

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

Financial Statements  
August 31, 2008 and 2007



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## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the balance sheets of Titan Uranium Inc. as at August 31, 2008 and 2007 and the statements of operations, shareholders' equity 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 audit.

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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

Saskatoon, Canada  
December 19, 2008

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

**BALANCE SHEETS**

	<b>August 31 2008</b>	August 31 2007
	\$	\$
<b>ASSETS</b>		
Cash and cash equivalents	<b>6,621,833</b>	12,746,724
Accounts receivable [note 3]	<b>1,928,013</b>	4,035,271
Prepaid expenses	<b>404,489</b>	64,657
<b>Total current assets</b>	<b>8,954,335</b>	16,846,652
Property and equipment [note 4]	<b>146,644</b>	136,181
Resource properties [note 5]	<b>24,308,439</b>	61,742,505
Reclamation deposit [note 10]	<b>35,000</b>	35,000
<b>Total assets</b>	<b>33,444,418</b>	78,760,338
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	<b>2,153,844</b>	974,165
Future income tax liabilities [note 9]	<b>4,112,000</b>	15,534,000
Commitments [note 10]		
Share capital [note 7]	<b>57,681,550</b>	60,094,163
Warrants	<b>6,612,659</b>	7,490,167
Contributed surplus	<b>7,887,481</b>	6,245,981
Deficit	<b>(45,003,116)</b>	(11,578,138)
<b>Total shareholders' equity</b>	<b>27,178,574</b>	62,252,173
<b>Total liabilities and shareholders' equity</b>	<b>33,444,418</b>	78,760,338

See accompanying notes

On behalf of the Board:

*"David D'Onofrio"*

David D'Onofrio, CA  
 Director

*"Philip Olson"*

Philip Olson  
 Director

**Titan Uranium Inc.**  
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**STATEMENTS OF OPERATIONS**

For the Years Ended August 31

	<b>2008</b>	2007
	\$	\$
<b>REVENUE</b>		
Interest income	<b>384,504</b>	509,317
<b>EXPENSES</b>		
Administration	<b>1,042,161</b>	730,289
Stock-based compensation [note 7]	<b>770,820</b>	5,762,762
Corporate development	<b>686,411</b>	1,024,982
Consulting & professional fees	<b>380,223</b>	457,322
Amortization	<b>81,846</b>	67,648
	<b>2,961,461</b>	8,043,003
<b>Loss before other items and income taxes</b>	<b>(2,576,957)</b>	(7,533,686)
<b>OTHER ITEMS</b>		
Write-down of resource properties [note 5]	<b>(44,700,021)</b>	—
<b>Loss before income taxes</b>	<b>(47,276,978)</b>	<b>(7,533,686)</b>
Future income tax recovery [note 9]	<b>13,852,000</b>	226,000
<b>Net loss and comprehensive loss</b>	<b>(33,424,978)</b>	<b>(7,307,686)</b>
Loss per share – basic and diluted	<b>(0.63)</b>	(0.16)
Weighted average number of common shares outstanding - basic and diluted	<b>52,836,481</b>	44,714,420

See accompanying notes

**Titan Uranium Inc.**  
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**STATEMENTS OF SHAREHOLDERS' EQUITY**

For the Years Ended August 31

	2008	2007
	\$	\$
<b>SHARE CAPITAL (NOTE 9)</b>		
Balance, beginning of year	60,094,163	16,877,084
Shares issued for resource property	—	31,650,000
Private placement	—	9,000,063
Shares issued for agent compensation	—	66,000
Shares issued on exercise of options	—	2,416,588
Shares issued on exercise of warrants	17,387	4,546,542
Share issue costs	—	(2,912,114)
Renunciation of flow-through expenditures	(2,430,000)	(1,550,000)
Balance, end of year	<b>57,681,550</b>	60,094,163
<b>WARRANTS</b>		
Balance, beginning of year	7,490,167	1,623,688
Warrants issued for resource property	—	4,800,000
Private placement	—	1,812,659
Exercise of warrants	(6,828)	(746,180)
Expiry of warrants	(870,680)	—
Balance, end of year	<b>6,612,659</b>	7,490,167
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of year	6,245,981	1,280,931
Stock based compensation	770,820	5,762,762
Private placement	—	276,373
Exercise of options	—	(1,074,085)
Expiry of warrants	870,680	—
Balance, end of year	<b>7,887,481</b>	6,245,981
<b>DEFICIT</b>		
Balance, beginning of year	(11,578,138)	(4,270,452)
Net loss	(33,424,978)	(7,307,686)
Balance, end of year	<b>(45,003,116)</b>	(11,578,138)

