

# **2006 Annual Report**

## Letter from the President

2006 was a year of great accomplishments for U3O8 Corp. In the course of the year, the company accomplished key corporate objectives: developing and executing the company's operational and exploration business plan, acquiring two exclusive uranium exploration permits in Guyana, South America and establishing U3O8 Corp. as a public company through an Initial Public Offering in the latter part of December.

U3O8 Corp. is focused on setting and reaching specific goals through its exploration program plan while simultaneously maintaining strict controls on expenditures. By doing so, the company believes it will continue to provide value to its shareholders.

The year began by the founding of U3O8 Corp. as a private company through a seed round investment. This initial funding enabled the company to grow and commence its early stage reconnaissance work, including: establishing its corporate head office in Toronto, Canada and an office in Georgetown, Guyana, applying for and being granted two exclusive uranium exploration permits within Guyana, hiring expert personnel in the fields of geology and business management, and starting the preliminary exploration program in the Permit A region in Western Guyana.

During the first quarter of 2006, the company also developed strong relationships with high ranking officials within the government of Guyana. We continually received cooperation and support from Prime Minister Samuel Hinds, who is also Minister of Mines. On a quarterly basis the company reports to and updates our exploration activities to the Guyana Geology and Mines Commission (GGMC), which has oversight authority on all mineral exploration in the country.

As a result of this relationship with the Guyanese government, we have excellent access to the historic data collected from the previous exploration activities conducted within Permit A and we continually experience expedited results when applying for our permits and other government regulated processes.

The company received the exclusive uranium exploration rights in our Permit B region, an area that is approximately 746,309 hectares adjacent to Permit A, in June 2006. Permit B provides Prometheus Guyana, a wholly owned subsidiary of U3O8 Corp., with the right to occupy the Permit "B" area for three years commencing May 31, 2006 in order to conduct geological and geophysical surveys for radioactive minerals and rare earth elements, which include uranium.

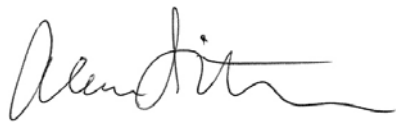
In conjunction with the company's exploration activities, we have established a fully functional permanent base camp at the Aricheng airstrip located within Permit A. Our base camp consists of: staff quarters, mess hall and kitchen, core shack building, storage facilities, and offices for senior staff.

As 2006 progressed, so did our company. We hired additional personnel, including a seasoned geologist as Vice President and key senior geological staff. Through their diligent planning and adherence to the company's exploration plan, our geological team further prepared the Permit A region for a more in depth study. These preparations have enabled us to better understand the geology of the area and thus ready the area for our first drill program.

In November 2006, we conducted a 15,000 line km Magnetic-Radiometric Airborne Survey within Permit A. This survey is a comprehensive record of the entire Permit A region and displays 43 uranium anomalies. From these 43 anomalies, our geological team has prioritized our targets and planned the next stages of exploration, including: supplementary ground reconnaissance work, scintillometer mapping, and preparations for drill programs.

On December 27, 2006 U3O8 Corp. was listed on the Toronto Venture Stock Exchange under the symbol UWE. The company raised gross proceeds of \$30,250,000 in an Initial Public Offering. These funds will be used per the company's mandate to acquire and explore, with the intent of developing, mineral resource properties.

As we move forward in 2007, the company will continue to execute its exploration program according to its well defined business plan.



**Allan Ibbitson**  
**President & C.E.O.**

May 18, 2006

**MANAGEMENT DISCUSSION AND ANALYSIS**

**U308 CORP.**

**YEAR ENDED DECEMBER 31, 2006**

## Introduction

The Management Discussion and Analysis (“MD&A”) of U308 Corp. (“U308”) or the (“Corporation”) provides an analysis of the Corporation’s performance and financial condition for the year ended December 31, 2006 as well as an analysis of future prospects. This MD&A should be read in conjunction with the audited consolidated financial statements and related notes thereto of the Corporation for the year ended December 31, 2006. Readers of the following MD&A should also refer to the Corporation’s audited financial statements from the date of inception (December 6, 2005 being the date of incorporation) to December 31, 2005. The Corporation’s consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). All amounts are in Canadian dollars unless otherwise specified. This MD&A was prepared using information that is current as of April 26, 2007 unless otherwise stated. Additional information, including the Corporation’s prospectus dated December 15, 2006, is available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

## Forward-looking Statements

This MD&A may contain forward-looking statements that are based on the Corporation’s expectations, estimates and projections regarding its business and the economic environment in which it operates. These statements speak only as of the date on which they are made, are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Examples of some of the specific risks associated with the operations of the Corporation are set out below under “Risks and uncertainties”. Actual outcomes and results may differ materially from those expressed in these forward looking statements and readers should not place undue reliance on such statements.

## About U308

The goal of U308 is to deliver superior returns to shareholders by concentrating on uranium exploration in Guyana through its subsidiary Prometheus Resources (Guyana) Inc. (“Prometheus Guyana”). The Corporation plans to do this by focusing on certain “Reconnaissance Permits” (consisting collectively of Permit “A” and Permit “B”), as described below.

Permit “A” was granted to Prometheus Guyana on November 28, 2005, and allows permission to carry out geological, geophysical and other surveys within an area of approximately 579,417 hectares located in the Cuyuni/Mazaruni and Potaro Mining Districts of Guyana, and excludes areas lawfully occupied or applied for prior to September 22, 2005, navigable rivers and Amerindian lands. Permit “A” provides Prometheus Guyana with the right to occupy the Permit “A” area for three years commencing November 23, 2005 in order to conduct geological and geophysical surveys for uranium. In connection with Permit “A”, Prometheus Guyana is obligated to pay to the Government of Guyana in advance, a non-refundable fee of US\$15,000 for the first year (paid), US\$20,000 for the second year (paid) and US\$30,000 for the third year. Permit “A” grants Prometheus Guyana the right to apply for, and be granted by the Guyana Geological and Mines Commission (“GGMC”), up to 15 prospecting licenses (each consisting of areas of approximately 202 hectares to approximately 4,856 hectares) for uranium, provided that it has satisfied the requirements of Permit “A” and of the GGMC.

Permit “B” was granted to Prometheus Guyana on June 1, 2006, and allows permission to carry out geological, geophysical and other surveys within an area of approximately 746,309 hectares located in the Potaro, Cuyuni/Mazaruni and Rupununi Mining Districts of Guyana, and excludes areas lawfully occupied or applied for prior to May 2, 2006, navigable rivers and Amerindian lands. Permit “B” provides Prometheus Guyana with the right to occupy the Permit “B” area for three years commencing May 31, 2006 in order to conduct geological and geophysical surveys for radioactive minerals and rare earth elements, which include uranium. In connection with the Permit “B”, Prometheus Guyana is obligated to pay to the Government of Guyana in advance, a non-refundable fee of US\$25,000 for the first year (paid), US\$35,000 for the second year and US\$50,000 for the third year. Permit “B” grants Prometheus Guyana the right to apply for, and be granted by the GGMC, up to 20 prospecting licenses (each consisting of

areas of approximately 202 hectares to approximately 4,856 hectares) for radioactive minerals and rare earth elements, provided that it has satisfied the requirements of Permit "B" and the GGMC.

## **Overall performance**

### **(a) Trends analysis**

The current spot price for uranium is encouraging for explorers. The uranium spot price has increased steadily since December 25, 2000, when the spot price was US\$7.10 per lb. On December 25<sup>th</sup>, 2006, the spot price was \$72 per lb, representing an increase of approximately 880% since December, 2000, and an increase of approximately 613% from the 2002 year end spot price of US\$10.20 per lb., an increase of approximately 431% from the 2003 year end spot price of US\$14.50 per lb., and an increase of approximately 302% from the 2004 year end spot price of US\$20.70 per lb.

The current spot price increase trend for uranium is a factor in U3O8's strategy to explore for uranium. Management believes that the current spot price increase trend for uranium is creating a favourable climate to discover and exploit an economic uranium resource. However, management has no control over the uranium prices, and therefore we cannot guarantee whether uranium prices will increase or decrease in the long-term future.

### **(b) Management assessment of operations**

For the twelve months ending December 31, 2006, U3O8 completed two private placements raising gross proceeds of \$2,400,000 and completed an initial public offering raising gross proceeds of \$30,250,000 (the IPO was completed on December 27, 2006). The Corporation is well financed, and as at December 31, 2006 had a cash position exceeding \$28 million. The Corporation incurred exploration expenditures and acquisition costs of \$1,498,375 on its Guyana uranium project for the year ended December 31, 2006 and U3O8 estimates its total exploration expenditures for the next two years will total approximately \$10 million. On June 1, 2006, Prometheus Guyana was granted Permit "B" (Refer to "About U3O8" above). In December 2006, the Common Shares of U3O8 became listed on the TSX Venture Exchange and started trading under the ticker symbol UWE.V.

U3O8's future performance will be largely tied to the outcome of future drilling results, public markets relating to junior exploration companies, as well as the price of uranium (See "Trend analysis" above).

Any decrease in the price of uranium could have an adverse effect on the Corporation's business and financial results. The Corporation mitigates this risk by having no debt and its credit and interest rate risks are limited to interest bearing assets in cash and cash equivalents and short term investments. Accounts payable and accrued liabilities are short-term and non-interest bearing.

The Corporation is in the process of undertaking a major exploration program on Permit "A". There is no guarantee that the Corporation will discover a viable uranium resource.

From December 6, 2005 (defined above) to December 31, 2005, U3O8 was concentrating its efforts on planning an exploration program for Permit "A" which was granted to Prometheus Guyana on November 28, 2005 (Refer to "About U3O8" above).

### **Conclusion regarding management assessment of operations**

As of December 31, 2006, the Corporation was successful in achieving two milestones – (i) obtaining the Reconnaissance Permits (consisting of Permit "A" and Permit "B") from the GGMC and (ii) obtaining adequate financing to explore the area covered in the Reconnaissance Permits. As a result, the Corporation now plans to focus its attention on the successful pursuit of an economic uranium resource in Western Guyana.

## Selected Annual and Fourth Quarter Information

	Quarter Ended		Year Ended	
	December 31, 2006 (3 months) \$	December 31, 2005 (1 month) \$	December 31, 2006 (12 months) \$	December 31, 2005 (1 month) \$
Total revenues	nil	nil	nil	nil
Net loss <sup>(2)</sup>	(1,510,674)	(18,493)	(2,716,495)	(18,493)
Loss per share (basic and diluted)	(0.17)	(0.00)	(0.29)	(0.00)
Total assets <sup>(1)</sup>	28,979,967	537,977	28,979,967	537,977

(1) Total assets increased during the year because the Corporation completed the following equity issues:

- On January 24, 2006, the Corporation closed a non-brokered private placement of 4,000,000 Common Shares at a price of \$0.20 per Common Share for aggregate proceeds of \$800,000.
- On October 12, 2006, the Corporation closed a non-brokered private placement of 800,000 Common Shares at a price of \$2.00 per Common Share for aggregate proceeds of \$1,600,000.
- On December 27, 2006, the Corporation completed an 11 million Common Share initial public offering at \$2.50 per Common Share pursuant to a final prospectus dated December 15, 2006. Given the effect of a 10% over allotment granted to the agents which has been exercised in full, the Corporation issued 12.1 million Common Shares from treasury on closing for gross proceeds of \$30,250,000. The net proceeds of the financing, including the over allotment and less \$1,815,000 in agent's fees and \$111,300 in agent's expenses, is \$28,323,700.

