

Titan Uranium Inc.
(a development stage company)

Consolidated Financial Statements
August 31, 2009 and 2008



KPMG LLP
Chartered Accountants
600-128 4th Avenue South
Saskatoon Saskatchewan S7K 1M8
Canada

Telephone (306) 934-6200
Fax (306) 934-6233
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Titan Uranium Inc. as at August 31, 2009 and 2008 and the consolidated 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 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2009 and 2008 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

November 26, 2009

Titan Uranium Inc.
(a development stage company)
CONSOLIDATED BALANCE SHEETS

	August 31 2009	August 31 2008
	\$	\$
ASSETS		
Cash and cash equivalents	9,704,788	6,621,833
Accounts receivable	509,060	1,928,013
Note receivable [note 4]	290,797	—
Prepaid expenses	250,495	404,489
Total current assets	10,755,140	8,954,335
Property and equipment [note 5]	132,640	146,644
Resource properties [note 6]	30,594,634	24,308,439
Reclamation deposit [note 13]	1,328,350	35,000
Total assets	42,810,764	33,444,418
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	1,017,970	2,153,844
Current portion of asset retirement obligation [note 7]	87,000	—
Total current liabilities	1,104,970	2,153,844
Asset retirement obligation [note 7]	506,527	—
Future income tax liabilities [note 11]	2,360,000	4,112,000
Commitments [notes 6 and 13]		
Share capital [note 9]	76,324,484	57,681,550
Warrants [note 10]	—	6,612,659
Contributed surplus	14,485,945	7,887,481
Deficit	(51,971,162)	(45,003,116)
Total shareholders' equity	38,839,267	27,178,574
Total liabilities and shareholders' equity	42,810,764	33,444,418

See accompanying notes

On behalf of the Board:

"Rahoul Sharan"

Rahoul Sharan, CA
Director

"Donald Ching"

Donald Ching
Director

Titan Uranium Inc.
(a development stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended August 31

	2009	2008
	\$	\$
REVENUE		
Interest income	66,753	384,504
EXPENSES		
Administration	1,308,339	1,042,161
Consulting & professional fees	521,450	380,223
Corporate development	378,901	686,411
Amortization	83,147	81,846
Stock-based compensation [note 10]	22,379	770,820
Accretion of asset retirement obligation	4,198	—
Unrealized foreign exchange gain	(23,321)	—
	2,295,093	2,961,461
Loss before other items and income taxes	(2,228,340)	(2,576,957)
OTHER ITEMS		
Write-down of resource properties [note 6]	(6,491,706)	(44,700,021)
Loss before income taxes	(8,720,046)	(47,276,978)
Future income tax recovery [note 11]	1,752,000	13,852,000
Net loss and comprehensive loss	(6,968,046)	(33,424,978)
Loss per share – basic and diluted	(0.12)	(0.63)
Weighted average number of common shares outstanding - basic and diluted	57,385,419	52,836,481

See accompanying notes

Titan Uranium Inc.
(a development stage company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended August 31

	2009 \$	2008 \$
SHARE CAPITAL [NOTE 9]		
Balance, beginning of year	57,681,550	60,094,163
Shares issued on exercise of options	99,641	—
Shares issued on exercise of warrants	—	17,387
Renunciation of flow-through expenditures	—	(2,430,000)
Issued on acquisition of Uranium Power Corp. (UPC)	18,543,293	—
Balance, end of year	76,324,484	57,681,550
WARRANTS [NOTE 10]		
Balance, beginning of year	6,612,659	7,490,167
Exercise of warrants	—	(6,828)
Expiry of warrants	(6,612,659)	(870,680)
Balance, end of year	—	6,612,659
CONTRIBUTED SURPLUS		
Balance, beginning of year	7,887,481	6,245,981
Stock based compensation	22,379	770,820
Exercise of options	(36,574)	—
Expiry of warrants	6,612,659	870,680
Balance, end of year	14,485,945	7,887,481
DEFICIT		
Balance, beginning of year	(45,003,116)	(11,578,138)
Net loss	(6,968,046)	(33,424,978)
Balance, end of year	(51,971,162)	(45,003,116)

Titan Uranium Inc.
(a development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended August 31

