

Financial Statements

**Titan Uranium Inc.**  
**(a development stage company)**  
August 31, 2006 and 2005



## AUDITORS' REPORT

To the Shareholders of  
**Titan Uranium Inc.**  
(a development stage company)

We have audited the balance sheets of **Titan Uranium Inc.** as at August 31, 2006 and 2005 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,  
November 21, 2006.

*Ernst & Young LLP*

Chartered Accountants

**Titan Uranium Inc.**  
(a development stage company)

**BALANCE SHEETS**

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

As at August 31

	2006	2005
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	10,181,515	1,984,273
Restricted cash	60,000	—
Accounts receivable	230,818	50,323
Prepaid expenses	190,127	52,483
<b>Total current assets</b>	<b>10,662,460</b>	<b>2,087,079</b>
Property and equipment <i>[note 3]</i>	102,031	37,070
Resource properties <i>[note 4]</i>	5,427,737	1,220,048
Reclamation deposit <i>[note 6]</i>	35,000	—
<b>Total assets</b>	<b>16,227,228</b>	<b>3,344,197</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	731,870	185,767
Due to related parties <i>[note 5]</i>	—	9,586
<b>Total liabilities</b>	<b>731,870</b>	<b>195,353</b>
Commitments <i>[note 6]</i>		
<b>Shareholders' equity</b>		
Share capital <i>[notes 7]</i>	16,877,084	4,571,165
Share subscription receivable <i>[note 8]</i>	(15,893)	(50,428)
Contributed surplus <i>[note 7]</i>	2,904,619	298,645
Deficit	(4,270,452)	(1,670,538)
<b>Total shareholders' equity</b>	<b>15,495,358</b>	<b>3,148,844</b>
<b>Total liabilities and shareholders' equity</b>	<b>16,227,228</b>	<b>3,344,197</b>

*See accompanying notes*

On behalf of the Board:

“Arni Johannson”  
Director

“Philip E. Olson”  
Director

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**STATEMENTS OF OPERATIONS AND DEFICIT**

Year ended August 31

	2006	2005
	\$	\$
<b>EXPENSES</b>		
Accounting and audit	29,871	23,210
Amortization	30,522	11,278
Consulting fees <i>[note 5]</i>	339,358	175,620
Investor relations and marketing	541,369	114,162
Legal	30,940	83,636
Listing, filing and transfer agent fees	49,831	28,479
Office and miscellaneous	122,309	24,613
Rent and administration	34,051	15,330
Salary	167,993	—
Stock-based compensation <i>[note 9]</i>	1,168,766	157,105
Travel and entertainment	207,811	65,852
Interest income	(122,907)	(9,236)
<b>Loss for the year</b>	<b>(2,599,914)</b>	<b>(690,049)</b>
Deficit, beginning of year	(1,670,538)	(980,489)
<b>Deficit, end of year</b>	<b>(4,270,452)</b>	<b>(1,670,538)</b>
<b>Loss per share - basic and diluted</b>	<b>(0.13)</b>	<b>(0.19)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<b>20,059,778</b>	<b>3,690,665</b>

*See accompanying notes*

**Titan Uranium Inc.**  
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**STATEMENTS OF CASH FLOWS**

Year ended August 31

	2006 \$	2005 \$
<b>OPERATING ACTIVITIES</b>		
Loss for the year	(2,599,914)	(690,049)
Adjustment for item not involving cash:		
Amortization	30,522	11,278
Stock-based compensation	1,168,766	157,105
	<b>(1,400,626)</b>	<b>(521,666)</b>
Change in non-cash working capital items:		
Restricted cash	(60,000)	—
Increase in accounts receivable	(180,495)	(50,323)
Increase in prepaid expenses	(137,644)	(52,483)
(Decrease) increase in accounts payable and accrued liabilities	546,103	(77,726)
Reduction in advances to related parties	(9,586)	(6,857)
<b>Cash used in operating activities</b>	<b>(1,242,248)</b>	<b>(695,341)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares, net of issuance costs	13,777,662	3,431,510
Repayment of loans payable	—	(37,500)
<b>Cash provided by financing activities</b>	<b>13,777,662</b>	<b>3,394,010</b>
<b>INVESTING ACTIVITIES</b>		
Investment in resource properties	(4,207,689)	(666,048)
Purchase of equipment	(95,483)	(48,348)
Reclamation deposit advanced	(35,000)	—
<b>Cash used in investing activities</b>	<b>(4,338,172)</b>	<b>(714,396)</b>
<b>Increase in cash position</b>	<b>8,197,242</b>	<b>1,984,273</b>
Cash and cash equivalents, beginning of year	1,984,273	—
<b>Cash and cash equivalents, end of year</b>	<b>10,181,515</b>	<b>1,984,273</b>
<b>Supplemental cash flow information</b>		
Interest paid in cash	—	—
Income taxes paid in cash	—	—

*See accompanying notes*

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**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 \$4,270,452 as at August 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 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.

