# U3O8 CORP.

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## THREE AND SIX MONTHS ENDED JUNE 30, 2010

## (EXPRESSED IN CANADIAN DOLLARS)

## (UNAUDITED)

The **Uranium** Discovery Company

U3O8 CORP

# Management's Responsibility for Consolidated Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of U3O8 Corp. (the "Company") are the responsibility of the Board of Directors.

The unaudited condensed consolidated interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed consolidated interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the condensed consolidated interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34-Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited condensed consolidated interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited condensed consolidated interim financial statements and (ii) the unaudited condensed consolidated interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed consolidated interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed consolidated interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed consolidated interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed consolidated interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed)
Dr. Richard Spencer
President and Chief Executive Officer

(signed)
John Ross
Chief Financial Officer

Toronto, Canada
August 24, 2010

**NOTICE TO READER**

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of management. The unaudited condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2009 have not been reviewed by the Company's auditors.

The **Uranium** Discovery Company

U3O8 CORP

## U3O8 Corp.
**Condensed Consolidated Interim Statement of Financial Position**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | As at June 30, 2010 | As at December 31, 2009 (note 20) | As at January 1, 2009 (note 20) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents (note 8) | **$ 1,942,511** | $ 611,817 | $ 6,781,440 |
| Guaranteed investment certificates | **2,918,396** | 4,510,060 | 4,619,801 |
| Value-added taxes receivable | **532,830** | - | - |
| Accounts receivable and other assets (note 9) | **129,154** | 99,622 | 229,427 |
| **Total current assets** | **5,522,891** | 5,221,499 | 11,630,668 |
| **Non-current assets** | | | |
| Restricted cash (note 8(a)) | **77,552** | 46,839 | 49,500 |
| Property and equipment (note 7) | **1,199,065** | 1,150,546 | 1,470,211 |
| South American property interests (note 19) | **9,095,842** | - | - |
| **Total assets** | **$ 15,895,350** | $ 6,418,884 | $ 13,150,379 |
| **EQUITY AND LIABILITIES** | | | |
| **Current liabilities** | | | |
| Amounts payable and other liabilities (note 10) | **$ 600,991** | $ 288,167 | $ 516,921 |
| Due to Mega Uranium Ltd. (note 19) | **242,570** | - | - |
| | **843,561** | 288,167 | 516,921 |
| **Capital and reserves** | | | |
| Share capital (note 11) | **43,336,856** | 30,197,967 | 30,197,967 |
| Share-based payment reserve | **3,834,991** | 3,386,410 | 3,185,945 |
| Deficit | **(32,120,058)** | (27,453,660) | (20,750,454) |
| **Total equity** | **15,051,789** | 6,130,717 | 12,633,458 |
| **Total equity and liabilities** | **$ 15,895,350** | $ 6,418,884 | $ 13,150,379 |

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

Contingencies and commitments (note 18)

The **Uranium** Discovery Company

U3O8 CORP

# U3O8 Corp.

**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** (note 20) |
| **Expenses** | | | | |
| Exploration expenditures (note 14) | **$ 2,265,627** | $ 978,517 | **$ 3,408,102** | $ 2,833,277 |
| General and administrative (note 15) | **839,574** | 515,073 | **1,227,574** | 895,435 |
| **Operating loss before the following items** | **(3,105,201)** | (1,493,590) | **(4,635,676)** | (3,728,712) |
| Interest income | **5,997** | 37,672 | **11,093** | 89,062 |
| Foreign exchange (loss) gain | **(4,427)** | 347,413 | **(41,815)** | 105,183 |
| **Net loss and comprehensive loss** | **(3,103,631)** | (1,108,505) | **$ (4,666,398)** | $ (3,534,467) |
| **Basic and Diluted net loss per share** (note 13) | **$ (0.06)** | $ (0.05) | **$ (0.13)** | $ (0.15) |
| **Weighted average number of common shares outstanding** | **51,194,117** | 23,057,700 | **37,125,909** | 23,057,700 |

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

The **Uranium** Discovery Company

# U3O8 Corp.

**Condensed Consolidated Interim Statements of Cash Flows**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | Three Months Ended June 30, 2010 | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 (note 20) |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net loss | **$ (3,103,631)** | $ (1,108,505) | **$ (4,666,398)** | $ (3,534,467) |
| Adjustment for: | | | | |
| Amortization | **83,652** | 94,613 | **157,177** | 189,451 |
| Share-based payments (note 12) | **413,193** | 34,413 | **448,581** | 73,590 |
| Foreign exchange loss (gain) | **4,427** | (347,413) | **41,815** | (105,183) |
| Interest income | **(5,997)** | (37,672) | **(11,093)** | (89,062) |
| South American expenditures paid by Mega Uranium Ltd. (note 19) | **242,570** | - | **242,570** | - |
| Non-cash working capital items: | | | | |
| Value-added taxes receivable | **(45,020)** | - | **(45,020)** | - |
| Accounts receivable and other assets | **189,630** | (18,918) | **(29,527)** | 8,584 |
| Accounts payable and accrued liabilities | **110,641** | (184,879) | **133,866** | (157,066) |
| **Net cash used in operating activities** | **(2,110,535)** | (1,568,361) | **(3,728,029)** | (3,614,153) |
| **Investing activities** | | | | |
| Redemption (purchase) of guaranteed investment certificates | **(202,908)** | 4,633,013 | **1,591,664** | 4,599,608 |
| Cash acquired on acquisition of South American interests, net of transaction costs (note 19) | **3,587,947** | - | **3,587,947** | - |
| Additions to property and equipment | **(56,352)** | - | **(59,453)** | (7,491) |
| Interest income | **5,997** | 37,672 | **11,093** | 89,062 |
| **Net cash provided by investing activities** | **3,334,684** | 4,670,685 | **5,131,251** | 4,681,179 |
| Effect of exchange rate changes on cash held in foreign currencies | **(4,427)** | 347,413 | **(41,815)** | 105,183 |
| **Net change in cash and cash equivalents** | **1,219,722** | 3,449,737 | **1,361,407** | 1,172,209 |
| **Cash and cash equivalents and restricted cash, beginning of period** | **800,341** | 4,553,412 | **658,656** | 6,830,940 |
| **Cash and cash equivalents and restricted cash, end of period** | **$ 2,020,063** | $ 8,003,149 | **$ 2,020,063** | $ 8,003,149 |