	2009 \$	2008 \$
OPERATING ACTIVITIES		
Loss for the year	(6,968,046)	(33,424,978)
Adjustment for item not involving cash:		
Unrealized foreign exchange gain	(22,577)	—
Accretion of asset retirement obligation	4,198	—
Accrued interest on note receivable and deposit	(7,221)	—
Stock based compensation	22,379	770,820
Amortization	83,147	81,846
Write-down of resource properties	6,491,706	44,700,021
Future income tax recovery	(1,752,000)	(13,852,000)
	(2,148,414)	(1,724,291)
Change in non-cash working capital items:		
Accounts receivable	1,464,359	2,107,258
Prepaid expenses	155,470	(339,832)
Accounts payable and accrued liabilities	(1,172,209)	1,179,679
Cash provided by (used in) operating activities	(1,700,794)	1,222,814
FINANCING ACTIVITIES		
Proceeds from issuance of common shares, net of issuance costs	63,067	10,560
Cash provided by financing activities	63,067	10,560
INVESTING ACTIVITIES		
Cash acquired on acquisition of Uranium Power Corp., less transaction costs	6,277,775	—
Investment in resource properties	(1,516,338)	(7,265,955)
Purchase of property and equipment	(40,755)	(92,310)
Cash provided by (used) in investing activities	4,720,682	(7,358,265)
Increase (decrease) in cash and cash equivalents	3,082,955	(6,124,891)
Cash and cash equivalents, beginning of year	6,621,833	12,746,724
Cash and cash equivalents, end of year	9,704,788	6,621,833

See accompanying notes

Titan Uranium Inc.
(a development stage company)

Notes to the Consolidated Financial Statements (years ended August 31, 2009 and 2008)

1. NATURE OF BUSINESS

Titan Uranium Inc. (“the Company”) is engaged in the exploration for and development of uranium properties in Canada and the United States. 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 existence 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.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Uranium Power Corp. and Titan Uranium USA Inc. Inter-company accounts and transactions have been eliminated on consolidation.

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. 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 include the determination of stock based compensation, asset retirement obligations and 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 10.

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 is 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 it has become impaired. If impairment is deemed to exist, the resource property is 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. Asset retirement obligations are recorded as liabilities with a corresponding increase to the carrying amount of the related long-lived assets. Subsequently, the asset retirement costs are allocated to expenses using a systematic and rational method and are also adjusted to reflect period-to-period changes in the liabilities resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flows.

The Company estimates its asset retirement obligations based on its understanding of current environmental regulations and related laws in the jurisdictions where it operates. Regulations and laws are continually changing and are generally expected to become more restrictive. New regulations or interpretations of the law could materially change the Company's 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, 2009 and 2008, the stock options and share purchase warrants, as disclosed in note 10, 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. 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 substantively 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. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not to occur.

Foreign currency translation

The functional currency of the Company and of each of its subsidiaries is the Canadian dollar. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year-end. Non-monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at historical rates. All revenue and expenses denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the transaction date. Gains or losses resulting from translation are included in the consolidated statement of operations.

Reclamation deposits

Deposits are cash and cash equivalents on deposit at financial institutions as security for letters of credit issued in favor of various regulatory agencies to support future reclamation obligations on resource properties in Canada and the United States. The deposits will be released to the Company when the reclamation obligations are satisfied.

New accounting pronouncements

Financial instruments presentation and disclosure

On September 1, 2008, the Company adopted Canadian Institute of Chartered Accountants (CICA) handbook sections 3862 and 3863 relating to financial instruments presentation and disclosure. These sections are intended to enhance the user's ability to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

On September 1, 2008 the Company adopted CICA handbook section 1535 relating to Capital Disclosures. This section requires the Company to disclose its objectives, policies and processes for managing capital and whether the Company has complied with externally imposed capital requirements.

On September 1, 2008, the Company adopted CICA handbook section 1400 which requires management to assess and disclose an entity's ability to continue as a going concern. The Company does not generate significant revenue, and continues to incur operating losses, however management believes that the Company has sufficient resources to continue operations for the upcoming year, but expects that more capital resources will be needed to completely exploration and development its resource properties.

Future accounting pronouncements

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 does not expect the adoption of these changes to have a material impact on its consolidated financial statements.