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Company have been prepared based on 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 amount of revenues and expenses reported 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 with maturity dates of three months or less when purchased. As at August 31, 2006 cash equivalents totalled \$5,588,333 [2005 - \$1,809,236].

**Restricted cash**

Cash subject to restrictions is classified as restricted cash on the balance sheet. The Company currently holds \$60,000 in a guaranteed interest certificate which is restricted for use as security against its credit card debt and has been presented as restricted cash.

**Leases**

Rental payments under operating leases are expensed as incurred.

**Stock-based compensation**

The Company follows 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.

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

**Stock-based compensation (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 resource interests whereby all costs related to acquisition, exploration and development are capitalized. These costs will be amortized 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 capitalized 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 realize 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. As at August 31, 2006 the Company does not have an asset retirement obligations.

**Titan Uranium Inc.**  
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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**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 fiscal 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 their inclusion would be anti-dilutive.

**Property and equipment**

Property and equipment are carried at cost less accumulated amortization. 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.

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

**Flow-through shares**

The Company has issued flow-through shares to finance some of its exploration activities. Such shares were issued for cash in exchange for the Company giving up the tax benefits arising from the exploration expenditures. The amount of these tax benefits are renounced to investors in accordance with Canadian tax legislation. The Company records issuances of flow-through shares by crediting share capital for the full value of cash consideration received.

The Company has adopted CICA Accounting Standard, EIC 146, in respect of flow-through shares. Under this Standard, a future income tax liability must be recognized, and the shareholders' equity reduced, on the date that the Company renounces the tax credits associated with the flow through expenditures, provided that there is reasonable assurance that the expenditures will be made.

**3. PROPERTY AND EQUIPMENT**

	<b>Cost</b>	<b>Accumulated</b>	<b>Net Book</b>
	<b>\$</b>	<b>Amortization</b>	<b>Value</b>
		<b>\$</b>	<b>\$</b>
<b>2006</b>			
Computer equipment	22,176	6,730	15,446
Exploration equipment	83,127	19,054	64,073
Leasehold improvements	22,274	10,748	11,526
Office furniture	16,252	5,266	10,986
	<b>143,829</b>	<b>41,798</b>	<b>102,031</b>
<b>2005</b>			
Computer equipment	23,506	4,316	19,190
Leasehold improvements	13,231	4,481	8,750
Office furniture	11,611	2,481	9,130
	<b>48,348</b>	<b>11,278</b>	<b>37,070</b>

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**NOTES TO FINANCIAL STATEMENTS**

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**4. RESOURCE PROPERTIES**

	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$
<b>2006</b>			
Thelon, Nunavut	10,000	1,535,105	1,545,105
Athabasca, Saskatchewan	894,000	2,988,632	3,882,632
	<b>904,000</b>	<b>4,523,737</b>	<b>5,427,737</b>
<b>2005</b>			
Thelon, Nunavut	10,000	297,435	307,435
Athabasca, Saskatchewan	894,000	18,613	912,613
	904,000	316,048	1,220,048

**[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 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;
- [iii] paying advanced royalties totalling \$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 totalling on or after May 15 of each year (\$20,000 paid).

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.

**Titan Uranium Inc.**  
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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**4. RESOURCE PROPERTIES (cont'd.)**

**[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 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.

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**4. RESOURCE PROPERTIES (cont'd.)**

**[b] Athabasca, Saskatchewan Properties**

	Deferred Exploration Costs		
	Thelon, NT \$	Athabasca, SK \$	Total \$
<b>2006</b>			
Exploration costs:			
Additions			
Camp	463,846	661,162	1,125,008
Consulting	183,662	154,745	338,407
Drilling	101,279	1,064,720	1,165,999
Mobilization/demobilization	457,343	139,716	597,059
Supplies and maintenance	31,540	—	31,540
Surveys	—	949,676	949,676
	<b>1,237,670</b>	<b>2,970,019</b>	<b>4,207,689</b>
Balance, beginning of year	297,435	18,613	316,048
Balance	<b>1,535,105</b>	<b>2,988,632</b>	<b>4,523,737</b>
<b>2005</b>			
Additions			
Accommodation and food	6,053	—	6,053
Consulting	109,232	16,485	125,717
Mobilization/demobilization	79,408	2,026	81,434
Shipping/transportation	68,692	—	68,692
Supplies and maintenance	34,050	102	34,152
Additions for the year, being balance, end of year	297,435	18,613	316,048

**Titan Uranium Inc.**  
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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**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 totalling \$300,400 [2005 - \$155,640] to directors and officers of the Company for the fiscal year 2006.

