Months Ended May 31, 2006	Three Months Ended May 31, 2005	Nine Months Ended May31,2006	Nine Months Ended May 3, 2005
	$	$	$	$
OPERATING ACTIVITIES				
Loss for the period	(746,231)	(187,198)	(1,994,177)	(275,270)
Adjustment for item not involving cash:				
Amortization	14,193	232	25,218	232
Stock based compensation	356,276	-	891,638	7,804
	-	-	-	-
Change in non-cash working capital items:				
Increase in accounts receivable	(69,324)	(7,030)	(88,331)	(26,241)
Increase (decrease) in prepaid expenses	208,651	39,035	983	(5,000)
(Decrease) Increase in accounts payable and accrued liabilities	73,139	61,309	(68,628)	(180,739)
Increase in advances to related parties	1,586	-	(13,000)	-
Cash used in operating activities	**(161,710)**	**(93,652)**	**(1,246,297)**	**(479,214)**
FINANCING ACTIVITIES				
Advance from related parties	(1,186)	13,860	(1,186)	15,797
Conversion of promissory notes to common Shares	-	(735,000)	-	(735,000)
Issuance of common shares, net issue costs	2,121,259	3,204,076	8,643,435	3,428,126
Issuance of convertible promissory notes	-	400,000	-	735,000
Repayment of loans payable	-	-	-	(22,500)
Cash provided by financing activities	**2,120,073**	**2,882,936**	**8,642,249**	**3,421,423**
CASH FLOWS FROM INVESTING ACTIVITIES				
Deferred exploration costs	(1,519,581)	(151,925)	(1,797,863)	(151,925)
Acquisition of equipment	(43,627)	(24,367)	(93,062)	(24,367)
Cash used in investing activities	**1,563,208**	**(176,292)**	**(1,890,925)**	(176,292)
Change in cash	**395,155**	**2,612,992**	**5,505,027**	**2,765,917**
Cash and cash equivalents, beginning of year	7,094,145	152,925	1,984,273	-
Cash, end of period	**7,489,300**	**2,765,917**	**7,489,300**	**2,765,917**

See accompanying notes

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of business

The Company was incorporated under the Business Corporation Acts of Yukon on January 28, 1999. It was a Capital Pool Company as defined in the TSX Venture Exchange ("TSX-V") Policy 2.4 until completing a Qualifying Transaction on May 31, 2005. Immediately prior to closing the Qualifying Transaction, the Company consolidated its issued share capital on a two for one new share basis pursuant to shareholder approval obtained at the Company's annual general meeting. The financial statements have been restated to reflect the share consolidation.

On May 30, 2005 the Company changed its name from Ceduna Capital Corp. to Titan Uranium Exploration Inc. On June 24, 2005 the Company changed its name from Titan Uranium Exploration Inc. to Titan Uranium Inc.

The Company completed its Qualifying Transaction by purchasing an option to acquire a 100% interest in eight mining leases located in Nunavut Territory known as the Thelon Uranium Project. Subsequent to this Qualifying Transaction the Company acquired mineral claims in the Athabasca region of Saskatchewan.

The Company is in process of exploring its resource properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for resource properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing and permitting to complete the development, and future profitable productions or proceeds from the disposition thereof.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has not generated any operating revenues to date and has experienced recurring operating losses and accumulated a deficit of $3,664,715 as at May 31, 2006. If the Company is unable to continue to raise additional financings through debt or equity this could impact the Company's ability to continue as a going concern. The operations of the Company have been funded primarily by the issuance of share capital. The Company's continued operations, as intended, are dependent upon its ability to raise additional funding to meet its obligations and to attain profitable operations. Management's plan in this regard is to raise equity financing as required. There are no assurances that the Company will be successful in achieving these goals. These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of commitments and contingencies at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ materially from those estimates. A significant area requiring the use of management estimates involved the determination of stock based compensation.