Canada's Accounting Standards Board (AcSB) has ratified a strategic plan calling for the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS), by publically accountable enterprises in Canada. The AcSB has confirmed that IFRS will replace current Canadian GAAP standards for fiscal years starting on or after January 1, 2011. As a result, the Company will be required to prepare its consolidated financial statements in accordance with IFRS for interim and annual periods beginning September 1, 2011. The Company's financial statements for interim and annual periods ended August 31, 2011 will require restatement.

Although IFRS uses a conceptual framework similar to Canadian GAAP, there are some significant differences on recognition, measurement and disclosure requirements. The Company is developing a plan to convert its financial statements to IFRS. Management has not yet quantified the effects of adopting IFRS. The consolidated financial performance and financial position as presented in the Company's Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.

In January 2009, the CICA issued handbook sections 1582, 1601 and 1602 relating to Business Combinations and section 1600 relating to Consolidated Financial Statements. These sections apply prospectively to business combinations with an acquisition date that is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

3. ACQUISITION

On July 31, 2009, the Company acquired all of the issued and outstanding shares of Uranium Power Corp. (UPC), by way of a plan of arrangement. 52,980,838 common shares, valued at \$18,543,293, were issued to the former shareholders of UPC. The acquisition was accounted for as a purchase of assets.

The purchase price was allocated to the assets acquired and liabilities assumed as follows:

Purchase price	At July 31, 2009
Issuance of 52,980,838 Titan shares	\$18,543,293
Transaction costs	786,173
	<hr/> \$19,329,466
Allocation to net assets acquired:	
Working capital	7,073,897
Notes receivable	284,263
Property, plant and equipment	28,143
Reclamation deposits	1,261,485
Asset retirement obligation	(579,885)
Resource properties	11,261,563
Fair value of net assets	<hr/> 19,329,466

The shares issued were valued at market price on the date of closing at \$0.35 per share.

4. NOTE RECEIVABLE

As part of the UPC acquisition [Note 3], the Company acquired a note receivable issued by UPC on December 9, 2008. The note, with an initial principal of USD \$250,000 bears interest at the prime rate of a Canadian Schedule I bank plus 6%. As at August 31, 2009, the note had not been repaid and a balance of USD \$265,568 (CDN \$290,797) remained outstanding.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
2009			
Computer equipment	104,734	51,736	52,998
Exploration equipment	215,037	170,669	44,368
Leasehold improvements	2,538	520	2,018
Office furniture	53,299	20,043	33,256
	<hr/> 375,608	242,968	132,640
2008			
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
	<hr/> 306,711	160,067	146,644

6. RESOURCE PROPERTIES

	Acquisition Costs \$	Deferred Exploration \$	Write-down of resource properties \$	Total \$
2009				
Nunavut [a]	103,452	2,917,405	—	3,020,857
Saskatchewan [b]	11,412,408	11,188,841	(6,491,706)	16,109,543
United States [c]	11,444,197	20,037	—	11,464,234
	22,960,057	14,126,283	(6,491,706)	30,594,634
2008				
Nunavut [a]	86,059	2,756,101	—	2,842,160
Saskatchewan [b]	52,104,845	14,061,455	(44,700,021)	21,466,279
	52,190,904	16,817,556	(44,700,021)	24,308,439

[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) for Mega to 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 had 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 was to be operated by Titan, and any work programs in 2008 was to 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. During the year ended August 31, 2009, the Company completed this funding commitment.

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 is being 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 its interest into an additional 1% Net Smelter Return.

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 and Knight properties in the Athabasca basin upon the full spending of \$9,000,000 on exploration prior to March 31, 2011.

As at August 31, 2009, JOGMEC had funded \$3,195,344 (2008 - \$1,303,718), 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 and Rook II properties in the Athabasca basin upon the full spending of \$12,000,000 on exploration prior to April 11, 2013.

As at August 31, 2009, Vale had funded \$2,777,409 (2008 - \$1,621,308), 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.

On November 12, 2008 the Company signed an agreement with JOGMEC whereby JOGMEC can earn an undivided 50% working interest in the Company's Border Block project which consists of the Maybelle, Gartner and King properties. JOGMEC can earn a 50% working interest upon the full spending of \$6,000,000 prior to March 31, 2012.