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

The **Uranium** Discovery Company

# U3O8 Corp.

**Condensed Consolidated Interim Statement of Equity**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | Share capital | Share-based payments reserve | Deficit | Total |
|---|---|---|---|---|
| **Balance, January 1, 2009** | **$ 30,197,967** | **$ 3,185,945** | **$ (20,750,454)** | **$ 12,633,458** |
| Share-based payments (note 12) | - | 73,590 | - | 73,590 |
| Loss and comprehensive loss for the period | - | - | (3,534,467) | (3,534,467) |
| **Balance, June 30,2009** | **$ 30,197,967** | **$ 3,259,535** | **$ (24,284,921)** | **$ 9,172,581** |
| Share-based payments | - | 126,875 | - | 126,875 |
| Loss and comprehensive loss for the period | - | - | (3,168,739) | (3,168,739) |
| **Balance, December 31, 2009** | **$ 30,197,967** | **$ 3,386,410** | **$ (27,453,660)** | **$ 6,130,717** |
| Acquisition of South American Interests (note 19) | 13,138,889 | - | - | 13,138,889 |
| Share-based payments (note 12) | - | 448,581 | - | 448,581 |
| Loss and comprehensive loss for the period | - | - | (4,666,398) | (4,666,398) |
| **Balance, June 30, 2010** | **$ 43,336,856** | **$ 3,834,991** | **$ (32,120,058)** | **$ 15,051,789** |

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

The **Uranium** Discovery Company

## 1. Nature of operations

U3O8 Corp. (“U3O8 Corp.”, or the “Company”) is a Canadian exploration company focused on exploration for and resource expansion of, uranium and related minerals in South America. It was incorporated by articles of incorporation dated December 6, 2005 ("date of incorporation") under the Business Corporations Act (Ontario). The Company’s common shares are listed on the TSX Venture Exchange under the symbol UWE. The unaudited condensed consolidated interim financial statements of the Company as at and for the three and six months ended June 30, 2010 comprise the Company and its subsidiaries (note 3(c)).

## 2. Going concern consideration

These unaudited condensed consolidated interim financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

U3O8 Corp. is at an early stage of development and as is in common with many exploration companies, it raises financing for its exploration and acquisition activities. The Company has incurred a loss in the current and prior periods, with a net loss for the six months ended June 30, 2010 of $4,666,398 and has an accumulated deficit of $32,120,058. In addition, the Company had a working capital balance of $4,679,330 at June 30, 2010. On April 7, 2010, U3O8 Corp. completed the acquisition of Mega Uranium Ltd's ("Mega") South American uranium properties, adding assets in Colombia and Argentina to the Company's holdings in Guyana. Under the terms of the acquisition, U3O8 Corp. issued 30,564,858 common shares of U3O8 Corp. in exchange for Mega’s South American properties and $4,060,991 in cash (note 19). The Company does not have sufficient funds to finance its current operating and planned exploration expenditures or have adequate working capital for the next twelve months. The Company intends to examine opportunities to raise additional capital through equity markets; however, there can be no assurance it will be able to raise funds in the future. The Company's exploration activities do have considerable scope for flexibility in terms of the amount and timing of exploration expenditure, and expenditures may be adjusted accordingly.

## 3. Significant accounting policies

### *(a) Conversion to International Financial Reporting Standards ("IFRS")*

IFRS will replace current Canadian generally accepted accounting principles ("Canadian GAAP") for publicly accountable enterprises, including the Company, effective for fiscal years beginning on or after January 1, 2011. Early adoption of IFRS is permitted upon receipt of approval from the Canadian Securities Administrators (“CSA”). In October, 2009, the Ontario Securities Commission granted the Company exemptive relief to adopt IFRS as issued by the International Accounting Standards Board ("IASB") with an adoption date of January 1, 2010 and a transition date of January 1, 2009.

**3. Significant accounting policies (continued)**

*(a) Conversion to International Financial Reporting Standards ("IFRS") (continued)*

These are the Company's first IFRS unaudited condensed consolidated interim financial statements for the second quarter of the first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2010. IFRS 1 First-Time Adoption of IFRS ("IFRS 1") has been applied and the impact of the transition from Canadian GAAP to IFRS is explained in note 20.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") . They do not include all of the information required for full annual financial statements.

The accounting policies set out below have been applied consistently to all periods presented in preparing the opening balance sheet at January 1, 2009 (note 20) for purposes of transition to IFRS.

*(b) Basis of presentation*

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments. In addition, these unaudited condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these unaudited condensed consolidated interim financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in note 3(p).

*(c) Basis of consolidation*

The unaudited condensed consolidated interim financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the periods presented are included in the consolidated statement of loss and comprehensive loss from the effective date of acquisition and up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

## 3. Significant accounting policies (continued)

*(c) Basis of consolidation (continued)*

The following companies have been consolidated within the unaudited condensed consolidated interim financial statements:

| Company | Registered | Principle activity |
|---|---|---|
| U3O8 Corp. | Ontario, Canada | Parent company |
| Prometheus Resources (Barbados) Limited (1) | Barbados | Holding company |
| Prometheus Resources (Guyana) Inc.(2) (3) | Guyana, South America | Exploration company |
| Gaia Energy Inc. (1) (5) | Ontario, Canada | Holding company |
| Maple Minerals Exploration and Development Inc., (4)(5) | Ontario, Canada | Exploration company |
| Mega Uranium Argentina S.A. (4)(5) | Argentina | Exploration company |
| Energentia Ltd. (4)(5) | British Virgin Islands | Exploration company |

(1) 100% owned by U3O8 Corp.;
(2) 100% owned by Prometheus Resources (Barbados) Limited;
(3) Referred to as Prometheus Guyana (as defined herein);
(4) 100% owned by Gaia Energy Inc; and
(5) Consolidated as of April 7, 2010.

*(d) Foreign currencies*

The functional currency, as determined by management, of U3O8 Corp. and each of its subsidiaries is the Canadian Dollar. For the purpose of the unaudited condensed consolidated interim financial statements, the results and financial position are expressed in Canadian Dollars.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognised in the unaudited condensed consolidated interim statement of loss and comprehensive loss. Non monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

*(e) Business combinations*

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given up, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the subsidiary. Acquisition related costs are recognized in profit or loss as incurred.

In accordance with IFRS 3 Business Combinations, the Mega transaction is recorded as an acquisition of an asset. This transaction does not meet the definition of a business combination as the primary assets are in the exploration stage.

