

**GLR Resources Inc.**  
**Audited**  
**Consolidated**  
**Financial Statements**  
**Years Ended**  
**December 31, 2004 and 2003**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying consolidated financial statements of 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.

(Signed)  
R. J. Kasner  
President and Chief Executive Officer

(Signed)  
S. M. Gledhill  
Chief Financial Officer

February 11, 2005

## **AUDITORS' REPORT**

To the Shareholders of GLR Resources Inc.

We have audited the consolidated balance sheets of GLR Resources Inc. as at December 31, 2004 and 2003 and the consolidated 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 audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

February 11, 2005  
Mississauga, Ontario

(Signed)  
"Parker Simone LLP"

**GLR Resources Inc.**  
**Consolidated Balance Sheets**

<i>As at December 31,</i>	<b>2004</b>	<b>2003</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents <i>(Note 3)</i>	\$ 3,387,507	\$ 1,396,517
GST Recoverable	44,129	23,389
Interest Receivable	4,231	-
Due from related company <i>(Note 7)</i>	23,104	-
Prepaid expenses	9,443	161,591
	<b>\$ 3,468,414</b>	<b>\$ 1,581,497</b>
<b>Investments</b>	<b>\$ 58,458</b>	<b>\$ 125,961</b>
<b>Mineral Properties and Deferred Expenditures</b> <i>(Note 4)</i>	<b>4,827,838</b>	<b>3,385,433</b>
<b>Capital Assets</b> <i>(Note 5)</i>	<b>66,821</b>	<b>54,814</b>
	<b>\$ 8,421,531</b>	<b>\$ 5,147,705</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities <i>(Notes 6,7)</i>	\$ 84,972	\$ 237,145
	<b>\$ 84,972</b>	<b>\$ 237,145</b>
<b>Long-term liabilities</b>		
Note payable <i>(Note 7)</i>	\$ 265,650	\$ 337,250
	<b>\$ 265,650</b>	<b>\$ 337,250</b>
	<b>\$ 350,622</b>	<b>\$ 574,395</b>
<b>Minority Interests</b>	<b>\$ 1,289,006</b>	<b>\$ -</b>
<b>Shareholders' Equity</b>		
Capital Stock <i>(Note 8)</i>	\$ 9,576,379	\$ 6,253,107
Contributed Surplus	165,902	-
Deficit	(2,960,378)	(1,679,797)
	<b>\$ 6,781,903</b>	<b>\$ 4,573,310</b>
	<b>\$ 8,421,531</b>	<b>\$ 5,147,705</b>

Approved by the Board:

(Signed)

(Signed)

Director

Director

**GLR Resources Inc.**

**Consolidated Statements of Operations and Deficit**

<i>Year Ended December 31,</i>	<b>2004</b>	<b>2003</b>
<b>Operating Expenses</b>		
Financing fees	\$ 214,682	\$ 255,982
Office and general	74,918	81,199
Public relations	287,362	150,470
Professional fees	108,101	102,774
Shareholder information	57,406	34,843
Consulting	111,099	29,631
Pilot plant cancellation fee	116,866	-
Salaries and benefits	33,278	26,863
Stock-based compensation	49,982	-
	<b>\$ 1,053,694</b>	<b>\$ 681,762</b>
	<b>\$ (1,053,694)</b>	<b>\$ (681,762)</b>
Gain on sale of investments	-	24,937
Write-down of investment	(67,503)	(41,000)
Write-down of mineral properties & deferred exploration Expenditures (Note 4)	(161,276)	(10,801)
Minority Interests	1,892	-
<b>Net Loss</b>	<b>\$ (1,280,581)</b>	<b>\$ (708,626)</b>
Deficit at beginning of year	(1,679,797)	(971,171)
<b>Deficit at End of Year</b>	<b>\$ (2,960,378)</b>	<b>\$ (1,679,797)</b>
<b>Net Loss Per Share – basic and diluted</b> (Note 8)	<b>(5.4)¢</b>	<b>(4.2)¢</b>

