



Uranium City Resources Inc.

Audited Financial Statements

**Year ended
December 31, 2005**

and

**Period from October 25, 2004
(date of incorporation)**

To

December 31, 2004

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Uranium City Resources Inc., or the Company, have been prepared by management in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgement. Management maintains an appropriate system of internal controls to provide assurance that transactions are authorized, assets safeguarded and proper records maintained.

The Audit Committee of the Board of Directors has reviewed with the Company's independent auditors the scope and results of the annual audit and the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Company's independent auditors, Parker Simone LLP, are appointed by the shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards and their report follows.



R. J. Kasner
President and Chief Executive Officer



S. M. Gledhill
Chief Financial Officer

April 6, 2006

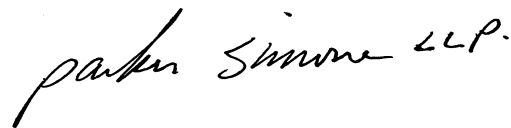
AUDITORS' REPORT

To the Shareholders of Uranium City Resources Inc.

We have audited the balance sheets of Uranium City Resources Inc. as at December 31, 2005 and 2004 and the statements of operations and deficit and cash flow for the year ended December 31, 2005 and the period from October 25, 2004 (date of incorporation) to December 31, 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and the period from October 25, 2004 (date of incorporation) to December 31, 2004 in accordance with Canadian generally accepted accounting principles.



April 6, 2006
Mississauga, Ontario

Uranium City Resources Inc.

Balance Sheet

<i>As at December 31,</i>	2005	2004
Assets		
Current assets		
Cash and cash equivalents <i>(Note 2)</i>	\$ 2,200,644	\$ 1,198,776
GST recoverable	86,452	11,273
Prepaid expenses	10,904	-
Subscriptions receivable	-	25,000
	\$ 2,298,000	\$ 1,235,049
Mineral properties and deferred expenditures <i>(Note 3)</i>	\$ 2,273,810	\$ 632,714
Capital assets <i>(Note 5)</i>	44,723	32,832
	\$ 4,616,533	\$ 1,900,595
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 11,028	\$ 29,260
Due to manager <i>(Note 5)</i>	39,479	115,635
	\$ 50,507	\$ 144,895
Future income taxes <i>(Note 9)</i>	\$ 765,000	\$ 44,000
	\$ 765,000	\$ 44,000
Shareholders' equity		
Capital Stock		
Common shares <i>(Note 6)</i>	\$ 2,842,237	\$ 474,010
Issued warrants <i>(Note 7)</i>	-	1,259,899
Contributed surplus <i>(Note 8)</i>	2,003,000	-
Deficit	(1,044,211)	(22,209)
	3,801,026	\$ 1,711,700
	\$ 4,616,533	\$ 1,900,595

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

Approved by the Board:

"Robert J. Kasner"

Director

"John F. Cook"

Director

Uranium City Resources Inc.
Statement of Operations and Deficit

	Year Ended December 31, 2005	Period from October 25, 2004 (date of incorporation) to December 31, 2004
Revenue		
Interest income	\$ 19,225	\$ -
	\$ 19,225	\$ -
Operating expenses		
Office and general	\$ 99,492	\$ 5,388
Public relations	87,200	-
Professional fees	53,618	11,876
Shareholder information	57,389	-
Consulting	224,396	16,945
Financing costs	13,132	-
Stock-based compensation	691,000	-
	\$ 1,226,227	\$ 34,209
Net loss before future income tax recovery	\$ (1,207,002)	\$ (34,209)
Future income tax recovery <i>(Note 9)</i>	185,000	12,000
Net loss	\$ (1,022,002)	\$ (22,209)
Deficit at beginning of period	(22,209)	-
Deficit at end of period	\$ (1,044,211)	\$ (22,209)
Basic and fully diluted net loss per share <i>(Note 1)</i>	(6.2)¢	(0.3)¢
Weighted average number of shares (000's)	16,971	7,403

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

Uranium City Resources Inc.

