



**Purepoint Uranium Group Inc.**  
(A Development Stage Company)

**Consolidated Financial Statements**

**December 31, 2007 and 2006**

Purepoint Uranium Group Inc.  
(A Development Stage Company)

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**Table of Contents**  
*December 31, 2007 and 2006*

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	<b>Page</b>
<b>Auditors' Report</b>	1
<b>Consolidated Financial Statements</b>	
Balance Sheets	2
Statements of Operations, Comprehensive Loss and Deficit	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 20

## **Auditors' Report**

To the Shareholders of  
Purepoint Uranium Group Inc.

We have audited the consolidated balance sheets of Purepoint Uranium Group Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

*Signed: "MSCM LLP"*

**Chartered Accountants  
Licensed Public Accountants**

Toronto, Ontario  
March 26, 2008

Purepoint Uranium Group Inc.  
(A Development Stage Company)

**Consolidated Balance Sheets**  
*December 31, 2007 and 2006*

	2007	2006
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 86,839	\$ -
Short-term investments	8,847,135	5,262,139
Accounts receivable	325,109	161,588
Prepaid expenses	36,159	25,877
Deposits (note 3)	218,096	252,568
	<b>9,513,338</b>	5,702,172
Long-term deposits (note 3)	820,640	-
Property and equipment (note 4)	887,140	2,264
Mining properties and deferred exploration expenditures (note 5)	16,943,312	7,484,197
	<b>\$ 28,164,430</b>	<b>\$ 13,188,633</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank overdraft	\$ -	\$ 14,580
Accounts payable and accrued liabilities	444,355	578,055
	<b>444,355</b>	592,635
Future income tax liability (note 8)	1,865,150	2,799,938
	<b>2,309,505</b>	3,392,573
<b>Shareholders' equity</b>		
Share capital (note 6(b))	23,874,302	8,911,564
Contributed surplus (note 6(c))	2,839,341	1,258,504
Deficit	(858,718)	(374,008)
	<b>25,854,925</b>	9,796,060
	<b>\$ 28,164,430</b>	<b>\$ 13,188,633</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

Approved by the Board

Signed: "**James Doak**"

James Doak

Signed: "**Allan Beach**"

Allan Beach

Purepoint Uranium Group Inc.  
(A Development Stage Company)

**Consolidated Statements of Operations, Comprehensive Loss and Deficit**  
*for the years ended December 31, 2007 and 2006*

	<u>Years ended December 31,</u>		Cumulative period
	<b>2007</b>	2006	from Inception to December 31, 2007 (Note 2)
<b>Revenue</b>			
Interest	\$ 527,097	\$ 89,401	\$ 654,849
<b>Expenses</b>			
Stock-based compensation (note 7)	821,822	153,704	1,073,791
Professional fees	273,290	122,091	459,668
Salaries and benefits	228,893	181,095	516,329
General and administration	172,619	45,634	272,222
Investor relations	140,790	123,036	341,526
Other taxes (note 13)	128,623	-	128,623
Transfer agent and filing fees	37,867	45,522	91,630
Travel	13,907	17,412	46,795
Amortization	8,866	1,508	11,128
	<b>1,826,677</b>	690,002	2,941,712
<b>Loss from operations</b>	<b>(1,299,580)</b>	(600,601)	(2,286,863)
Mining properties and exploration expenditures written off (note 5)	119,917	-	119,917
Reverse takeover costs	-	-	83,803
<b>Loss before recovery of future income taxes</b>	<b>(1,419,497)</b>	(600,601)	(2,490,583)
Recovery of future income taxes (note 8)	(934,787)	(323,999)	(1,631,865)
<b>Net loss and comprehensive loss</b>			
<b>for the year</b>	<b>(484,710)</b>	(276,602)	(858,718)
<b>Deficit, beginning of year</b>	<b>(374,008)</b>	(97,406)	-
<b>Deficit, end of year</b>	<b>\$ (858,718)</b>	\$ (374,008)	<b>\$ (858,718)</b>
<b>Basic and diluted loss per</b>			
<b>common share (note 9)</b>	<b>\$ (0.01)</b>	\$ (0.01)	

*The accompanying notes are an integral part of these consolidated financial statements.*

Purepoint Uranium Group Inc.  
(A Development Stage Company)