**GLR Resources Inc.**

**Consolidated Statements of Cash Flow**

<i>Year Ended December 31,</i>	<b>2004</b>	<b>2003</b>
<b>Operations</b>		
Net loss	\$ (1,280,581)	\$ (708,626)
Adjustments to reconcile net loss to cash flow from operating activities:		
Minority Interests	(1,892)	-
Amortization	3,093	-
Gain on sale of investments	-	(24,937)
Write-down of investments	67,503	41,000
Write-off of deferred financing fee	-	36,645
Write-off of mineral properties	161,276	10,801
Financing fees incurred in exchange for common shares	-	93,409
Stock-based compensation	49,982	-
Net change in non-cash operating working capital items	(48,102)	173,699
<b>Cash Flow from Operating Activities</b>	<b>\$ (1,048,721)</b>	<b>\$ (378,009)</b>
<b>Financing</b>		
Issuance of common shares	\$ 3,416,943	\$ 2,078,781
Issuance of warrants by subsidiary, net of issue costs	1,290,899	-
(Repayment)/increase in note payable	(71,600)	25,000
<b>Cash Flow from Financing Activities</b>	<b>\$ 4,636,242</b>	<b>\$ 2,103,781</b>
<b>Investments</b>		
Sale (purchase) of investments	\$ -	\$ (166,600)
Proceeds from sale of investments	-	166,600
Sale (purchase) of capital assets	(26,070)	-
Expenditures on mineral properties	(1,570,461)	(339,117)
<b>Cash Flow from Investing Activities</b>	<b>\$ (1,596,531)</b>	<b>\$ (339,117)</b>
<b>Net Increase (Decrease) in Cash</b>	<b>\$ 1,990,990</b>	<b>\$ 1,386,655</b>
Cash at beginning of year	1,396,517	9,862
<b>Cash at End of Year</b>	<b>\$ 3,387,507</b>	<b>\$ 1,396,517</b>

## ***GLR Resources Inc.***

### ***Notes to the Audited Consolidated Financial Statements***

***Years ended December 31, 2004 and 2003***

#### ***General***

GLR Resources Inc. ("GLR", or the "Company") is a Federally incorporated company. GLR's principal business activity is that of a junior mineral exploration company with its primary focus of exploration being in Canada.

On October 25<sup>th</sup>, 2004, GLR incorporated Uranium City Resources Inc. ("UCR"), a wholly-owned subsidiary. Subsequently, on November 22, 2004, GLR transferred its uranium properties and claims to UCR, for which it received 12,000,000 common shares valued at \$474,000. The properties were transferred at their carrying value. The results of UCR have been consolidated to December 31, 2004.

#### **1. Summary of Significant Accounting Policies**

##### ***Nature of Operations***

GLR 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 GLR to obtain the necessary financing to complete exploration and development, and upon future profitable production or proceeds from disposition of such properties.

The Company's Canadian exploration activities are mainly undivided interests in properties that are explored jointly with others. Accordingly, these financial statements reflect GLR's pro-rata share of the assets, liabilities, and expenditures of these undivided interests, as appropriate.

##### ***Consolidation***

The consolidated financial statements include the accounts of GLR and its 95%-owned subsidiary UCR. Intercompany balances and transactions are eliminated on consolidation.

##### ***Cash and Cash Equivalents***

Cash and cash equivalents includes cash on deposit, cash held in escrow and guaranteed investments certificates ("GIC's") upon which interest accrues to the benefit of the Company. The conditions of the GIC's provide for early withdrawal of partial amounts of no less than \$100,000, in anticipation of Company cash requirements.

##### ***Mineral Properties***

GLR 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.

##### ***Account Reclassifications***

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

## **GLR Resources Inc.**

### **Notes to the Audited Consolidated Financial Statements**

#### **Years ended December 31, 2004 and 2003**

##### **Investment**

The investment is recorded at the lower of cost or market and consists of 835,121 shares of RJK Explorations Ltd., a Canadian public company. As at December 31, 2004, the cost of this investment was \$168,042 (\$168,042 in 2003).

##### **Capital Assets**

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on the declining basis at rates varying from 10% to 30% per year.

##### **Flow-Through Common Shares**

Proceeds received on the issuance of common shares, 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 anti-dilutive and, therefore, basic and diluted losses per share are the same.

## **2. Changes in Accounting Policies**

##### **Stock-Based Compensation Plan**

Effective January 1, 2004, GLR began recording employee 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 recorded to contributed surplus.

