



GLR Resources Inc.

**Audited
Financial Statements**

**Years Ended
December 31, 2005 and 2004**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of GLR 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 financial statements and related financial reporting matters prior to submitting the 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

March 30, 2006

AUDITORS' REPORT

To the Shareholders of GLR Resources Inc.

We have audited the balance sheets of GLR Resources Inc. as at December 31, 2005 and 2004 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



March 23, 2006
Mississauga, Ontario

**GLR Resources Inc.
Balance Sheets**

As at December 31,

2005

2004

Consolidated

Assets

Current assets

Cash and cash equivalents (Note 2)	\$ 1,139,165	\$ 3,387,507
GST recoverable	21,916	44,129
Interest receivable	170	4,231
Due from related companies (Note 7)	62,803	23,104
Prepaid expenses	10,000	9,443

\$ 1,234,054 **\$ 3,468,414**

Investments

\$ 37,600 **\$ 58,458**

Mineral properties and deferred expenditures (Note 3)

5,930,828 4,827,838

Capital assets (Note 4)

58,902 66,821

\$ 7,261,384 **\$ 8,421,531**

Liabilities

Current liabilities

Accounts payable and accrued liabilities (Note 7)	\$ 164,604	\$ 84,972
	\$ 164,604	\$ 84,972

Long-term liabilities

Note payable (Note 7)	\$ 50,000	\$ 265,650
Future income taxes (Note 6)	712,000	-
	\$ 762,000	\$ 265,650
	\$ 926,604	\$ 350,622

Minority interests (Note 5)

\$ - **\$ 1,289,006**

Shareholders' equity

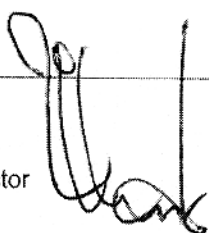
Capital stock (Note 8)	\$ 6,229,749	\$ 9,576,379
Contributed surplus	819,353	165,902
Accumulated deficit	(714,322)	(2,960,378)
	\$ 6,334,780	\$ 6,781,903
	\$ 7,261,384	\$ 8,421,531

Subsequent events (Note 10)

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

Approved by the Board:


Director


Director

GLR Resources Inc.

Consolidated Statements of Operations and Deficit

<i>Year Ended December 31,</i>	2005	2004
Revenues		
Management fees	\$ 63,171	\$ -
Interest	23,630	-
	\$ 86,801	\$ -
Operating Expenses		
Financing fees	\$ 15,795	\$ 214,682
Office and general	178,034	74,918
Public relations	233,404	287,362
Professional fees	214,969	108,101
Shareholder information	74,456	57,406
Consulting	221,077	111,099
Pilot plant cancellation fee	-	116,866
Salaries and benefits	218,958	33,278
Stock-based compensation	271,000	49,982
	\$ 1,427,693	\$ 1,053,694
	\$ (1,340,892)	\$ (1,053,694)
Gain on distribution of subsidiary shares <i>(Note 5)</i>	4,027,912	-
Write-down of investment	(20,878)	(67,503)
Write-down of mineral properties & deferred exploration expenditures <i>(Note 3)</i>	(84,356)	(161,276)
Minority interests	50,270	1,892
Net income (loss) before taxes	2,632,056	(1,280,581)
Current income (taxes) recoveries	-	-
Future income (taxes) recoveries <i>(Note 9)</i>	(386,000)	-
Net income (loss) for the year	\$ 2,246,056	\$ (1,280,581)
Deficit at beginning of year	(2,960,378)	(1,679,797)
Deficit at end of year	\$ (714,322)	\$ (2,960,378)
Net income (loss) per share – basic	7.3¢	(5.4)¢
Net Income (loss) per share – fully diluted	7.2¢	(5.4)¢
Weighted average number of shares (000's) - basic	30,697	29,726
Weighted average number of shares (000's) – fully diluted	30,799	29,726

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

GLR Resources Inc.