**3. Significant accounting policies (continued)**

*(f) Financial assets*

The Company's financial instruments are comprised of the following:

| Financial assets: | Classification: |
|---|---|
| Cash and cash equivalents | Loans and receivables |
| Guaranteed investment certificates | Loans and receivables |
| Value-added taxes receivable | Loans and receivables |
| Accounts receivable | Loans and receivables |
| Restricted cash | Loans and receivables |

| Financial liabilities: | Classification: |
|---|---|
| Accounts payable and other liabilities | Other financial liabilities |
| Due to Mega Uranium Ltd. | Other financial liabilities |

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities:

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

**3. Significant accounting policies (continued)**

*(f) Financial assets (continued)*

Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable and value-added taxes receivable, where the carrying amounts are reduced through the use of an allowance account. When accounts receivable and value-added taxes receivable are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the condensed consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of June 30, 2010, December 31, 2009 and January 1, 2009, none of the Company's financial instruments are recorded at fair value on the condensed consolidated statement of financial position.

**3. Significant accounting policies (continued)**

*(g) Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

The Company has assessed the assets of all its operating entities and has determined that there is no impairment of its non-financial assets.

*(h) Exploration and evaluation expenditures*

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity. Exploration and evaluation expenditures are expensed as incurred except for expenditures associated with the acquisition of exploration and evaluation assets, which are recognized at the fair value at the acquisition date.

Once a project has been established as commercially viable and technically feasible, related development expenditure is capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs which give rise to a future benefit.

*(i) Property, plant and equipment*

Property, plant and equipment ("PPE") are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized based on the cost of an item of property, plant and equipment, less its estimated residual value, over its estimated useful life at the following rates:

| Detail | Percentage | Method |
|---|---|---|
| Vehicles | 30% | Declining balance |
| Mobile and drilling equipment | 30% | Declining balance |
| Furniture and fixtures | 20% to 30% | Declining balance |
| Field equipment | 20% | Declining balance |

An asset's residual value, useful life and depreciation method are reviewed, and adjusted if appropriate, on an annual basis.

**3. Significant accounting policies (continued)**

*(i) Property, plant and equipment (continued)*

An item of PPE is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the condensed consolidated interim statements of comprehensive income or loss.

Where an item of PPE consists of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

*(j) Cash and cash equivalents*

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and guaranteed investment certificates which are available on demand by the Company for its programs, and are not invested in any asset-backed deposits/investments.

*(k) Provisions*

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions at June 30, 2010, December 31, 2009 and January 1, 2009.

*(l) Share-based payment transactions*

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**3. Significant accounting policies (continued)**

*(m) Income taxes*

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

*(n) Restoration, rehabilitation and environmental obligations*

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either an unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

*(o) Loss per share*

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

## 3. Significant accounting policies (continued)

*(p) Significant accounting judgments and estimates*

The preparation of these unaudited condensed consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of accounts receivable and value-added taxes receivable which are included in the unaudited condensed consolidated interim statements of financial position;
- the recoverability of South American property interests (Colombia and Argentina) presented on the statement of financial position (note 19);
- the estimated useful lives and residual value of property, plant and equipment which are included in the unaudited condensed consolidated interim statement of financial position and the related depreciation included in profit or loss;
- the inputs used in accounting for share based payment transactions in profit or loss;
- management applied judgment in determining the functional currency of U3O8 Corp. as Canadian Dollars and the functional currency of its subsidiaries, based on the facts and circumstances that existed during the period;
- management assumption of no material restoration, rehabilitation and environmental, based on the facts and circumstances that existed during the period; and
- management's position that there is no income tax considerations required within these unaudited condensed consolidated interim financial statements.

Critical accounting judgments

The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

## 3. Significant accounting policies (continued)

*(q) Standards and interpretations in issue not yet required to be adopted but adopted by the Company*

The amendments to IAS 24, Related Party Disclosures, with effective date for annual periods beginning on or after January 1, 2011, simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government related entities) and clarify the definition of a related party.

Amendments to IAS 32, Classification of Rights Issues, effective for annual periods beginning on or after February 1, 2010, with early adoption permitted, sets out that rights, options and warrants, that otherwise meet the definition of equity instruments in IAS 32, issued to acquire a fixed number of an entity's own non derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro rata to all existing owners of the same class of the entity's own non derivative equity instruments.

*(r) Future accounting changes*

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2010 or later periods. Updates that are not applicable or are not consequential to the Company and have been excluded from the list below.

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2013 and has not yet considered the potential impact of the adoption of IFRS 9.

## 4. Capital risk management

U3O8 Corp. manages its capital to ensure that funds are available or are scheduled to be raised to provide adequate funds to carry out the Company’s defined exploration programs and to meet its ongoing administrative costs. The Company considers its capital to be equity, which comprises share capital, other components of equity and accumulated deficit, which at June 30, 2010, totalled $15,051,789 (December 31, 2009 - $6,130,717).

This is achieved by the Board of Directors’ review and acceptance of exploration budgets that are achievable within existing resources and the timely matching and release of the next stage of expenditures with the resources made available from private placements or other fund raisings.

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the three and six months ended June 30, 2010.

## 5. Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign exchange rate, and uranium price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

### Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, guaranteed investment certificates, accounts receivable, value-added taxes receivable and restricted cash. Cash and cash equivalents, guaranteed investment certificates and restricted cash are held with major Canadian chartered banks, from which management believes the risk of loss to be minimal.

Financial instruments included in accounts receivable and value-added taxes receivable consist of sales tax receivable from government authorities in Canada and Argentina and deposits held with service providers. Accounts receivable and value-added taxes receivable are in good standing as of June 30, 2010. Management believes that the credit risk with respect to financial instruments included in accounts receivable is minimal.

### Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at June 30, 2010, the Company had a cash and cash equivalents and guaranteed investment certificates of $4,860,907 (December 31, 2009 - $5,121,877) to settle current liabilities of $843,561 (December 31, 2009 - $288,167). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

### Market risk

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in guaranteed investment certificates or interest-bearing accounts of major Canadian chartered banks. The Company regularly monitors compliance to its cash management policy.