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 2003 and 2004. If the fair value method was applied to options granted during the twelve months ended December 31, 2003, the stock-based compensation expense would be \$122,991 which would increase the contributed surplus and the deficit at the beginning of 2004 by the same amount.

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

	<b>2004</b>	<b>2003</b>
Dividend Yield	-	-
Expected volatility	11.4%	13.7%
Risk-free interest rate	4.3%	5.0%
Expected life (years)	5	5

##### **Asset retirement obligations**

Effective January 1, 2004, GLR adopted CICA 3110 - Asset Retirement Obligations. The new standard was adopted retroactively and did not have any impact on the current or prior year reported results and balances since there are no projects under construction at this time, there is no legal obligation requiring remediation.

**Notes to the Audited Consolidated Financial Statements**

**Years ended December 31, 2004 and 2003**

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**

Effective January 1, 2004, GLR 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, 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.

**3. Cash and cash equivalents**

The balance at December 31, 2004, contains cash on deposit of \$359,808 (\$1,396,517 in 2003), cash held in escrow of \$1,172,699 (\$0 in 2003) and guaranteed investments certificates of \$1,855,000 (\$0 in 2003), bearing interest at 2.25% and maturing on November 25, 2005.

The funds held in escrow were received from the private placements completed in December 2004, by UCR. Subsequent to year end, \$679,527 has been released from escrow and received by the UCR.

**4. Mineral Properties and Deferred Expenditures**

	<b>2004</b>	<b>2003</b>
<b>Mineral Properties</b>		
Balance at beginning of year	\$ 953,423	\$ 963,798
Acquisitions costs	22,250	-
Write downs	(82,731)	(10,375)
<b>Balance at end of year</b>	<b>\$ 892,942</b>	<b>\$ 953,423</b>
<b>Deferred Exploration Expenditures</b>		
Balance, beginning of year	\$ 2,432,010	\$ 2,080,038
Deferred exploration expenditures, including amortization expense of \$10,970 (\$13,281-2003)	1,581,431	352,398
Write downs	(78,545)	(426)
<b>Balance at end of year</b>	<b>\$ 3,934,896</b>	<b>\$ 2,432,010</b>
	<b>\$ 4,827,838</b>	<b>\$ 3,385,433</b>

**GLR Resources Inc.**

**Notes to the Audited Consolidated Financial Statements**

**Years ended December 31, 2004 and 2003**

**5. Capital Assets**

	2004		2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Exploration equipment	\$ 90,997	\$ 38,235	\$ 64,927	\$ 27,171
Office furniture and fixtures	29,323	15,264	29,323	12,265
	<b>\$ 120,320</b>	<b>\$ 53,499</b>	<b>\$ 94,250</b>	<b>\$ 39,436</b>
<b>Net Book Value</b>	<b>\$ 66,821</b>		<b>\$ 54,814</b>	

**6. Potential Income Taxes Benefits**

The company has \$4,071,700 (2003 - \$3,735,800) of unused cumulative Canadian exploration and development expenses available to offset future taxable income. The tax benefits pertaining to these expenses are available to carry forward indefinitely.

**7. Related Party Transactions**

The financial statements include balances and transactions with directors and officers of the Company and corporations related to directors of GLR as follows:

	2004	2003
Transactions during the year:		
Exploration expenditures	\$ 324,928	\$ 115,000
Consulting fees	70,000	15,000
Legal fees	40,770	80,250
Related party payables included in:		
Accounts payable and accrued liabilities	\$ 9,790	\$ 181,214
Note payable (non-interest bearing, no fixed terms of repayment)	\$ 265,650	\$ 337,250

**8. Capital Stock**

**Share Capital**

GLR's authorized share capital consists of an unlimited number of Class A Voting Common Shares, and an unlimited number of non-voting, redeemable Class B Preferred Shares, Series A. This series is redeemable by the Company, in whole or in part, at the rate of \$1,000 per Series A share. The holders of the Series A shares are not entitled to dividends.