(2) From December 6, 2005 to December 31, 2005, the net loss in fiscal 2006 was significantly larger than 2005 due to (i) the longer time frame in fiscal 2006 and (ii) the fact that full operations did not begin until fiscal 2006.

## Results of operations

### (a) Summary of exploration activities

During fiscal 2006, Prometheus Guyana has initiated surveys, recruited people and developed the infrastructure to support the exploration program in Western Guyana. In particular, the Corporation has accomplished the following during fiscal 2006:

- The infrastructure at the base camp has now been put in place.
- Qualified personnel in the field and at the Georgetown head office have been hired allowing Prometheus Guyana to focus on the technical aspects of the uranium project covered by the Reconnaissance Permits.
- During the fourth quarter, the airborne radiometric and magnetometer survey, conducted by Terraquest Surveys and supervised by Dr. Allan Spector, was completed. (results were released in February 2007).
- Exploration expenditures and acquisition costs on the Reconnaissance Permits during fiscal 2006 amounted to \$1,498,375.

### (b) Airborne geophysical survey

The airborne radiometric-magnetic survey of the Permit "A" area was completed early in the fourth quarter of fiscal 2006. Three lines were flown parallel to the Roraima escarpment and several zones of anomalous uranium radiation were observed. The results of the survey were released on February 8, 2007 as disclosed below.

On February 8, 2007, U3O8 announced the results of an airborne geophysical survey of the Permit "A" area bordering on the Roraima Basin in Guyana. The Roraima Basin is similar in size, age and composition to the Athabasca Basin of northern Saskatchewan.

A total of 15,000 line km of airborne data was collected over a period of 40 days using a 2000 cubic inch NaI crystal array and cesium vapour magnetometers. Surveying was done under ideal survey conditions. It consisted of north south lines at 200m spacing over historical uranium occurrences and 400m spacing over a broader reconnaissance area within Permit A, at an altitude of only 70 m above ground.

The combined spectrometer and magnetometer survey is intended to be a major component in the search for Beaverlodge Lake-type of uranium mineralization. This type of mineralization, consisting of uranium in vein and fracture fillings, was mined in Northern Saskatchewan in the period 1953 to 1983 and was a primary source of Canada's uranium production at that time.

A total of 43 uranium targets were discovered by this survey. According to Dr. Allan Spector, who supervised the airborne survey, the identification of these targets greatly enables U3O8's exploration team to define drill targets. As a result, in preparation for the drilling program in late March 2007, a detailed 358 line km ground scintillometer program has been completed. The program consisted of east – west 100 meter spaced lines with scintillometer readings taken every 12.5 meters. The data acquired from the program confirms the previously identified targets defined by both the historic COGEMA (1) data and U3O8's completed airborne geophysical survey.

(1) COGEMA entered Guyana in February 1979, after successfully petitioning for non-exclusive permission to carry out reconnaissance surveys for uranium over the whole country except for a 130 kilometre wide swath paralleling the Atlantic shoreline. COGEMA is now a division of Areva, a diversified energy production and transmission company and the world's second largest miner of uranium. COGEMA was created in 1976 from the Production Division of the French Atomic Energy Agency.

### **(c) Drill program**

In March 2007, U3O8 announced the commencement of its Phase I diamond drilling program at the Aricheng Area, located in Permit Area A in Guyana, South America. The program will consist of 16 holes totaling approximately 2,400 meters.

The drill program will test three target areas; Aricheng North, Aricheng West, and Aricheng South. Uranium mineralization in these areas occurs in shear and fracture zones in the Kurupung Batholith and is associated with strong albitization, chlorite, and hematite alteration. Aricheng North is a northeast trending shear zone with a 1,400 meter strike length. Aricheng West is an east-west trending fracture/shear zone with a strike in excess of 600 meters. At Aricheng South, mineralization is associated with a 640 meter long west – northwest trending shear/fracture zone. These structures may represent the roots of unconformity related mineralization. The unconformity type geological structure with the overlying Roraima Formation is similar to the Athabasca region in Saskatchewan and is located approximately 12 km to the west.

The first phase of drilling will twin previous COGEMA holes that have been tested with a downhole gamma probe and exhibit strong radioactive mineralization. The COGEMA drill holes tested areas of anomalous surface scintillometer readings that ranged from 500 cps to greater than 10,000 cps (the upper detection limit of the device). Rock chip samples collected by U3O8 from these zones ranged from 6.7 to 9,078 ppm (0.91%) U3O8.

Regional reconnaissance will begin in April 2007 and concentrate on airborne radiometric anomalies in the Aricheng, Rock Point, Anarabisi, and Eping areas. Several anomalies in the Eping area are near the unconformity with the Roraima Formation and may be vectors to mineralization at or above the unconformity.

**(d) Expenditures spent to date and future exploration**

The Corporation through its subsidiary, Prometheus Guyana, is concentrating its efforts on the development of its Reconnaissance Permit uranium properties in Guyana. In order for the uranium properties to be profitable, the price for uranium must increase in the foreseeable future (See – “Trend analysis” above) and the asset must be developed into an economic uranium resource.

The Corporation does not have control of uranium market forces but the current outlook for uranium prices is positive in management’s view. In order to capitalize on the current uranium market, the Corporation filed a final prospectus dated December 15, 2006 and raised net proceeds of \$28,323,700. The Corporation’s proposed use of proceeds in accordance with the final prospectus dated December 15, 2006, less fiscal 2006 adjustments, are as follows:

<b>Use of Proceeds</b>	<b>Proposed Use of Proceeds Per Final Receipted Prospectus dated December 15, 2006</b>	<b>Revised Use of Proceeds as of December 31, 2006</b>	<b>Net Funds Spent from Amounts Disclosed in Receipted Prospectus to December 31, 2006</b>
(i) Complete Phase I and, if warranted, Phase II of the recommended program for the areas underlying the Reconnaissance Permits.	\$11,001,325	\$10,426,469	\$574,856
(ii) Optional expenses to fund future growth plans	760,000	760,000	nil
(iii) Payments to the Government of Guyana (1)	nil	134,010	(134,010)
Use of Proceeds (2)	\$11,761,325	\$11,320,479	\$440,846

(1) Conversion rate to Canadian dollars = 1.1653

(2) The Company has spent \$574,856 in exploration expenditures as of December 31, 2006. The Company has an existing obligation to the GGMC in the amount of \$134,010 (See (iii) below). The Company anticipates spending all the funds raised in the IPO within two years.

(i) US\$10,110,000 converted to Canadian dollars based upon the noon buying rate for US dollars as published by the Bank of Canada on December 14, 2006 of U.S.\$1.00 = Cdn\$1.1568, (in Final Prospectus) less a cash amount equal to Cdn\$1,268,779 (\$693,923 previously disclosed in Final Prospectus plus \$574,856) in exploration expenditures previously incurred in furtherance of the recommended work programs in Guyana.

(ii) This amount represents expenses over the course of the ensuing 12 months which are not committed but required to fund the future growth plans of the Corporation, and include: (i) acquiring drilling equipment and accessories (\$360,000) (purchased subsequent to December 31, 2006); (ii) helicopter support to perform exploratory work on the Permit “B” area (\$150,000); (iii) investor relations and business development (\$200,000) and contingencies (\$50,000).

(iii) The following payments must be made to the Government of Guyana by the dates below to maintain the Reconnaissance Permits in good standing:

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<u>Permit A Costs</u>		<u>Permit B Costs</u>	
Date	Amount	Date	Amount
November 2007	US\$30,000	June 2007	US\$35,000
		June 2008	US\$50,000

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## **Financial summary**

### **Twelve months ended December 31, 2006**

U3O8's net loss totaled \$2,716,495 for fiscal 2006 with basic and diluted loss per share of \$0.29. The Corporation has no operating revenues and relies on external financings to generate capital. The net loss for fiscal 2006 was primarily a result of the following costs:

#### Key personnel

The Corporation was charged an aggregate of \$154,000 in fees, consisting of \$84,000 payable to the Chief Executive Officer and \$70,000 in fees payable to Dr. Keith Barron for administrative services provided (see "Related Party Transactions" below).

#### Operations

The Corporation spent Cdn\$1,498,375 (Cash - \$1,340,359 and a non-cash charge of \$158,016 (stock-based compensation)) on exploration expenditures and acquisition costs in Guyana.

The Corporation spent \$214,262 on business development consisting of travel to Guyana for due diligence, development of business relationships with the Government of Guyana and the GGMC, development of the Corporation head office in Georgetown, and promoting regions within the Permit "A" area and the Permit "B" area to individuals who can market the potential benefits of such properties (the Corporation expects business development costs to continue on a going-forward basis).

The Corporation incurred investor relations costs amounting to \$126,849 consisting of a full time staff member who is responsible for office management, marketing, communications, public relations and corporate affairs, as well as \$16,000 consisting of a consultant providing public relations services. The Corporation expects public relations costs to continue on a going-forward basis.

The full time employee and the consultant each received 50,000 stock options and as a result, stock based compensation in the amount of \$30,387 was allocated to investor relations. These stock options were issued in anticipation of future services being provided to the Corporation from the full time employee and the investor relations consultant.

### Record keeping and compliance costs

Professional fees in the amount of \$98,765 were expensed during the period consisting of \$50,600 for services paid or accrued to an independent accounting firm, and \$12,860 paid or accrued to an outsource organization to maintain the Corporation's accounting records (Duguay & Ringler Corporate Services) (See "- Related Party Transactions" below).

For the twelve month period ended December 31, 2006, the Corporation expensed \$8,784 for legal services. Actual invoices amounted to \$26,352, of which one-third (\$8,784) was expensed to professional fees, one-third (\$8,784) was capitalized to deferred costs (being cost of issue fees for a private placement completed by the Corporation on October 12, 2006 and one-third (\$8,784) was expensed to exploration costs in Guyana. The Corporation also accrued an additional \$125,967 for work in progress to a legal firm for initial public offering costs.

Other costs of \$26,521 were incurred including out of pocket expenses for accounting services (\$1,509) provided by Duguay & Ringler Corporate Services, and \$11,520 for legal and accounting services provided to Prometheus Resources (Barbados) Limited ("Prometheus Barbados") by an independent outsource firm in Barbados, non-recurring charges of \$4,376, and stock based compensation in the amount of \$9,116 allocated to the Corporation's bookkeeper for future accounting services from the issue of 30,000 stock options.

These costs are generally fixed and do not deviate significantly as they are required to ensure regulatory compliance by the Corporation.

### Administrative and general

Administrative and general costs during this period amounted to \$50,407 consisting of rent of \$19,390, computer maintenance costs of \$14,689 (including a one time set-up fee of \$7,494 from an independent computer maintenance company), telephone charges of \$3,558, office and bank charges in the amount of \$8,207 and officer and director insurance in the amount of \$4,563.

Administration costs are recurring. Management will try to control these costs so the Corporation can concentrate on exploration activities.