## 5. Financial risk management (continued)

**Market risk (continued)**

(b) Foreign currency risk

The Company's functional and reporting currency is the Canadian Dollar and major purchases are transacted in Canadian Dollars. As of June 30, 2010, the Company funds certain operations, exploration and administrative expenses in Guyana, Colombia and Argentina on a cash call basis using US Dollar currency converted from its Canadian dollar bank accounts held in Canada. The Company maintains US Dollar bank accounts in Canada, Barbados, and Guyana, Guyanese Dollar bank accounts in Guyana, Colombian Peso accounts in Colombia and Argentina Peso accounts in Argentina. The Company is subject to gains and losses from fluctuations in the US Dollar and Guyanese Dollar and Colombian and Argentina Peso against the Canadian Dollar.

(c) Commodity uranium price risk

The Company is exposed to price risk with respect to commodity uranium prices. Commodity uranium price risk is defined as the potential adverse impact on earnings due to uranium price movements and volatility. The Company closely monitors commodity uranium prices to determine the appropriate course of action to be taken by the Company.

**Sensitivity analysis**

The sensitivity analysis shown in the notes below may differ materially from actual results. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a six month period:

(i) Cash and cash equivalents and guaranteed investment certificates are subject to floating interest rates. Sensitivity to a plus or minus 1% change in rates would affect the reported loss by approximately $24,000.

(ii) Cash and cash equivalents, accounts receivable, value-added taxes receivable and accounts payable and accrued liabilities denominated in US and Guyanese Dollars and Colombian and Argentina Peso are subject to foreign currency risk. As at June 30, 2010, had the US and Guyanese Dollar and Colombian and Argentina Peso weakened/strengthened by 10% against the Canadian Dollar with all other variables held constant, the Company's reported loss would have been affected by approximately $160,000.

(iii) Commodity uranium price risk could adversely affect the Company. In particular, the Company’s future profitability and viability of development depends upon the world market price of uranium. Uranium prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of uranium may be produced in the future, a profitable market will exist for them. As of June 30 ,2010, the Company was not a uranium producer. As a result, uranium price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

**(Expressed in Canadian Dollars)**

## 6. Categories of financial instruments

| | As at June 30, 2010 | As at December 31, 2009 | As at January 1, 2009 |
|---|---|---|---|
| **Financial assets:** | | | |
| Loans and receivables | | | |
| Cash and cash equivalents | $ 1,942,511 | $ 611,817 | $ 6,781,440 |
| Guaranteed investment certificates | 2,918,396 | 4,510,060 | 4,619,801 |
| Value-added taxes receivable | 532,830 | - | - |
| Accounts receivable | 30,870 | 10,933 | 51,385 |
| Restricted cash | 77,552 | 46,839 | 49,500 |
| **Financial liabilities:** | | | |
| Other financial liabilities | | | |
| Accounts payable and other liabilities | 600,991 | 288,167 | 516,921 |
| Due to Mega Uranium Ltd. | 242,570 | - | - |

As of June 30, 2010 and December 31, 2009, the fair value of all the Company's financial instruments approximates the carrying value, due to their short-term nature.

## 7. Property and equipment

***COST***

| | Mobile and drilling equipment | Field equipment | Vehicles | Furniture and fixtures | Total |
|---|---|---|---|---|---|
| Balance, January 1, 2009 | $ 1,306,932 | $ 865,140 | $ 62,695 | $ 84,271 | $ 2,319,038 |
| Additions | 55,326 | 8,102 | - | 4,550 | 67,978 |
| Balance, December 31, 2009 | 1,362,258 | 873,242 | 62,695 | 88,821 | 2,387,016 |
| Additions | 2,999 | 181,542 | - | 21,155 | 205,696 |
| Balance, June 30, 2010 | $ 1,365,257 | $ 1,054,784 | $ 62,695 | $ 109,976 | $ 2,592,712 |

***ACCUMULATED DEPRECIATION***

| | Mobile and drilling equipment | Field equipment | Vehicles | Furniture and fixtures | Total |
|---|---|---|---|---|---|
| Balance, January 1, 2009 | $ 506,349 | $ 283,760 | $ 31,430 | $ 27,288 | $ 848,827 |
| Depreciation for the year | 248,473 | 117,088 | 9,380 | 12,702 | 387,643 |
| Balance, December 31, 2009 | 754,822 | 400,848 | 40,810 | 39,990 | 1,236,470 |
| Depreciation for the period | 91,340 | 56,316 | 3,283 | 6,238 | 157,177 |
| Balance, June 30, 2010 | $ 846,162 | $ 457,164 | $ 44,093 | $ 46,228 | $ 1,393,647 |

**(Expressed in Canadian Dollars)**

## 7. Property and equipment (continued)

***ACCUMULATED DEPRECIATION (continued)***

| | | Mobile and drilling equipment | | Field equipment | | Vehicles | | Furniture and fixtures | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2009 | $ | 506,349 | $ | 283,760 | $ | 31,430 | $ | 27,288 | $ | 848,827 |
| Depreciation for the period | | 120,194 | | 58,346 | | 4,690 | | 6,221 | | 189,451 |
| Balance, June 30,2009 | $ | 626,543 | $ | 342,106 | $ | 36,120 | $ | 33,509 | $ | 1,038,278 |

***CARRYING AMOUNTS***

| | | Mobile and drilling equipment | | Field equipment | | Vehicles | | Furniture and fixtures | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2009 (note 20) | $ | 800,583 | $ | 581,380 | $ | 31,265 | $ | 56,983 | $ | 1,470,211 |
| At December 31, 2009 | $ | 607,436 | $ | 472,394 | $ | 21,885 | $ | 48,831 | $ | 1,150,546 |
| At June 30, 2010 | $ | 519,095 | $ | 597,620 | $ | 18,602 | $ | 63,748 | $ | 1,199,065 |

## 8. Cash position

| | | As at June 30, 2010 | | As at December 31, 2009 | | As at January 1, 2009 (note 20) |
|---|---|---|---|---|---|---|
| Cash | $ | 1,922,511 | $ | 591,431 | $ | 6,760,882 |
| Cash equivalents | | 20,000 | | 20,386 | | 20,558 |
| Cash and cash equivalents | | 1,942,511 | | 611,817 | | 6,781,440 |
| Restricted cash (a) | | 77,552 | | 46,839 | | 49,500 |
| Total Cash position | $ | 2,020,063 | $ | 658,656 | $ | 6,830,940 |

(a) As at June 30, 2010, the Company had entered into several letters of guarantee in the amount of $72,393 (December 31, 2009 - $41,725) with respect to regulations for all Prospecting Licences issued to the Company in Guyana.