**GLR Resources Inc.**

**Notes to the Audited Consolidated Financial Statements**

**Years ended December 31, 2004 and 2003**

**8. Capital Stock (Cont'd)**

The issued Class A Voting Common Share capital is as follows:

	Number of Shares		
<b>Balance at December 31, 2002</b>	<b>15,372,119</b>	<b>\$</b>	<b>3,919,326</b>
Issued for:			
Cash:			
Private Placements	5,275,150		2,837,705
Options Exercised	775,000		329,750
Financial Advisory Services	600,000		255,000
Share Issue Costs	-		(273,804)
	22,022,269	\$	7,067,977
Class A & D units subscription receivable	-		(814,870)
<b>Balance at December 31, 2003</b>	<b>22,022,269</b>	<b>\$</b>	<b>6,253,107</b>
Issued for:			
Cash:			
Private placements	7,604,166	\$	2,850,000
Options exercised	50,000		16,050
Mineral properties	50,000		22,250
Class A & D units subscription receivable	-		814,870
Fair value assigned to unexercised warrants	-		(115,921)
Share issue costs	-		(263,977)
<b>Balance at December 31, 2004</b>	<b>29,726,435</b>	<b>\$</b>	<b>9,576,379</b>

The 2004 share issue costs consist of agent fees paid to Northern Security of 8% of the gross proceeds raised (\$2,850,000) in the offering together with certain disbursement recoveries and due diligence expense recoveries as payable to Northern Securities under the agency agreement.

**GLR Resources Inc.**

**Notes to the Audited Consolidated Financial Statements**

**Years ended December 31, 2004 and 2003**

**8. Capital Stock (Cont'd)**

Details of the Private Placements completed for the year ended December 31, 2003:

Month of issuance	Feb-03	Nov-03	Dec-03	Dec-03	Dec-03
Type of security issued	Common Shares	Class C Units	Class B Units	Class D Units	Class A Units
No. Issued	1,351,352	100,000	2,659,700	999,998	164,100
Gross cash proceeds	\$ 500,000	\$ 60,000	\$ 1,462,835	\$ 700,000	\$ 114,870
No. of Common Shares	1,351,352	100,000	2,659,700	-	-
No. of Flow-Through Common Shares	-	-	-	999,998	164,100
No. of Common Share:					
Purchase warrants	-	100,000	1,329,850	999,998	82,050
Agent's warrants	-	-	125,000	100,000	8,205
Exercise price/warrants to:					
First anniversary	\$ -	\$ 0.70	\$ 0.75	\$ 0.75	\$ 0.75
Second anniversary	\$ -	\$ -	\$ 1.20	\$ 1.00	\$ 1.00
Expiry date of warrants	-	Nov-04	Dec-05	Dec-05	Dec-05

**Financial Advisory Services**

During 2003, GLR entered into financial advisory services contracts under which the terms of payment required the Company to issue 600,000 Class A Voting Common Shares with an assigned value of \$255,000. Of these shares, 100,000 shares were issued to the agent involved in the private placement issuances of 2,500,000 of the Class B units and 100% of the Class D units. The assigned value of the agent's shares is \$55,000. The remaining 500,000 Class A Voting Common Shares were issued as prepayment for services to be provided during the twelve months ended October 31, 2004. As such, \$150,000 of this expenditure is included in prepaid expenses at December 31, 2003.

**GLR Resources Inc.**

**Notes to the Audited Consolidated Financial Statements**

**Years ended December 31, 2004 and 2003**

**8. Capital Stock (Cont'd)**

Details of the Private Placements completed for the year ended December 31, 2004:

Month of issuance	Oct-04	Oct-04
Type of security issued	Class A Units	Class B Units
No. Issued	5,687,500	1,916,666
Gross cash proceeds	\$ 2,275,000	\$ 575,000
No. of Common Shares	-	1,916,666
No. of Flow-Through Common Shares	5,687,500	-
No. of Common Shares:		
Purchase warrants	2,843,750	958,333
Agent's warrants	284,375	95,833
Broker's warrants	568,750	191,666
Exercise price of warrants		
Purchase warrants	\$ 0.50	\$ 0.50
Agent's warrants	\$ 0.50	\$ 0.50
Broker's warrants	\$ 0.40	\$ 0.40
Expiry date of warrants	Oct-06	Oct-06

**Warrants**

The outstanding warrants at the year-end to purchase Class A Voting Common Shares are as follows:

Month of Expiry	No. of Warrants	Exercise Price
December 2005	1,364,850	\$ 1.20
December 2005	1,190,253	\$ 1.00
October 2006	4,182,291	\$ 0.50
October 2006	760,416	\$ 0.40

Subsequent to year end, the January 2005 warrants, noted above, were not exercised and expired.