**Consolidated Statements of Cash Flows**  
*for the years ended December 31, 2007 and 2006*

	<u>Years ended December 31,</u>		Cumulative period
	<b>2007</b>	2006	from Inception to December 31, 2007 (Note 2)
<b>Cash flow from operating activities</b>			
Net loss for the year	\$ (484,710)	\$ (276,602)	\$ (858,718)
Items not affecting cash			
Amortization	8,866	1,508	11,128
Stock-based compensation	821,822	153,704	1,073,791
Mining properties and exploration expenditures written off	119,917	-	119,917
Reverse take over costs	-	-	8,803
Shares issued for reverse takeover costs	-	-	75,000
Recovery of future income taxes	(934,787)	(323,999)	(1,631,865)
	<b>(468,892)</b>	<b>(445,389)</b>	<b>(1,201,944)</b>
Changes in non-cash items relating to operating activities:			
Accounts receivable	(163,521)	(34,928)	(325,109)
Prepays	(10,282)	(4,699)	(36,159)
Deposits	(165,528)	170,997	(418,096)
Accounts payable and accrued liabilities	114,300	(44,375)	249,353
	<b>(693,923)</b>	<b>(358,394)</b>	<b>(1,731,955)</b>
<b>Cash flow from investing activities</b>			
Mining properties and deferred exploration expenditures	(10,447,672)	(5,685,798)	(17,488,869)
Property and equipment	(893,742)	-	(898,268)
Short-term investments	(3,584,996)	(337,469)	(8,847,136)
	<b>(14,926,410)</b>	<b>(6,023,267)</b>	<b>(27,234,273)</b>
<b>Cash flow from financing activities</b>			
Proceeds from issuances of shares, net of costs	14,189,848	5,601,538	25,891,236
Issuance of warrants	1,531,904	589,099	3,170,634
Reverse take over costs	-	-	(8,803)
	<b>15,721,752</b>	<b>6,190,637</b>	<b>29,053,067</b>
<b>Increase (decrease) in cash</b>	<b>101,419</b>	<b>(191,024)</b>	<b>86,839</b>
<b>(Bank overdraft) cash, beginning of year</b>	<b>(14,580)</b>	<b>176,444</b>	<b>-</b>
<b>Cash (bank overdraft), end of year</b>	<b>\$ 86,839</b>	<b>\$ (14,580)</b>	<b>\$ 86,839</b>
<b>Non-cash financing activities:</b>			
Fair value of broker warrants issued under private placement	\$ 460,815	\$ 400,049	
<b>Supplemental cash flow information:</b>			
Interest received	\$ 337,162	\$ 103,046	

*The accompanying notes are an integral part of these consolidated financial statements.*

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

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## **1. Business of the Company**

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Purepoint Uranium Group Inc. ("the Company") is a Canadian resource company. The Company's principal assets are mineral properties located in Saskatchewan. The Company is engaged in the acquisition, exploration and development of properties for the purpose of producing uranium. The Company has not earned any revenue to date from its operations and is therefore considered to be in the development stage. The ability of the Company to realize the costs it has incurred to date on these and other properties is dependent upon the discovery of economically recoverable reserves, the preservation of the Company's interest in the underlying mining claims, the ability to obtain necessary financing and attain profitable operations, or alternatively, upon the disposal of properties, or the Company's interests therein, on an advantageous basis.

## **2. Significant Accounting Policies**

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### **Basis of presentation**

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

### **Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, William River Exploration Corp.

### **Short-term investments**

Short-term investments consists of guaranteed investment certificates with original maturities of greater than 90 days but not more than one year and are carried at fair value.

### **Property and equipment**

Property and equipment are recorded at cost. Amortization is provided over the expected useful lives of the property and equipment using the following method and annual rates:

Exploration field property and equipment	declining balance	20 %
Exploration drill equipment	unit-of-production over 5,000 utilization days; salvage value 20 %	
Exploration drill accessories	declining balance	25 %
Exploration furniture and equipment	declining balance	25 %
Office computer equipment	straight line over 3 years	
Office furniture and fixtures	straight line over 5 years	
Leasehold improvements	straight line over the term of the lease (up to 6 years)	

## **2. Significant Accounting Policies - continued**

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### **Mining properties and deferred exploration expenditures**

Mining property acquisition costs and related direct exploration and development expenditures, net of recoveries, are deferred until the properties are placed into production. These net costs will be amortized against income using the unit-of-production method based on estimated recoverable reserves if the properties are brought into commercial production, or written off if the properties are abandoned, or sold, or the carrying value is determined to be in excess of possible recoverable amounts.

The recoverability of amounts shown for mining properties and deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying claims, the ability of the Company to obtain financing to complete development of the properties, and on profitability of future production or proceeds from the disposition of the properties.

Recoverable value is estimated based upon current exploration results and upon management's assessment of the future probability of positive cash flows from the property or from the sale of the property.

