

Titan Uranium Inc.
(a development stage company)

Financial Statements
August 31, 2007 and 2006



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheet of Titan Uranium Inc. as at August 31, 2007 and the statements of operations and deficit and cash flows for the year 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 audit.

We conducted our audit 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at August 31, 2006 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated November 21, 2006.

KPMG LLP

Chartered Accountants

Saskatoon, Canada
November 28, 2007

Titan Uranium Inc.
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BALANCE SHEETS

	August 31 2007 \$	August 31 2006 \$
ASSETS		
Cash and cash equivalents	12,746,724	10,241,515
Accounts receivable [note 3]	4,035,271	230,818
Prepaid expenses	64,657	190,127
Total current assets	16,846,652	10,662,460
Property and equipment [note 4]	136,181	102,031
Resource properties [note 5]	61,742,505	5,427,737
Reclamation deposit [note 12]	35,000	35,000
Total assets	78,760,338	16,227,228
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	974,165	731,870
Future income tax liabilities [note 10]	15,534,000	—
Commitments [note 12]		
Share capital [note 7]	60,094,163	16,877,084
Share subscription receivable [note 8]	—	(15,893)
Contributed surplus [note 7]	13,736,148	2,904,619
Deficit	(11,578,138)	(4,270,452)
Total shareholders' equity	62,252,173	15,495,358
Total liabilities and shareholders' equity	78,760,338	16,227,228

See accompanying notes

On behalf of the Board:

“Ron Grozell”

Ron Grozell, CA
Director

“Philip Olson”

Philip Olson
Director

Titan Uranium Inc.
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STATEMENTS OF OPERATION AND DEFICIT

For the Years Ended August 31

	2007	2006
	\$	\$
REVENUE		
Interest income	509,317	122,907
EXPENSES		
Stock-based compensation [note 9]	5,762,762	1,168,766
Corporate development	1,024,982	1,009,501
Administration	730,289	324,352
Consulting & professional fees	457,322	189,680
Amortization	67,648	30,522
Total expenses	8,043,003	2,722,821
Loss before income taxes	(7,533,686)	(2,599,914)
Future income tax recovery [note 10]	226,000	—
Net loss	(7,307,686)	(2,599,914)
Deficit, beginning of year	(4,270,452)	(1,670,538)
Deficit, end of year	(11,578,138)	(4,270,452)
Loss per share – basic and diluted	(0.16)	(0.13)
Weighted average number of common shares outstanding - basic and diluted	44,714,420	20,059,778

See accompanying notes

Titan Uranium Inc.
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STATEMENTS OF CASH FLOWS

For the Years Ended August 31

	2007	2006
	\$	\$
OPERATING ACTIVITIES		
Loss for the year	(7,307,686)	(2,599,914)
Adjustment for item not involving cash:		
Amortization	67,648	30,522
Future income tax recovery	(226,000)	—
Stock based compensation	5,762,762	1,168,766
	(1,703,276)	(1,400,626)
Change in non-cash working capital items:		
Increase in accounts receivable	(3,804,453)	(180,495)
Increase (decrease) in prepaid expenses	125,470	(137,644)
Increase in accounts payable and accrued liabilities	242,295	546,103
Decrease in advances to related parties	—	(9,586)
Cash used in operating activities	(5,139,964)	(1,182,248)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares, net of issuance costs	13,401,741	13,777,662
Cash provided by financing activities	13,401,741	13,777,662
INVESTING ACTIVITIES		
Investment in resource properties	(5,654,769)	(4,207,689)
Purchase of equipment	(112,362)	(95,483)
Reclamation deposit advanced	—	(35,000)
Loss on disposal of property & equipment	10,563	—
Cash used in investing activities	(5,756,568)	(4,338,172)
Increase in cash and cash equivalents	2,505,209	8,257,242
Cash and cash equivalents, beginning of year	10,241,515	1,984,273
Cash and cash equivalents, end of year	12,746,724	10,241,515

See accompanying notes

Titan Uranium Inc.
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Notes to the Financial Statements (years ended August 31, 2007 and 2006)

1. NATURE OF BUSINESS

Titan Uranium Inc. (“the Company”) is engaged in the exploration for and development of uranium properties in Canada’s Athabasca and Thelon basins. To date, the Company has not earned significant revenue and is therefore considered to be a development stage company.