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments which are readily convertible into cash. As at May 31, 2006, the Company has cash equivalents of $7,489,300 [August 31, 2005 $1,984,273].

Leases

Rental payments under operating leases are expensed as incurred.

Prior period comparatives

Certain prior period amounts have been reclassified to conform to the current year presentation.

Stock-based compensation

The Company prospectively adopted the fair value method of accounting for stock options awards granted to employees and directors, as recommended by the Canadian Institute of Chartered Accountants Handbook section on stock-based compensation and other stock-based payments.

The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of stock is determined by the quoted market price of the Company's stock.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

The prospective application of the fair value method did not have a cumulative impact on the Company's financial statements as the Company had not granted stock option awards prior to fiscal 2005.

Resource properties

The company is in the exploration stage and accounts for its mineral interests whereby all costs related to acquisition, exploration and development are capitalised. These costs will be amortised against revenue from future production or written off if the interest is abandoned or sold.

The carrying values of resource properties will be reviewed at least annually by management on a property-by-property basis to determine if they have become impaired. If impairment is deemed to exist, the resource property will be written down to its net recoverable value. The ultimate recoverability of the amounts capitalised for the resource properties is dependent upon the delineation of economically recoverable reserves, the Company's ability to obtain the necessary financing to complete their development and realise profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is possible that changes could occur in the near term which could adversely affect management's estimates and may result in future writedowns of capitalised property carrying values.

Asset retirement obligations

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they incur and/or in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. The Company does not have any asset retirement obligations.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Earnings (loss) per share

Basic earnings (loss) per share are computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

As the Company incurred net losses in the period ended May 31, 2006 and 2005, the stock options and share purchase warrants, as disclosed in note 9, were not included in the computation of loss per share as its inclusion would be anti-dilutive.

Property and equipment

Property and equipment are carried at cost less accumulated amortisation. The Company provides for amortization on the following basis:

Computer equipment	- 3 years straight line
Exploration equipment	- 3 years straight line
Leasehold improvements	- straight line over the term of the lease
Office furniture	- 5 years straight line

Income taxes

The Company follows the liability method of accounting for income taxes pursuant to Section 3465, Income Taxes, of The Handbook of the Canadian Institute of Chartered Accountants. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is included in the period that includes the enactment date. In addition, Section 3465 requires recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

3. PROPERTY AND EQUIPMENT

	May 31, 2006			2005
	Cost $	Accumulated Amortization $	Net Book Value $	Net Book Value $
Computer equipment	**20,601**	**5,296**	**15,305**	6,190
Exploration equipment	**82,282**	**14,835**	**67,447**	13,000
Leasehold improvements	**22,274**	**11,795**	**10,479**	8,750
Office furniture	**16,252**	**4,570**	**11,682**	9,130
	141,409	**36,496**	**104,913**	37,070

4. RESOURCE PROPERTIES

	Aug 31 2005 Opening Balance $	May 31 2006 Acquisition Costs $	May 31 2006 Deferred Exploration Costs $	Total $
Thelon, Nunavut	307,435	—	87,576	395,011
Athabasca, Saskatchewan	912,613	—	1,709,207	2,621,820
	1,220,048	—	1,810,849	3,030,897

4. RESOURCE PROPERTIES (cont'd.)

	Thelon, NT	Athabasca, SK	2006 Deferred Exploration Costs
Exploration costs:			
Balance, beginning of the year	297,435	18,613	316,048
Additions			
Camp	—	335,836	335,836
Consulting	79,991	110,341	190,332
Drilling		295,906	295,906
Mobilisation/demobilisation	7,665	19,883	27,548
Shipping/transportation	—	—	—
Supplies and maintenance	—	—	—
Surveys	—	948,242	948,242
Balance, May 31, 2006	385,091	1,728,821	2,113,912
Acquisition cost:			
Balance, beginning of the year	10,000	894,000	904,000
Additions	—	—	—
Balance, May 31, 2006	10,000	894,000	904,000
Total Exploration and Acquisition May 31, 2006	395,091	2,622,821	3,017,912

[a] Thelon, Nunavut Properties

On May 31, 2005, the Company purchased an option to acquire a 100% interest in eight mining leases located in Nunavut Territory and known as the Thelon Uranium Project ("the Project").