As at August 31, 2009, JOGMEC had funded \$2,237,774, pursuant to the agreement.

During 2009, the Company abandoned certain claims in Saskatchewan and wrote-down \$6,491,706 of capitalized costs relating to the abandoned claims.

[c] United States properties

The Company acquired the United States properties as part of the UPC acquisition [Note 3].

The United States properties are comprised of the following projects and ownership interests:

Utah – Green River North, 50% interest [i]

Utah – Green River South, option to earn an 85% interest [ii]

Arizona - Breccia Pipes, 50% interest [i]

Colorado – Burro Canyon, 50% interest [i]

Wyoming – East Shirley, 100% interest

Wyoming - Sheep Mountain, 50 % interest, subject to royalties ranging from 1% - 10% on the gross proceeds from the sale of mineral ore produced. [i]

[i] Subsequent to August 31, 2009, the Company acquired the remaining 50% interest in the Sheep Mountain and Green River North properties, and disposed of the Breccia Pipes and Burrow Canyon projects [Note 16].

[ii] The Company acquired the Green River South property in Utah from UPC. The Company has an option to earn up to a 70% working interest in the property by completing the following:

Cash payments of:

- USD\$146,250 by December 31, 2009;
 - USD\$146,250 by December 31, 2010;
- Cumulative exploration spending of:
- USD\$1,023,750 by December 31, 2009;
 - USD\$1,365,000 by December 31, 2010;

Issuing common shares of the Company in the amount of:

- 25,000 shares by December 31, 2009;
- 25,000 shares by December 31, 2010.

Subsequent to completing the terms necessary to earn a 70% working interest, the Company has an option to earn an additional 15% working interest for a total working interest of 85% by making an additional USD\$300,000 cash payment and completing additional work on the property totaling USD\$700,000.

7. ASSET RETIREMENT OBLIGATION

As part of the UPC acquisition [Note 3], the Company acquired a liability for an asset retirement obligation related to the Company's 50% interest in the Sheep Mountain property.

At August 31, 2009, the Company estimated the total undiscounted asset retirement obligation to be \$1,127,698 (USD\$1,029,861) (2008 – Nil). Future cash flows required to satisfy the obligation are estimated to occur between 2010 and 2019. An estimated inflation rate of 3.5% and an estimated cost of capital of 15% were applied to the future cash flow estimates.

	Amount \$
Balance, August 31, 2008	—
Liability recognized on acquisition of UPC	579,885
Accretion	4,198
Effect of change in exchange rate	9,444
Balance, August 31, 2009	593,527
Less: current portion	(87,000)
	<u>506,527</u>

Subsequent to year end, the Company's interest in the Sheep Mountain property and the related asset retirement obligation increased from 50% to 100% [Note 16].

The Company estimates its asset retirement obligations based on its understanding of current environmental regulations and related laws in the jurisdictions where it operates. Regulations and laws are continually changing and are generally expected to become more restrictive. New regulations or interpretations of the law could materially change the Company's asset retirement obligations.

8. 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 \$248,845 [2008 - \$250,414] to directors and officers of the Company or companies controlled by directors and officers of the Company for the period ended August 31, 2009.

A note receivable with a balance of \$290,797 is receivable from a company with two directors that are a director and an officer of the Company. [note 4]

Accounts receivable with a balance of \$224,726 is receivable from a joint venture partner with two directors in common.

9. SHARE CAPITAL

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

[b] Issued and fully paid – common shares:

	Shares #	Amount \$
Balance, August 31, 2007	52,828,249	60,094,163
Exercise of options	1	—
Exercise of warrants	9,600	10,559
Contributed surplus transfer on exercise of warrants	—	6,828
Renunciation of flow-through expenditures	—	(2,430,000)
Balance, August 31, 2008	<u>52,837,850</u>	<u>57,681,550</u>
Exercise of options	143,333	63,067
Contributed surplus transfer on exercise of options		36,574
Uranium Power Corp. asset purchase [note 3]	52,980,838	18,543,293
Balance, August 31, 2009	<u>105,962,021</u>	<u>76,324,484</u>

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.

