



**Audited Financial Statements**

**Years ended**

**December 31, 2006 and 2005**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying 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

February 28, 2007

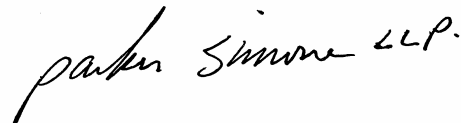
## AUDITORS' REPORT

To the Shareholders of Uranium City Resources Inc.

We have audited the balance sheets of Uranium City Resources Inc. as at December 31, 2006 and 2005 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



February 28, 2007  
Mississauga, Ontario

Licensed Public Accountants

## Uranium City Resources Inc.

### Balance Sheet

(Canadian Dollars)

<i>As at December 31,</i>	<b>2006</b>	<b>2005</b>
<b>Assets</b>	<b>\$</b>	<b>\$</b>
<b>Current assets</b>		
Cash and cash equivalents <i>(Note 2)</i>	<b>2,312,062</b>	2,200,644
Restricted cash <i>(Note 3)</i>	<b>254,911</b>	-
GST recoverable	<b>125,498</b>	86,452
Prepaid expenses	<b>10,735</b>	10,904
Due from related parties <i>(Note 6)</i>	<b>25,654</b>	-
Advances to contractors <i>(Note 4)</i>	<b>1,206,925</b>	-
	<b>3,935,785</b>	2,298,000
<b>Mineral properties and deferred expenditures</b> <i>(Note 5)</i>	<b>5,107,290</b>	2,273,810
<b>Property and equipment</b> <i>(Note 7)</i>	<b>251,780</b>	44,723
	<b>9,294,855</b>	4,616,533
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<b>461,119</b>	11,028
Due to manager <i>(Note 6)</i>	<b>223,889</b>	39,479
	<b>685,008</b>	50,507
<b>Future income taxes</b> <i>(Note 10)</i>	<b>1,284,000</b>	765,000
	<b>1,969,008</b>	815,507
<b>Shareholders' equity</b>		
Capital Stock		
Common shares <i>(Note 8)</i>	<b>5,564,897</b>	2,842,237
Contributed surplus <i>(Note 9)</i>	<b>3,051,708</b>	2,003,000
Deficit	<b>(1,290,758)</b>	(1,044,211)
	<b>7,325,847</b>	3,801,026
	<b>9,294,855</b>	4,616,533

*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**  
*(Canadian Dollars except share and per share amounts)*

	Year Ended December 31, 2006	Year Ended December 31, 2005
<b>Revenue</b>	<b>\$</b>	<b>\$</b>
Interest income	116,214	19,225
	<b>116,214</b>	<b>19,225</b>
<b>Operating expenses</b>		
Office and general	264,918	99,492
Public relations	113,194	87,200
Professional fees	56,911	53,618
Shareholder information	52,382	57,389
Consulting	208,871	224,396
Financing costs	-	13,132
Stock-based compensation	186,000	691,000
	<b>882,276</b>	<b>1,226,227</b>
<b>Net loss before gain and future income tax recovery</b>	<b>(766,062)</b>	<b>(1,207,002)</b>
Gain on sale of equipment	515	-
Future income tax recovery <i>(Note 10)</i>	519,000	185,000
<b>Net loss</b>	<b>(246,547)</b>	<b>(1,022,002)</b>
Deficit at beginning of year	<b>(1,044,211)</b>	<b>(22,209)</b>
<b>Deficit at end of year</b>	<b>(1,290,758)</b>	<b>(1,044,211)</b>
<b>Basic and fully diluted net loss per share</b> <i>(Note 1)</i>	<b>(0.7)¢</b>	<b>(6.2)¢</b>
<b>Weighted average number of shares (000's)</b>	<b>32,880</b>	<b>16,971</b>