Statement of Cash Flow

	Year Ended December 31, 2005	Period from October 25, 2004 (date of incorporation) to December 31, 2004
Operations		
Net loss	\$ (1,022,002)	\$ (22,209)
Adjustments to reconcile net loss to cash flow from operating activities:		
Amortization	9,142	2,617
Future income taxes (recovery)	(185,000)	(12,000)
Stock-based compensation	691,000	-
Net change in non-cash working capital items	(104,315)	17,987
Cash Flow from Operating Activities	\$ (611,175)	\$ (13,605)
Financing		
Issuance of common shares	\$ 3,872,165	\$ 10
Issuance of warrants, net of subscription receivable	-	1,285,000
Issuance of flow-through warrants	-	156,195
Proceeds from subscriptions receivable	25,000	-
Cost of issuances	(545,837)	(150,297)
Due to manager	(76,156)	115,635
Cash Flow from Financing Activities	\$ 3,275,172	\$ 1,406,543
Investments		
Purchase of capital assets	\$ (21,033)	\$ (35,448)
Expenditures on deferred exploration	(1,641,096)	(158,714)
Cash Flow from Investing Activities	\$ (1,662,129)	\$ (194,162)
Increase/(decrease) in cash and cash equivalents	\$ 1,001,868	\$ 1,198,776
Cash and cash equivalents at beginning of period	1,198,776	-
Cash and cash equivalents at end of period	\$ 2,200,644	\$ 1,198,776

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

Uranium City Resources Inc.

Notes to the Audited Financial Statements

Year ended December 31, 2005 and
Period from October 25, 2004 (date of incorporation) to December 31, 2004

General

Uranium City Resources Inc. ("UCR", or the "Company") is incorporated in the province of Ontario. Its principal business activity is that of a junior mineral exploration company actively focussed on exploration in Canada.

1. Summary of Significant Accounting Policies

Nature of Operations

UCR is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amount shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of UCR to obtain the necessary financing to complete exploration and development, and upon future profitable production or proceeds from disposition of such properties.

Mineral Properties

UCR defers the costs of exploration and capital assets on existing projects and carries them as assets until production commences. Mineral properties and the deferred exploration expenditures are recorded at cost and do not necessarily reflect present or future values. If a project is successful, the related mineral properties and deferred exploration expenditures will be amortized over the estimated economic life of the project. If a project is unsuccessful, or if exploration has ceased because continuation is not economically feasible, the mineral properties and the related deferred exploration expenditures are written-off.

Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on the declining balance basis at various rates between 3% and 30% per year, depending on the asset.

Flow-Through Common Shares

Proceeds received on the issuance of common shares or warrants, which transfer the tax deductibility of mineral exploration expenditures to investors, are credited to the capital stock and the related exploration costs are charged to deferred exploration expenditures.

Loss Per Share

Loss per share is calculated based on the weighted average number of shares issued and outstanding during the quarter or year, as appropriate. In the years when the Company reports a net loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive and, therefore, basic and diluted loss per share is the same.

Stock-Based Compensation Plan

UCR records stock-based compensation using the fair value method. Under the fair value method, stock-based payments are measured at the fair value of the equity instruments issued and are amortized over the vesting period. The offset to the recorded cost is to the contributed surplus account.

The Company uses the Black-Scholes option pricing model to determine the stock-based compensation expense. The table below summarizes the assumptions used with the Black-Scholes valuation model for determining the stock-based compensation costs for the stock options issued in 2005.

Uranium City Resources Inc.

Notes to the Audited Financial Statements

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The weighted-averages used in the Black-Scholes option pricing method were as follows:

	2005
Dividend Yield	-
Expected volatility	104.2%
Risk-free interest rate	4.0%
Expected life (years)	5

Asset Retirement Obligations

The Company has adopted CICA 3110 - Asset Retirement Obligations. The new standard did not have any impact on the current period's results and balances since there are no projects under construction at this time and therefore there is no legal obligation requiring remediation.

However, as the development of any project commences, senior management will assess whether an asset retirement obligation ("ARO") liability will arise. At the point where such liability arises, the financial statement adjustment required will be to increase the project's property value and related ARO liability by the discounted value of the total liability. Thereafter, the Company will be required to record a charge to earnings each year to accrete the discounted ARO obligation amount to the final expected liability.