On an annual basis, the Company reviews the carrying values of mining properties acquisition costs and deferred exploration expenditures to assess whether there has been an impairment in value. The Company recognizes write-downs for impairment where the carrying value of a mining property exceeds its estimated long-term net recoverable value.

Recoverable value is estimated based upon current exploration results and upon management's assessment of the future probability of positive cash flows from the property or from the sale of the property.

### **Joint ventures**

A portion of the Company's exploration activities is conducted jointly with others whereby the Company enters into agreements that provide for specified percentage interest in mining properties. Joint venture accounting, which reflects the Company's proportionate interest in mining properties is applied by the Company only when commercial feasibility is established and the parties enter into formal agreements for ownership and mining participation terms.

### **Stock-based compensation plan**

The Company has in effect a Stock Option Plan ("the Plan"), which is described in *Note 7*. Stock options awarded are accounted for using the fair value-based method. Fair value is calculated using the Black-Scholes model with the assumptions described in *Note 7*. Consideration paid on the exercise of stock options is credited to share capital.

### **Basic and diluted loss per share**

The basic loss per share has been calculated based upon the weighted average number of common shares outstanding during the year. Diluted loss per share considers the potential exercise of outstanding options, warrants and other convertible instruments. The treasury stock method is used to calculate diluted loss per share and assumes any option proceeds would be used to purchase common shares at the average market price during the year.

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

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## **2. Significant Accounting Policies - continued**

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### **Development stage company**

The Company has disclosed additional comparative information in conformity with CICA Handbook AcG-11 - Enterprises in the Development Stage. Accordingly, the consolidated statements of operations, comprehensive loss and deficit and cash flows disclose cumulative balances from the inception of the development stage being March 24, 2004. The notes to the consolidated financial statements disclose details of issuance of shares from the date of inception of the Company.

### **Asset retirement obligations**

The Company accounts for obligations associated with the retirement of tangible long-lived assets by recording them as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. These obligations are capitalized in the accounts of the related long-lived assets and are amortized over the useful lives of the related assets. It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required and the means of reclamation or costs estimates. Changes in estimates are accounted for prospectively from the period these estimates are revised.

### **Environmental expenditures**

The operations of the Company are subject to regulations governing the environment, including future site removal and reclamation costs for mining properties. The Company's policy is to meet standards set by those regulations and incur expenditures to comply with them.

### **Income taxes**

The Company accounts for income taxes using the asset and liability method of accounting. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of income tax assets, including unused tax losses, are recognized subject to a valuation allowance, to the extent that it is more likely than not that such losses will be ultimately utilized. These future income tax assets and liabilities are measured using substantively enacted tax rates and laws that are expected to apply when the tax assets or liabilities are to be settled or realized.

### **Measurement uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management judgment include assessing the recoverability of mining properties and deferred exploration expenditures, stock-based compensation and future income tax assets. The reported amounts and note disclosures are determined to reflect the most probable set of economic conditions and planned course of action. Actual results could differ from these estimates.

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

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## **2. Significant Accounting Policies - continued**

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### **Measurement uncertainty - continued**

The Black-Scholes option valuation model used by the Company to determine fair value of options and warrants was developed for use in estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants granted during the year.

### **Flow-through shares**

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers.

To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers.

The Company recognizes the foregone tax benefit at the time of the renouncement, provided there is reasonable assurance that the expenditures will be incurred.

### **Adoption of new accounting policies**

#### *Financial Instruments*

Effective January 1, 2007, the Company adopted CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, and Handbook Section 3861, Financial Instruments - Disclosure and Presentation. Handbook Section 3855 prescribes criteria for the classification of financial assets and liabilities and treatment of derivatives. Section 3861 establishes standards for disclosure and presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative financial statements are not restated.

The Company reviewed significant contracts and determined that there are no significant embedded derivatives that require separate fair value recognition in the consolidated financial statements.

The Company's financial instruments consist of cash, short-term investments (comprised entirely of GIC's with short-term maturities), accounts receivable, deposits and accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. The new standards had no impact on the Company as the carrying values of all financial assets and liabilities at January 1, 2007 approximated their fair values.

The Company has classified its financial instruments as follows:

Cash	Held-for-trading
Short-term investments	Held-for-trading
Accounts receivable and deposits	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

**2. Significant Accounting Policies - continued**

*Comprehensive Income and Equity*

Effective January 1, 2007, the Company adopted Handbook Section 1530, Comprehensive Income, and Section 3251, Equity. Section 1530 establishes standards for reporting comprehensive income. The section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530. The Company has determined that it has no "other comprehensive income or loss" transactions during the period and no opening or closing balances in "accumulated other comprehensive income or loss".