Consideration payable to acquire the 100% interest in the Project consists of the Company:

[i] issuing 100,000 common shares of the Company at a price of $0.10 per share (issued) being the fair value of the shares at the time of the agreement date;

[ii] expending $1,000,000 on recommended exploration work on the Project to include at least 2,500 meters of diamond drilling on or before June 1, 2007 ($399,077 incurred);

[iii] paying advanced royalties totaling $50,000 over a three year period ($30,000 paid, and a further $20,000 on or before June 1, 2007); and

[iv] paying annual lease payments totaling on or after May 15 of each year ($20,000 paid).

4. RESOURCE PROPERTIES (cont'd.)

Conditional upon acquiring a 100% interest in the Project, the Company will grant the optionor a 2% Net Smelter Royalty ("NSR"). This NSR may be reduced to 1% on the payment of $1,000,000 and be reduced to 0.5% on the payment of an additional $1,000,000. The Company will pay advance royalties of $20,000 per year while it owns this Project.

[b] Athabasca, Saskatchewan Properties

On July 5, 2005 the Company entered into an agreement to acquire a 100% interest in thirty mineral dispositions ("Claims") located in the Athabasca Basin, Saskatchewan.

Consideration payable to acquire the 100% interest in the Claims consist of the Company:

- [i] paying $350,000 and issuing to the vendor 800,000 common share in the capital of the Company for value of $544,000, being the fair value of the shares at the time of the closing of the agreement (paid and issued);
- [ii] issuing to the Vendor 400,000 transferable common share purchase warrants, entitling the holder to acquire up to 400,000 common shares in the capital of the Company at an exercise price of $0.75 per common share for a period of 24 months (issued);
- [iii] granting to the Vendor a 2% Net Smelter Return ("NSR"), with the option in favour of the Company to buy back 1% of the NSR by paying to the Vendor $1,000,000 at any time prior to commercial production from the Claims;
- [iv] granting to the Vendor a 10% carried interest in the Claims with such carried interest remaining in effect until the commencement of commercial production by the Company on one or more Claims with all costs payable attributable to the Vendor to be paid by the Company and repaid by the Vendor from its working interest and/or initial NSR.

5. RELATED PARTIES

The Company has entered into the following transactions with parties not at arm's length to the Company:

The Company paid or accrued consulting fees totaling $235,400 [August 31, 2005 - $155,640] to directors and officers of the Company for the period ended May 31, 2006.

As at May 31, 2006 there was $13,000 due from and $8,400 due to a director for expenses [August 31, 2005 - $9,586]. The amount is non-interest bearing, unsecured and due on demand.

The above transactions have been recorded at the exchange amounts which is the amount agreed to by the transacting parties.

6. COMMITMENTS

On May 1, 2005 the Company entered into a 3 year lease agreement for premises. Minimum basic rent is $1,225 per month and the proportionate share of the operating costs is estimated at $1,113 per month. The minimum commitment over the next 3 years is as follows:

	$
2006	4,676
2007	28,056
2008	18,704
	51,436

7. SHARE CAPITAL

[a] **Authorized**: Unlimited number of common shares without par value

[b] **Issued and fully paid- common shares**:

	Shares #	Amount $	Contributed Surplus $
Balance, August 31, 2004 and 2003	1,644,375	676,767	—
Share consolidation 2 : 1	(822,187)	—	—
	822,188	676,767	—
Private placement	6,000,000	3,000,000	—
Conversion of promissory notes	4,642,857	750,000	—
Shares issued for corporate finance fee	100,000	50,000	—
Shares issued for advisory fee	50,000	25,000	—
Shares issued for finders fee	37,909	13,268	—
Shares issued for property acquisitions	900,000	554,000	—
Exercise of warrants	177,678	72,141	—
Share issue costs	—	(570,011)	—
Agent's warrants for prospectus	—	—	141,540
Stock based compensation	—	—	157,105
Balance, August 31, 2005	12,730,632	4,571,165	298,645
Private placement	4,825,000	5,900,000	—
Shares issued for corporate finance and			—
advisory fees	293,610	322,716	—
Exercise of warrants	5,537,676	2,945,833	—
Exercise of options	202,300	140,360	—
Share issue costs	—	(921,342)	—
Agent's warrants	—	—	234,590
Stock based compensation	—	—	891,638
Balance, May 31, 2006	23,589,218	12,958,732	1,424,873

7. SHARE CAPITAL (cont'd.)

Private Placements

On *January 25, 2006* the Company completed the non-brokered portion of an aggregate $2,600,000 private placement. The non-brokered portion consisted of 375,000 units at a price of $1.60 per unit for gross proceeds received of $600,000. Each unit consists of one common share and one-half one share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of $2.00 until January 25, 2007. A finders fee of 8% of the gross proceeds was paid. In addition 37,500 warrants entitling the holder to purchase one common share of the Company at a price of $1.75 per common share until January 25, 2007 were issued.

On *January 31, 2006* the brokered portion of the private placement completed and consisted of 1,250,000 units with the same terms as above. The agents received a cash commission of 8% of the gross proceeds raised and agents warrants entitling the agents to purchase up to 10% of the number of units sold under the brokered private placement at a price of $1.75 per common share until January 31, 2007.

The estimated fair value of these warrants is recorded as $122,120.

On *December 21, 2005* the Company issued 200,000 flow-through common shares at a price of $1.50 per share for gross proceeds of $300,000 through a non-brokered private placement to one placee. A finder's fee equal to 5% of the gross proceeds was paid.

On *September 21, 2005* the Company issued 3,000,000 units at a price of $1.00 per unit for gross proceeds of $3,000,000 through a brokered private placement. Each unit consists of one common share and one-half share purchase warrant. The holder of each whole warrant is entitled to acquire an additional common share at a price of $1.35 per share until September 21, 2007.

Pursuant to the private placement, the Company issued 215,100 units and $24,900 to settle $240,000 agent fees. Each unit consists of one common share and one-half non-transferable share purchase warrant. The holder of each whole warrant is entitled to acquire an additional common share at a price of $1.35 per share until September 21, 2007. The Company also issued 30,000 units to settle a corporate finance fee. Each unit consists of one common share and one-half non-transferable share purchase warrant. The holder of each whole warrant is entitled to acquire an additional common share at a price of $1.10 per share until September 21, 2007. Additionally, 300,000 non-transferable broker warrants were issued. Each warrant entitles the holder to acquire a common share at a price of $1.10 per share until September 21, 2007.

The estimated fair value of these warrants is recorded as $112,470.

7. SHARE CAPITAL (cont'd.)

Prospectus Financing

On May 31, 2005, the Company issued 6,000,000 units at $0.50 per unit for gross proceeds of $3,000,000 pursuant to a prospectus offering. Each unit consists of one common share and one-half share purchase warrant. The holder of each whole warrant is entitled to acquire an additional common share at a price of $0.65 per share until November 30, 2006. The Company applied the residual approach and allocated total net proceeds to the common shares and $ nil to the attached warrants.

Pursuant to the prospectus financing agreement, the Company issued 100,000 units to the agent to settle corporate finance fee of $50,000. These units have the same terms as the offered units including the fact that the 50,000 warrants are listed for trading. The Company also issued 600,000 non-transferable warrants to the agent which can be exercised at $0.50 per warrant until November 30, 2006 The estimated fair value of these warrants is recorded as $141,540. This amount has been recorded as share issue costs with a corresponding amount in contributed surplus on the balance sheet.