As at August 31, 2006 there was \$nil due to directors for expenses [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. The exchange amount is equivalent to the fair value of the service provided.

**6. COMMITMENTS**

[i] On May 1, 2005 the Company entered into a 3 year lease agreement for premises in North Vancouver. Minimum basic rent and occupancy is \$2,478 per month. On August 1, 2006 the Company entered into a 3 year lease agreement for premises in Saskatoon. Minimum basic rent and occupancy is \$2,514 per month. The minimum commitment over the next 3 years is as follows:

	\$
2007	60,612
2008	49,992
2009	27,654
	<u>138,258</u>

[ii] The Company has provided a \$35,000 deposit at a financial institution that is serving as collateral for letters of credit that have been pledged in favour of the Kivalliq Inuit Association. The deposit is bearing interest at market rates. The deposit will be returned to the Company when the Company has satisfied its legal obligations with respect to site reclamation at the Company's Thelon mineral property located in Nunavut [see note 4].

**Titan Uranium Inc.**  
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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**7. SHARE CAPITAL**

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

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

	Shares #	Amount \$	Contributed Surplus \$
<b>Balance, August 31, 2004</b>	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 [note 9]	—	—	157,105
<b>Balance, August 31, 2005</b>	12,730,632	4,571,165	298,645
Private placement	4,825,000	5,900,000	—
Private placement	2,631,594	5,000,029	—
Shares issued for corporate finance and advisory fees	313,610	360,716	—
Exercise of warrants	5,965,119	3,247,481	—
Contributed surplus transfer on exercise of warrants	—	519,078	(519,078)
Exercise of options	731,750	447,700	—
Contributed surplus transfer on exercise of options	—	354,080	(354,080)
Share issue costs	—	(1,802,473)	—
Warrants granted	—	(1,720,692)	2,310,366
Stock based compensation [note 9]	—	—	1,168,766
<b>Balance, August 31, 2006</b>	27,197,705	16,877,084	2,904,619

**Titan Uranium Inc.**  
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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**7. SHARE CAPITAL (cont'd.)**

*Private Placements*

On August 15, 2006 the Company completed its private placement of \$5,000,029 by the issuance of 2,631,594 flow-through units. Each unit, priced at \$1.90 per unit, consisted 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. The agents received a cash commission of 8% of the gross proceeds raised and 263,159 warrants entitling the holder to purchase one common share of the Company at a price of \$2.00 per common share until August 15, 2008.

The estimated fair value of the agent warrants is recorded as \$216,948. The estimated fair value of the common share purchase warrant is recorded as \$776,320.

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 52,500 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 Company completed the brokered portion of the private placement consisting of 1,250,000 units of a price of \$1.60 per unit for gross proceeds of \$2,000,000. The brokered private placement contained the same terms as the non-brokered private placement. The agents received a cash commission of 8% of the gross proceeds raised and 125,000 agent warrants entitling the agents to purchase one common share of the Company at a price of \$1.75 per common share until January 31, 2007.

The estimated fair value of the agent warrants is recorded as \$148,728. The estimated fair value of the common share purchase warrant is recorded as \$359,372.

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. A finder's fee equal to 5% of the gross proceeds was paid.

On October 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 October 21, 2007.

The estimated fair value of these warrants is recorded as \$585,000.

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**NOTES TO FINANCIAL STATEMENTS**

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**7. SHARE CAPITAL (cont'd.)**

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 \$223,997.

*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 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 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.

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**7. SHARE CAPITAL (cont'd.)**

Also on May 31, 2005, the Company issued 1,142,857 units at a 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.

*Exercised Warrants*

During the fiscal year 2006, 5,965,119 warrants were exercised for gross proceeds of \$3,247,481 of which \$15,893 was received subsequent to the year end.