**GLR Resources Inc.**

**Notes to the Audited Consolidated Financial Statements**

**Years ended December 31, 2004 and 2003**

**8. Capital Stock (Cont'd)**

**Options**

GLR has a stock option plan pursuant to which options to purchase Class A Voting Common Shares may be granted to certain officers, directors and employees. A continuity of the unexercised options to purchase Class A Voting Common Shares is as follows:

	2004		2003	
	Weighted Average Exercise Price	No. of Options (000's)	Weighted Average Exercise Price	No. of Options (000's)
Outstanding at beginning of year	\$ 0.52	2,120	\$ 0.43	1,990
Transactions during the year:				
Exercised	0.32	(50)	0.43	(775)
Granted	0.51	1,240	0.55	1,200
Forfeited	0.44	(195)	0.39	(145)
Expired	0.56	(625)	0.30	(150)
<b>Outstanding at end of year</b>	<b>\$ 0.51</b>	<b>2,490</b>	<b>\$ 0.52</b>	<b>2,120</b>
<b>Exercisable at year end</b>	<b>\$ 0.51</b>	<b>2,490</b>	<b>\$ 0.52</b>	<b>2,120</b>

The following table provides additional information about outstanding stock options at December 31, 2004.

Range of Exercise Prices	No. of Options Outstanding (000's)	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
\$0.30 - \$0.40	555	3.21	\$ 0.35
0.41 - 0.50	670	2.71	0.48
0.51 - 0.65	1,265	2.66	0.59
	2,490	2.85	\$ 0.51

During 2003, GLR granted 1,200,000 stock options to employees, officers, and directors. If the Company had adopted the fair method of accounting for stock options in 2003, the stock-based compensation costs associated with these options would have an impact on net loss and net loss per share as follows:

**GLR Resources Inc.**

**Notes to the Audited Consolidated Financial Statements**

**Years ended December 31, 2004 and 2003**

**8. Capital Stock (Cont'd)**

	2003
Net loss as reported	\$ (708,626)
Stock-based compensation cost	(122,991)
Pro forma net loss	<b>\$ (831,617)</b>
Pro forma net loss per share – basic and diluted	<b>(4.9)¢</b>

**9. Minority Interests**

Details of the Private Placements completed by UCR for the year ended December 31, 2004:

Month of issuance	Dec 9-04	Dec 9-04	Dec 30-04	Dec 30-04
Type of security issued	Special Warrants	1 <sup>st</sup> Special Warrants	2 <sup>nd</sup> Special Warrants	2 <sup>nd</sup> Special Flow-through Warrants
No. Issued	760,000	2,280,000	1,100,000	240,300
Gross cash proceeds	\$ 190,000	\$ 570,000	\$ 550,000	\$ 156,195
No. of Common Shares upon exercise of special warrant	760,000	2,280,000	1,100,000	-
No. of Flow-Through Common Shares upon exercise of special flow-through warrant	-	-	-	240,300
Expiry date of special warrants	Dec 9-05	Dec 9-05	Dec 30-05	Dec 30-05
No. of Common Share:				
Purchase warrants	-	-	550,000	120,150
1 <sup>st</sup> Broker warrants	-	228,000	-	-
2 <sup>nd</sup> Broker warrants	-	-	110,000	24,030
2 <sup>nd</sup> Broker warrants purchase warrants			55,000	12,105
Exercise price of warrants:				
Purchase warrants	\$ -	\$ -	\$ 0.75	\$ 0.75
1 <sup>st</sup> Broker warrants	\$ -	\$ 0.25	\$ -	\$ -
2 <sup>nd</sup> Broker warrants	\$ -	\$ -	\$ 0.50	\$ 0.50
2 <sup>nd</sup> Broker warrants purchase warrants	\$ -	\$ -	\$ 0.75	\$ 0.75
Expiry date of purchase, 1 <sup>st</sup> broker and 2 <sup>nd</sup> broker warrants	Dec 9-06	Dec 9-06	Dec 30-06	Dec 30-06