### Interest

On August 11, 2006, the Corporation received \$200,000 from the issue of a promissory note bearing interest at 12% per annum. The principal amount together with all accrued and unpaid interest is due January 1, 2007. The promissory note may be prepaid in whole at any time or in part from time to time without notice or bonus.

On December 18, 2006, the Corporation paid the promissory note holder \$208,482 releasing the Corporation from any further obligations to the promissory note holder. Total interest paid to the promissory note holder was \$8,482.

The promissory note was owed to an investor who was issued 1,500,000 Common Shares on the date of incorporation.

### Capital tax

The Corporation anticipates paying capital tax of approximately \$60,000 to the Minister of Finance in Ontario (Canada) based on the current cash and short term investment position of the Corporation.

Capital tax is a recurring cost at the present time. The Ontario government (Canada) is proposing to eliminate this tax by July 1, 2010. During the intervening years, management of the Company intend to implement a tax strategy to control this cost.

### Reporting issuer costs

Transfer agent fees in the amount of \$9,673 were paid within the year. Listing and sustaining fees of \$33,900 were accrued or paid during the year. These amounts were paid/acrued to the Toronto Stock Exchange or its affiliates ("TSX"). The Corporation also paid a SEDAR filer for filing public documents on SEDAR.

These costs were a direct result of the Corporation's recent initial public offering ("IPO") from the final prospectus dated December 15, 2006.

These costs will be recurring and management will attempt to minimize these costs in the future.

### Directors' compensation and management compensation

The directors and management of the Corporation received stock options in an aggregate amount of 1,310,000 and were assigned a value of \$398,076 using the Black-Scholes option pricing model. This amount was allocated to directors' compensation in the amount of \$349,456 and management compensation in the amount of \$48,620.

These stock options were issued in anticipation of future services being provided to the Corporation from the directors and management of the Corporation.

### **December 6, 2005 to December 31, 2005**

The Corporation reported a net loss of \$18,493 for fiscal 2005 with basic and diluted loss per share of \$0.00. The Corporation has no operating revenues and relies on external financings to generate capital. The net loss for fiscal 2005 was primarily the result of the following costs:

### Record keeping and compliance costs

Professional fees in the amount of \$10,000 were expensed during the period consisting of \$8,000 for audit services paid or accrued to an independent accounting firm, and \$2,000 paid or accrued to an outsource organization to maintain the Corporation's accounting records (Duguay & Ringler Corporate Services) (See "- Related Party Transactions" below).

### **Selected Quarterly Information**

Three Months Ended	Net Revenues \$	Basic and diluted loss per share	
		Net loss \$	\$
2006-December 31	-	(1,510,674) <sup>(1)</sup>	(0.17)
2006-September-30	-	(691,138) <sup>(2)</sup>	(0.07)
2006-June -30	-	(421,859) <sup>(3)</sup>	(0.04)
2006-March-31	-	(92,824) <sup>(4)</sup>	(0.01)
2005-December-31	-	(18,493) <sup>(5)</sup>	(0.00)

Notes:

- (1) Net loss of \$1,510,674 principally relates to a vesting amount of \$595,595 regarding 1,960,000 stock options that were issued on December 15, 2006 and exploration expenditures in Guyana in the amount \$599,642 (excludes stock-based compensation of \$158,016). All other expenses relate to general working capital purposes.

- (2) Net loss of \$691,138 principally relates to exploration work in Guyana in the amount \$542,584. All other expenses relate to general working capital purposes.
- (3) Net loss of \$421,859 principally relates to exploration work in Guyana in the amount \$198,133, business development costs of \$102,161 and accrued consulting fees of \$42,000 to related parties (See “- Related Party Transactions” below). All other expenses relate to general working capital purposes.
- (4) Net loss of \$92,824 principally relates to business development costs of \$31,577, public relation costs of \$18,693 and consulting fees of \$42,000 to related parties (See “- Related Party Transactions” below). All other expenses relate to general working capital purposes.
- (5) Net loss of \$18,493 principally relates to professional fees in the amount of \$10,000 that were expensed during the period consisting of \$8,000 for audit services paid or accrued to an independent accounting firm, and \$2,000 paid or accrued to an outsource organization to maintain the Corporation’s accounting records (Duguay & Ringler Corporate Services) (See “- Related Party Transactions” below).

### **Liquidity and capital resources**

The activities of the Corporation, principally the acquisition and exploration of properties for uranium, are financed through the completion of equity offerings. These equity offerings may include private placements, public offerings or rights offerings. During the year, the following equity offerings were completed:

- On January 24, 2006, the Corporation closed a non-brokered private placement of 4,000,000 Common Shares at a price of \$0.20 per Common Share for aggregate proceeds of \$800,000.
- On October 12, 2006, the Corporation closed a non-brokered private placement of 800,000 Common Shares at a price of \$2.00 per Common Share for aggregate proceeds of \$1,600,000.
- On December 27, 2006, the Corporation completed an 11 million Common Share IPO at \$2.50 per Common Share pursuant to a final prospectus dated December 15, 2006. Given the effect of a 10% over allotment granted to the agents which has been exercised in full, the Corporation issued 12.1 million Common Shares from treasury on closing for gross proceeds of \$30,250,000. The net proceeds of the financing, including the over-allotment and less \$1,815,000 in agent’s fees and \$111,300 in agent’s expenses, is \$28,323,700. The Corporation also issued 726,000 broker warrants to the agents. Each broker warrant is exercisable for one Common Share at a price of \$2.50 per share for a period of two years (December 27, 2008).

As at December 31, 2006, U3O8 had \$3,552,691 in cash and cash equivalents (2005: \$473,850) and 25,010,898 (2005: \$nil) in short term investments. Working capital as of December 31, 2006 was 28,080,351 (2005: \$476,757). The increase is mainly as a result of the net proceeds from the January 2006, October 2006 and December 2006 financings.

Because U3O8 is a junior uranium exploration entity, the Corporation does not have the usual ability to generate sufficient amounts of cash and cash equivalents in the short term. To maintain the Corporation’s capacity, to meet the Corporation’s planned growth through exploration in Guyana, or to fund further development activities, the Corporation must utilize its current cash reserves, income from investments, and funds obtained from the exercise of broker warrants and stock options and other financing transactions. See “Risks and uncertainties” below.

As of December 31, 2006, the Corporation had 22,900,000 Common Shares issued and outstanding, 726,000 broker warrants outstanding which would raise \$1,815,000 if exercised in full, and 1,960,000 options outstanding which would raise \$4,900,000 if exercised in full.

The Corporation continues to have no debt and its credit and interest rate risk are limited to interest bearing assets of cash and cash equivalents, and short term investments. Accounts payable and accrued liabilities are short-term and non-interest bearing.

The Corporation has no financial commitments or obligations beyond those optional budgeted payments required to fund the proposed work programs on the Permit “A” area and Permit “B” area in the amount of

\$10,426,469 (See "Expenditures spent to date and future exploration") and the lease for the head office of the Corporation in the amount of \$50,501 over the next two years and management compensation of \$7,000 per month for the Chief Executive Officer (pending finalization of a definitive management agreement) and \$3,500 per month (pursuant to a verbal agreement) for the Chief Financial Officer of the Corporation.

The Corporation must also make payments totalling \$134,010 to the Government of Guyana to maintain the Reconnaissance Permits in good standing (See "Expenditures spent to date and future exploration").

In addition to the financial commitments set forth above, the Corporation has allocated approximately \$760,000 for future expenses over the course of the ensuing 12 months which are not committed but required to fund its future growth plans of the Corporation. (See "Expenditures spent to date and future exploration").

The Corporation's liquidity risk with financial instruments is minimal as excess cash is invested in highly liquid securities. In addition, receivables are comprised mainly of GST recoveries.

The Corporation has a short operating history which limits planning knowledge, but management expects no major change in liquidity requirements.

### **Related Party Transactions**

During the year ended December 31, 2005, a director (Patrick Anderson) and a director who is an officer of the Corporation (Allan Ibbitson), subscribed for an aggregate of 2,250,000 Common Shares for gross proceeds of \$2,250.

On December 6, 2005, the Corporation entered into a verbal agreement to receive services from Mr. Carmelo Marrelli, the Chief Financial Officer of the Corporation, at a monthly rate of \$3,500, to be paid after the Corporation becomes a reporting issuer. The Chief Financial Officer is also a partner in a firm providing corporate secretarial and accounting services (Duguay & Ringler Corporate Services) to the Corporation. During the year ended December 31, 2006, the Corporation expensed \$13,209 (December 31, 2005 - \$2,000) for services rendered by this firm. In addition, as at December 31, 2006, this firm was owed \$11,048 (December 31, 2005 - \$2,000), which amount is included in accounts payable and accrued liabilities. This firm was also reimbursed for out-of-pocket expenses that occurred in the normal course of operations.

The Chief Financial Officer was also paid \$6,335 in fiscal 2006 (December 31, 2005 - \$nil) for services that occurred in the normal course of operations.

The Corporation was also charged \$154,000 during the year ended December 31, 2006 (December 31, 2005 - \$nil) for consulting services rendered by directors and/or officers of the Corporation (Allan Ibbitson - \$84,000; and Keith Barron - \$70,000). No formal agreement exists between the Corporation and the directors and/or officers of the Corporation. The entire amount has been expensed in the statement of operations and deficit. Included in accounts payable and accrued liabilities at December 31, 2006 is \$96,205 (December 31, 2005 - \$38,814) owing to these related parties. The directors and/or officers of the Corporation were also reimbursed for out-of-pocket expenses that occurred in the normal course of operations.

As of the date of this MD&A, an employment contract between the Corporation and Allan Ibbitson has not been finalized.

The Corporation reimbursed \$8,592 for business development expenses to an investor (Tom Obradovich) who subscribed for 1,500,000 Common Shares on December 6, 2005. As of December 31, 2006, the investor was owed \$9,042 (December 31, 2005 - \$nil).

These transactions are in the normal course of operations and are measured at the exchange value (the amount established and agreed to by the related parties), which approximates the arm's length equivalent value.

### **Off-Balance Sheet Arrangements**

The Corporation has not entered into any off-balance sheet arrangements.

### **Proposed Transactions**

There are no proposed transactions of a material nature being considered by U3O8. However, U3O8 continues to evaluate properties that it may acquire in the future.

### **Critical accounting estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Critical estimates inherent in these accounting policies are the valuation of Permit "A" and "Permit B". The policy of expensing exploration costs to date does not necessarily relate to the present or future value of exploration properties. The valuation of Permit "A" and Permit "B" is dependent entirely upon the discovery of economic uranium deposits and the ability of the Corporation to obtain a licence for uranium from the GGMC. Other items requiring estimates for the year ended December 31, 2006 are short term investments, accounts receivable, amortization of property and equipment, accounts payable and accrued liabilities, future income taxes and stock-based compensation. Changes in the accounting estimates in these items will not have a material impact on the financial presentation of U3O8.

### **Change in accounting policies**

As of December 31, 2006, the Corporation had not changed or adopted any new accounting policies as compared to the fiscal year ended December 31, 2005.

### **Financial instruments**

#### Fair value

The Corporation's financial instruments include cash and cash equivalents, short term investments, accounts receivable and accounts payable and accrued liabilities. The carrying value of these financial instruments approximates their fair value due to the short-term maturity of these items.