In addition, the Company had a letter of guarantee totaling $5,159 (December 31, 2009 - $5,114) that is required by the Company for exploration activities in Guyana.

**(Expressed in Canadian Dollars)**

### 9. Accounts receivable and other assets

| | As at June 30, 2010 | As at December 31, 2009 | As at January 1, 2009 |
|---|---|---|---|
| Sales tax receivable - (Canada) | $ 30,870 | $ 10,933 | $ 51,385 |
| Deposits with service providers | 98,284 | 88,689 | 178,042 |
| | $ 129,154 | $ 99,622 | $ 229,427 |

### 10. Amounts payable and other liabilities

| | As at June 30, 2010 | As at December 31, 2009 | As at January 1, 2009 (note 20) |
|---|---|---|---|
| Falling due within the year | | | |
| Trade payables | $ 600,991 | $ 288,167 | $ 516,921 |

### 11. Share capital

a) Authorized share capital

At June 30, 2010, the authorized share capital consisted of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

b) Common shares issued

At June 30, 2010, the issued share capital amounted to $43,336,856. The change in issued share capital for the periods was as follows:

| | Number of common shares | Amount |
|---|---|---|
| Balance, January 1, 2009, December 31, 2009 (i) | 23,057,700 | $ 30,197,967 |
| Acquisition of South American property interests, net of issue costs in the amount of $4,000 (note 19) | 30,564,858 | 13,138,889 |
| Balance, June 30, 2010 | 53,622,558 | $ 43,336,856 |

(i) On March 13, 2008, U3O8 Corp. announced that it adopted a shareholder rights plan (the "Rights Plan") and was approved, ratified and confirmed by the shareholders on June 26, 2008. The Rights Plan is designed to ensure the fair treatment of U3O8 Corp's shareholders in any transaction involving a change of control of the Company and will provide U3O8 Corp's Board of Directors and its shareholders with adequate time to evaluate any unsolicited take-over bid and, if appropriate, to seek out alternatives to maximize shareholder value. The TSX Venture Exchange has accepted notice of filing of the Rights Plan.

## 11. Share capital (continued)

b) Common shares issued (continued)

(i) (continued) The Rights Plan is similar to other rights plans adopted by many Canadian corporations. Until the occurrence of certain specific events, the rights will trade with the shares of the Company and be represented by certificates representing the shares. The rights become exercisable only when a person, including any party related to it or acting jointly with it, acquires or announces its intention to acquire 20% or more of the outstanding shares of the Company without complying with the Permitted Bid provisions of the Rights Plan. Should a non-Permitted Bid be launched, each right would entitle each holder of shares (other than the acquiring person and persons related to it or acting jointly with it) to purchase additional shares of the Company at a 50% discount to the market price at the time.

It is not the intention of the Rights Plan to prevent take-over bids but to ensure their proper evaluation by the market. Under the Rights Plan, a Permitted Bid is a bid made to all shareholders for all of their shares on identical terms and conditions that is open for at least 60 days. If at the end of 60 days at least 50% of the outstanding shares, other than those owned by the offeror and certain related parties, have been tendered and not withdrawn, the offeror may take up and pay for the shares but must extend the bid for a further ten days to allow all other shareholders to tender.

## 12. Stock options

U3O8 Corp's stock option plan (the "Plan") was approved by the shareholders of the Company on June 30, 2009 for the purpose of attracting, retaining and motivating directors, officers, employees and other service providers by providing them an opportunity, through share options, to acquire a proprietary interest in the Company and benefit from its growth. The number of stock options which may be granted under the plan is limited to not more than 10% of the issued common shares of U3O8 Corp. at the time of the stock option grant. The exercise price of options granted under the Plan may not be lower than the market price of the common shares at the time the option is granted, as calculated based upon the prior trading day closing price of the common shares on any stock exchange on which the common shares are listed or dealing network where the common shares trade, where applicable. In the event that there is no such closing price or trade on the prior trading day, the market price shall be based upon the average of the daily high and low board lot trading prices of the common shares on any stock exchange on which the shares are listed or dealing network on which the common shares trade for the five immediately preceding trading days.

The Company records a charge to the statement of loss and comprehensive loss account using the Black-Scholes fair valuation option pricing model. The valuation is dependent on a number of estimates, including the risk free interest rate, the level of stock volatility, together with an estimate of the level of forfeiture. The level of stock volatility is calculated with reference to the historic traded daily closing share price at the date of issue.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

**(Expressed in Canadian Dollars)**

**12. Stock options (continued)**

The following table reflects the continuity of stock options for the period ended June 30, 2010:

| | Number of stock options | Weighted average exercise price ($) |
|---|---|---|
| Balance, December 31, 2009 | 1,255,000 | 0.85 |
| Granted | 3,440,000 | 0.40 |
| Expired | (90,000) | 3.63 |
| Cancelled | (33,750) | 0.37 |
| Forfeiture | (51,250) | 0.33 |
| Balance, June 30, 2010 | 4,520,000 | 0.46 |

(i) On January 15, 2008, U3O8 Corp. granted an aggregate of 300,000 incentive stock options to a key employee, pursuant to the Plan, at an exercise price of $1.05 per share. The options are exercisable for a period of five years. For the purposes of the 300,000 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: expected dividend yield of 0%; expected volatility of 101.80%; risk-free interest rate of 3.50% and an expected average life of five years. The estimated value of $241,500 will be recorded as a debit to salaries and benefits and a credit to share based-payment reserve as the options vest. The options vest over 36 months as to one-third on January 15, 2009, one-third on January 15, 2010 and one-third on January 15, 2011. For the three and six months ended June 30, 2010, the impact on expenses was $6,708 and $13,979, respectively (three and six months ended June 30, 2009 - $16,770 and $36,894, respectively) (cumulative to June 30, 2010 - $225,844).

(ii) On May 1, 2008, U3O8 Corp. granted an aggregate of 40,000 incentive stock options to an investor relations officer of the Company, pursuant to the Plan, at an exercise price of $0.65 per share. The options are exercisable for a period of five years. For the purposes of the 40,000 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: expected dividend yield of 0%; expected volatility of 101.20%; risk-free interest rate of 2.99% and an expected average life of five years. The estimated value of $19,760 will be recorded as a debit to salaries and benefits and a credit to share-based payment reserve as the options vest. The options vest in tranches of 25% at six-monthly intervals from their date of issue as to one-quarter on November 1, 2008, one-quarter on May 1, 2009, one-quarter on November 1, 2009 and one-quarter on May 1, 2010. For the three and six months ended June 30, 2010, the impact on expenses was $205 and $820, respectively (three and six months ended June 30, 2009 - $1,853 and $4,529, respectively) (cumulative to June 30, 2010 - $19,760).