**Recent Canadian accounting pronouncements**

In December 2006, Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1535, Capital Disclosures were issued. All three Sections will be applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Section 3862 on financial instrument disclosures, places an increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed and is consistent with Section 3861. The new Section removes duplicative disclosures and simplifies the disclosures relating to concentration of risk, credit risk, liquidity risk and price risk currently found in Section 3861. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital.

The Company has not yet determined the impact of adopting the above accounting standards on the presentation of its consolidated financial statements.

**Reclassifications**

Certain amounts from prior years have been reclassified to conform to the current year's presentation.

**3. Deposits**

	<u>2007</u>	<u>2006</u>
Deposit on drilling	\$ 820,640	\$ 200,000
Other	<u>218,096</u>	<u>52,568</u>
	<b>1,038,736</b>	252,568
Less: current portion	<u>218,096</u>	<u>252,568</u>
Long-term deposits	<u>\$ 820,640</u>	<u>\$ -</u>

The drilling deposit bears interest at a rate of 6 per cent per annum, has a maturity commensurate with the related drilling services (which are expected to be approximately 2 years) and is secured by the drilling equipment.

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

**4. Property and Equipment**

	<b>2007</b>			2006
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	Net Book Value
Exploration property and equipment				
Field property and equipment	\$ 138,846	\$ 13,885	\$ 124,961	\$ -
Drill equipment	600,343	5,003	595,340	-
Drill accessories	109,228	-	109,228	-
Furniture and equipment	20,748	1,037	19,711	-
Office property and equipment				
Computer equipment	13,369	6,281	7,088	2,264
Furniture and fixtures	21,518	3,099	18,419	-
Leasehold improvements	14,141	1,748	12,393	-
	<b>\$ 918,193</b>	<b>\$ 31,053</b>	<b>\$ 887,140</b>	<b>\$ 2,264</b>

**5. Mining Properties and Deferred Exploration Expenditures**

	December 31, 2006	Expenditures during the year	Write-offs	December 31, 2007
McEwen Lake Property	\$ 118,951	\$ 966	\$ (119,917)	\$ -
Red Willow Property	1,333,187	3,871,820	-	5,205,007
Hook Lake Property	-	2,069,351	-	2,069,351
Smart Lake Property	-	1,064,437	-	1,064,437
S. Newnham Lake Property	72,438	25,738	-	98,176
Turnor Lake Property	2,998,406	1,755,215	-	4,753,621
Umfreville Lake Property	1,032,737	466,909	-	1,499,646
William River Property	1,383,662	217,677	-	1,601,339
Fire Eye Lake Property	544,816	106,919	-	651,735
	<b>\$ 7,484,197</b>	<b>\$ 9,579,032</b>	<b>\$ (119,917)</b>	<b>\$ 16,943,312</b>

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

**5. Mining Properties and Deferred Exploration Expenditures - continued**

	December 31, 2005	Expenditures during the year	December 31, 2006
McEwen Lake Property	\$ 92,952	\$ 25,999	\$ 118,951
Red Willow Property	184,045	1,149,142	1,333,187
S. Newnham Lake Property	56,486	15,952	72,438
Turnor Lake Property	340,476	2,657,930	2,998,406
Umfreville Lake Property	534,716	498,021	1,032,737
William River Property	86,597	1,297,065	1,383,662
Fire Eye Lake Property	60,127	484,689	544,816
	<u>\$ 1,355,399</u>	<u>\$ 6,128,798</u>	<u>\$ 7,484,197</u>

These properties are all located at the Athabasca Basin, Northern Saskatchewan. The Company owns a 100% interest in a total of 57 claims covering 251,558 hectares on properties located on McEwen Lake, Red Willow, S. Newnham Lake, Turnor Lake, Umfreville Lake, William River, and Fire Eye Lake.

During the year, the Company entered into an agreement with UEM Inc. ("UEM"). Under the terms of the agreement, the Company will earn a 20% participating interest in the Hook Lake Property by incurring expenditures on the property of a minimum of \$3.0 million over a consecutive twenty-seven month period commencing on January 1, 2007. Upon the Company earning the 20% interest in the Hook Lake Property, the Company and UEM will become joint venture partners with respect to that property. The Company can elect to increase its interest to 35% by expending an additional \$4.5 million on or prior to March 31, 2013; and to increase its interest to 50% by agreeing to pay 50% of the joint venture costs and expenditures incurred from the time it earned the 35% interest to the time when a positive feasibility study has been completed.