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain economically recoverable mineral reserves. The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable mineral reserves and the ability of the Company to obtain the financing necessary to complete exploration and development and the success of future operations.

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. Significant areas requiring the use of management estimates included the determination of stock based compensation, recoverability of capitalized mineral exploration and acquisition costs and the determination of future income tax liabilities.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments that, upon acquisition, have an initial term to maturity of three months or less and are readily convertible into cash.

Comparative figures

Certain prior year balances have been reclassified to conform to the current year financial statement presentation.

Stock-based compensation

The company has a share option plan which is described in note 9.

Options granted under the share option plan are accounted for using the fair-value method. The fair value of stock options is measured at the grant date of the options using 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 expected life of the options and recognized over the vesting period of the options. The fair value of direct awards of shares is determined by the quoted market price of the Company's shares at the date of award. Awards based on share performance are recognized upon achievement of the targeted share price.

Resource properties

The company is in the exploration stage and accounts for its mineral interest 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 value of resource properties is 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 properties are 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 mineral 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 write-down of capitalized property carrying values.

Asset retirement obligations

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they occur 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.

Flow-through shares

The Company finances a portion of its exploration activities through the issuance of flow-through shares. Certain tax deductible exploration and development expenditures funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. To recognize the forgone tax benefits to the Company, the future income tax liability and the carrying value of the shares issued are adjusted by the effect of the tax benefits renounced to subscribers. The future income tax liability is recorded when the expenditures are renounced by the Company.

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 years ended August 31, 2007 and 2006, 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 asset and 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. ACCOUNTS RECEIVABLE

At August 31, accounts receivable consisted of the following:

	2007	2006
	\$	\$
Mega Uranium Inc.	2,831,962	—
Ur-Energy Inc.	786,953	—
Goods and services tax refund	253,555	160,748
Accrued Interest	154,534	68,978
Other	8,267	1,092
	<hr/> 4,035,271	<hr/> 230,818

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated	Net Book
	\$	Amortization	Value
	\$	\$	\$
2007			
Computer equipment	43,028	10,655	32,373
Exploration equipment	146,227	62,842	83,385
Leasehold improvements	1,407	12	1,395
Office Furniture	23,740	4,712	19,028
	214,402	78,221	136,181
2006			
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
	143,829	41,798	102,031

5. RESOURCE PROPERTIES

	Acquisition	Deferred	Total
	Costs	Exploration	\$
	\$	\$	\$
2007			
Thelon, Nunavut	89,347	2,150,688	2,240,035
Athabasca, Saskatchewan	51,938,486	7,563,984	59,502,470
	52,027,833	9,714,672	61,742,505
2006			
Thelon, Nunavut	10,000	1,535,105	1,545,105
Athabasca, Saskatchewan	894,000	2,988,632	3,882,632
	904,000	4,523,737	5,427,737

[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”).

To acquire the 100% interest in the Project the Company committed to:

- [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 (completed).

- [iii] Paying advanced royalties totaling \$50,000 over a three year period to June 1, 2007 (paid);
- [iv] Paying annual lease payments on or before May 15 of each year (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.

On June 13, 2007 the Company entered into an agreement with Mega Uranium Ltd. (Mega) where Mega will acquire a 51% interest in all of Titan's owned and to be owned claims in the Thelon Basin. In order to earn the interest, Mega has committed to expend an aggregate of \$5,000,000 on the Properties on or before December 31, 2008 on exploration work programs. Any work programs undertaken in 2007 will be operated by Titan, and any work programs in 2008 will be operated by Mega, with the other party contributing one full time geologist to the operator in each year.

As at August 31, 2007, \$2,831,962 had been spent on the properties pursuant to the Mega agreement.

[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.

To acquire the 100% interest in the Claims the Company committed to:

- [i] Paying \$350,000 and issuing to the vendor 800,000 common shares in the capital of the Company for the 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.