10. 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 2009, the Company granted Nil (2008 – 2,635,833) options to directors, consultants, officers and employees as follows:

	2009	2008
Directors	—	966,666
Consultants	—	516,667
Officers and employees	—	1,152,500
	—	2,635,833

The company has an agreement with an executive whereby a bonus in two tranches of \$250,000 and \$250,000 each 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, 2009. 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, 2009 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2009	2008
Risk-free interest rate	—	3.05%
Expected life of options	—	2.41 yrs
Annualized volatility	—	95.24%
Dividend rate	—	Nil
Forfeiture	—	12%
Fair value	—	\$0.25

The fair value of options expensed from options granted was \$22,379 (2008 – \$770,820).

Stock option transactions and the number of stock options outstanding are summarized as follows for the years ended August 31, 2009 and 2008.

	Number of Options	Weighted Average Price
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	3,898,924	0.77
Exercised	(143,333)	0.44
Cancelled	(500,000)	0.31
Expired	(1,201,591)	1.14
Balance – August 31, 2009	2,054,000	0.69

Options outstanding and exercisable at August 31, 2009 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
375,000	375,000	\$0.50		May 31/10	0.8
581,500	581,500	1.00		Nov 15/10	1.2
102,500	102,500	2.02		Feb 03/11	1.4
70,000	70,000	0.44		Jul 16/10	0.9
925,000	925,000	0.44		Jul 16/11	1.9
2,054,000	2,054,000	\$0.69	\$0.69		1.4

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, 2007	6,127,930	2.43
Exercised	(9,600)	1.10
Expired	(1,469,955)	2.39
Balance – August 31, 2008	4,648,375	2.44
Expired	(4,648,375)	2.44
Balance – August 31, 2009	—	—

11. INCOME TAX

The significant components of future income tax assets and liability are as follows:

	2009	2008
	\$	\$
Assets		
Loss carry forwards	3,335,000	1,807,000
Resource properties	2,934,000	—
Share issue costs	267,000	287,000
Asset retirement obligation	214,000	—
Property and equipment	97,000	52,000
Future income tax assets before valuation allowance	6,847,000	2,146,000
Valuation allowance	(6,847,000)	(2,146,000)
Future income tax assets, net of valuation allowance	—	—
Liabilities		
Resource properties	2,360,000	4,112,000
Net future income tax liabilities	2,360,000	4,112,000

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:

	2009	2008
	\$	\$
Loss before income taxes	8,720,046	47,276,978
Income tax rate	31.21%	33.21%
Expected tax recovery	2,722,000	15,701,000
Non-deductible items including stock-based compensation	(11,000)	(262,000)
Tax benefits not recognized	(684,000)	(594,000)
Effect of rate change	(275,000)	(993,000)
Future income tax recovery	1,752,000	13,852,000

At August 31, 2009, the Company had operating losses for income tax purposes of approximately \$12,263,000 which can be carried forward to reduce taxes in future years. These losses expire between August 31, 2010 and August 31, 2029. The Company also has \$778,000 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, 2029.

12. SEGMENTED INFORMATION

The Company operates one reportable segment, being the exploration and development of uranium resource properties. The Company operates in two geographic segments; Canada and the United States. Assets segmented by geographic area are as follows:

August 31, 2009	Canada \$	United States \$	Total \$
Cash	9,695,370	9,418	9,704,788
Accounts receivable	509,060	—	509,060
Note receivable	290,797	—	290,797
Prepaid expenses	250,495	—	250,495
Property and equipment	129,789	2,851	132,640
Resource properties	19,130,400	11,464,234	30,594,634
Reclamation deposits	35,686	1,292,664	1,328,350
Total assets	30,040,664	12,770,100	42,810,764

During the year ended August 31, 2009, \$202,671 was spent in the United States on additions to resource properties after the UPC acquisition. \$1,313,667 was spent in Canada on additions to resource properties during the year ended August 31, 2009.

August 31, 2008	Canada \$	United States \$	Total \$
Cash	6,621,833	—	6,621,833
Accounts receivable	1,928,013	—	1,928,013
Prepaid expenses	404,489	—	404,489
Property and equipment	146,644	—	146,644
Resource properties	24,308,439	—	24,308,439
Reclamation deposits	35,000	—	35,000
Total assets	33,444,418	—	33,444,418

13. COMMITMENTS

[a] Commitments under resource properties are outlined in note 6.