During the year, the Company entered into an agreement with Cameco Corporation ("Cameco"). Under the terms of the agreement, the Company will earn a 20% participating interest in the Smart Lake Property by incurring expenditures on the property of a minimum of \$1.5 million over a consecutive twenty-seven month period commencing on January 1, 2007. Upon the Company earning the 20% interest in the Smart Lake Property, the Company and Cameco will become joint venture partners with respect to that property. The Company can elect to increase its interest to 35% by expending an additional \$2.5 million on or prior to March 31, 2013; and to increase its interest to 50% by agreeing to pay 50% of the joint venture costs and expenditures incurred from the time it earned the 35% interest to the time when a positive feasibility study has been completed.

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

**6. Shareholders' Equity**

**Share Capital**

**(a) Authorized**

Unlimited Common shares

**(b) Issued and outstanding**

	<b>Common Shares</b>	<b>Amount</b>
Issued at inception	543,802	\$ 6
Issued under private placements from inception to December 31, 2004	764,644	320,000
Balance December 31, 2004	1,308,446	320,006
Shares issued in private placement (i)	285,832	1,657,992
Shares issued in RTO (ii)	50,000	75,000
Balance May 30, 2005 (Date of RTO)	1,644,278	2,052,998
Casablanca share exchange (iii)	33,241,278	36,236
Shares issued in private placement (iv)	1,000,000	250,000
Options exercised	120,000	24,000
Shares issued in private placement (v)	13,750,000	3,811,617
Tax benefits renounced on flow-through shares (vi)	-	(2,370,374)
Balance December 31, 2005	49,755,556	3,804,477
Options and warrants exercised	4,260,433	2,677,783
Shares issued in private placement (vii)	7,129,000	3,555,945
Tax benefits renounced on flow-through shares (viii)	-	(1,126,641)
Balance December 31, 2006	61,144,989	8,911,564
Options and warrants exercised	1,931,013	1,656,268
Shares issued in private placement (ix)	10,198,700	13,306,470
Tax benefits renounced on flow-through shares (x)	-	-
Balance December 31, 2007	<u>73,274,702</u>	<u>\$ 23,874,302</u>

- (i) On March 29, 2005, the Company issued 128,832 flow-through shares at a price of \$6.00 per share. On May 30, 2005 the Company issued an additional 100,000 flow-through shares at a price of \$6.00 per share and 57,000 common shares at a price of \$5.00 per share.
- (ii) On May 30, 2005, 50,000 common shares were issued at a price of \$1.50 in consideration for professional fees rendered associated with the RTO.

## 6. Shareholders' Equity - continued

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### (b) Issued and outstanding - continued

- (iii) The Casablanca share exchange includes the issuance of 2,000,000 shares to former shareholders of Casablanca, with the remainder being comprised of a 20-to-1 stock split of common shares outstanding prior to the RTO.
- (iv) On August 11, 2005, the Company issued 1,000,000 common shares at a price of \$0.25 per share.
- (v) On November 7, 2005 the Company completed a private placement of 13,750,000 units for gross proceeds of \$5,500,000. Each unit consists of one common share and one half of one common share purchase warrant at a price of \$0.40 per unit. Each full warrant entitles the holder to purchase one common share of the Company at a price of \$0.50 per share for a period of one year from the closing date. The Company paid a commission of \$510,000 in cash and 1,375,000 in broker warrants exercisable at \$0.40 for twenty-four months, as well as \$128,752 in legal and filing fees on this private placement. The 8,250,000 warrants issued were assigned a fair value, net of the pro-rata issue costs, of \$1,049,631 calculated using the Black-Scholes model. The assumptions used in the model for valuing 6,875,000 warrants were 0% dividend rate, 80% expected volatility, 2.5% risk-free interest rate and expected life of one year. The assumptions used in the model for valuing 1,375,000 broker warrants were 0% dividend rate, 92% expected volatility, 2.5% risk-free interest rate and expected life of two years.
- (vi) In connection with the issuance of flow-through shares under the private placements, the Company renounced a total of \$6,562,496 of qualifying expenditures to the shareholders in 2005 of which \$1,045,000 was spent in 2005 and the balance in 2006. The tax benefit forgone by the Company in 2005 at the current tax rates amounted to \$2,370,374.
- (vii) On November 30, 2006 the Company completed a private placement of 2,542,000 units (at \$0.60 per unit) and 4,587,000 flow-through common shares (at \$0.68 per share) for gross proceeds of \$4,644,360. Each unit consisted of one common share and one half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at a price of \$0.75 per share for a period of eighteen months from the closing date. The Company paid a commission of \$361,549 in cash and 712,900 in broker warrants exercisable at \$0.60 for eighteen months, as well as \$137,767 in legal and miscellaneous fees. The 1,983,900 warrants were assigned a fair value, net of the pro-rata issue costs, of \$589,099 calculated using the Black-Scholes model. The assumptions used in the model for valuing warrants were 0% dividend rate, 80% expected volatility, 3.5% risk-free interest rate and expected life of eighteen months.