(iii) On June 26, 2008, U3O8 Corp. granted an aggregate of 270,000 incentive stock options to employees of the Company, pursuant to the Plan, at an exercise price of $0.80 per share. The options are exercisable for a period of five years. For the purposes of the 270,000 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: expected dividend yield of 0%; expected volatility of 101.40%; risk-free interest rate of 3.36% and an expected average life of five years. The estimated value of $169,830 will be recorded as a debit to salaries and benefits and a credit to share-based payment reserve as the options vest. The options vest from their date of issue as to one-quarter immediately, one-quarter on December 26, 2008, one-quarter on June 26, 2009 and one-quarter on December 26, 2009. For the three and six months ended June 30, 2010, the impact on expenses was $nil (three and six months ended June 30, 2009 - $15,790 and $32,167, respectively) (cumulative to June 30, 2010 - $156,003).

**12. Stock options (continued)**

(iv) On September 8, 2009, U3O8 Corp. granted an aggregate of 565,000 incentive stock options to employees, directors and a consultant pursuant to the Plan, at an exercise price of $0.35 per share. The options are exercisable for a period of five years. For the purpose of the 565,000 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: expected dividend yield of 0%; expected volatility of 86.98%; risk-free interest rate of 2.61% and an expected average life of five years. The estimated value of $136,730 will be recorded as a debit to salaries and benefits and a credit to share-based payment reserve as the options vest. The option vest over 18 months as to 25% on September 8, 2009, 25% on March 8, 2010, 25% on September 8, 2010 and 25% on March 8, 2011. For the three and six months ended June 30, 2010, the impact on expenses was $11,723 and $37,360, respectively (three and six months ended June 30, 2009 - $nil) (cumulative to June 30, 2010 - $113,321).

(v) On October 13, 2009, U3O8 Corp. granted an aggregate of 20,000 incentive stock options to an employee, pursuant to the Plan, at an exercise price of $0.355 per share. The options are exercisable for a period of five years. For the purpose of the 20,000 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: expected dividend yield of 0%; expected volatility of 86.22%; risk-free interest rate of 2.86% and an expected average life of five years. The estimated value of $4,880 will be recorded as a debit to salaries and benefits and a credit to share-based payment reserve as the options vest. The option vest over 18 months as to 25% on October 13, 2009, 25% on April 13, 2010, 25% on October 13, 2010 and 25% on April 13, 2011. For the three and six months ended June 30, 2010, the impact on expenses was ($831) and $1,034, respectively (three and six months ended June 30, 2009 - $nil) (cumulative to June 30, 2010 - $2,440).

(vi) On May 5, 2010, U3O8 Corp. granted 3,290,000 stock options to employees, officers, directors and consultants pursuant to the Plan. The stock options were issued at an exercise price of $0.41 and will expire on May 4, 2015. For the purpose of the 3,290,000 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: expected dividend yield of 0%; expected volatility of 107.22%; risk-free interest rate of 2.5% and an expected average life of four years. The estimated value of $975,861 will be recorded as a debit to salaries and benefits and a credit to share-based payment reserve as the options vest. The option vest over 18 months as to 25% on May 4, 2010, 25% on November 4, 2010, 25% on May 4, 2011 and 25% on November 4, 2011. For the three and six months ended June 30, 2010, the impact on expenses was $390,613 (three and six months ended June 30, 2009 - $nil) (cumulative to June 30, 2010 - $390,613).

(vii) On June 4, 2010, U3O8 Corp. granted an aggregate of 150,000 incentive stock options to a key employee, pursuant to the Plan, at an exercise price of $0.24 per share. The options are exercisable for a period of five years. For the purposes of the 150,000 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: expected dividend yield of 0%; expected volatility of 107.22%; risk-free interest rate of 2.44% and an expected average life of four years. The estimated value of $26,250 will be recorded as a debit to salaries and benefits and a credit to share-based payment reserve as the options vest. The option vest over 18 months as to 25% on June 4, 2010, 25% on December 4, 2010, 25% on June 4, 2011 and 25% on December 4, 2011. For the three and six months ended June 30, 2010, the impact on expenses was $4,775 (three and six months ended June 30, 2009 - $nil) (cumulative to June 30, 2010 - $4,775).

**(Expressed in Canadian Dollars)**

## 12. Stock options (continued)

(viii) Total expense for share-based payments have been adjusted to reflect a change in the Company's forfeiture expectations.

The portion of the estimated fair value of options granted in the current and prior periods and vesting during the three and six months ended June 30, 2010 and 2009, which have been reflected in the statements of comprehensive loss are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| **Canada** | | | | |
| Salaries and benefits | **$ 297,063** | $ 22,556 | **$ 321,739** | $ 49,286 |
| **Guyana, South America** | | | | |
| Salaries and benefits | **30,021** | 11,857 | **40,733** | 24,304 |
| **Colombia and Argentina, South America** | | | | |
| Salaries and benefits | **86,109** | - | **86,109** | - |
| **Total** | **$ 413,193** | $ 34,413 | **$ 448,581** | $ 73,590 |

The following table reflects the actual stock options issued and outstanding as of June 30, 2010:

| Expiry date | Exercise price ($) | Weighted average remaining contractual life (years) | Number of options outstanding | Number of options vested (exercisable) | Number of options unvested |
|---|---|---|---|---|---|
| December 20, 2012 | 1.05 | 2.47 | 300,000 | 200,000 | 100,000 |
| April 30, 2013 | 0.65 | 2.83 | 40,000 | 40,000 | - |
| June 26, 2013 | 0.80 | 2.99 | 240,000 | 240,000 | - |
| September 8, 2014 | 0.35 | 4.19 | 535,000 | 267,500 | 267,500 |
| May 4, 2015 | 0.41 | 4.84 | 3,255,000 | 813,750 | 2,441,250 |
| June 4, 2015 | 0.24 | 4.93 | 150,000 | 37,500 | 112,500 |
| | | 4.50 | 4,520,000 | 1,598,750 | 2,921,250 |

## 13. Net loss per common share

The calculation of basic and diluted loss per share for the three and six months ended June 30, 2010 and 2009 was based on the loss attributable to common shareholders of $3,103,631 and $4,666,398, respectively (three and six months ended June 30, 2009 - $1,108,505 and $3,534,467, respectively) and the weighted average number of common shares outstanding of 51,194,117 and 37,125,909, respectively (three and six months ended June 30, 2009 – 23,057,700). Diluted loss per share did not include the effect of 4,520,000 share purchase options as they are anti-dilutive.