Impairment of Long-lived Assets

The Company has adopted CICA 3063 – Impairment of Long-Lived Assets. Senior management periodically reviews the carrying value of mineral properties and deferred exploration costs to consider whether there are any conditions that may indicate impairment. Where estimates of future cash flows are available, a reduction in the carrying value is recorded to the extent the net book value of the investment exceeds the estimated fair value which is normally the discounted value of future cash flows. Where estimates of future cash flows are not available and where other conditions suggest impairment, senior management assesses if carrying value can be recovered and provides for impairment if so indicated, by reducing the carrying value of the property to its estimated fair value.

2. Cash and Cash Equivalents

The balance at December 31, 2005, consists of \$Nil (2004 - \$517,766) of funds held in escrow with the remaining \$2,188,400 (2004 - \$681,010) cash balance on deposit with the Company's bank. Funds on deposit with the bank include \$1,600,000 (2004 - \$Nil) in term deposits accruing interest at between 2.25% and 2.6%. Expiry of the deposits varies in 2006, with withdrawals possible in increments of \$100,000.

3. Mineral Properties and Deferred Expenditures

	2005	2004
Mineral Properties		
Balance at beginning of period	\$ 474,000	\$ -
Acquisitions costs	23,698	474,000
Balance at end of period	\$ 497,698	\$ 474,000

Uranium City Resources Inc.

Notes to the Audited Financial Statements

**Year ended December 31, 2005 and
Period from October 25, 2004 (date of incorporation) to December 31, 2004**

	2005	2004
Deferred Exploration Expenditures		
Balance, beginning of period	\$ 158,714	\$ -
Deferred exploration expenditures	1,617,398	158,714
Balance at end of period	\$ 1,776,112	\$ 158,714
	\$ 2,273,810	\$ 632,714

4. Related Party Transactions

The amount is due to UCR's manager, GLR Resources Inc. ("GLR") and is non-interest bearing and without fixed terms of repayment.

Under the terms of a purchase and sale agreement UCR has appointed GLR as the manager of all exploration, development and mining operations in, on or under the mineral properties that were acquired from GLR. As manager, GLR is to receive from the Company a fee equal to 5% of all amounts paid to third parties pursuant to drilling contracts, 10% of all other expenditures incurred directly or indirectly in connection with such exploration and development operations and 3% of all expenditures incurred after commencement of production. The fee paid to GLR as manager for the year ended December 31, 2005, was \$132,208 (period ended December 31, 2004 - \$8,945) of which, \$34,857 (2004 - \$8,945) is included in the Due to manager account at year end.

In addition to the management fees and recoverable expenditures due to the GLR as noted above, the financial statements include balances and transactions with directors and/or officers of the Company and/or corporations controlled by or related to them, as follows:

	2005	2004
Transactions during the year:		
Exploration expenditures	\$ 114,000	\$ 8,000
Consulting fees	62,106	-
Administrative costs	18,000	-
Related party payables included in:		
Accounts payable and accrued liabilities	\$ -	\$ -

Uranium City Resources Inc.

Notes to the Audited Financial Statements

**Year ended December 31, 2005 and
Period from October 25, 2004 (date of incorporation) to December 31, 2004**

5. Capital Assets

	2005		2004	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 1,800	\$ -	\$ 1,800	\$ -
Exploration equipment	37,215	11,020	17,449	2,617
Office furniture and fixtures	17,467	739	16,200	-
	\$ 56,482	\$ 11,759	\$ 35,449	\$ 2,617
Net Book Value	\$ 44,723		\$ 32,832	

6. Capital Stock

Share Capital

UCR's authorized share capital consists of an unlimited number of Common shares.

The issued and outstanding Common share capital is as follows:

	Number of Shares	
Issued upon incorporation	1	\$ 10
Issued for mineral properties	12,000,000	474,000
Issued for financing fees	747,000	373,500
Financing fees	-	(373,500)
Balance at December 31, 2004	12,747,001	\$ 474,010
Deemed exercise of warrants	4,380,300	1,259,899
Issued for cash:		
Regular units	1,568,105	862,458
Flow-through units	4,182,846	2,509,707
Special warrants	1,000,000	500,000
Issue costs of shares issued	-	(545,837)
Fair value of issued warrants	-	(1,312,000)
Future income taxes	-	(906,000)
Balance at December 31, 2005	23,878,252	2,842,237

The Company completed the first and second tranche of its Initial Public Offering (the "IPO" or the "Issuance") on September 13 and September 30, 2005, respectively.