The Company issued 50,000 units to Jennings Capital to settle an advisory fee in the amount of $25,000 related to the prospectus financing. These units have the same terms as the offered units including the fact that the 25,000 warrants are listed for trading.

Conversion of Promissory Notes

On May 31, 2005, the Company issued 2,500,000 units and 1,000,000 common shares at a deemed price of $0.10 per unit/share respectively for the conversion of $350,000 in non-interest bearing convertible promissory notes. Each unit consists of one common share and one non-transferable share purchase warrant with each warrant entitling the holder to purchase an additional common share of the Company at a price of $0.20 until May 31, 2006.

Also on May 31, 2005, the Company issued 1,142,857 units at a deemed price of $0.35 per unit for the conversion of the $400,000 non-interest bearing convertible promissory notes. Each unit consists of one common share and one-half non-transferable share purchase warrant. The holder of each whole warrant is entitled to acquire an additional common share at a price of $0.65 per share until November 30, 2006. The Company issued an additional 37,909 units to settle finders fees of $13,268.

Acquisition of Resources Properties

See note 4.

Exercised Warrants

During the period 5,537,676 warrants were exercised for gross proceeds of $2,945,833 of which $57,150 was received subsequent to the quarter end.

7. SHARE CAPITAL (cont'd.)

Shares Held in Escrow

In connection with the Nunavut, Thelon property acquisition 130,000 common shares and common share warrants were placed in escrow. As of May 31, 2006 58,500 escrow shares have been released. Terms of the release from escrow are as follows:
10% on the Venture Exchange approval bulletin date (May 31, 2005)
15% 6 months from the bulletin date
15% 12 months from the bulletin date
15% 18 months from the bulletin date
15% 24 months from the bulletin date
15% 30 months from the bulletin date
15% 36 months from the bulletin date

8. SHARE SUBSCRIPTION RECEIVABLE

Prior to May 31, 2006, 282,500 and 1,000 warrants were exercised at prices of $0.20 and $0.65, respectively for total proceeds of $57,150 which were received subsequent to quarter end. In addition, prior to May 31, 2006, $28,000 was received in advance of the issuance of shares.

9. STOCK OPTIONS AND WARRANTS

Stock options

On February 3, 2006 the Company granted a total of 400,000 stock options with an exercise price of $2.02 and an expiry of February 3, 2011. The options were granted to consultants of the Company. On November 15, 2005 the Company granted a total of 1,415,000 stock options with an exercise price of $1.00 and an expiry of November 15, 2010. Directors and officers of the Company were granted a total of 1,055,000 options and 360,000 were granted to consultants.

During the fiscal year 2005, the Company granted a total of 1,762,000 stock options under the Plan of which, 1,557,000 were granted to directors of the Company and 225,000 were granted to consultants. Prior to the share consolidation 160,000 options were granted to two directors. These options had an exercise price of $0.05 per share, being vested immediately and expiring September 20, 2009. As a result of the 2:1 share consolidation, the number of exercisable options decreased by 80,000 and the exercise price increased to $0.10 per option. On May 31, 2005 1,577,000 stock options were granted to directors and officers of the Company with an exercise price of $0.50 per share and an expiry of May 31, 2010. On June 6, 2005 105,000 stock options were granted to a Investor Relations firm with an exercise price of $0.53 per share with an expiry of June 6, 2010. Consistent with the Company's stock option plans these options vest as follows:

10% on grant date
15% 3 months from grant date
15% 6 months from grant date
15% 9 months from grant date
15% 12 months from grant date
15% 15 months from grant date
15% 18 months from grant date

9. STOCK OPTIONS AND WARRANTS (cont'd.)

The estimated fair value for the options granted during the period was $1,728,793. Prorating the total amount based on the vesting schedule $600,767 has been expensed as stock-based compensation in the statement of operations with a corresponding amount recorded as contributed surplus in shareholders' deficiency. In addition and based on the vesting schedule a further $290,870 from options granted in fiscal year ended August 31, 2005 has been expensed.