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

For the Years Ended August 31

	2008	2007
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Loss for the year	(33,424,978)	(7,307,686)
Adjustment for item not involving cash:		
Stock based compensation	770,820	5,762,762
Amortization	81,846	67,648
Write-down of resource properties	44,700,021	—
Future income tax recovery	(13,852,000)	(226,000)
	<b>(1,724,291)</b>	<b>(1,703,276)</b>
Change in non-cash working capital items:		
Accounts receivable	2,107,258	(3,804,453)
Prepaid expenses	(339,832)	125,470
Accounts payable and accrued liabilities	1,179,679	242,295
<b>Cash provided by (used in) operating activities</b>	<b>1,222,814</b>	<b>(5,139,964)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common shares, net of issuance costs	10,560	13,401,741
<b>Cash provided by financing activities</b>	<b>10,560</b>	<b>13,401,741</b>
<b>INVESTING ACTIVITIES</b>		
Investment in resource properties	(7,265,955)	(5,654,769)
Purchase of equipment	(92,310)	(112,362)
Loss on disposal of property & equipment	—	10,563
<b>Cash used in investing activities</b>	<b>(7,358,265)</b>	<b>(5,756,568)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(6,124,891)</b>	<b>2,505,209</b>
Cash and cash equivalents, beginning of year	12,746,724	10,241,515
<b>Cash and cash equivalents, end of year</b>	<b>6,621,833</b>	<b>12,746,724</b>

See accompanying notes

**Titan Uranium Inc.**  
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**Notes to the Financial Statements (years ended August 31, 2008 and 2007)**

**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, the ability of the Company to obtain the financing necessary to complete exploration and development and the success of future operations.

These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of 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 element of measurement uncertainty involves the review of carrying amounts of resource properties to assess the possibility of impairment and the need for a revision of a carrying amount. Impairment assessments involve the use of management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned activity on the mineral properties. Changes in assumptions used to assess impairment could have a material impact on the financial statements.

Other significant areas requiring the use of management estimates included the determination of stock based compensation 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.

**Stock-based compensation**

The company has a share option plan which is described in note 8.

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. Awards based on share performance are recognized upon achievement of the targeted share price.

The Company also accounts for grants of warrants in accordance with the fair value method.

### **Resource properties**

The company is in the exploration stage and accounts for its mineral interests, including various joint property interests, whereby the Company's share of 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 a further 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's current asset retirement obligations are nominal.

### **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, 2008 and 2007, 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.

### **Recently adopted accounting standards**

#### **Financial instruments presentation and disclosure**

On September 1, 2007, the Company adopted CICA handbook sections 3855 and 3861 relating to financial instruments presentation and disclosure. These sections are intended to enhance the users' ability to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

- i) Financial assets - The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Due to the short-term maturity of accounts receivable, the carrying amount approximates fair value. The Company has not entered into any hedging relationships and does not hold any other available-for-sale securities that would result in the recognition of other comprehensive income or loss.
- ii) Financial liabilities - Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Due to the short term nature of accounts payable and accrued liabilities, carrying amounts approximate fair value.
- iii) Derivatives – Derivatives may be embedded in other financial instruments or within non-financial contracts. Under the new standards, certain embedded derivatives may require separate recognition at fair value. The Company has not identified any material embedded derivatives which require separate recognition and measurement.

- iv) Management of financial risk - The Company's financial instruments are exposed to certain financial risks, including credit risk and liquidity risk. The Company manages credit risk by assessing the credit worthiness of parties granted credit and manages liquidity risk with its budgeting process. Financial instruments consist of cash on deposit and bankers acceptances with a major financial institution.
- v) Credit risk - Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations.
- vi) Liquidity risk - Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it will have sufficient liquidity to meet its obligations when due. Accounts payable and accrued liabilities are due within the current operating period. The Company uses a budgeting process to project cash flow and to ensure that sufficient resources are available to meet those cash flow requirements.

### **New accounting pronouncements**

Effective September 1, 2008, the Company will adopt CICA handbook sections 3862 and 3863 relating to financial instrument presentation and disclosure. These sections are intended to enhance the users' ability to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks. The implementation of this guidance is not expected to have a material impact on the Company's financial position and results of operations.

Effective September 1, 2008 the Company will adopt CICA handbook section 1535 relating to Capital Disclosures. This section will require the Company to disclose their objectives, policies and processes for managing capital and whether the Company has complied with externally imposed capital requirements.

In February 2008, the CICA issued handbook section 3064 relating to Goodwill and Intangible Assets. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. This section is effective for years beginning on or after October 1, 2008. The Company has not yet assessed the impact of this section on its financial statements.