*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 August 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 August 31, 2006, 7,143 warrants [2005 - 91,428] and 11,250 options were exercised at prices of \$0.65 and \$1.00 [2005 - \$0.65 and \$0.20], respectively for total proceeds of \$15,893 [2005 - \$50,428] which were received subsequent to quarter end.

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**9. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company's Board of Directors approved the adoption of a stock incentive plan in accordance with the policies of the TSX Venture Exchange. The Board of Directors is authorized to grant options to directors, officers, consultants or employees. The exercise price of options granted under the Stock Option Plan shall be as determined by the Board of Directors when such options are granted, subject to any limitations imposed by any relevant stock exchange or regulatory authority. The maximum number of options that may be granted must not exceed 20% of the common shares outstanding at the time of the grant.

On August 15, 2006 the Company granted 44,210 options with an exercise price of \$2.00 and an expiry of August 15, 2011 to a consultant of the Company.

On August 23, 2006 the Company granted 100,000 options with an exercise price of \$1.80 and an expiry of August 23, 2011 to a director of the Company.

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. During the fiscal year 2006, 150,000 of these options were cancelled.

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.

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

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

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

The estimated fair value for the options granted during the fiscal year 2006 was \$2,021,632. Prorating the total amount based on the vesting schedule \$781,853 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 \$386,913 from options granted in fiscal year ended August 31, 2005 has been expensed.

The weighted average fair value of the options, being \$0.72 per share, recognized 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	3.7%
Expected life of options	4.0 years
Annualized volatility	108%
Dividend rate	Nil

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

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

Stock option transactions and the number of stock options outstanding are summarised as follows for the fiscal year 2006 and 2005:

	Number of Options	Weighted Average Exercise Price
As at August 31, 2004	—	—
Granted	1,762,000	\$0.48
As at August 31, 2005	1,762,000	\$0.48
Exercised	(731,750)	(\$0.61)
Cancelled	(150,000)	\$2.02
Granted	1,959,210	\$1.26
As at August 31, 2006	2,839,460	\$0.92

Number of Shares Outstanding	Number of Shares Exercisable	Weighted Average Exercise Price Outstanding Options	Weighted Average Exercise Price Exercisable Options	Expiry Date	Weighted Average Life in Years
40,000	40,000			September 20, 2009	3.0
1,142,000	905,450			May 31, 2010	3.7
40,000	8,500			June 6, 2010	3.8
1,223,250	586,500			November 15, 2010	4.2
250,000	100,000			February 3, 2011	4.4
44,210	4,421			August 15, 2011	5.0
100,000	10,000			August 23, 2011	5.0
2,839,460	1,654,871	\$0.77	\$.92		4.0

**Titan Uranium Inc.**  
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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

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

**Warrants**

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

Risk-free interest rate	3.7%
Expected life of options	1.7 years
Annualized volatility	111%
Dividend rate	Nil

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

<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
15,200	\$0.50	November 30, 2006
71,500	\$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
263,159	\$2.00	August 15, 2008
754,255	\$2.00	January 25, 2007
1,315,797	\$2.50	August 15, 2008
<b>2,754,257</b>		

\* 49,750 warrants expired

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

<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
1,686,350	\$0.65	November 30, 2006
1,077,740	\$1.35	October 21, 2007
<b>2,764,090</b>		

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**10. NON-CASH TRANSACTIONS**

The Company had the following non-cash transactions during the year ended August 31, 2006:

	\$
[a] 215,100 units issued to settle corporate finance fees pursuant to the September private placement <i>[see note 7]</i>	215,100
[b] 30,000 units issued for agency fees pursuant to the September private placement <i>[see note 7]</i>	30,000
[c] 300,000 non-transferable agent warrants issued pursuant to the September private placement <i>[see note 7]</i>	223,997
[d] 48,510 units issued to settle corporate finance fees pursuant to the January private placement <i>[see note 7]</i>	77,616
[e] 177,500 non-transferable agent warrants issued pursuant to the January private placement <i>[see note 7]</i>	148,728
[f] 20,000 units issued to settle corporate finance fees pursuant to the August private placement <i>[see note 7]</i>	38,000
[g] 263,159 non-transferable agent warrants issued pursuant to the August private placement <i>[see note 7]</i>	216,948
[h] Fair valuation of attached warrants pursuant to August placement <i>[see note 7]</i>	776,320
[i] Fair valuation of attached warrants pursuant to January placement <i>[see note 7]</i>	359,372
[j] Fair valuation of attached warrants pursuant to October placement <i>[see note 7]</i>	585,000