#### Commodity price risk

The ability of the Corporation to develop its properties and the future profitability of the Corporation is directly related to the market price of uranium. If the Corporation locates a uranium deposit, it will be subject to commodity price risk.

### **Fourth Quarter**

#### **Three months ended December 31, 2006**

U3O8's net loss totaled \$1,510,674 for the fourth quarter of fiscal 2006 with basic and diluted loss per share of \$0.17. The Corporation has no operating revenues and relies on external financings to generate capital. The net loss for the fourth quarter of fiscal 2006 was primarily a result of the following costs:

### Key personnel

The Corporation accrued an aggregate of \$28,000 in fees, consisting of \$21,000 payable to the Chief Executive Officer and \$7,000 in fees payable to Dr. Keith Barron for administrative services provided

### Operations

The Corporation spent Cdn \$757,658 (Cash - \$599,642 and a non-cash charge of \$158,016 (stock-based compensation)) on exploration expenditures in Guyana.

The Corporation spent \$37,127 on business development consisting of travel to Guyana, development of business relationships with the Government of Guyana and the GGMC, development of the Corporation head office in Georgetown, and promoting regions within the Permit "A" area and the Permit "B" area to individuals who can market the potential benefits of such properties.

The Corporation incurred investor relations costs amounting to \$61,527 consisting of a full time staff member who is responsible for office management, marketing, communications, public relations and corporate affairs, as well as \$6,000 consisting of a consultant providing public relations services.

The full time employee and the consultant each received 50,000 stock options and as a result, stock based compensation in the amount of \$30,387 was allocated to investor relations. These stock options were issued in anticipation of future services being provided to the Corporation from the full time employee and the investor relations consultant.

### Record keeping and compliance costs

Professional fees in the amount of \$51,014 were expensed during the period consisting of \$30,600 for audit and audit related services paid or accrued to an independent accounting firm and \$4,860 paid or accrued to an outsource organization to maintain the Corporation's accounting records (Duguay & Ringle Corporate Services).

Other costs of \$15,554 were incurred including out of pocket expenses for accounting services (\$562) provided by Duguay & Ringle Corporate Services, and \$2,000 for legal and accounting services provided to Prometheus Barbados by an independent outsource firm in Barbados, non-recurring charges of \$3,876, and stock based compensation in the amount of \$9,116 allocated to the Corporation's bookkeeper for future accounting services from the issue of 30,000 stock options.

These costs are generally fixed and do not deviate significantly as they are required to ensure regulatory compliance by the Corporation.

### Administrative and general

Administrative and general costs during this period amounted to \$20,180 consisting of rent of \$8,417, computer maintenance costs of \$3,852, telephone charges of \$812, office and bank charges in the amount of \$2,536 and officer and director insurance in the amount of \$4,563.

Administration costs are recurring. Management will try to control these costs so the Corporation can concentrate on exploration activities.

### Interest

On August 11, 2006, the Corporation received \$200,000 from the issue of a promissory note bearing interest at 12% per annum. The principal amount together with all accrued and unpaid interest is due January 1, 2007. The promissory note may be prepaid in whole at any time or in part from time to time without notice or bonus.

On December 18, 2006, the Corporation paid the promissory note holder \$208,482 releasing the Corporation from any further obligations to the promissory note holder. Total interest paid to the promissory note holder was \$8,482.

The promissory note was owed to an investor who was issued 1,500,000 Common Shares on the date of incorporation.

#### Capital tax

The Corporation anticipates paying capital tax of approximately \$60,000 to the Minister of Finance in Ontario (Canada) based on the current cash and short term investment position of the Corporation.

Capital tax is a recurring cost at the present time. The Ontario government (Canada) is proposing to eliminate this tax by July 1, 2010. During the intervening years, management of the Company intend to implement a tax strategy to control this cost.

#### Reporting issuer costs

Transfer agent fees in the amount of \$9,673 were paid during the period. Listing and sustaining fees of \$33,900 were accrued or paid during the year. These amounts were paid/accrued to the TSX (TSX affiliates). The Corporation also paid a SEDAR filer for filing public documents on SEDAR.

These costs were a direct result of the Corporation's recent IPO from the final prospectus dated December 15, 2006

These costs will be recurring and management will attempt to minimize these costs in the future.

#### Directors' compensation and management compensation

The directors and management of the Corporation received stock options in an aggregate amount of 1,310,000 and were assigned a value of \$398,076 using the Black-Scholes option pricing model. This amount was allocated to directors' compensation in the amount of \$349,456 and management compensation in the amount of \$48,620.

These stock options were issued in anticipation of future services being provided to the Corporation from the directors and management of the Corporation.

#### **December 6, 2005 to December 31, 2005**

The Corporation reported a net loss of \$18,493 for the fourth quarter of fiscal 2005 with basic and diluted loss per share of \$0.00. The Corporation has no operating revenues and relies on external financings to generate capital. The net loss for the fourth quarter of fiscal 2005 was primarily the result of the following costs:

#### Record keeping and compliance costs

Professional fees in the amount of \$10,000 were expensed during the period consisting of \$8,000 for audit services paid or accrued to an independent accounting firm, and \$2,000 paid or accrued to an outsource organization to maintain the Corporation's accounting records (Duguay & Ringler Corporate Services) (See "- Related Party Transactions" above).

#### **Disclosure controls**

Management accepts responsibility for the reliability and timeliness of the information disclosed and has ensured that there are disclosure controls and procedures in place which provide reasonable assurance that material information relating to U3O8 is disclosed on a timely basis, particularly information relevant to the period in which annual and interim filings are being prepared. The Board of Directors assesses the

integrity of U3O8's public financial disclosure controls in place through the supervision of the Audit Committee. Management believes these disclosure controls and procedures have been effective for the year ended December 31, 2006.

### **Internal controls**

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have been involved in the design of internal controls over financial reporting and believe them to be reasonable.

The Corporation has minimal risk in Canada regarding the accounting function. The Corporation is relying on the internal processes of Duguay & Ringler Corporate Services for internal control purposes. The CEO and CFO have reviewed the documentation and are satisfied that the processes in Canada have minimal risk. It must be noted that the CFO is a partner in Duguay & Ringler Corporate Services. See "Related party transactions" above.

The Corporation has risk in Guyana due to the following items:

- Lack of segregation of duties
- Lack of accounting experience with Canadian GAAP
- Lack of computer technology controls

The Corporation is mitigating the risk by hiring a third party accounting firm in Guyana that has partners who are members of the Association of Chartered Certified Accountants and are a correspondent firm of Grant Thornton International. The hired firm is not registered with the Canadian Public Accountability Board. This firm has been hired to serve as a controller for all Guyana operations where:

- The accounting firm will not issue any cheques unless full documentation is present
- The accounting firm will compile the records of Prometheus Guyana on a monthly basis for CFO review
- The accounting firm will monitor and control the advances provided to employees, officers and suppliers in Prometheus Guyana
- The accounting firm will compile the records of Prometheus Guyana on a quarterly basis for securities reporting purposes
- The accounting firm partner/controller in charge of the account of Prometheus Guyana will provide an internal certification to the CEO and CFO of U3O8 stating that he or she has complied with set criteria initiated by the CEO and CFO

The Corporation has also taken a position that all funds raised through public offerings will be kept in Canada. This step will limit the cash position in Guyana. To fund operations in Guyana, a monthly cash call will be prepared by the Vice President and Country Manager of Prometheus Guyana and is submitted to the CEO and CFO for approval. No balance greater than US\$200,000 is present in Guyana at any one time.

Prometheus Guyana also mitigates risk in Guyana by:

- Having all cheques signed by two officers/employees of Prometheus Guyana
- Having all invoices approved by officers of Prometheus Guyana
- Requiring that officers of U3O8 and Prometheus Guyana use management oversight to review the operations of Prometheus Guyana. This means that management in Canada and Guyana will ensure that to the best of their knowledge (a) there has been no misappropriation of funds in Prometheus Guyana and (b) all funds in Prometheus Guyana have been spent on the development of the Corporation's uranium projects in Guyana.
- Having all invoices, receipts, bills, and vouchers approved and coded by management in Guyana

- Individuals who have access to cash funds in Guyana are required to sign an internal certification. The individuals signing the internal certification are certifying that they have complied with set criteria initiated by the CEO and CFO of the Corporation.

The Corporation recognizes there is risk associated with the Guyana operations. It is noted that U3O8 is a junior resource exploration company in the business of exploring for uranium. This is a high risk investment and management of U3O8 believes that funds should be invested in exploration rather than in costly administrative functions and controls. With this view, U3O8 has taken reasonable control measures to address current internal control limitations and current and potential investors should be aware of this when making an investment decision.

### **Share capital**

As at April 26, 2007, the Corporation had 22,981,500 issued and outstanding Common Shares. As at April 26, 2007, U3O8 had 644,500 broker warrants and 2,050,000 stock options outstanding.

### **Risk and uncertainties**

#### **Exploration, Development and Operating Risks**

Mining and exploration operations generally involve a high degree of risk. The operations of U3O8 are subject to all the hazards and risks normally encountered in the exploration, development and production of precious and base metals and other minerals, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability.

The exploration for and development of mineral deposits involves significant risks which may not be eliminated even with a combination of careful evaluation, experience and knowledge. While the discovery of uranium and other minerals may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes, and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by U3O8 will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as quantity and quality of the minerals and proximity to infrastructure; mineral prices which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, and environmental protection. The exact effect of these factors cannot be accurately predicted but the combination of these factors may result in U3O8 not receiving an adequate return on invested capital.

There is no certainty that the expenditures made by U3O8 towards the search and evaluation of uranium and other minerals will result in discoveries of commercial quantities of ore or other minerals.

#### **Exclusivity of the Reconnaissance Permits**

While Permit "B" grants Prometheus Guyana the exclusive right to occupy the Permit "B" Area and to conduct geological and geophysical surveys for radioactive minerals and rare earth elements save and except such portions of the Permit "B" Area as were lawfully occupied or applied for by persons other than Prometheus Guyana previous to May 2, 2006, and all navigable rivers and Amerindian lands, it does not contain a closure clause similar to that of Permit "A". Accordingly, Permit "B" is not closed during the term of Permit "B" to third parties conducting other activities including prospecting, mining or the location of claims; prospecting permits (medium scale), prospecting licenses or for any other mineral rights

available under the law of Guyana which rights may be issued to third parties during the term of Permit "B". However, the Corporation has obtained a comfort letter from the GGMC confirming that in the event that the Corporation pays all applicable fees and maintains the Reconnaissance Permits in good standing during the respective terms thereof, the GGMC shall not, during such respective terms, issue any of the following rights to any third parties or provide third parties with the right to conduct any of the following activities concerning uranium, radioactive minerals or rare earth elements within either the Permit "A" Area or Permit "B" Area, as applicable: (i) any rights relating to prospecting, mining or the location of claims for uranium radioactive minerals or rare earth elements; (ii) prospecting permits (medium scale) or prospecting licenses or mining licenses for uranium radioactive minerals or rare earth elements; or (iii) any other mineral rights relating to uranium radioactive minerals or rare earth elements available under the laws of Guyana. However, such a comfort letter is not legally enforceable against the GGMC and, accordingly, there can be no assurance that other mineral rights available under the laws of Guyana for the Permit "B" Area will not be granted to third parties by the GGMC during the term of the Permit "B" Permit.