Consolidated Statements of Cash Flow

<i>Year Ended December 31,</i>	2005	2004
Operations		
Net income (loss)	\$ 2,246,056	\$ (1,280,581)
Adjustments to reconcile net income (loss) to cash flow from operating activities:		
Minority interests	(50,270)	(1,892)
Amortization	4,277	3,093
Gain on distribution of subsidiary shares <i>(Note 5)</i>	(4,027,913)	-
Write-down of investments	20,878	67,503
Write-off of mineral properties	84,356	161,276
Stock-based compensation	271,000	49,982
Future income taxes (recoveries)	386,000	-
Net change in non-cash working capital items	438,579	(48,102)
Cash flow used in operating activities	\$ (627,037)	\$ (1,048,721)
Financing		
Issuance of common shares (net of costs of \$102,285 in 2005 and \$263,977 in 2004)	\$ 2,025,256	\$ 3,416,943
Issuance of warrants by subsidiary, net of issue costs	-	1,290,899
(Decrease)/increase in related party receivables	75,935	-
(Repayment)/increase in note payable	(215,650)	(71,600)
Cash flow from financing activities	\$ 1,885,541	\$ 4,636,242
Investments		
Expenditures on resource assets and mineral properties	\$ (2,987,327)	\$ (1,570,461)
Purchase of capital assets	(39,416)	(26,070)
Cash balance of divested subsidiary at divestiture <i>(Note 5)</i>	(480,103)	-
Cash flow used in investing activities	\$ (3,506,846)	\$ (1,596,531)
Net increase (decrease) in cash	\$ (2,248,342)	\$ 1,990,990
Cash at beginning of year	3,387,507	1,396,517
Cash at end of year	\$ 1,139,165	\$ 3,387,507

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

GLR Resources Inc.

Notes to the Audited Financial Statements

Years ended December 31, 2005 and 2004

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.

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 2004 comparative amounts include the accounts of GLR and its previously 95%-owned subsidiary, Uranium City Resources ("UCR"). Intercompany balances and transactions were eliminated on consolidation. As the Company distributed the shares of UCR to its shareholders in August of 2005 (*note 5*), the balance sheet as at December 31, 2005 is no longer consolidated. The consolidated statements of operations and cash flow for the year ended December 31, 2005 include the operations and cash flow UCR for the period from January 1, 2005 to August 22, 2005, being the date of divestiture.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and guaranteed investments certificates ("GIC's") upon which interest accrues at 2.1% per annum 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 (or for balances less than \$100,000, the whole amount), 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.

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Notes to the Audited Financial Statements

Years ended December 31, 2005 and 2004

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, 2005 and 2004, the cost of this investment was \$168,042.

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.

Net Income (Loss) per Share

Net Income (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. When fully-diluted loss per share is calculated, only those options and warrants with average exercise prices "in-the-money" are included.

Stock-Based Compensation Plan

GLR records 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. Contributed surplus is relieved of these costs to the extent that the value of any exercised options is less than the current market price of the shares acquired by the optionee.

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 and 2004.

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

	2005	2004
Dividend Yield	-	-
Expected volatility	104.2% - 109.0%	11.4%
Risk-free interest rate	4.0%	4.3%
Expected life (years)	1 - 5	5

Asset retirement obligations

As the Company currently has no projects under construction, 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

GLR Resources Inc.

Notes to the Audited Financial Statements

Years ended December 31, 2005 and 2004

record a charge to earnings each year to accrete the discounted ARO obligation amount to the final expected liability.

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.

2. Cash and cash equivalents

The balance at December 31, 2005, contains cash on deposit of \$1,059,921 (\$359,808 in 2004), cash held in escrow of \$Nil (\$1,172,699 in 2004) and guaranteed investments certificates of \$79,244 (\$1,855,000 in 2004), bearing interest at 2.1% and maturing on November 27, 2006.

3. Mineral Properties and Deferred Expenditures

	2005	2004
Mineral Properties		
Balance at beginning of year – consolidated	\$ 892,942	\$ 953,423
Acquisitions	132,420	22,250
Write downs	(4,851)	(82,731)
Divested subsidiary's mineral properties (Note 5)	(474,000)	-
Balance at end of year	\$ 546,511	\$ 892,942
Deferred Exploration Expenditures		
Balance at beginning of year	\$ 3,934,896	\$ 2,432,010
Deferred exploration expenditures, including amortization expense of \$13,583 and mineral property acquisitions of \$40,500 (2004 – amortization of \$10,970 and mineral property acquisitions of \$22,250)	2,908,990	1,581,431
Write downs	(79,505)	(78,545)
Divested subsidiary's exploration expenditures (Note 5)	(1,380,064)	-
Balance at end of year	\$ 5,384,317	\$ 3,934,896
	\$ 5,930,828	\$ 4,827,838

GLR Resources Inc.