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

**Uranium City Resources Inc.**

**Statement of Cash Flow**

*(Canadian Dollars)*

	Year Ended December 31, 2006	Year Ended December 31, 2005
<b>Operations</b>	<b>\$</b>	<b>\$</b>
Net loss	(246,547)	(1,022,002)
Adjustments to reconcile net loss to cash flow from operating activities:		
Amortization	26,478	9,142
Gain on sale of equipment	(515)	-
Future income taxes (recovery)	(519,000)	(185,000)
Stock-based compensation	186,000	691,000
Net change in non-cash working capital items:		
GST recoverable	(39,046)	(75,179)
Prepaid expenses	169	(10,904)
Advances to contractors	(1,206,925)	-
Accounts payable and accrued liabilities	450,091	(18,232)
Due to manager	184,410	(76,156)
<b>Cash Flow from Operating Activities</b>	<b>(1,164,885)</b>	<b>(687,331)</b>
<b>Financing</b>		
Issuance of common shares	4,968,502	3,872,165
Proceeds from subscriptions receivable	-	25,000
Cost of issuances	(345,135)	(545,837)
<b>Cash Flow from Financing Activities</b>	<b>4,623,367</b>	<b>3,351,328</b>
<b>Investments</b>		
Purchase of capital assets, net of proceeds	(241,127)	(21,023)
Expenditures on deferred exploration	(2,825,372)	(1,641,096)
Due from related parties	(25,654)	-
Restricted cash <i>(Note 3)</i>	(254,911)	-
<b>Cash Flow from Investing Activities</b>	<b>(3,347,064)</b>	<b>(1,662,129)</b>
<b>Increase in cash and cash equivalents</b>	<b>111,418</b>	<b>1,001,868</b>
Cash and cash equivalents at beginning of year	2,200,644	1,198,776
<b>Cash and cash equivalents at end of year</b>	<b>2,312,062</b>	<b>2,200,644</b>

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

**Uranium City Resources Inc.**  
**Notes to the Audited Financial Statements**  
**Years ended December 31, 2006 and 2005**

**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.

***Going Concern***

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the "going concern" assumption is not appropriate, then material adjustments may be necessary in the carrying amounts and/or classifications of assets and liabilities in these financial statements.

***Revenue Recognition***

The Company recognizes interest revenue over the passage of time on a quarterly basis.

***Income Taxes***

UCR follows the liability method of accounting for income taxes. Under this method future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in the period that the change occurs.

***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.

***Property and Equipment***

Property and equipment 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.

**Uranium City Resources Inc.**  
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***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.

***Fair Values of Financial Instruments***

The carrying values of cash and cash equivalents, GST recoverable, due from related parties, accounts payable and accrued liabilities and due to manager approximate their fair values due to the relatively short periods to maturity of the instruments.

***Account Reclassifications***

Certain prior year amounts have been reclassified to conform to account presentation in the current year.

***Issuance of Options and Warrants***

UCR records employee stock-based compensation and warrant issuances 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 stock-based compensation is recorded to contributed surplus. Contributed surplus is relieved of these costs to the extent that the value of any exercised options or warrants is less than the current market price of the shares acquired by the holder of the options warrants.

The Company uses the Black-Scholes option pricing model to determine the value of all issued options and warrants. The table below summarizes the assumptions used with the Black-Scholes model for determining the value of the stock-based costs for the stock options and warrants issued in 2006 and 2005.

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

	<b>2006</b>	<b>2005</b>
Dividend Yield	-	-
Expected volatility	141.3%	104.2%
Risk-free interest rate	4.1%	4.0%
Expected life (years)	1.7	2.7

***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 development 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

**Uranium City Resources Inc.**  
**Notes to the Audited Financial Statements**  
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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, 2006, consists of \$187,005 (2005 - \$600,644) on deposit with a bank and \$2,125,057 (2005 - \$1,600,000) in term deposits accruing interest at 4.1%. Expiry of the deposits varies in 2007, with withdrawals possible in increments of \$100,000.

**3. Restricted Cash**

The Company has made payments to *Saskatchewan Industry and Resources* for deficient exploration expenditures on some of its mineral properties. The Company will apply for a refund from the government of Saskatchewan as it incurs the exploration expenditures for which this restricted reserve was created.

**4. Advances to Contractors**

Subsequent to year end, the Company was repaid \$1,000,000 in advances it had made to contractors.

**5. Mineral Properties and Deferred Expenditures**

	<b>2006</b>	<b>2005</b>
<b>Mineral Properties</b>	<b>\$</b>	<b>\$</b>
Balance at beginning of year	497,698	474,000
Acquisitions costs	7,000	23,698
Balance at end of year	<b>504,698</b>	497,698
<b>Deferred Exploration Expenditures</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of year	1,776,112	158,714
Deferred exploration expenditures including amortization expense of \$8,108 (2005 - \$Nil)	2,826,480	1,617,398
Balance at end of year	<b>4,602,592</b>	1,776,112
	<b>5,107,290</b>	2,273,810

Under its mineral properties option agreements, UCR is required to make cash payments totalling \$55,000 over the next three years as follows: 2007 - \$10,000; 2008 - \$15,000; and 2009 - \$30,000.