## 6. Shareholders' Equity - continued

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### (b) Issued and outstanding - continued

(viii) In connection with the issuance of flow-through shares under the fiscal 2006 private placements referred to above, the Company renounced a total of \$3,119,160 of qualifying expenditures to the shareholders in 2006 of which \$611,301 was spent in 2006 and the balance in 2007. The tax benefit forgone by the Company in 2006 at the current tax rates amounted to \$1,126,641.

(ix) In 2007, the Company completed a private placement of 4,138,000 units and 6,060,700 flow-through common shares for gross proceeds of \$16,000,255, realized in two tranches as follows:

On March 9, 2007, the Company completed a private placement of 3,438,000 units at \$1.45 per unit and 5,260,700 flow-through common shares at \$1.65 per share for gross proceeds of \$13,665,255. Each unit consisted of one common share and one half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at a price of \$2.00 per share for a period of twenty-four months from date of issue. The Company paid a commission of \$819,915 in cash and 608,909 in broker warrants exercisable at \$1.45 for twelve months. The securities issued were restricted from resale before July 10, 2007.

On March 20, 2007, the Company completed a private placement of 700,000 units at \$1.45 per unit and 800,000 flow-through common shares at \$1.65 per share for gross proceeds of \$2,335,000. Each unit consisted of one common share and one half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at a price of \$2.00 per share for a period of twenty-four months from date of issue. The Company paid a commission of \$140,100 in cash and 105,000 in broker warrants exercisable at \$1.45 for twelve months. The securities issued were restricted from resale before July 21, 2007.

Other expenses of private placements amounted to \$201,866.

The 2,782,909 warrants issued during the year were assigned a fair value, net of the pro-rata issue costs, of \$1,531,904 calculated using the Black-Scholes model. The assumptions used in the model for valuing the 2,069,000 unit warrants were 0% dividend rate, 102% expected volatility, 4.5% risk-free interest rate and expected life of two years. The assumptions used in the model for valuing the 713,909 broker warrants were 0% dividend rate, 102% expected volatility, 4.5% risk-free interest rate and expected life of one year.

(x) With respect to the flow-through shares issued during fiscal year 2007 the future income tax liability will be recognized and the share capital reduced, upon filing of the renouncement documents with the tax authorities in fiscal year 2008 to renounce the tax credits associated with the expenditures.

**Notes to Consolidated Financial Statements**  
December 31, 2007 and 2006

**6. Shareholders' Equity - continued**

(c) **Share purchase warrants**

Details of the number of warrants outstanding are as follows:

	2007	2006
Balance, beginning of the year	\$ 2,677,800	\$ 8,250,000
Exercised during the year	(1,277,680)	(4,178,600)
Expired during the year	-	(3,377,500)
Granted during the year (note 6(b)(ix) and (vii))	2,782,909	1,983,900
Balance, end of year	\$ 4,183,029	\$ 2,677,800

**Contributed surplus**

	2007	2006
Balance, beginning of the year	\$ 1,258,504	\$ 1,147,896
Compensation expense relating to stock option awards (note 7(b))	821,822	153,703
Fair value of warrants granted (note 6 (b)(ix) and (vii))	1,531,904	589,099
Fair value of warrants and options exercised	(772,889)	(632,194)
Balance, end of year	\$ 2,839,341	\$ 1,258,504

**7. Stock-Based Compensation**

- (a) The Company has a stock option plan (the "Plan"). Under the Plan, the Company can grant options for up to 10% of the total number of issued and outstanding shares, the exercise price of the options cannot be less than the closing price of the Company's shares on the trading day preceding the date of grant and the maximum term of any option cannot exceed five years. The Company accounts for the options using the fair value based method of accounting.