**(Expressed in Canadian Dollars)**

## 14. Exploration expenditures

The Company enters into exploration agreements or permits with other companies or foreign governments pursuant to which it may explore, or earn interests in mineral properties by issuing common shares and/or making option or rental payments and/or incurring expenditures in varying amounts by varying dates. Failure by the Company to meet such requirements can result in a reduction or loss of the Company's ownership interests or entitlements under the agreements or permits.

The following is a detailed list of the Company's mineral properties:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| **Guyana, South America (a)** | | | | |
| Exploration activities | **$ 655,345** | $ 529,293 | **$ 1,400,830** | $ 1,696,683 |
| Salaries and benefits | **326,137** | 356,039 | **650,791** | 950,000 |
| Amortization | **73,447** | 93,185 | **145,783** | 186,594 |
| | **$ 1,054,929** | $ 978,517 | **$ 2,197,404** | $ 2,833,277 |
| **Colombia, South America (b)** | | | | |
| Exploration activities | **$ 348,426** | $ - | **$ 348,426** | $ - |
| Salaries and benefits | **207,817** | - | **207,817** | - |
| Amortization | **7,420** | - | **7,420** | - |
| | **$ 563,663** | $ - | **$ 563,663** | $ - |
| **Argentina, South America (c)** | | | | |
| Exploration activities | **$ 582,899** | $ - | **$ 582,899** | $ - |
| Salaries and benefits | **62,537** | - | **62,537** | - |
| Amortization | **1,599** | - | **1,599** | - |
| | **$ 647,035** | $ - | **$ 647,035** | $ - |
| | **$ 2,265,627** | $ 978,517 | **$ 3,408,102** | $ 2,833,277 |

(a) Total cumulative exploration activities incurred in Guyana, South America to June 30, 2010 amounted to $23,907,119 (December 31, 2009 - $21,709,715).

(b) Total cumulative exploration activities incurred in Colombia, South America to June 30, 2010 amounted to $563,663 (December 31, 2009 - $nil).

(c) Total cumulative exploration activities incurred in Argentina, South America to June 30, 2010 amounted to $647,035 (December 31, 2009 - $nil).

**(Expressed in Canadian Dollars)**

## 15. General and administrative

| | Three Months Ended June 30, 2010 | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|---|---|
| Salaries and benefits | **$ 484,539** | $ 179,910 | **$ 661,302** | $ 354,704 |
| Administrative and general | **21,425** | 77,994 | **86,670** | 149,548 |
| Professional fees | **136,413** | 124,251 | **197,197** | 172,477 |
| Business development | **80,262** | 102,182 | **139,735** | 159,862 |
| Reporting issuer costs | **101,574** | 15,598 | **115,620** | 29,977 |
| Consulting | **14,175** | 10,500 | **24,675** | 22,800 |
| Investor relations | **-** | 3,210 | **-** | 3,210 |
| Amortization | **1,186** | 1,428 | **2,375** | 2,857 |
| | **$ 839,574** | $ 515,073 | **$ 1,227,574** | $ 895,435 |

## 16. Related party balances and transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

(a) U3O8 Corp. entered into the following transactions with related parties:

| | Three Months Ended June 30, 2010 | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|---|---|
| Marrelli CFO Outsource Syndicate Inc. ("Marrelli") (i) | $ 10,500 | $ 10,500 | $ 21,000 | $ 21,000 |
| Marrelli Support Services Inc. ("MSSI") (ii)(iii) | 6,022 | 8,065 | 16,636 | 15,846 |
| John Ross (iv) | 3,675 | - | 3,675 | - |
| | $ 20,197 | $ 18,565 | $ 41,311 | $ 36,846 |

(i) The former Chief Financial Officer ("CFO") of U3O8 Corp. is the president of Marrelli. Fees related to the CFO function performed.

(ii) The former CFO of U3O8 Corp. is the president of MSSI. Fees related to accounting services provided by MSSI.

(iii) As at June 30, 2010, MSSI was owed $3,196 (December 31, 2009 - $10,757) and this amount was included in accounts payable and accrued liabilities.

**(Expressed in Canadian Dollars)**

## 16. Related party balances and transactions (continued)

(iv) CFO fees expensed to the current CFO of the Company. $4,153 is included in accounts payable and accrued liabilities.

(b) Remuneration of Directors and key management of the Company was as follows.

| | Three Months Ended June 30, 2010 | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|---|---|
| Salaries and benefits (*) | $ 82,434 | $ 77,000 | $ 159,651 | $ 155,800 |
| Share based payments | 258,822 | 16,770 | 279,706 | 36,894 |
| | $ 341,256 | $ 93,770 | $ 439,357 | $ 192,694 |

(*) Included in salaries and benefits are Director fees. The Board of Directors do not have employment or service contracts with the Company. They are entitled to director fees and stock options for their services.

## 17. Segmented information

The Company primarily operated in one reportable operating segment, being the development of properties for production of uranium in South America. The Company has administrative offices in Toronto, Canada. Segmented information on a geographic basis is as follows:

**June 30, 2010**

| | Canada | Guyana | Barbados | Colombia | Argentina | Total |
|---|---|---|---|---|---|---|
| Current assets | $ 3,829,568 | $ 236,678 | $ 99,082 | $ 559,207 | $ 798,356 | $ 5,522,891 |
| Non-current assets | 18,411 | 1,086,852 | - | 7,417,642 | 1,849,554 | 10,372,459 |
| | $ 3,847,979 | $ 1,323,530 | $ 99,082 | $ 7,976,849 | $ 2,647,910 | $ 15,895,350 |

**December 31, 2009**

| | Canada | Guyana | Barbados | Colombia | Argentina | Total |
|---|---|---|---|---|---|---|
| Current assets | $ 4,817,030 | $ 332,556 | $ 71,913 | $ - | $ - | $ 5,221,499 |
| Non-current assets | 20,786 | 1,176,599 | - | - | - | 1,197,385 |
| | $ 4,837,816 | $ 1,509,155 | $ 71,913 | $ - | $ - | $ 6,418,884 |

## 18. Contingencies and commitments

The Company has no commitments or contingent assets or contingent liabilities.