In addition, the Permit "A" area and Permit "B" area remain open during their respective terms to prospecting, mining or location of claims, prospecting permits (medium scale), prospecting licenses and for any other rights available under the laws of Guyana relating to minerals other than uranium, radioactive minerals and rare earth elements.

Accordingly, Prometheus Guyana may be unable to conduct activities contemplated by Permit "A" and Permit "B" or in the future operate the land subject to Permit "A" or Permit "B" as permitted or desired, or to enforce its right with respect to such land where rights have been granted to third parties, which may in turn have an adverse material effect on U3O8.

### **Insurance and Uninsured Risks**

The business of U3O8 is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the properties of U3O8 or the properties of others, delays in mining, monetary losses and possible legal liability.

U3O8 currently maintains liability insurance and directors' and officers' insurance; however, such insurance will not cover all the potential risks associated with a mining and/or exploration Corporation's operations. U3O8 may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to U3O8 or to other companies in the mining and exploration industry on acceptable terms. U3O8 might also become subject to liability for pollution or other hazards which it may not be insured against or which U3O8 may elect not to insure against because of premium costs or other reasons. Losses from these events may cause U3O8 to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

### **Environmental Risks and Hazards**

All phases of the operations of U3O8 are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future

changes in environmental regulation, if any, will not adversely affect the operations of U3O8. Environmental hazards may exist on the properties on which U3O8 holds interests which are unknown to U3O8 at present and which have been caused by previous or existing owners or operators of the properties. While the U3O8 Group intends to commission a baseline assessment to establish previous environmental disturbances on the land covered by Reconnaissance Permits, such an assessment may not protect the U3O8 Group from claims that result from previous owners of the land covered by the Reconnaissance Permits.

Government approvals, approval of aboriginal people and permits are currently and may in the future be required in connection with the operations of U3O8. To the extent such approvals are required and not obtained, U3O8 may be curtailed or prohibited from continuing its exploration operations or from proceeding with planned exploration or development of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining or exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on U3O8 and cause increases in exploration expenses, capital expenditures or production costs, or reduction in levels of production at producing properties, or require abandonment or delays in development of new mining or exploration properties.

An accident at a nuclear reactor anywhere in the world could impact on the continued acceptance by the public and regulatory authorities of nuclear energy and the future prospects for nuclear generators, which could have a material adverse effect on U3O8.

### **Infrastructure**

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the operations, financial condition and results of operations of U3O8.

## **Ownership of Reconnaissance Permits**

Although ownership of the Reconnaissance Permits was reviewed by or on behalf of U3O8, there may still be undetected defects affecting the Reconnaissance Permits. Insurance generally is not available for ownership defects, and U3O8's ability to ensure that it has obtained secure claim to individual Reconnaissance Permits may be severely constrained. Furthermore, U3O8 has not conducted surveys of the Reconnaissance Permits in which it holds direct or indirect interests and, therefore, the precise area and location of the Reconnaissance Permits may be in doubt. Accordingly, the Reconnaissance Permits may be subject to prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, U3O8 may be unable to explore and in the future operate the land subject to the Reconnaissance Permits as permitted or to enforce its rights with respect to such land.

## **Competition**

The mining and mineral exploration industry is competitive in all of its phases. U3O8 faces strong competition from other mining and exploration companies in connection with the acquisition of properties producing, or capable of producing, uranium and uranium oxide. Many of these companies have greater financial resources, operational experience and technical capabilities than U3O8. As a result of this competition, U3O8 may be unable to maintain or acquire attractive mining or exploration properties on terms it considers acceptable or at all. Consequently, the revenues, operations and financial condition of U3O8 could be materially adversely affected.

Nuclear energy competes with other sources of energy, including oil, natural gas, coal and hydro-electricity. These other energy sources are to some extent interchangeable with nuclear energy, particularly over the longer term. Sustained lower prices of oil, natural gas, coal and hydro-electricity, as well as the possibility of developing other low cost sources for energy, may result in lower demand for uranium. Furthermore, growth of the uranium and nuclear power industry will depend upon continued and increased acceptance of nuclear technology as a means of generating electricity. Because of unique political, technological and environmental factors that affect the nuclear industry, the industry is subject to public opinion risks which could have an adverse impact on the demand for nuclear power and increase the regulation of the nuclear power industry.

## **Additional Capital**

The development and exploration of the properties of U3O8 will require substantial additional financing. Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration, development or production on any or all of the properties of U3O8 or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to U3O8.

## **No Mineral Resources or Mineral Reserves**

No mineral resources or mineral reserves have been attributed to the properties underlying the Reconnaissance Permits and U3O8 holds no other property interests as of the date of this MD&A.

The exploration of the area encompassed within U3O8's properties must be considered to be in an early stage. There is no assurance that any mineralization will be discovered in economic quantities, if at all. The long-term viability of U3O8 depends upon its ability to find or acquire, develop and commercially produce base metals and other minerals.

## **Commodity Prices**

The price of the Common Shares, U3O8's financial results and exploration, development and mining activities may in the future be significantly and adversely affected by declines in the price of uranium

oxide. The price of uranium oxide or other minerals fluctuates widely and is affected by numerous factors beyond U3O8's control such as interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, the political and economic conditions of major mineral-producing and uranium-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges.

The market prices of uranium are affected by rates of reclaiming and recycling of uranium and rates of production of uranium from mining, and may be affected by a variety of unpredictable international economic, monetary and political considerations, including increased efficiency of nuclear power plants and increased availability of alternative nuclear fuel, such as mixed oxide fuel generated in part from weapons grade plutonium.

The price of uranium is also tied directly to the worldwide electrical utility industry. Deregulation of the utility industry, particularly in the United States and Europe, is expected to impact the market for nuclear and other fuels for years to come, and may result in the premature shutdown of nuclear reactors. Experience to date with deregulation indicates that utilities are improving the performance of their reactors and thereby achieving record capacity factors. There can be no assurance that this trend will continue.

Future serious price declines in the market value of uranium oxide or other minerals could cause continued development of and commercial production from the properties of U3O8 to be impracticable. Depending on the price of uranium oxide and other minerals, any cash flow from future mining operations may not be sufficient and U3O8 could be forced to discontinue production, if any, and may lose its interest in, or may be forced to sell, some of its properties. Future production, if any, from the mining properties of U3O8 is dependent upon the prices of uranium oxide and other minerals being adequate to make these properties economic.

In addition to adversely affecting U3O8's future reserve estimates (if any) and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

### **Exchange Rate Fluctuations**

Exchange rate fluctuations may affect U3O8. Uranium oxide and other minerals are generally sold in U.S. dollars and the costs of U3O8 are incurred principally in U.S. dollars or the Guyanese dollar, the local currency in Guyana that is fixed to the U.S. dollar. The relative rate of exchange of the Canadian dollar to the U.S. dollar or policy changes regarding the trading of the Guyanese dollar can have an impact on the U3O8 Group's profitability and cash needs.

### **Foreign Operations**

A majority of the operations of U3O8 are currently conducted in Guyana, South America and as such, the operations of U3O8 are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to, currency exchange rates; high rates of inflation; labour unrest; renegotiation or nullification of existing concessions, licenses, permits and contracts; changes in taxation policies; restrictions on foreign exchange; and changing political conditions; currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining, exploration or investment policies or shifts in political attitude in Guyana may adversely affect the operations or profitability of U3O8. Operations may be affected in varying degrees by

government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of U3O8.

### **Government Regulation**

The mining, processing, development and mineral exploration activities of U3O8 are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people, and other matters. Although the mining and processing operations and exploration and development activities of U3O8 are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of mining and milling or more stringent implementation thereof could have a substantial adverse impact on U3O8.

### **Market Price of Common Shares**

The Common Shares currently trade on the TSX Venture Exchange. Securities of micro-cap and small-cap companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. The price of the Common Shares is also likely to be significantly affected by short-term changes in precious metals and uranium oxide or other mineral prices, or in its financial condition or results of operations as reflected in its quarterly earnings reports. Other factors unrelated to U3O8's performance that may have an effect on the price of the Common Shares include the following: the extent of analytical coverage available to investors concerning U3O8's business may be limited if investment banks with research capabilities do not follow the Corporation's securities; lessening in trading volume and general market interest in the Corporation's securities may affect an investor's ability to trade significant numbers of Common Shares; the size of the Corporation's public float may limit the ability of some institutions to invest in the Corporation's securities; and a substantial decline in the price of the Common Shares that persists for a significant period of time could cause the Corporation's securities, if listed on an exchange, to be delisted from such exchange, further reducing market liquidity.

As a result of any of these factors, the market price of the Common Shares at any given point in time may not accurately reflect U3O8's long-term value. Securities class-action litigation often has been brought against companies following periods of volatility in the market price of their securities. U3O8 may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

**Additional Information - Administrative and General**

<b>Administrative and general</b>	<b>Twelve Months Ended December 31, 2006</b>	<b>Period Ended December 6, 2005 to December 31, 2006</b>
Office supplies and postage	\$6,625	\$nil
Directors' insurance	4,563	nil
Bank service charges	1,582	nil
Telephone	3,558	nil
Internet Website	14,689	nil
Rent	19,390	nil
	\$50,407	\$nil

**U308 CORP.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**  
**(AUDITED)**

## **Management's Responsibility for Consolidated Financial Statements**

The accompanying consolidated financial statements and all of the data included in this report have been prepared by and are the responsibility of the management of the Corporation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments based on currently available information. The Corporation has developed and maintains systems of internal accounting controls in order to assure, on a reasonable and cost-effective basis, the reliability of its financial information, and that the assets are safeguarded from loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board which meets to satisfy itself that management's responsibilities are properly discharged and with the external auditors to review the consolidated financial statements before they are presented to the Board of Directors for approval.

The consolidated financial statements for the year and period ended December 31, 2006 and December 31, 2005 were audited by McCarney Greenwood LLP Chartered Accountants. Their report outlines the scope of their examination and opinion on the financial statements.

(signed)

Allan Ibbitson  
President and Director

(signed)

Carmelo Marrelli  
Chief Financial Officer

Toronto, Canada  
April 15, 2007

## Auditors' Report

To the Shareholders of U308 Corp.