The weighted average fair value of the options, being $0.66 per share, recognised in the statements of operations, has been estimated at the grant dates using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. Weighted average assumptions used in the pricing model for the year are as follows:

Risk-free interest rate	3.65%
Expected life of options	5.0 years
Annualized volatility	100%
Dividend rate	Nil

Stock option transactions and the number of stock options outstanding are summarised as follows for the period ended May 31, 2006 and August 31, 2005:

	Number of Options	**Weighted Average Exercise Price**
As at August 31, 2004	—	—
Exercised	—	—
Granted	1,762,000	$0.48
As at August 31, 2005	1,762,000	$0.48
Exercised	(202,300)	($0.69)
Granted	1,415,000	$1.00
Granted	400,000	$2.02
As at May 31, 2006	3,374,700	$0.87

9. STOCK OPTIONS AND WARRANTS (cont'd.)

Number of Shares Outstanding	Number of Shares Exercisable	Weighted Average Exercise Price	Expiry Date	Weighted Average Life in Years
80,000	80,000	$0.10	Sep 20, 2009	3.2
1,502,000	1,028,900	$0.50	May 31, 2010	4.0
53,000	5,750	$0.53	Jun 06, 2010	4.0
1,339,700	490,700	$1.00	Nov 15, 2010	4.4
400,000	100,000	$2.02	Feb 3, 2011	4.6
3,374,700	1,705,350	$0.86		4.2

Warrants

The fair value of the warrants granted during the period was estimated using the Black-Scholes Pricing Model with the following assumptions:

Risk-free interest rate	3.13%
Expected life of options	1.56 years
Annualized volatility	86%
Dividend rate	Nil

At May 31, 2006, the Company had the following non-publicly traded share purchase warrants outstanding:

Number of Shares	Exercise Price	Expiry Date
15,300	$0.50	November 30, 2006
128,643	$0.65	November 30, 2006
49,296	$1.10	October 21, 2007
107,550	$1.35	October 21, 2007
177,500	$1.75	January 25, 2007
478,289		

9. STOCK OPTIONS AND WARRANTS (cont'd.)

At May 31, 2006, the Company had the following publicly traded share purchase warrants outstanding:

Number of Shares	Exercise Price	Expiry Date
1,850,550	$0.65	November 30, 2006
1,081,240	$1.35	October 21, 2007
816,755	$2.00	January 31, 2008
3,748,545		

10. NON-CASH TRANSACTIONS

The Company had the following non-cash transactions during the period ended May 31, 2006:

[a] 215,100 units issued to settle corporate finance fees pursuant to the September private placement [see note 7]	$215,100
[b] 30,000 units issued for agency fees pursuant to the September private placement [see note 7]	$30,000
[c] 300,000 non-transferable agent warrants issued pursuant to the September private placement [see note 7]	$112,470
[d] 48,510 units issued to settle corporate finance fees pursuant to the January private placement [see note 7]	$77,616
[e] 177,500 non-transferable agent warrants issued pursuant to the January private placement [see note 7]	$122,120

11. FINANCIAL INSTRUMENTS AND RISK

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related parties. The fair values of these financial instruments approximate their carrying values, unless otherwise noted. It is not practical to determine the fair values of amounts due to related parties due to their related party nature and the absence of a secondary market for such instruments.

It is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

12. SUBSEQUENT EVENTS

Subsequent to May 31, 2006, the following events occurred:

[a] Up to July 21, 2006 a further 384,200 warrants have been exercised for proceeds of $273,555.

[b] Up to July 21, 2006 a further 518,200 options have been exercised for proceeds of $296,090.

Flow-through financing

On July 18, 2006 the Company announced its intent to raise up to $5,000,040 by the issuance of 2,631,600 flow-through units. Each unit, priced at $1.90 per unit, will consist of one flow-through common share and one-half of one non-flow through common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share for a period of up to 24 months at a price of $2.50 per common share.