The following table reflects the continuity of options outstanding:

	Options		Weighted average exercise price	
	2007	2006	2007	2006
Outstanding, beginning of year	1,586,667	2,050,000	\$ 0.31	\$ 0.30
Granted	2,555,000	120,000	0.80	0.40
Exercised	(653,333)	(83,333)	0.32	0.30
Expired and cancelled	(258,334)	(500,000)	0.81	0.30
Outstanding, end of year	3,230,000	1,586,667	\$ 0.66	\$ 0.31

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

**7. Stock-Based Compensation - continued**

(b) The weighted average remaining contractual life and weighted average exercise price of options outstanding and exercisable as at December 31, 2007 are as follows:

Options Outstanding				Options Exercisable		
Range of exercise price	Number outstanding as at December 31, 2007	Weighted average remaining contractual life	Weighted average exercise Price	Number outstanding as at December 31, 2007	Weighted average remaining contractual life	Weighted average exercise price
\$0.30	883,334	2.6 years	\$0.30	600,000	2.6 years	\$0.30
\$0.90	1,666,666	4.0 years	\$0.90	300,000	4.0 years	\$0.90
\$1.00	80,000	4.4 years	\$1.00	34,286	4.4 years	\$1.00
\$0.45	500,000	4.6 years	\$0.45	-	-	-
\$0.54	100,000	4.8 years	\$0.54	33,333	4.8 years	\$0.54
\$0.30 - \$1.00	3,230,000	3.8 years	\$0.66	967,619	3.2 years	\$0.52

On January 11, 2007, the Company granted 1,800,000 employee stock options at an exercise price of \$0.90 with an immediate vesting of 16.66% (300,000 options), 66.67% (1,200,000 options) vesting 50% on the first and second anniversaries respectively, and remainder of 16.67% (300,000 options) vesting on the third anniversary. On June 1, 2007, the Company granted 75,000 employee stock options at an exercise price of \$1.00 vesting equally over a 14 month period starting the month after grant. On June 11, 2007, the Company granted 80,000 employee stock options at an exercise price of \$1.00 vesting equally over a 14 month period starting the month after grant. On August 23, 2007, the Company granted 500,000 employee stock options at an exercise price of \$0.45 vesting 1/3 on the first, second and third anniversaries respectively over a three year period. On November 5, 2007, the Company granted 100,000 employee stock options at an exercise price of \$0.54 with an immediate vesting of 33.33% (33,333 options) and the remainder of 66.67% (66,667 options) vesting 50% on the first and second anniversaries respectively.

Using the Black-Scholes pricing model, the weighted average fair value of options granted during the year ended December 31, 2007 was estimated to be \$1,318,232 (2006 - \$19,371). This amount, net of forfeitures, is amortized as stock-based compensation over the vesting period of the options. In 2007 \$821,822 (2006 - \$153,704) was taken into contributed surplus as stock option expense being recognized on the vesting of options granted. The unvested unamortized balance at December 31, 2007 amounted to \$464,748 (2006 - \$209,645).

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

**7. Stock-Based Compensation - continued**

The following principal assumptions were used in applying the Black-Scholes option-pricing model:

	<b>2007</b>	2006
Risk-free interest rate	4.5%	4.5%
Dividend rate	0%	0%
Expected volatility	102%	102%
Expected life	3 years	1 year

**8. Income Taxes**

The following table reconciles the expected income tax recovery at the Canadian statutory income tax rate of 36.12% (2006 - 36.12%) to the amounts recognized in the consolidated statements of operations.

	<b>2007</b>	2006
Loss before provision for income taxes	<b>\$ (1,419,497)</b>	\$ (600,601)
Expected income tax recovery at statutory income tax rates	<b>\$ (512,722)</b>	\$ (216,937)
Non-deductible stock-based compensation	<b>296,842</b>	55,518
Deductible share issue and related costs	<b>(183,513)</b>	(99,579)
Other deductible items	<b>(77,467)</b>	(63,001)
Effect of change in future income tax rate	<b>(457,927)</b>	-
Income tax recovery recognized	<b>\$ (934,787)</b>	\$ (323,999)

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

**8. Income Taxes - continued**

The tax effects of temporary differences that give rise to significant portions of the future tax assets/liabilities at December 31, 2007 are as follows:

	<u>2007</u>	<u>2006</u>
Excess of book value over tax value of mining properties and deferred exploration expenditures	\$ (2,832,438)	\$ (3,497,014)
Excess of book value over tax value of property and equipment	(30,868)	-
Non-capital losses	539,740	362,271
Undeducted financing and related costs	458,416	334,805
<b>Net future income tax liability</b>	<b>\$ (1,865,150)</b>	<b>\$ (2,799,938)</b>

At December 31, 2007, the Company had non-capital losses in Canada of approximately \$2,108,000 Federally and \$1,749,000 Provincially which are available under certain circumstances to reduce future taxable income. These losses expire as follows:

	<u>Federal</u>	<u>Provincial</u>
2015	\$ 342,000	\$ 316,000
2026	673,000	587,000
2027	1,093,000	846,000
	<b>\$ 2,108,000</b>	<b>\$ 1,749,000</b>

In 2007 and 2006, the tax reduction benefit relating to non-capital losses carried forward and undeducted financing and related costs was recognized sufficient to offset a portion of the future tax liability recognized on the renounced flow-through expenditures.