We have audited the consolidated balance sheets of U308 Corp. (a development stage company) as at December 31, 2006 and December 31, 2005 and the related statements of operations and deficit and cash flows for each of 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 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 December 31, 2006 and December 31, 2005 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

"McCarney Greenwood LLP"

**McCarney Greenwood LLP**  
Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
April 6, 2007

**U308 Corp.**  
**Consolidated Balance Sheets**  
**(A Development Stage Company)**  
**(Audited)**

	December 31, 2006	December 31, 2005
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 2(c))	\$ 3,552,691	\$ 473,850
Short term investments (note 2(d))	25,010,898	-
Accounts receivable	29,763	4,971
Prepays and deposits	91,130	-
Loan receivable	-	49,602
Deferred costs	-	9,554
	28,684,482	537,977
Property and equipment (note 7)	295,485	-
	\$ 28,979,967	\$ 537,977
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 604,131	\$ 61,220
<b>Shareholders' equity</b>		
Share capital (note 8)	29,606,277	3,750
Warrants (note 12)	908,952	-
Contributed surplus (note 11)	595,595	-
Shares to be issued	-	491,500
Accumulated deficit	(2,734,988)	(18,493)
	28,375,836	476,757
	\$ 28,979,967	\$ 537,977

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

Nature of operations and going concern (note 1)

Commitments (note 16)

Approved by the Board of Directors:

"Allan Ibbitson" \_\_\_\_\_ Director

"David Constable" \_\_\_\_\_ Director

**U308 Corp.**  
**Consolidated Statements of Operations and Deficit**  
**(A Development Stage Company)**  
**(Audited)**

	Twelve months ended December 31 2006	December 6, 2005 to December 31, 2005	Cumulative from inception to December 31, 2006 (note 1)
<b>Expenses</b>			
Directors' stock based compensation (note 10(2))	\$ 349,456	\$ -	\$ 349,456
Business development	214,262	8,493	222,755
Consulting fees (note 9(iii))	154,000	-	154,000
Investor relations	126,849	-	126,849
Professional fees	98,765	10,000	108,765
Amortization	98,159	-	98,159
Capital tax - Canada (Ontario)	60,000	-	60,000
Administrative and general	50,407	-	50,407
Management compensation	48,620	-	48,620
Reporting issuer costs	43,922	-	43,922
Interest (note 6)	8,482	-	8,482
Foreign exchange gain	(17,576)	-	(17,576)
	1,235,346	18,493	1,253,839
Less: Interest income	(17,226)	-	(17,226)
	1,218,120	18,493	1,236,613
<b>Operating loss before exploration expenditures in Guyana</b>	(1,218,120)	(18,493)	(1,236,613)
Exploration expenditures in Guyana (note 4)	1,498,375	-	1,498,375
<b>Operating loss</b>	(2,716,495)	(18,493)	(2,734,988)
<b>Accumulated deficit, beginning of period</b>	(18,493)	-	-
<b>Accumulated deficit, end of period</b>	\$ (2,734,988)	\$ (18,493)	\$ (2,734,988)
<b>Basic and diluted loss per share (note 8(c))</b>	\$ (0.29)	\$ (0.00)	
<b>Weighted average number of common shares outstanding</b>	9,373,014	3,750,000	

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

**U308 Corp.**  
**Statements of Cash Flows**  
**(A Development Stage Company)**  
**(Audited)**

	Twelve months ended December 31 2006	December 6, 2005 to December 31, 2005	Cumulative from inception to December 31, 2006 (note 1)
<b>Operating activities</b>			
Operating loss	\$ (2,716,495)	\$ (18,493)	\$ (2,734,988)
Amortization	98,159	-	98,159
Stock-based compensation (note 10(2))	595,595	-	595,595
Foreign exchange gain	(5,703)	-	(5,703)
Changes in non-cash working capital items:			
Accounts receivable	(22,542)	(4,971)	(27,513)
Prepays and deposits	(91,130)	-	(91,130)
Deferred costs	9,554	(9,554)	-
Accounts payable and accrued liabilities	542,911	61,220	604,131
	(1,589,651)	28,202	(1,561,449)
<b>Financing activities</b>			
Common shares to be issued	(491,500)	491,500	
Common shares issued for cash	32,650,000	3,750	32,653,750
Cost to issue equity securities (note 8(b))	(2,140,771)	-	(2,140,771)
	30,017,729	495,250	30,512,979
<b>Investing activities</b>			
Purchase of short term investments	(25,010,898)	-	(25,010,898)
Loan receivable	49,602	(49,602)	-
Issue and repayment of promissory note, net (note 6)	-	-	-
Acquisition of property and equipment	(393,644)	-	(393,644)
	(25,354,940)	(49,602)	(25,404,542)
<b>Change in cash and cash equivalents</b>	<b>3,073,138</b>	<b>473,850</b>	<b>3,546,988</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>473,850</b>	<b>-</b>	<b>-</b>
<b>Effect of exchange rate changes on cash held in foreign currencies</b>	<b>5,703</b>	<b>-</b>	<b>5,703</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,552,691</b>	<b>\$ 473,850</b>	<b>\$ 3,552,691</b>

Supplemental cash flow information (note 17 and 18)

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

**U308 Corp.**  
**Notes to Consolidated Financial Statements**  
**(A Development Stage Company)**  
**(Audited)**

**December 31, 2006 and December 31, 2005**

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**1. Nature of operations and going concern**

U308 Corp. ("U308" or the "Corporation") is a Canadian junior exploration company engaged in acquiring and exploring mineral properties for uranium. Since inception ("December 6, 2005" being the date of incorporation), the efforts of the Corporation have been devoted to the development of properties for production of uranium in Guyana. To date, U308 has not earned any revenues from uranium exploration and is considered to be in the development stage.

As at December 31, 2006, the Corporation has not made an application for a prospecting license for uranium in Guyana. There are no assurances that a prospecting license will be issued to the Corporation when it makes this application to the Government of Guyana.

The exploration and development of uranium mineral properties in Guyana involves significant financial risk. In the event these properties are determined to be commercially viable, additional financing will be required.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. For the year ended December 31, 2006, the Corporation reported a loss of \$2.7 million and an accumulated deficit of \$2.7 million at that date. In addition to its working capital requirements, the Corporation must secure sufficient funding to meet its spending and purchase option obligations with respect to its reconnaissance permits in order to keep legal title and advance the projects. There are \$11.3 million in existing commitments as at December 31, 2006. The Corporation will have to secure additional financing to meet its required commitments. These circumstances lend substantial doubt as to the ability of the Corporation to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Corporation's ability to continue as a going concern is dependent upon its ability to fund its working capital and exploration requirements and eventually to generate positive cash flows, either from operations or sale of a prospecting licence(s). These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

**2. Summary of significant accounting policies**

The following is a summary of significant accounting policies used in the preparation of these financial statements:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiary in Barbados, Prometheus Resources (Barbados) Limited ("Prometheus") and in Guyana, Prometheus Resources (Guyana) Inc. (the "Permittee") which were formed to facilitate the acquisition, exploration and development of uranium mineral properties in Guyana.

**U308 Corp.**  
**Notes to Consolidated Financial Statements**  
**(A Development Stage Company)**  
**(Audited)**

**December 31, 2006 and December 31, 2005**

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**2. Summary of significant accounting policies (continued)**

(b) 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 at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ significantly from these estimates.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, deposits held at call and certificate of deposits that are highly liquid and convertible into known amounts of cash. Cash and cash equivalents are reported separately from bank overdraft balances, which are included in accounts payable and accrued liabilities.

(d) Short term investments

Short term investments represent investments in guaranteed investment certificates with maturity dates of more than ninety days from year end. Short term investments are carried at cost. The carrying value of the guaranteed investment certificates held by the Company approximates their fair value. All guaranteed investment certificates are held with Canadian chartered banks.

(e) Mineral and surface rights

Mineral and surface rights are recorded at cost of acquisition. When there is little likelihood of a mineral right being exploited, or the value of mineral rights have diminished below cost, a write-down is effected against income in the period that such determination is made.

(f) Exploration expenditures

Exploration expenditures are expensed as incurred. When a decision is made that commercial production on a mining property should commence, all further pre-production expenditures are capitalized. These costs include evaluation costs.

(g) Asset retirement obligations

The Corporation measures the expected costs required to retire its mining interests at a fair value which approximates the cost a third party would incur in performing the tasks necessary to abandon the field and restore the site. The fair value is recognized in the financial statements at the present value of expected future cash outflows to satisfy the obligation.

Asset retirement costs are depleted using the unit of production method based on estimated reserves and are included with depletion and amortization expense. The accretion of the liability for the asset retirement obligation is included in the statement of operations and deficit.

As at December 31, 2006 the Corporation did not have an asset retirement obligation.

**U308 Corp.**  
**Notes to Consolidated Financial Statements**  
**(A Development Stage Company)**  
**(Audited)**

**December 31, 2006 and December 31, 2005**

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**2. Summary of significant accounting policies (continued)**

(h) Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. Future tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not they will be realized.

(i) Property and equipment

Property and equipment are recorded at cost.

Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates:

Vehicles	-	30% declining balance
Earth moving equipment	-	30% declining balance
Furniture and fixtures	-	20% to 30% declining balance
Field equipment	-	20% declining balance

(j) Foreign exchange

The functional currency of the Corporation is the Canadian dollar. The Corporation's foreign operations are classified as integrated for foreign currency translation purposes. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate during the year with the exception of amortization which is translated at the historical rate recorded for equipment. Exchange gains and losses arising on the translation of monetary assets and liabilities are included in the determination of income for the current period.

(k) Stock-based compensation

The Company has a stock-based compensation plan which is described in Note 10 and accounted for using the recommendations in Section 3870 of the CICA Handbook, "Stock-based Compensation and Other Stock based Payments". These recommendations state that all stock-based awards be measured and recognized at the date of grant using the fair value method. The estimated fair value of the stock options is recorded as compensation expense over the vesting period or at the date of grant if the options vest immediately, with the offset recorded in contributed surplus. Any consideration paid to the company with the respect to the exercise of stock options is credited to share capital along with any related contributed surplus.

(l) Earnings per share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the year. Diluted earnings per share is computed using the "treasury

stock method". The treasury stock method assumes that any "in the money" option proceeds are used to purchase common shares of the Company at the average market price during the year.

(m) New Accounting pronouncements

In January 2005, the Canadian Institute of Chartered Accountants issued four new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3251, Equity, Handbook Section 3855, Financial Instruments - Recognition and Measurement and Handbook Section 3865, Hedges. These standards are effective for interim and annual financial statements for companies with reporting periods beginning on or after October 1, 2006.

### **3. Mineral and surface rights**

(a) Reconnaissance Permit "A"

The Permittee acquired Reconnaissance Permit "A" ("Permit "A") from the Guyana Geology and Mines Commission ("GGMC") in Guyana on November 28, 2005. Permit "A" allows the Corporation to carry out geological and geophysical surveys for uranium over an area of 579,500 hectares (1.4 million acres) (the "Area") in western Guyana, South America. The exclusive right to occupy the Area was granted by the GGMC for a period of thirty-six (36) months from November 23, 2005. Terms of Permit "A" are as follows:

(1) the Permittee shall pay fees for the first twelve (12) months of Permit "A" in advance to the GGMC in the amount of US\$15,000 (C\$17,651) (paid). For the second twelve (12) month period the Permittee shall pay in advance fees in the amount of US\$20,000 (C\$24,786) (paid). For the third twelve (12) month period, the Permittee shall pay in advance fees in the amount of US\$30,000. All amounts are payable without demand and are non-refundable.

(2) During the thirty-six (36) month term, the Permittee has the right to stake up to 15 Large Scale Prospecting Licences for uranium at any time within the Area provided that (i) the Permittee has satisfied the requirements of the GGMC approved work program regarding Permit "A", in the amount of US\$301,700 (completed - the Permittee has performed the approved work program but has not received formal written consent from the GGMC that the approved work program has been satisfied), and (ii) satisfactory proof has been furnished to the GGMC that the Corporation has adequate financial resources and technical capability to develop each Prospecting License for uranium.

(3) The Corporation must also submit and receive approval from the GGMC for a work program for each Prospecting Licence Application.