The Company is also required to incur exploration expenditures totalling \$1,008,000 over the next four years as follows: 2007 - \$108,000; 2008 - \$150,000; 2009 - \$250,000; and 2010 - \$500,000.

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**6. Related Party Transactions**

The amount is due to UCR's manager, GLR Resources Inc. ("GLR") and bears interest at prime + 5% commencing 10 days after receipt of invoice.

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, 2006, was \$257,515 (2005 - \$132,208) of which, \$216,402 (2005 - \$34,857) is included in the Due to manager account at year end.

On August 30, 2006, UCR entered into an agreement (the "Option Agreement") with RJK Explorations Ltd. and GLR (the "Vendors"), whereby the Company agreed to undertake \$1,000,000 of exploration expenditures during a four-year period ending on August 30, 2010 (with a minimum expenditure to be made by August 30, 2007) in exchange for an undivided 25% interest in the Goldie Property located in Thunder Bay, Ontario.

The Company may terminate their option by giving the Vendors 30 days written notice. Also, the Company will act as the operator of any exploration programs and upon earn in, will be bound by the terms of a joint-operating agreement to be drafted at such time which will rely upon current industry standards and practices.

Under the terms of the joint operating agreement, non-participation by any party will result in the non-participating party(ies) to be diluted to a 1.0% net smelter return ("NSR"). In addition, at such time and upon dilution, the participating party(ies) will have the right to acquire 50% of the NSR (0.5%) for a cash consideration of \$1,000,000.

The financial statements include balances and transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. These transactions are measured and recorded at their exchange amounts, being the amounts agreed to by the related parties.

	<b>2006</b>	<b>2005</b>
Transactions during the year:	<b>\$</b>	<b>\$</b>
Exploration expenditures	213,062	165,000
Consulting fees	82,365	62,106
Administrative costs	19,950	18,000
Management fees	257,516	63,171
Due (to) from related parties:	<b>\$</b>	<b>\$</b>
Other (non-interest bearing, no fixed terms of repayment)	25,654	-
Management fees payable	(223,889)	(39,479)
	(198,235)	(39,479)
Related party payables included in:		
Accounts payable and accrued liabilities	1,749	-

**Uranium City Resources Inc.**  
**Notes to the Audited Financial Statements**  
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**7. Property and Equipment**

	2006		2005	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Land	1,800	-	1,800	-
Exploration equipment	79,152	7,915	37,215	11,020
Equipment	197,338	36,980	-	-
Furniture, fixtures and building	19,834	1,449	17,467	739
	<b>298,124</b>	<b>46,344</b>	56,482	11,759
<b>Net Book Value</b>	<b>251,780</b>		44,723	

**8. 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	\$
<b>Balance at December 31, 2004</b>	<b>12,747,001</b>	<b>474,010</b>
Deemed exercise of warrants	4,380,300	1,259,899
Issue 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)
<b>Balance at December 31, 2005</b>	<b>23,878,252</b>	<b>2,842,237</b>
Issued for cash: Regular units	5,614,286	1,965,000
Flow-through units	7,187,500	2,875,000
Issue costs of shares issued	-	(345,134)
Warrants exercised	432,292	128,502
Value transfer of exercised warrants	-	26,292
Fair value of issued warrants	-	(889,000)
Future income taxes	-	(1,038,000)
<b>Balance at December 31, 2006</b>	<b>37,112,330</b>	<b>5,564,897</b>

**Uranium City Resources Inc.**  
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During the second quarter of 2006, the Company completed a non-brokered private placement of 1,532,286 units at \$0.35 per unit, raising gross proceeds of \$536,300. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.465 until October 25, 2007.

The Company also completed a brokered private placement of 4,082,000 units priced at \$0.35 per unit and 7,187,500 flow-through units priced at \$0.40 per flow-through unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each flow-through unit consisted of one flow-through common share and one-half of one common share purchase warrant. Each full warrant entitles the holder thereof to purchase one additional common share at a price of \$0.45 until October 20, 2007. In addition, the agent was paid a cash commission of 7% of the aggregate gross proceeds and was granted 1,126,950 warrants exercisable at a price of \$0.35 per warrant until October 20, 2007.