[b] As of August 31, 2009, the Company is committed to operating leases for office space, a photocopier and a vehicle as follows:

Year	\$
2010	71,073
2011	56,250
2012	32,813
	160,136

[c] The Company has deposits totaling \$1,328,350 at financial institutions that serve as collateral for letters of credit that have been pledged in favour of certain regulatory authorities. The deposits bear interest at market rates. The deposits will be returned to the Company when legal obligations with respect to site reclamation at the Company's mineral properties have been completed [see notes 6 and 7].

14. FINANCIAL INSTRUMENTS

i) Financial assets - The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and notes 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 with major financial institutions.

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.

A significant portion of the Company's receivables relate to amounts receivable from participants of the Company's exploration option agreements. Management mitigates the credit risk associated with this concentration of receivables by ensuring that amounts receivable are current and by involving partners in the budgeting process.

The carrying amount of the Company's accounts receivable, \$509,060 and notes receivable, \$290,797 represent the Company's maximum credit risk exposure.

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. As at August 31, 2009, the Company had working capital of \$9,650,170. The Company expects that its current capital resources will be sufficient to carry out its exploration plans for the year ending August 31, 2010. The Company does not currently operate any producing properties and as such, is dependent upon issuance of new equity to advance its exploration properties. If equity financing is required, failure to obtain financing on a timely basis may cause the Company to postpone exploration plans, reduce or terminate its operations.

- v) Foreign currency risk – The Company's financial instruments are exposed to currency risk as it presently holds assets and liabilities denominated in both Canadian and US currency. The Company does not use derivative instruments to hedge this exposure. Cash flow forecasts are used to estimate the amount of Canadian and US currency that will be needed so that adequate currency is on hand as liabilities become due .

A +/- 1% change in the Canadian dollar versus the U.S. dollar at August 31, 2009 would have an approximate +/- \$7,080 impact on the loss for the year ended August 31, 2009.

15. CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that shareholders may benefit from its operations.

The Company manages its capital structure, which consists of the shareholders' equity section of the balance sheet, by changing shareholders' equity in response to exploration results and economic conditions. In order to adjust the capital structure, new shares may be issued, assets may be acquired or disposed of, and capital spending may be adjusted.

In order to maximize the Company's exploration activities, the Company does not pay dividends. The Company invests its cash in highly liquid short-term interest-bearing investments, with a high credit rating.

The Company is not subject to any externally imposed capital requirements.

16. SUBSEQUENT EVENTS

- [a] On September 8, 2009, the Company granted stock options to directors, officers, employees and consultants to purchase up to an aggregate of 3,552,500 common shares in the capital stock of the Company, exercisable for a period of three years, at a price of \$0.265 per share.
- [b] On October 1, 2009, the Company acquired the 50% interest not already owned in the Sheep Mountain property and the Green River North property in Utah. The transaction was completed with the Company's Joint Venture partner Uranium One. As a result of the transaction, the Company owns 100% of the Sheep Mountain and Green River North properties. In exchange for the Sheep Mountain and Green River North properties, the Company paid USD \$350,000 to Uranium One and transferred to Uranium One its 50% interest in the Breccia Pipe property and the Burro Canyon property. The Company must also pay to Uranium One an additional USD \$2,000,000 if the month-end spot uranium price reported by Ux Consulting Company exceeds USD \$65 per pound within three years of the closing. The Company must also pay to Uranium One an additional USD \$4,000,000 if the month-end spot uranium price reported by Ux Consulting Company exceeds USD \$85 per pound within three years of the closing date. The Company also assumed 50% of the asset retirement obligation related to Sheep Mountain that was not recognized at August 31, 2009 and provided an additional USD \$1,100,000 deposit as security for future reclamation obligations.
- [c] On October 15, 2009, the Company announced the start of a prefeasibility study on the Sheep Mountain property. The study is expected to take approximately six months to complete and will include:
- Completion of a uranium resource evaluation and modeling of the potential open pit and underground mining areas;
 - Development of a preliminary underground mine and reclamation plan;
 - Development of an open pit mine and reclamation plan;
 - Development of a conceptual plan for heap leach extraction; and
 - Completion of a NI 43-101 compliant resource report