(4) The Permittee shall submit to the GGMC, all raw and analytical data, duplicate samples, maps, field and statistical data from the Area, together with a final report upon expiration of Permit "A". Any discovery of minerals during the term of Permit "A" shall be described in the report. Quarterly progress reports shall be submitted at the end of each calendar quarter.

The Corporation has filed all required quarterly progress reports as of December 31, 2006, except for the December 31, 2006 quarterly report which was filed in January 2007.

(5) No other parties are permitted to acquire a uranium Prospecting Licence in the Area while Permit "A" is active.

**U308 Corp.**  
**Notes to Consolidated Financial Statements**  
**(A Development Stage Company)**  
**(Audited)**

**December 31, 2006 and December 31, 2005**

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**3. Mineral and surface rights (continued)**

(b) Reconnaissance Permit "B"

The Permittee acquired Reconnaissance Permit "B" ("Permit "B") from the GGMC on June 1, 2006. Permit "B" allows the Corporation to carry out geological and geophysical surveys for radioactive minerals (including uranium) and rare earth elements over an area of 746,310 hectares (1.8 million acres) ("Area II") in western Guyana, South America. The exclusive right to occupy Area II was granted by the GGMC for a period of thirty-six (36) months from May 31, 2006. Terms of Permit "B" are as follows:

(1) The Permittee shall pay fees for the first twelve (12) months of Permit "B" in advance to the GGMC in the amount of US\$25,000 (C\$29,143) (paid). For the second twelve (12) month period the Permittee shall pay in advance fees in the amount of US\$35,000. For the third twelve (12) month period, the Permittee shall pay in advance fees in the amount of US\$50,000. All amounts are payable without demand and are non-refundable.

(2) During the thirty-six (36) month term, the Permittee has the right to stake up to 20 Large Scale Prospecting Licenses for radioactive minerals and rare earth elements within Area II provided that (i) the Permittee has satisfied the requirements of the GGMC approved work program regarding Permit "B" (at the date of signing Permit "B", no work program was provided to the GGMC) - the Company received Permit B based on the merits of the Company, and (ii) satisfactory proof has been furnished to the GGMC that the Corporation has adequate financial resources and technical capability to develop each Prospecting License. The Corporation must also submit and receive approval from the GGMC for a work program for each Prospecting Licence Application.

(3) The Permittee shall submit to the GGMC, all raw and analytical data, duplicate samples, maps, field and statistical data from Area II, together with a final report upon expiration of Permit "B". Any discovery of minerals during the term of Permit "B" shall be described in the report. Quarterly progress reports shall be submitted at the end of each calendar quarter.

The Corporation has filed all required quarterly progress reports as of December 31, 2006, except for the December 31, 2006 quarterly report which was filed in January 2007.

(4) No other parties are permitted to acquire Prospecting Licenses radioactive minerals and rare earth elements in Area II while Permit "B" is active.

(5) The Permittee does not have full access to all lands covered in Permit "B". The Corporation will have to get permission from Amerindian natives to explore their occupied lands in Area II. At the present time, the Corporation is not exploring any Amerindian lands.

(c) Reconnaissance permit "B" - rare earth elements

The Corporation's core business is acquiring and exploring mineral properties in Guyana for uranium. If the Corporation discovers a rare earth element, U308 management will evaluate the non-core business opportunity at the time the rare earth element is discovered.

**U308 Corp.**  
**Notes to Consolidated Financial Statements**  
**(A Development Stage Company)**  
**(Audited)**

**December 31, 2006 and December 31, 2005**

**4. Exploration expenditures in Guyana**

The following uranium exploration activities have occurred in Guyana:

	Cumulative	
		from inception to December 31, 2006 (note 1)
	Twelve months ended December 31, 2006	
Reconnaissance permit "A" exploration costs (i)	\$ 798,958	\$ 798,958
Reconnaissance permit "B" exploration costs (ii)	7,463	7,463
Reconnaissance permit "B" acquisition cost	29,143	29,143
Project administration and general (iii)	350,183	350,183
Reconnaissance permit "A" acquisition cost	42,437	42,437
Exploration camp maintenance costs (iv)	270,191	270,191
<b>Total and cumulative expenditures during the year</b>	<b>\$ 1,498,375</b>	<b>\$ 1,498,375</b>

(i) Reconnaissance Permit "A" exploration costs consist of:

	Twelve months ended December 31, 2006	Cumulative from inception to December 31, 2006 (note 1)
Airborne geophysical survey	\$ 582,035	\$ 582,035
Salaries and benefits	67,428	67,428
Drilling supplies	28,207	28,207
Consulting	58,360	58,360
Travel	25,265	25,265
Reports	7,463	7,463
Software	6,996	6,996
Data management	6,451	6,451
Field supplies	6,254	6,254
Assays	4,523	4,523
Lab analysis	3,500	3,500
Equipment transportation	2,476	2,476
<b>Total and cumulative expenditures during the year</b>	<b>\$ 798,958</b>	<b>\$ 798,958</b>

**U308 Corp.**  
**Notes to Consolidated Financial Statements**  
**(A Development Stage Company)**  
**(Audited)**

**December 31, 2006 and December 31, 2005**

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**4. Exploration expenditures in Guyana (continued)**

(ii) Reconnaissance Permit "B" exploration costs consist of:

	Twelve months ended December 31, 2006	Cumulative from inception to December 31, 2006 (note 1)
Reports	\$ 7,463	\$ 7,463
<b>Total and cumulative expenditures during the year</b>	<b>\$ 7,463</b>	<b>\$ 7,463</b>

(iii) Project administration and general costs consist of:

	Twelve months ended December 31, 2006	Cumulative from inception to December 31, 2006 (note 1)
Salaries and benefits	\$ 215,108	\$ 215,108
Travel	33,914	33,914
Rental of office and storage	23,810	23,810
Professional fees	19,546	19,546
Communications	12,544	12,544
Office and general	10,266	10,266
Maintenance	10,029	10,029
Meals and entertainment	9,556	9,556
Casual labour	8,012	8,012
Accommodation	4,439	4,439
Community relations	1,560	1,560
Corporation's portion of source deductions	732	732
Insurance	667	667
<b>Total and cumulative expenditures during the year</b>	<b>\$ 350,183</b>	<b>\$ 350,183</b>

**U308 Corp.**  
**Notes to Consolidated Financial Statements**  
**(A Development Stage Company)**  
**(Audited)**

**December 31, 2006 and December 31, 2005**

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**4. Exploration expenditures in Guyana (continued)**

(iv) Exploration camp maintenance costs consist of:

	Twelve months ended December 31, 2006	Cumulative from inception to December 31, 2006 (note 1)
Salaries and benefits	\$ 108,189	\$ 108,189
Travel	70,660	70,660
Fuel	26,144	26,144
Camp supplies	33,734	33,734
Camp accommodation	3,628	3,628
Freight	2,924	2,924
General exploration	6,505	6,505
Casual labour	4,351	4,351
Repairs and maintenance	7,394	7,394
Insurance	409	409
Corporation's portion of source deductions	4,326	4,326
Medical	1,061	1,061
Maps	443	443
Meals and entertainment	423	423
<b>Total and cumulative expenditures during the year</b>	<b>\$ 270,191</b>	<b>\$ 270,191</b>

**5. Corporate reorganization**

A U308 director (the "Founder") incorporated two companies; the Permittee and Prometheus. The Founder was the sole shareholder of both companies until the following transactions occurred:

(1) On January 20, 2006, the Permittee became a subsidiary of Prometheus as a result of the Founder delivering 100% of the outstanding securities of the Permittee to Prometheus for the sum of \$585 (100,000 Guyana dollars).

(2) On April 19, 2006, the Founder delivered 100% of the outstanding securities of Prometheus to U308 in exchange for 2,250,000 common shares of U308 at a deemed price of \$0.001 per common share.

**U308 Corp.**  
**Notes to Consolidated Financial Statements**  
**(A Development Stage Company)**  
**(Audited)**

**December 31, 2006 and December 31, 2005**

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**6. Promissory note**

On August 11, 2006, the Corporation received \$200,000 from the issue of a promissory note bearing interest at 12% per annum. The principal amount together with all accrued and unpaid interest is due January 1, 2007 ("due date"). The promissory note may be prepaid in whole at any time or in part from time to time without notice or bonus.

On December 18, 2006, the Corporation paid the promissory note holder \$208,482 releasing the Corporation from any further obligations to the promissory note holder. Total interest paid to the promissory note holder was \$8,482.

The promissory note was owed to an investor who was issued 1,500,000 common shares on the oration.

**7. Property and equipment**

	December 31, 2006	December 31, 2005
<b>Guyana</b>		
Field equipment	\$ 264,767	\$ -
Vehicles	23,964	-
Earth moving equipment	67,385	-
Furniture and fixtures	21,336	-
	377,452	-
Less: accumulated amortization	(94,437)	-
	283,015	-
<b>Canada</b>		
Furniture and fixtures	16,192	-
Less: accumulated amortization	(3,722)	-
	12,470	-
	\$ 295,485	\$ -

**U308 Corp.**  
**Notes to Consolidated Financial Statements**  
**(A Development Stage Company)**  
**(Audited)**

**December 31, 2006 and December 31, 2005**

**8. Share capital**

(a) Authorized - Unlimited number of common shares

(b) Common shares issued

	Number of common shares	Stated value
Issued for cash on incorporation (note 9(i) and note 8(b)(1))	3,750,000	\$ 3,750
Balance, December 31, 2005	3,750,000	3,750
Purchase of Prometheus Resources (Barbados) Inc. (note 5(2))	2,250,000	2,250
Private placement (note 8(b)(2))	4,000,000	800,000
Private placement (note 8(b)(3))	800,000	1,600,000
Initial public offering (note 8(b)(4))	12,100,000	30,250,000
Cost to issue - cash	-	(2,140,771)
Cost to issue - broker warrants (note 8(b)(4))	-	(908,952)
<b>Balance, December 31, 2006</b>	<b>22,900,000</b>	<b>\$ 29,606,277</b>

(1) On December 6, 2005, an investor subscribed for 1,500,000 common shares for gross proceeds of \$1,500.

(2) On January 24, 2006, the Corporation closed a non-brokered private placement of 4,000,000 common shares at a price of \$0.20 per common share for aggregate proceeds of \$800,000.

(3) On October 12, 2006, the Corporation closed a non-brokered private placement of 800,000 common shares at a price of \$2.00 per common share for aggregate proceeds of \$1,600,000.

(4) On December 27, 2006, the Corporation completed an 11 million common share initial public offering ("IPO") at \$2.50 per common share pursuant to a final prospectus dated December 15, 2006. Given the effect of a 10% over allotment granted to the agents which has been exercised in full, the Corporation issued 12.1 million common shares from treasury on closing for gross proceeds of \$30,250,000. The net proceeds of the financing, including the overallotment and less \$1,815,000 in agent's fees and \$111,300 in agent's expenses, is \$28,323,700. The Corporation also issued 726,000 broker warrants to the agents. Each broker warrant is exercisable for one common share at a price of \$2.50 per share for a period of two years (December 27, 2008). The market value of each broker warrant was estimated on the date of grant using the Black-Scholes option pricing model. The market value was estimated to be \$908,952. The following assumptions were used in the Black-Scholes option pricing model calculation: dividend yield of 0%; expected volatility of 91%; risk-free interest rate of 3.82% and an expected average life of 2 years.