***Outstanding Issued Warrants***

The outstanding Issued Warrants balance at December 31, 2006, is comprised of the following items:

<b>Date of Expiry</b>	<b>Type</b>	<b>No. of Warrants</b>	<b>Exercise Price (\$)</b>
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
October 20, 2007	Regular Unit Warrant	2,041,000	0.45
October 20, 2007	Flow-through Unit Warrant	3,593,750	0.45
October 20, 2007	Agent's Warrants	922,658	0.35
October 25, 2007	Regular Unit Warrant	766,143	0.465
<b>Total</b>		<b>14,224,692</b>	<b>0.51</b>

***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. The plan allows for the issuance of up to 10% of the issued and outstanding common shares, less an amount equal to any options previously exercised. As at December 31, 2006 the Company had 1,126,833 (2005 – 202,825) options available for issuance. A continuity of the unexercised options to purchase common shares is as follows:

**Uranium City Resources Inc.**  
**Notes to the Audited Financial Statements**  
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	2006		2005	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
	\$		\$	
Outstanding at beginning of year	0.42	2,185,000	-	-
Transactions during the year:				
Granted	0.48	400,000	0.42	2,185,000
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
<b>Outstanding at December 31</b>	<b>0.43</b>	<b>2,585,000</b>	0.42	2,185,000
<b>Exercisable at December 31</b>	<b>0.43</b>	<b>2,585,000</b>	0.42	2,185,000

The following table provides additional information about outstanding stock options at December 31, 2006:

Range of Exercise Prices	No. of Options Outstanding (000's)	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price (\$)
\$0.25 - \$0.40	100	3.2	0.36
0.41 - 0.50	2,185	1.8	0.42
0.51 - 0.75	300	4.3	0.52
	<b>2,585</b>	<b>2.1</b>	<b>0.43</b>

***Stock-based compensation***

The fair value of the stock options granted for the 12 months ended December 31, 2006 was \$186,000 (2005 – \$691,000), which amount has been expensed in the statement of operations.

**9. Contributed Surplus**

A summary of the changes in the Company's contributed surplus for the years ended December 31, 2006 and 2005, is set out below:

	2006	2005
	Amount	Amount
	\$	\$
As at January 1	2,003,000	-
Fair value of issued warrants	889,000	1,312,000
Value transfer of warrants exercised	(26,292)	-
Stock-based compensation	186,000	691,000

**Uranium City Resources Inc.**  
**Notes to the Audited Financial Statements**  
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As at December 31	<b>3,051,708</b>	2,003,000
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**10. Income Taxes**

The Company has \$648,555 (2005 - \$497,698) of unused CEE and CDE expenses. The tax benefits pertaining to these expenses are available to carry forward indefinitely. The Company also has \$850,840 of loss carry-forwards and financing costs available to offset future taxable income. The tax benefits pertaining to these expenses are available to carry-forward for 20 years.

***Future Income Taxes Recoverable***

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

	<b>2006</b>	<b>%</b>	<b>2005</b>	<b>%</b>
<b>Income tax recoveries at statutory rates</b>	<b>(276,550)</b>	<b>(36.1)</b>	(435,700)	(36.1)
Financing fees deductible for tax purposes	<b>(307,200)</b>	<b>(40.1)</b>	-	-
Non-deductible expenses for tax purposes:				
Stock-based compensation	<b>67,150</b>	<b>8.8</b>	249,500	20.7
Other	<b>(2,400)</b>	<b>(0.3)</b>	1,200	0.1
<b>Future income taxes recoverable</b>	<b>(519,000)</b>	<b>(67.7)</b>	(185,000)	(15.3)

***Future Income Tax Liability***

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

	<b>2006</b>	<b>2005</b>
<b><i>Future tax asset:</i></b>	<b>\$</b>	<b>\$</b>
Opening balance	(197,000)	(12,000)
Net loss before future income tax recovery capitalized as part of exploration expenditures for income tax purposes	(519,000)	(185,000)
Ending balance	(716,000)	(197,000)
<b><i>Future tax liability:</i></b>		
Opening balance	962,000	56,000
Foregone future tax savings from renunciation of Canadian Exploration Expenditures to flow-through warrants subscribers	1,038,000	906,000
Ending balance	2,000,000	962,000
<b>Future Income Tax Liability</b>	<b>1,284,000</b>	<b>765,000</b>