Tranche 1:

This closing consisted of the issuance of 1,141,440 non flow-through units (the "Regular Units") at a price of \$0.55 per unit and the issuance of 3,953,680 flow-through units (the "F-T Units") at a price of

Uranium City Resources Inc.

Notes to the Audited Financial Statements

Year ended December 31, 2005 and Period from October 25, 2004 (date of incorporation) to December 31, 2004

\$0.60, collectively the "Units", for total gross proceeds of \$3,000,000. Each Regular Unit consisted of 1 common share of the Company plus one non flow-through warrant (a "Regular Unit Warrant"). Each F-T Unit consisted of one common share of the Company plus one flow-through warrant (a "F-T Unit Warrant"), collectively the "Unit Warrants". Each Regular Unit Warrant entitles the holder to purchase one common share of the Company at \$0.55. Each F-T Unit Warrant entitles the holder to purchase one flow-through common share at \$0.60. All the Unit Warrants have an expiry of September 12, 2007.

Tranche 2:

This closing consisted of the issuance of 426,665 Regular Units at a price of \$0.55 per unit and the issuance of 229,166 F-T Units at a price of \$0.60 for total gross proceeds of \$372,165.

The costs of the IPO amounted to \$545,837, including commissions paid to Northern Securities Inc. ("Northern"). Such costs have been recorded as a reduction to the balance of the common shares account.

Financial Advisory Services

During 2005, UCR entered into agreements with Northern regarding the IPO. The terms of the agreement called for the Company to pay commissions of \$240,000 to Northern. The Company also issued broker warrants (the "Broker Unit Warrants") as compensation under the agreement.

Broker Unit Warrants

In addition to the total Unit Warrants issued (5,750,951 units) to the public during the IPO, an additional 575,095 Broker Unit Warrants were also issued. Each Broker Unit Warrant is non-transferable and entitles Northern to purchase one common share of the Company for \$0.55 until September 12, 2007.

Outstanding Issued Warrants

All the issued warrants from the Company's private placements that took place in December 2004 and January 2005, have now been exercised or deemed as exercised as a result of the Company's IPO.

As a result, the outstanding Issued Warrants balance at December 31, 2005, is comprised of the following items:

Date of Expiry	Type	No. of Warrants	Exercise Price
December 9, 2006	Broker Warrant	228,000	\$ 0.25
December 30, 2006	Regular Purchase Warrant	1,170,150	\$ 0.75
December 30, 2006	Broker Unit Warrant	234,030	\$ 0.50
December 30, 2006	Broker Unit Warrant	117,015	\$ 0.75
September 12, 2007	Broker Unit Warrant	1,150,190	\$ 0.55
September 12, 2007	Regular Unit Warrant	1,370,606	\$ 0.55
September 12, 2007	Flow-through Unit Warrant	4,380,345	\$ 0.60
Total		8,650,336	\$ 0.59

The Company has valued the warrants issued throughout the year at \$1,312,000 using the Black-Scholes option pricing model with the following assumptions:

Uranium City Resources Inc.

Notes to the Audited Financial Statements

**Year ended December 31, 2005 and
Period from October 25, 2004 (date of incorporation) to December 31, 2004**

	2005
Dividend Yield	-
Expected volatility	104.2%
Risk-free interest rate	4%
Expected life (years)	2

Options

UCR has a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors, employees and consultants. A continuity of the unexercised options to purchase common shares is as follows:

	2005		2004	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at beginning of period	\$ -		\$ -	-
Transactions during the period:				
Granted	0.42	2,185,000	-	-
Exercised	-		-	-
Forfeited	-		-	-
Expired	-		-	-
Outstanding at December 31, 2005	\$ 0.42	2,185,000	\$ -	-
Exercisable at December 31, 2005	\$ 0.42	2,185,000	\$ -	-

The weighted average remaining life of the outstanding options is 4.75 years.