**9. Loss per Share**

The following table sets forth the computation of basic and diluted loss per common share for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Numerator:		
Loss attributable to common shareholders - basic and diluted	\$ (484,710)	\$ (276,602)
Denominator:		
Weighted-average common shares outstanding - basic and diluted	70,909,528	51,104,509
<b>Basic and diluted loss per common share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

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**9. Loss per Share - continued**

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As a result of losses incurred in the years ended December 31, 2007 and 2006, the potential effect of the exercise of stock options and warrants was anti-dilutive.

**10. Commitments**

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(a) Minimum payments due under operating leases in respect of office space are set out below:

2008	\$	<b>121,796</b>
2009		<b>129,527</b>
2010		<b>130,409</b>
2011		<b>132,171</b>
2012		<b>118,093</b>

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**\$ 631,996**

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(b) Pursuant to the issuance of flow-through shares described in *note 6*, the Company is required to spend \$2,826,871 on Canadian Exploration Expenditures in 2008.

**11. Financial Instruments**

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**Commodity price risk**

The ability of the Company to develop its mining properties and the future profitability of the Company is directly related to the market price of uranium.

**12. Amalgamation**

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Pursuant to Articles of Amalgamation, the Company amalgamated with its wholly-owned subsidiary Purepoint Uranium Group Inc. effective January 1, 2007. The name of the amalgamated Company is Purepoint Uranium Group Inc.

**Notes to Consolidated Financial Statements**  
*December 31, 2007 and 2006*

**13. Other Taxes**

	2007	2006
Part XII.6 tax	\$ 128,623	\$ -

Part XII.6 tax is incurred on unexpended flow-through funds that were renounced in 2005 and 2006 on a “lookback” basis. The Company may renounce flow-through expenditures prior to incurring the Canadian Exploration Expense eligible for renunciation; however as a result of using the “lookback” provisions the company must pay a tax on the unexpended balance of the flow-through funds. The expense is calculated monthly and is based on the unexpended balance of the flow-through funds at each month end. Management forecasts that the current financial resources combined with forecasted cash flow from the Company assets will provide sufficient funds to incur adequate Canadian Exploration Expense to meet the Company’s flow-through obligations, however, additional financing may be required if anticipated cash flows are lower than forecast.

**14. Restatement of Interim Financial Statements (unaudited)**

On February 13, 2008, the Company issued a press release and material change and concurrently filed on SEDAR amended and restated interim financial statements for the year-to-date periods ended March 31, 2007, June 30, 2007 and September 30, 2007 relating primarily to stock compensation expense recognized in those periods. The stock compensation expense as estimated for the press release has now been finalized to exactly match the amortization of the option expense to the individual vesting periods of each optionee. The aggregate value of the options as originally calculated remains unchanged. The final amortization and the impact on the interim financial statements is summarized in the following table to facilitate a comparison for the Company’s fiscal 2008 interim financial statements.

	March 31, 2007		June 30, 2007				September 30, 2007			
	3 months		3 months		6 months		3 months		9 months	
	As originally reported	Revised	As originally report	Revised	As originally reported	Revised	As originally reported	Revised	As originally reported	Revised
<b>Income statement</b>										
Stock-based compensation expenses	193,488	324,281	226,459	173,565	419,947	497,846	237,046	188,394	656,993	686,240
Income tax recovery	-	(440,000)	(440,000)	-	N/A	N/A	N/A	N/A	N/A	N/A
Net income (loss)	(308,362)	845	206,117	(180,989)	(102,245)	(180,144)	(290,365)	(241,713)	(392,610)	(421,857)
Net income (loss) per share	-	-	-	-	-	-	-	-	-	(0.01)
<b>Balance sheet</b>	<b>At March 31, 2007</b>		<b>At June 30, 2007</b>				<b>At September 30, 2007</b>			
Contributed surplus	2,714,744	2,845,537			2,681,449	2,759,348			2,918,495	2,947,742
Future tax liability	2,799,938	2,359,938			N/A	N/A			N/A	N/A
Deficit	(682,370)	(373,163)			(476,253)	(554,152)			(766,618)	(795,865)

**Cash flow statement**

The above restatements have no impact on the Company's cash flows.