**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 amounts 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.

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**11. FINANCIAL INSTRUMENTS AND RISK (cont'd.)**

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. INCOME TAXES**

A reconciliation of the statutory rate to the effective tax rate for the Company is as follows:

	2006 \$	2005 \$
Loss for the year before income taxes	2,600,000	690,000
Income tax rate	36.13%	35.37%
Anticipated income tax recovery	939,000	244,000
Permanent differences	(493,000)	(91,000)
Effect of rate change	(181,000)	(27,000)
Change in valuation allowance	(265,000)	(126,000)
Income tax recovery	—	—

Details of future income tax assets are as follows:

	2006 \$	2005 \$
<b>Future income tax assets</b>		
Loss carry forwards	835,000	498,000
Fixed assets	14,000	4,000
Other	413,000	162,000
	1,262,000	664,000
Future income tax liability	(22,000)	—
	1,240,000	664,000
Valuation allowance	(1,240,000)	(664,000)
Future income tax assets	—	—

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**12. INCOME TAXES (cont'd.)**

Future tax benefits, which may arise as a result of these losses and resource expenditures have been offset by a valuation allowance and have not been recognised in these financial statements.

As at August 31, 2006, the Company has capital losses of \$75,000 [2005 - \$75,000], undepreciated capital costs of \$146,000 [2005 - \$48,000], and unused cumulative Canadian exploration and development expenditures of \$5,357,000 [2005 - \$1,220,000], to carry forward for income tax purposes and are available to reduce taxable income in future years. These amounts can be carried forward indefinitely.

As at August 31, 2006, the Company has non-capital losses of approximately \$2,656,000 [2005 - \$1,422,000] to carry forward for income tax purposes and are available to reduce taxable income in future years. If unutilised, the non-capital losses will expire as follows:

	<b>Non-capital losses</b>
	\$
2007	270,000
2008	183,000
2009	201,000
2010	88,000
2014	68,000
2015	516,000
2016	1,330,000
	<u>2,656,000</u>

As at August 31, 2006, the Company has investment tax credits from pre-production mining expenditures of approximately \$443,200 [2005 - \$29,600] to carry forward for income tax purposes and are available to reduce taxable income in future years. If unutilised, the investment tax credits will expire as follows:

	<b>ITCs</b>
	\$
2015	29,600
2016	413,600
	<u>443,200</u>

**13. COMPARATIVE FIGURES**

Certain comparative amounts have been reclassified to conform with the financial statement presentation adopted for the current year.

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**NOTES TO FINANCIAL STATEMENTS**

August 31, 2006 and 2005

**14. SUBSEQUENT EVENTS**

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

[a] On October 26, 2006 a letter of intent between the Company and Dejour Enterprises Ltd. ("Dejour"). Under the terms of a binding letter of intent, Dejour and Titan have agreed, subject to due diligence, that Titan will acquire a 100% interest in Dejour's claims. Consideration payable to acquire the claims follows:

1. Titan to pay Dejour 17,500,000 fully paid and assessable common shares in the capital of Titan;
2. Titan to pay Dejour 3,000,000 transferable common share purchase warrants, entitling the holder to acquire up to 3,000,000 common shares in the capital of the Company at an exercise price of C\$2.00 per common share for a period of 24 months, subject to a forced exercise provision whereby Titan can call the automatic exercise of the warrants should Titan's common shares trade on the Exchange at a price of \$4.00 or more for 20 consecutive trading days;
3. Dejour to retain a 1% Net Smelter Return on all contributed properties;
4. Dejour to retain a 10% working interest in each Claim, carried by Titan to completed bankable feasibility study after which Dejour may elect to participate as to its 10% interest or convert to an additional 1% Net Smelter Return;
5. Titan to provide Dejour with a first right of refusal on all future financing, as long as Dejour's ownership in the stock of Titan is greater than 10% of the outstanding shares;
6. Dejour to provide two full-time and one part-time geologists on terms to be agreed; and
7. Titan to appoint two Dejour representatives to the Titan board of directors.

The acquisition is conditional upon the completion of additional due diligence and the receipt of both shareholder and regulatory approval to be acquired on or before the end of January 2007.

[b] Up to November 29, 2006 a further 1,199,642 warrants have been exercised for proceeds of \$1,160,695.

[c] Up to November 29, 2006 a further 885,250 options have been exercised for proceeds of \$610,270.