Stock-based compensation

The fair value of the stock options granted for the 12 months ended December 31, 2005 was \$691,000 (2004 – \$Nil), which amount has been expensed in the statement of operations.

7. Issued Warrants

The issued and outstanding warrants are as follows:

Uranium City Resources Inc.

Notes to the Audited Financial Statements

**Year ended December 31, 2005 and
Period from October 25, 2004 (date of incorporation) to December 31, 2004**

	Number of Issued Warrants	
Issued for cash:		
Special warrants	4,140,000	\$ 1,310,000
Special flow-through warrants	240,300	156,195
Issuance costs	-	(150,296)
Future income taxes	-	(56,000)
Balance at December 31, 2004	4,380,300	\$ 1,259,899
Deemed exercise of warrants	(4,380,300)	(1,259,898)
Balance at December 31, 2005	-	\$ -

8. Contributed Surplus

A summary of the changes in the Company's contributed surplus for the years ended December 31, 2005 and 2004, is set out below:

	2005 Amount (\$000's)	2004 Amount (\$000's)
As at January 1	-	-
Fair value of issued warrants	1,312	-
Stock-based compensation	691	-
As at December 31	2,003	-

9. Income Taxes

Future Income Taxes Recoverable

The income tax provision differs from that computed using the statutory tax rates for the following reasons:

	2005	%	2004	%
Income taxes at statutory rates	\$ (435,700)	(36.1)	\$ (12,300)	(36.1)
Non-deductible expenses for tax purposes:				
Stock-based compensation	249,500	20.7	-	-
Other	1,200	0.1	300	0.9
Future income taxes recoverable	\$ (185,000)	(15.3)	\$ (12,000)	(35.2)

Uranium City Resources Inc.

Notes to the Audited Financial Statements

**Year ended December 31, 2005 and
Period from October 25, 2004 (date of incorporation) to December 31, 2004**

Future Income Tax Liability

The tax effects of temporary differences that give rise to significant portions of future tax assets and liabilities are:

	2005	2004
<i>Future tax asset:</i>		
Opening balance	\$ (12,000)	\$ 0
Net loss before future income tax recovery capitalized as part of exploration expenditures for income tax purposes	\$ (185,000)	\$ (12,000)
Ending balance	\$ (197,000)	\$ (12,000)
<i>Future tax liability:</i>		
Opening balance	\$ 56,000	\$ 0
Foregone future tax savings from renunciation of Canadian Exploration Expenditures to flow-through warrants subscribers	906,000	56,000
Ending balance	\$ 962,000	\$ 56,000
<i>Future Income Tax Liability</i>	\$ 765,000	\$ 44,000

10. Subsequent Events

\$4.84 Million Offerings

In April 2006, the Company announced that it had entered into an agreement to raise up to \$4.3 million (the "Offering") by way of a brokered private placement on a best efforts basis with Northern Securities Inc. (the "Agent"). The Offering will consist of the issuance of up to \$1.429 million in units (the "Units") priced at \$0.35 per Unit and up to \$2.875 million in flow-through units (the "Flow-through Units") at \$0.40 per Flow-through Unit. Each Unit will consist of one common share and one-half of one common share purchase warrant (a "Warrant"). Each Flow-through Unit will consist of one flow-through common share and one-half of a Warrant. Each full warrant will entitle the holder to purchase one additional common share at \$0.45 for a period of 18 months following the closing of the Offering.

The Agent will receive a cash commission equal to 7% of the aggregate gross proceeds raised under the Offering. In addition, the Company will also grant to the Agent, non-assignable warrants (the "Agent Warrants") equal in number to 10% of the number of Units and Flow-through Units sold under the Offering. Each Agent Warrant will entitle the holder thereof to acquire one Unit at a price of \$0.35 per Unit for a period of 18 months following the closing of the Offering.

In addition, the Company announced its offering, on a non-brokered basis (the "Non-brokered Offering"), of up to \$537,000 in units (the "Non-brokered Units") at \$0.35 per Non-brokered Unit. Each Non-brokered Unit will consist of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant a "Non-brokered Warrant"). Each Non-brokered Warrant entitles the holder to purchase one common share at a price of \$0.465 for a period of up to 18 months following the closing of the Non-brokered Offering.