[c] Dejour properties, Athabasca, Saskatchewan

On December 15, 2006 the Company entered into an agreement to acquire a 100% interest in 72 dispositions ("Claims") located in the Athabasca Basin, Saskatchewan.

To acquire the 100% interest in the Claims the Company committed to:

- [i] Issuing to the vendor 17,500,000 common shares (paid and issued) in the capital of the Company for value of \$31,650,000 being the fair value of the shares of \$2.78 on the closing date of the agreement discounted by 35% due to trading restrictions placed on the shares. Additionally, since the acquisition cost is in excess of the tax pools related to the property, an amount of \$14,210,000 has been added to the value of the acquisition with a corresponding increase to future income tax liabilities.
- [ii] Issuing to the Vendor 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 \$2.00 per common share for a period of 24 months (issued), 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. A value of \$4,800,000 has been attributed to the properties based on the assumptions as detailed in Note 9 with a corresponding increase in contributed surplus.
- [iii] Granting to the Vendor a 1% Net Smelter Return (NSR) on all contributed properties
- [iv] Granting to the Vendor a 10% working interest in each Claim, carried by Titan to completion of a bankable feasibility study, after which the vendor may elect to participate as to its 10% interest or convert to an additional 1% Net Smelter Return.

On June 18, 2007 the Company entered into an agreement with Ur-Energy Inc. (UR) where by UR can acquire an undivided 51% interest in Titan's R-Seven and Rook I properties in the Athabasca basin by funding \$9,000,000 in exploration. In order to earn the interest, UR has committed to expend \$2,000,000 in each of the first three years with a further \$3,000,000 in year four. After spending an aggregate of \$4,000,000 in the second year of the agreement, UR will earn a 25% undivided interest. Upon the expenditure of an additional \$2,000,000 in year three, UR will earn an additional 10% undivided interest. The final 16% undivided interest will be earned with the expenditure of \$3,000,000 in year four.

As of August 31, 2007, \$786,953 had been spent on the R-Seven and Rook I properties pursuant to the UR agreement.

6. RELATED PARTIES

The Company has entered into the following transactions with parties not at arm's length to the Company. These transactions have been recorded at the exchange amounts which is the amount agreed to by the transacting parties:

The Company paid or accrued consulting fees totaling \$321,557 [2006 - \$300,400] to directors and officers of the Company or companies controlled by directors and officers of the Company for the period ended August 31, 2007.

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, 2005	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)	589,674
Warrants granted		(1,720,692)	1,720,692
Stock based compensation	—	—	1,168,766
Balance, August 31, 2006	27,197,705	16,877,084	2,904,619
Shares & warrants issued for resource property acquisition	17,500,000	31,650,000	4,800,000
Private placement	3,272,750	9,000,063	
Shares issued as agent compensation	24,000	66,000	
Share issue costs		(1,099,455)	276,373
Warrants granted		(1,812,659)	1,812,659
Exercise of options	1,619,302	1,342,503	—
Exercise of warrants	3,214,492	3,800,362	—
Contributed surplus transfer on exercise of options	—	1,074,085	(1,074,085)
Contributed surplus transfer on exercise of warrants	—	746,180	(746,180)
Share issue costs related to renunciation of flow-through expenditures	—	(1,550,000)	—
Stock based compensation	—	—	5,762,762
Balance, August 31, 2007	52,828,249	60,094,163	13,736,148

Private Placements

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 consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitled the holder 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 was recorded as \$585,000.

Pursuant to the private placement, the Company issued 215,100 units and \$24,900 to settle \$240,000 in agent fees. Each unit consists of one common share and one-half of one 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 of one 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 was recorded as \$223,998.

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 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 consisted of one common share and one-half of 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 finder's 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 at 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 was recorded as \$148,728. The estimated fair value of the common share purchase warrants was recorded as \$359,372.

On August 15, 2006 the Company completed a private placement for gross proceeds of \$5,000,029 by issuing 2,631,594 flow-through units. Each unit, priced at \$1.90, consisted of one flow-through common share and one-half of one non-flow through common share purchase warrant. Each whole warrant entitled 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 was recorded at \$216,948. The estimated fair value of the common share purchase warrants was recorded as \$776,320.