**(Expressed in Canadian Dollars)**

## 19. Acquisition of South American Operations

On April 7, 2010, U3O8 Corp. completed the acquisition of Mega's South American uranium properties, adding assets in Colombia and Argentina to the Company's holdings in Guyana. Under the terms of the acquisition, U3O8 Corp. issued 30,564,858 common shares of U3O8 Corp. in exchange for Mega's South American properties and $4,060,991 in cash. The preliminary fair value estimates is provided below.

The transaction did not meet the definition of a business combination therefore the transaction was recorded as an acquisition of assets. The provisional values of assets and liabilities recognized on acquisition are their estimated fair values at the date of acquisition. IFRS permits up to twelve months for provisional acquisition accounting to be finalized following the acquisition date if any subsequent information provides better evidence of the item's fair value at the date of acquisition.

| | | Fair value at acquisition |
|---|---|---|
| **Cost of acquisition** | | |
| Fair value of common shares issued (30,564,858 common shares) | $ | 13,142,889 |
| Transaction costs | | 469,045 |
| **Total cost of acquisition** | $ | 13,611,934 |
| | | |
| **Fair value of assets and liabilities** | | |
| | | |
| **Assets** | | |
| Cash | $ | 4,060,991 |
| Value-added taxes receivable (Argentina) and other assets | | 487,810 |
| **Total current asset** | | 4,548,801 |
| | | |
| **Non-current assets** | | |
| Property and equipment | | 146,243 |
| South American property interests | | |
| - Argentina | | 1,819,168 |
| - Colombia | | 7,276,674 |
| | | 9,095,842 |
| **Total assets** | $ | 13,790,886 |
| | | |
| **Liabilities** | | |
| **Current liabilities** | | |
| Amounts payable and other liabilities | $ | 178,952 |
| **Net identifiable assets** | $ | 13,611,934 |

Mega provided bridge financing to the Company in the amount of $242,570. The amount is non-interest bearing and due on demand.

## 20. Conversion to IFRS

*(i) Overview*

IFRS will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011, with the option available to early adopt IFRS from periods beginning on or after January 1, 2009 upon receipt of approval from the CSA. The Company received approval from the CSA to early adopt IFRS beginning with its 2010 interim and annual financial periods.

These are the Company's second unaudited condensed consolidated interim financial statements prepared in accordance with IAS 34, using accounting policies consistent with IFRS.

The accounting policies described in note 3 have been selected to be consistent with IFRS as is expected to be effective or available for early adoption on December 31, 2010, the Company's first annual IFRS reporting date. These policies have been applied in the preparation of these unaudited condensed consolidated interim financial statements, including all comparative information.

*(ii) First-time adoption of IFRS*

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has elected to apply the following optional exemptions in its preparation of an opening IFRS statement of financial position as at January 1, 2009, the Company's "Transition Date".

- To apply IFRS 2 Share based Payments only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.
- To apply IFRS 3 Business Combinations prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.
- To apply the transition provisions of IFRIC 4 Determining whether an Arrangement Contains a Lease, therefore determining if arrangements existing at the Transition Date contain a lease based on the circumstances existing at that date. The Company has no leases.
- To apply IAS 23 Borrowing Costs prospectively from the transition date. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

The Company's Transition Date IFRS unaudited consolidated statement of financial position is included as comparative information in the unaudited condensed consolidated interim statements of financial position in these financial statements.

**20. Conversion to IFRS (continued)**

*(iii) Changes to accounting policies*

The Company has changed certain accounting policies to be consistent with IFRS as is expected to be effective or available for early adoption on December 31, 2010, the Company's first annual IFRS reporting date. However, these changes to its accounting policies have not resulted in any significant change to the recognition and measurement of assets, liabilities, equity, revenue and expenses within its financial statements.

The following summarizes the significant changes to the Company's accounting policies on adoption of IFRS.

a) Impairment of (non-financial) assets

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

The Company's accounting policies related to impairment of non-financial assets have been changed to reflect these differences. There is no impact on the unaudited condensed consolidated interim financial statements.

b) Decommissioning Liabilities (Asset Retirement Obligations)

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

The Company's accounting policies related to decommissioning liabilities have been changed to reflect these differences. There is no impact on the unaudited condensed consolidated interim financial statements.

*(iv) Transition date unaudited condensed consolidated statement of financial position*

The Company's Transition Date IFRS unaudited consolidated statement of financial position is included as comparative information in the unaudited condensed consolidated interim statements of financial position in these financial statements. The changes in accounting policies resulting from the Company's adoption of IFRS had no impact on the unaudited consolidated statement of financial position as at the transition date of January 1, 2009.

*(v) Comparative unaudited condensed consolidated financial statements*

The changes in accounting policies resulting from the Company's adoption of IFRS had no impact on the unaudited consolidated statement of financial position as at December 31, 2009, or on the unaudited condensed consolidated statement of loss and comprehensive loss and the unaudited condensed consolidated statement of cash flows for the three and six months ended June 30, 2009.

**(Expressed in Canadian Dollars)**

**20. Conversion to IFRS (continued)**

*(vi) Reconciliation of comprehensive loss and equity*

(a) Comprehensive loss

| | Three months ended June 30, 2009 | Six months ended June 30, 2009 | Year ended December 31, 2009 |
|---|---|---|---|
| Comprehensive loss under Canadian GAAP | **$ (1,108,505)** | **$ (3,534,467)** | **$ (6,703,206)** |
| Adjustments for differing accounting treatments | - | - | - |
| Comprehensive loss under under IFRS | **$ (1,108,505)** | **$ (3,534,467)** | **$ (6,703,206)** |

b) Equity

| | June 30, 2009 | December 31, 2009 | January 1, 2009 |
|---|---|---|---|
| Total shareholders' equity under Canadian GAAP | **$ 9,172,581** | **$ 6,130,717** | **$ 12,633,458** |
| Adjustments for differing accounting treatments | - | - | - |
| Total equity under under IFRS | **$ 9,172,581** | **$ 6,130,717** | **$ 12,633,458** |

*(vii) Presentation*

Certain amounts on the unaudited condensed consolidated statement of financial position, statement of loss and comprehensive loss and statement of cash flows have been reclassified to conform to the presentation adopted under IFRS.