### **3. ACCOUNTS RECEIVABLE**

At August 31, accounts receivable consisted of the following:

	<b>2008</b>	<b>2007</b>
	\$	\$
Mega Uranium Inc.	1,500,000	2,831,962
Ur-Energy Inc.	—	786,953
Japan Oil, Gas and Metals National Corporation	240,717	—
Vale Exploration Inc.	13,361	—
Goods and services tax refund	173,169	253,555
Accrued Interest	766	154,534
Other	—	8,267
	<b>1,928,013</b>	<b>4,035,271</b>

#### 4. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value \$
<b>2008</b>			
Computer equipment	65,348	29,719	35,629
Exploration equipment	195,738	118,926	76,812
Leasehold improvements	2,538	256	2,282
Office Furniture	43,087	11,166	31,921
	306,711	160,067	146,644
<b>2007</b>			
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

#### 5. RESOURCE PROPERTIES

	Acquisition Costs \$	Deferred Exploration \$	Write-down of resource properties \$	Total \$
<b>2008</b>				
Thelon, Nunavut	86,059	2,756,101	—	2,842,160
Athabasca, Saskatchewan	52,104,845	14,061,455	(44,700,021)	21,466,279
	52,190,904	16,817,556	(44,700,021)	24,308,439
<b>2007</b>				
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

##### [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”).

The Company has committed to pay 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.

Upon Mega fulfilling the terms and conditions necessary to earn their undivided 51% interest in the property, the Company agreed to fund the next \$500,000 of exploration expenditures without altering the companies respective interest in the property.

As at August 31, 2008, \$5,000,000 had been spent on the properties pursuant to the Mega agreement which fulfilled the terms and conditions necessary for Mega to earn an undivided 51% interest in the property. A joint venture agreement will be negotiated between Mega and the Company to determine the terms under which future exploration and development work will proceed.

#### **[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.

The Company has committed to pay 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;

As part of the agreement, the Company has granted 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.

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 from Dejour Enterprises Ltd.

The Company has committed to pay the Vendor a 1% Net Smelter Return (NSR) on all contributed properties

As part of the agreement, the Company has granted 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.

UR funded \$2,000,000 of exploration and on March 17, 2008 elected to discontinue participation in the earn-in agreement.

On May 23, 2008 the Company signed an agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC) whereby JOGMEC can acquire an undivided 50% working interest in the Company's Virgin Trend Project in the Athabasca basin by funding \$9,000,000 of exploration over three years.

As at August 31, 2008 \$1,303,718 had been spent on the properties pursuant to the agreement.

On April 11, 2008 the Company signed an agreement with Vale Exploration Canada, a wholly-owned subsidiary of Companhia Vale do Rio Doce (Vale) whereby Vale can acquire a 60% working interest in the Company's Sand hill project in the Athabasca basin. Vale can earn a 60% working interest in the property by funding \$12,000,000 of exploration over five years.

As at August 31, 2008 \$1,621,308 had been spent on the properties pursuant to the agreement.

During 2008, the Company wrote-down its resource properties by \$44,500,000 to reflect the results of an impairment analysis on the Athabasca Basin properties. Significant adverse changes in the business climate and a significant decrease in the Company's market capitalization compared to the carrying value of its resource properties indicated that an impairment may exist. The impairment analysis was performed based on estimated future cash flows from relevant exploration earn-in agreements on the Athabasca Basin properties discounted to present values.

During 2008, the Company also wrote-off \$200,021 representing 100% of the carrying amount of its Umpherville Lake and Umpherville West properties as the Company had no future exploration plans for the properties.

## **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 \$250,414 [2007 - \$321,557] to directors and officers of the Company or companies controlled by directors and officers of the Company for the period ended August 31, 2008.

## 7. SHARE CAPITAL

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

[b] Issued and fully paid – common shares:

	Shares #	Amount \$
Balance, August 31, 2006	27,197,705	16,877,084
Shares & warrants issued for resource property	17,500,000	31,650,000
Private placement	3,272,750	9,000,063
Shares issued as agent compensation	24,000	66,000
Share issue costs		(1,099,455)
Warrants granted		(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
Contributed surplus transfer on exercise of warrants		746,180
Renunciation of flow-through expenditures		(1,550,000)
Balance, August 31, 2007	52,828,249	60,094,163
Exercise of warrants	9,600	10,559
Exercise of options	1	—
Contributed surplus transfer on exercise of options		6,828
Renunciation of flow-through expenditures		(2,430,000)
Balance, August 31, 2008	52,837,850	57,681,550

### Private Placements

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, 2008, 91,500 warrants have been exercised into common shares and all of the 221,500 escrow shares have been released.