On March 27, 2007 the Company completed a brokered private placement of 3,272,750 flow-through units, at a price of \$2.75 per unit for total gross proceeds of \$9,000,063. Each unit consists of one flow through common share of the Company and one-half of one flow through common share purchase warrant. Each whole warrant entitles the holder to purchase one additional flow-through common share of Titan at a price of \$3.25 per flow-through common share until March 27, 2009. The Agents received a commission of 7% of the gross proceeds raised which was paid in cash and 24,000 broker units which were made up of one non-flow-through common share and one half of one non-flow-through share purchase warrant. In addition, the agents received 229,092 share purchase options entitling the holder to purchase one non-flow-through common share at a price of \$3.05 per common share until March 27, 2009.

The value of the common shares was recorded as \$66,000 and the estimated fair value of the warrants as \$13,292. The estimated fair value of the common share purchase options was recorded as \$263,081. The estimated fair value of the private placement warrants was recorded at \$1,812,659.

Acquisition of Resources Properties (see note 5)

Shares Held in Escrow

Associated with the Nunavut, Thelon acquisition 130,000 common shares and 130,000 common share warrants were placed in escrow. As of August 31, 2007, 91,500 warrants have been exercised into common shares and 143,500 escrow shares have been released. Terms of the future release from escrow are as follows:

39,000 shares on December 1, 2007

39,000 shares on June 1, 2008

Flow-through shares

In December of 2006, the Company renounced \$5,000,000 of tax deductions associated with qualified expenditures incurred and to be incurred with flow-through funds. The Company recorded a future income tax liability of \$1,550,000 with a corresponding entry to share issue costs.

8. SHARE SUBSCRIPTION RECEIVABLE

As of August 31, 2007 there were no shares purchased for which the Company had not received payment (2006-18,393 shares, \$15,893).

9. STOCK OPTIONS AND WARRANTS

Stock Options

The Company has established a share option plan whereby options may be granted to directors, officers, key employees and consultants up to an aggregate of 10% of the issued and outstanding shares of the Company. Options granted have an exercise price of not less than the Market Price on the date of grant less the applicable discount, if any, permitted by the policies of the Exchanges and approved by the Board.

During 2007, the Company granted 3,409,092 (2006 – 1,959,210) options to directors, consultants, officers and employees as follows:

	2007	2006
Directors	1,000,000	890,000
Consultants	1,609,092	275,000
Officers and employees	800,000	794,210
	3,409,092	1,959,210

In connection with the private placement in March 2007, the Company issued Agent's options entitling the agent to purchase 229,092 shares at a price of \$3.05 per share. The fair value of these Agent's options was \$263,081 using the Black-Scholes option pricing model. This amount was recorded as share issue costs with a corresponding entry to contributed surplus.

The company also has agreements with certain executives whereby bonuses of \$500,000 and \$250,000 will be paid if the company's common shares attain a closing price at or above \$5 and \$7 respectively for ten consecutive trading days up to December 31, 2008. These amounts have not been recognized in these financial statements as the target price has not been attained.

The fair value of stock options issued in the year ended August 31, 2007 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	4.26%	3.70%
Expected life of options	4.68 yrs	4.0 yrs
Annualized volatility	92.64%	108%
Dividend rate	Nil	Nil

Stock option transactions and the number of stock options outstanding are summarized as follows for the period ended August 31, 2007.

	Number of Options	Weighted Average Price
Balance- August 31, 2005	1,762,000	0.48
Exercised	(731,750)	0.61
Cancelled	(150,000)	2.02
Granted	1,959,210	1.26
Balance- August 31, 2006	2,839,460	0.92
Exercised	(1,619,302)	0.83
Cancelled	(250,000)	2.26
Granted	3,409,092	2.32
Balance – August 31, 2007	4,379,250	1.96

Options outstanding and exercisable at August 31, 2007 had exercise prices and years remaining to expiry as follows:

Number of Options Outstanding	Number of Shares Exercisable	Exercise Price of Options Outstanding	Weighted Average Exercise Price of Options Exercisable	Expiry Date	Remaining Life in years
229,092	229,092	\$3.05		Mar 27/09	1.6
375,000	375,000	0.50		May 31/09	2.8
609,500	609,500	1.00		Nov 15/10	3.2
102,500	102,500	2.02		Feb 03/11	3.4
33,158	19,895	2.00		Aug 15/11	4.0
100,000	70,000	1.80		Aug 23/11	4.0
2,055,000	1,817,500	2.20		Feb 12/12	4.4
150,000	150,000	2.65		Feb 16/12	4.5
300,000	300,000	2.73		Apr 04/12	4.6
100,000	100,000	2.70		Apr 11/12	4.6
75,000	75,000	2.03		May 29/12	4.8
200,000	50,000	1.90		Jun 01/12	4.8
25,000	—	2.05		Jul 09/12	4.9
25,000	—	1.60		Aug 07/12	4.9
4,379,250	3,898,487	\$1.96	\$1.95		4.0

Warrants

The Company has the following non-publicly traded warrants outstanding which were granted in conjunction with various private placements.

	Number of Warrants	Weighted Average Price
Balance - August 31, 2005	3,912,705	0.36
Exercised	(4,154,209)	(0.43)
Granted	2,995,761	2.09
Balance – August 31, 2006	2,754,257	2.14
Exercised	(1,274,702)	(1.85)
Granted	4,648,375	2.44
Balance – August 31, 2007	6,127,930	2.43

These warrants expire at various times between October 2007 and March 2009.

The Company has the following publicly traded warrants outstanding:

	Number Of Warrants	Weighted Average Price
Balance – August 31, 2005	3,075,000	0.65
Exercised	(1,810,910)	(0.81)
Granted	1,500,000	1.35
Balance – August 31, 2006	2,764,090	0.92
Exercised	(1,939,790)	(0.74)
Balance – August 31, 2007	824,300	1.35

These warrants expire on October 21, 2007.

10. INCOME TAX

The components of future income tax liability are as follows:

	2007 \$	2006 \$
Resource properties	15,534,000	—
Non-capital loss carry forwards	(1,371,000)	(958,000)
Share issue costs	(475,000)	(443,000)
Property and equipment	(37,000)	(16,000)
Valuation allowance	1,883,000	1,417,000
Future income tax liability	15,534,000	—

Certain future tax assets have been reduced to zero through the utilization of a valuation allowance because of a high degree of uncertainty surrounding their realization due to the nature of the business.

The effective income tax rate differs from the statutory rate as follows:

	2007 \$	2006 \$
Loss before income taxes	7,533,686	2,599,914
Income tax rate	36.62%	36.13%
Expected tax recovery	2,759,000	939,000
Non-deductible items including stock-based compensation	(2,138,000)	(473,000)
Tax benefits not recognized	(621,000)	(474,000)
Effect of rate change	226,000	8,000
Future income tax recovery	226,000	—

At August 31, 2007, the Company had operating losses for income tax purposes of approximately \$4,494,000 which can be carried forward to reduce taxes in future years. These losses expire between August 31, 2008 and August 31, 2027. The company also has \$460,000 of investment tax credits from pre-production mining expenditures which can be carried forward to reduce federal income tax payable in future years. The tax credits expire between August 31, 2015 and August 31, 2027.

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 judgment, 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. 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 nature and the absence of a secondary market for such instruments.

The Company is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

12. COMMITMENTS

[a] As of August 31, 2007, the Company is committed to operating leases for office space, a photocopier and a vehicle as follows:

Year	\$
2008	65,318
2009	65,318
2010	61,171
2011	56,250
2012	32,812
	280,869

[b] 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 5].

13. NON-CASH TRANSACTIONS

The Company had the following non-cash transactions during the year ended August 31, 2007:

	\$
[a] Fair value of attached warrants pursuant to the March 27, 2007 private placement <i>[see note 7]</i>	1,812,659
[b] 24,000 common shares issued to agents pursuant to the March 27, 2007 private placement <i>[see note 7]</i>	66,000
[c] 12,000 agent warrants issued pursuant to the March 27, 2007 private placement <i>[see note 7]</i>	13,292
[d] 229,092 agent warrants issued pursuant to the March 27, 2007 private placement <i>[see note 7]</i>	263,081