(c) Basic and diluted loss per share

No stock options or warrants were included in the computation of diluted loss per share for December 31, 2006 and 2005 as their inclusion would be anti-dilutive.

**U308 Corp.**  
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**9. Related party transactions not disclosed elsewhere**

The Corporation entered into the following transactions with related parties:

(i) During the year ended December 31, 2005, a director and a director who is an officer of the Corporation, subscribed for an aggregate of 2,250,000 common shares for gross proceeds of \$2,250.

(ii) On December 6, 2005, the Corporation entered into a verbal agreement to receive services from the Chief Financial Officer ("CFO") of the Corporation at a monthly rate of \$3,500 after the Corporation becomes a reporting issuer. The CFO is also a shareholder in a company providing corporate secretarial and accounting services to U308. During the year ended December 31, 2006, U308 expensed \$13,209 (December 31, 2005 - \$2,000) for services rendered by this firm. In addition, as at December 31, 2006, this firm was owed \$11,048 (December 31, 2005 - \$2,000) and this amount was included in accounts payable and accrued liabilities. This firm was also reimbursed for out-of-pocket expenses that occurred in the normal course of operations.

The CFO was also paid \$6,335 (December 31, 2005 - \$nil) for services that occurred in the normal course of operations.

(iii) The Corporation was charged \$154,000 (December 31, 2005 - \$nil) for consulting services rendered by directors and/or officers of the Corporation. No formal agreement exists between the Corporation and the directors and/or officers of the Corporation. The entire amount has been expensed in the statement of operations and deficit. Included in accounts payable and accrued liabilities at December 31, 2006 is \$96,205 (December 31, 2005 - \$38,814) owing to these related parties. The directors and/or officers of the Corporation were also reimbursed for out-of-pocket expenses that occurred in the normal course of operations.

(iv) The Corporation was charged \$8,592 for business development from an investor who subscribed for 1,500,000 common shares on December 6, 2005. As of December 31, 2006, the investor was owed \$9,042 (December 31, 2005 - \$nil)

These transactions are in the normal course of operations and are measured at the exchange value (the amount established and agreed to by the related parties), which approximates the arm's length equivalent value.

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**10. Stock options**

The Corporation maintains an employee stock option plan under which the Board of Directors, or a committee appointed for such purpose, may from time to time grant to employees, officers, directors of, consultants to, or investor relations consultants to, the Corporation, options to acquire common shares in such numbers, for such terms, and at such exercise prices, as may be determined by the Board or such committee.

The stock option plan provides that the maximum number of common shares in the capital of the Corporation that may be reserved for issuance for all purposes under the stock option plan shall not exceed 10% of the total issued and outstanding common shares at the time of the grant (on a non-diluted basis). The maximum number of common shares which may be reserved for issuance to any one optionee within any one year period pursuant to the stock option plan may not exceed 5% of the common shares issued and outstanding at the time of the grant.

The options are valid for a maximum of five years from the date of issue. Vesting of options shall be released from time to time as determined by the Board of Directors of the Corporation in accordance with applicable stock exchange or other regulatory requirements, options issued to investor relations consultants must vest in stages over not less than 12 months with no more than 1/4 of the options vesting in any three month period. The exercise price of options equals the closing price of the Corporation's stock on the last trading day prior to the date of grant and the minimum exercise price is \$0.10 per share.

The following table reflects the continuity of stock options for the year ended December 31, 2006 and the period ended December 31, 2005:

	<b>Number of Stock options</b>	<b>Weighted average exercise price (\$)</b>
Balance, December 6, 2005 and December 31, 2005	-	-
Issued during the year (2)	1,960,000	2.50
<b>Balance, December 31, 2006</b>	<b>1,960,000</b>	<b>2.50</b>

(1) The Corporation has 330,000 stock options available for grant as of December 31, 2006.

(2) On December 15, 2006, the Corporation granted an aggregate of 1,960,000 incentive stock options to directors, officers, consultants and key employees, pursuant to the Corporation's Stock Option Plan, at an exercise price of \$2.50 per share. The options are exercisable for a period of three years. For the purposes of the 1,960,000 options, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 94.03%; risk-free interest rate of 3.80% and an expected average life of 3 years. The estimated value of \$2,199,120 will be recorded as a debit to the relevant expense category and credited to contributed surplus as the options vest. The options vest over eighteen months as to one-quarter immediately, one-quarter on June 15, 2007, one-quarter on December 15, 2007 and one-quarter on June 15, 2008. The estimated impact on 2006 earnings is \$595,595 and is segregated into the following expense categories: - (Canadian operations) directors' compensation - \$349,456; management compensation - \$48,620; investor relations - \$30,387; and professional fees - \$9,116. - (Guyana operations) salaries and benefits - \$91,163; consulting - \$30,388; salaries and benefits - \$15,193 and Guyana salaries and benefits - \$21,272.

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**10. Stock options (continued)**

The following table reflects the actual stock options issued and outstanding and exercisable as of December 31, 2006:

<b>Expiry Date</b>	<b>Exercise price (\$)</b>	<b>Number of Options Outstanding</b>	<b>Number of Options Vested (Exercisable)</b>	<b>Number of Options Unvested</b>
(i) December 15, 2009	2.50	1,960,000	490,000	1,470,000

(i) The fair market value of each stock option using the Black-Scholes calculation is \$1.12. The weighted average remaining contractual life is 2.96 years.

**11. Contributed surplus**

Activity for the year ended December 31, 2006 and the period ended December 31, 2005 is as follows:

Balance, December 6, 2005 and December 31, 2005	\$ -
Stock-based compensation (note 10(2))	595,595
Balance, December 31, 2006	\$ 595,595

**12. Warrants**

The following table reflects the continuity of warrants for the year ended December 31, 2006 and the period ended December 31, 2005:

	<b>Number of Warrants</b>	<b>Weighted average exercise price (\$)</b>
Balance, December 6, 2005 and December 31, 2005	-	-
Issued during the year (note 8(b)(4))	726,000	2.50
Balance, December 31, 2006	726,000	2.50

The following table reflects the actual warrants outstanding as of December 31, 2006:

<b>Expiry Date</b>	<b>Number of warrants</b>	<b>Exercise price (\$)</b>	<b>Black-Scholes Value (\$)</b>
December 27, 2008	726,000	2.50	908,952

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**13. Income taxes**

Future tax assets are as follows:

	December 31, 2006	December 31, 2005
Future tax assets:		
Non-capital losses - Canada	\$ 361,942	\$ 6,596
Tax losses - Barbados	5,142	-
Tax losses - Guyana	539,340	-
Cost of Issue	618,597	-
Total future tax assets	1,525,021	6,596
Valuation allowance for future tax assets (1)	(1,525,021)	(6,596)
<b>Net future tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

(1) The Corporation has provided a valuation allowance equal to the future tax assets because it is not presently more likely than not that they will be realized.

The Corporation's actual income tax expense for each of the year and periods ended is made up as follows:

	Twelve months ended December 31, 2006	December 6, 2005 to December 31, 2005
Operating loss	\$ (2,716,495)	\$ (18,493)
Expected income tax recovery at statutory rate 36.12%	(981,198)	(6,680)
Statutory rate differences	19,546	-
Non deductible stock-based compensation	215,129	-
Deductible share issue costs	(154,649)	-
Amortization	1,344	-
Tax benefit not recognized	899,828	6,680
<b>Actual income tax expense</b>	<b>\$ -</b>	<b>\$ -</b>

As at December 31, 2006, the Corporation has Canadian non-capital losses of approximately \$1,002,000, Barbadian tax losses of \$20,000 and Guyanese tax losses of \$1,541,000. No benefit from these amounts has been recorded in the consolidated financial statements. The Canadian non-capital losses will expire as follows:

2015	\$ 18,000
2026	984,000
	<b>\$1,002,000</b>

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**14. Segmented information**

The Corporation primarily operates in one reportable operating segment, being the development of properties for production of uranium in Guyana. Segmented information on a geographic basis is as follows:

	Total Assets
<b>December 31, 2006</b>	
Assets	
Canada	\$ 28,544,731
Guyana	435,236
	<hr/>
	\$ 28,979,967

	Total Assets
<b>December 31, 2005</b>	
Assets	
Canada	\$ 537,977

The operating loss is presented on a geographic basis on the consolidated statements of operations and deficit for the year ended December 31, 2006 and for the period ended December 31, 2005.

**15. Financial instruments**

(i) Fair value

Canadian generally accepted accounting principles require that the Corporation disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying values for cash and cash equivalents, short term investments, accounts receivable and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of these instruments.

(ii) Commodity price risk

The ability of the Corporation to develop its properties and the future profitability of the Corporation is directly related to the market prices of uranium.

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**16. Commitments**

The Corporation's obligations over the next two years are as follows:

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(i) Complete Phase I and, if warranted, Phase II of the recommended program for the areas underlying the Reconnaissance Permits as disclosed in the Corporation's IPO Prospectus dated December 15, 2006	\$ 10,426,469
(ii) Optional expenses to fund future growth plans	760,000
(iii) Payments to the Government of Guyana	134,010
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	\$ 11,320,479

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i) US\$10,110,000 converted to Canadian dollars based upon the noon buying rate for US dollars as published by the Bank of Canada on December 14, 2006 of U.S.\$1.00 = Cdn\$1.1568, less an amount equal to Cdn\$1,268,779 in exploration expenditures previously incurred in furtherance of the recommended programs.

(ii) This amount represents expenses over the course of the ensuing 12 months which are not committed but required to fund the future growth plans of the Corporation, and include: (i) acquiring drilling equipment and accessories (\$360,000); (ii) helicopter support to perform exploratory work on the Permit "B" area (\$150,000); and (iii) investor relations and business development (\$200,000) and contingencies (\$50,000).

(iii) The following payments must be made to the Government of Guyana by the dates below to maintain the Reconnaissance Permits in good standing:

(U.S.\$1.00 = Cdn\$1.1653)

<u>Permit "A" Costs</u>		<u>Permit "B" Costs</u>	
Date	Amount	Date	Amount
November 2007	US\$30,000	June 2007	US\$35,000
		June 2008	US\$50,000

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**17. Supplemental cash flow information**

(a) In 2006, the Corporation issued 2,250,000 shares to purchase Prometheus.

(b) In 2006, the Corporation issued 726,000 broker warrants valued at \$908,952 to agents.

These transactions have not been reflected on the consolidated statements of cash flows, as they are non-cash transactions.

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**18. Other information**

	Twelve months ended December 31 2006	December 6, 2005 to December 31, 2005
Income taxes paid	\$ -	\$ -
Interest paid	\$ 8,482	\$ -

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**19. Subsequent events**

(a) Subsequent to December 31, 2006, 81,500 broker warrants were exercised for gross proceeds of \$203,750.

(b) On March 6, 2007, the Corporation granted 90,000 incentive stock options to two consultants for geological services, pursuant to the Corporation's Stock Option Plan. The incentive stock options are valid for three years, at an exercise price of \$3.63 per share. The estimated value of the 90,000 options was \$190,890 using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 89.03%; risk-free interest rate of 3.89% and an expected average life of 3 years.