## Flow-through shares

In December of 2007, the Company renounced \$9,000,063 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 \$2,430,000 with a corresponding entry to share capital.

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 capital.

## 8. 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 2008, the Company granted 2,635,833 (2007 – 3,409,092) options to directors, consultants, officers and employees as follows:

	2008	2007
Directors	966,666	1,000,000
Consultants	516,667	1,609,092
Officers and employees	1,152,500	800,000
	2,635,833	3,409,092

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, 2008 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2008	2007
Risk-free interest rate	3.05%	4.26%
Expected life of options	2.41 yrs	4.68 yrs
Annualized volatility	95.24%	92.64%
Dividend rate	Nil	Nil
Forfeiture	12%	Nil
Fair value	\$0.25	\$1.66

Stock option transactions and the number of stock options outstanding are summarized as follows for the period ended August 31, 2008.

	<b>Number of Options</b>	<b>Weighted Average Price</b>
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
Exercised	(1)	0.73
Cancelled	(3,116,158)	2.22
Granted	2,635,833	0.51
Balance – August 31, 2008	3,898,925	0.77

Options outstanding and exercisable at August 31, 2008 had exercise prices and years remaining to expiry as follows:

<b>Number of Options Outstanding</b>	<b>Number of Shares Exercisable</b>	<b>Exercise Price of Options Outstanding</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>	<b>Expiry Date</b>	<b>Remaining Life in years</b>
842,500	842,500	\$0.73		Feb 15/09	0.5
229,092	229,092	3.05		Mar 27/09	0.6
140,000	140,000	0.44		Jul 16/09	0.9
375,000	375,000	0.50		May 31/10	1.8
145,000	145,000	0.44		Jul 16/10	1.9
581,500	581,500	1.00		Nov 15/10	2.2
102,500	102,500	2.02		Feb 03/11	2.4
1,183,333	1,183,333	0.44		Jul 16/11	2.9
300,000	—	0.225		Aug 7/13	4.9
3,898,925	3,598,925	\$0.77	\$0.82		2.1

## Warrants

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

	<b>Number of Warrants</b>	<b>Weighted Average Price</b>
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
Exercised	(9,600)	1.10
Expired	(1,469,955)	2.39
Granted	—	—
Balance – August 31, 2008	4,648,375	2.44

These warrants expire at various times between December 2008 and March 2009.

The Company has the following publicly traded warrants outstanding:

	<b>Number Of Warrants</b>	<b>Weighted Average Price</b>
Balance – August 31, 2006	2,764,090	0.92
Exercised	(1,939,790)	(0.74)
Balance – August 31, 2007	824,300	1.35
Expired	(824,300)	(1.35)
Balance – August 31, 2008	—	—

## 9. INCOME TAX

The components of future income tax liability are as follows:

	<b>2008 \$</b>	<b>2007 \$</b>
Resource properties	4,112,000	15,534,000
Non-capital loss carry forwards	(1,807,000)	(1,371,000)
Share issue costs	(287,000)	(475,000)
Property and equipment	(52,000)	(37,000)
Valuation allowance	2,146,000	1,883,000
Future income tax liability	4,112,000	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:

	<b>2008</b>	<b>2007</b>
	\$	\$
Loss before income taxes	47,276,978	7,533,686
Income tax rate	33.21%	36.62%
Expected tax recovery	15,701,000	2,759,000
Non-deductible items including stock-based compensation	(262,000)	(2,138,000)
Tax benefits not recognized	(594,000)	(621,000)
Effect of rate change	(993,000)	226,000
Future income tax recovery	13,852,000	226,000

At August 31, 2008, the Company had operating losses for income tax purposes of approximately \$6,512,000 which can be carried forward to reduce taxes in future years. These losses expire between August 31, 2009 and August 31, 2028. 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.

## 10. COMMITMENTS

[a] Commitments under resource properties are outlined in note 5.

[b] As of August 31, 2008, the Company is committed to operating leases for office space, a photocopier and a vehicle as follows:

<b>Year</b>	<b>\$</b>
2009	65,062
2010	60,999
2011	56,250
2013	32,813
2013	—
	<b>215,124</b>

[c] 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].

## **11. SUBSEQUENT EVENTS**

On November 12, 2008 the Company signed an agreement with JOGMEC whereby JOGMEC can earn an undivided 50% working interest in Titan's Border Block project which consists of the Maybelle, Gartner and King properties. JOGMEC can earn a 50% working interest by funding \$6,000,000 of exploration over four years.