Notes to the Audited Financial Statements

Years ended December 31, 2005 and 2004

4. Capital Assets

	2005		2004	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Exploration equipment	\$ 81,133	\$ 45,420	\$ 73,548	\$ 35,618
Office furniture and fixtures	42,616	19,427	29,323	15,264
Exploration equipment of divested subsidiary (Note 5)	-	-	17,449	2,617
	\$ 123,749	\$ 64,847	\$ 120,320	\$ 53,499
Net Book Value	\$ 58,902		\$ 66,821	

5. Distribution of shares in subsidiary

On August 11, 2005, the Company received shareholder approval for the distribution to its shareholders, together with a reduction in the stated capital of the Company equal to the distribution value attributable to the 12,000,001 common shares of its subsidiary, Uranium City Resources Inc. ("UCR") (the "UCR Shares"). GLR shareholders of record at the close of business on August 22, 2005 received one UCR Share for every approximately 2.5 GLR common shares held. No fractional UCR Shares were distributed and no consideration was paid in lieu thereof. As a result, 11,999,865 shares of UCR were distributed to GLR shareholders (the "Distribution").

The Company recorded a gain on the Distribution (the "Gain"). The transaction was recorded at market, with each UCR share valued at \$0.36 calculated by using UCR's initial public offering price of one non-flow-through common share of \$0.55, less the assigned value of \$0.19 of the attached warrant. In addition, the Company recognized the future income tax liability that resulted from the utilization of a portion of its cumulative eligible expenditures tax pool to offset current income taxes that would be otherwise payable as a result of the Gain.

6. Potential Income Taxes Benefits

As a result of the distribution of the UCR Shares as a return of capital, the Company has utilized \$354,000 of its Cumulative Eligible Expenditures ("CEE") and \$756,000 of its Cumulative Development Expenditures ("CDE") pools to offset the capital gains and taxes due thereon. After this reduction to the CEE and CDE pools, the Company has \$3,916,000 (2004 - \$4,071,700) of unused CEE and CDE 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/or officers of the Company and/or corporations related to or controlled by them, as follows:

GLR Resources Inc.

Notes to the Audited Financial Statements

Years ended December 31, 2005 and 2004

	2005	2004
Transactions during the year:		
Exploration expenditures	\$ 138,000	\$ 306,928
Consulting fees	82,768	70,000
Legal fees	-	40,770
Administrative costs	18,000	18,000
Related party payables included in:		
Accounts payable and accrued liabilities	\$ 14,820	\$ 9,790
Note payable (non-interest bearing, no fixed terms of repayment)	\$ 50,000	\$ 265,650

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.

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

	Number of Shares	
Balance at December 31, 2003	22,022,269	\$ 6,253,107
Issued for:		
Cash:		
Private placements	7,604,166	2,850,000
Options exercised	50,000	16,050
Mineral properties	50,000	22,250
Fair value assigned to unexercised warrant	-	(115,921)
Class A & D units subscription receivable	-	814,870
Share issue costs	-	(263,977)
Balance at December 31, 2004	29,726,435	\$ 9,576,379

GLR Resources Inc.

Notes to the Audited Financial Statements

Years ended December 31, 2005 and 2004

	Number of Shares	
Issued for:		
Cash:		
Private placements	4,666,666	\$ 1,300,000
Options exercised	150,000	57,500
Broker warrants exercised	620,083	310,042
Mineral properties	100,000	40,500
Return of capital – distribution of UCR shares <i>(Note 5)</i>	-	(4,280,926)
Share issue costs	-	(102,285)
Value of broker warrants issued	-	(392,000)
Value of exercised options and warrants	-	9,539
Future income taxes	-	(289,000)
Balance at December 31, 2005	35,263,184	\$ 6,229,749

The 2005 share issue costs consist of agent fees paid to Northern Security of 7% of the gross proceeds raised (\$1,300,000) in the offering together with certain disbursement recoveries and due-diligence expense recoveries as payable to Northern Securities under the agency agreement.

Details of the Private Placements completed for the year ended December 31, 2005:

Month of issuance	Dec-05	Nov-05
Type of security issued	Class B Units	Class A Flow-through Units
No. of units issued	2,000,000	2,666,666
No. of broker units issued	200,000	266,666
Gross cash proceeds	\$ 500,000	\$ 800,000
Units entitle holders to:		
Common shares	2,000,000	-
Flow-through common shares	-	2,666,666
Common share purchase warrants	1,000,000	1,333,333
Broker units entitle holder to:		
Common shares	200,000	266,666
Common share purchase warrants	100,000	-
Broker warrant	-	133,333
Exercise price of one broker unit	\$ 0.27	\$ 0.27
Exercise price of one broker warrant	\$ -	\$ 0.30
Exercise price of one common share purchase warrant	\$ 0.30	\$ 0.35
Expiry date of broker units	Dec-07	Nov-07
Expiry date of warrants	Dec-07	Nov-07

GLR Resources Inc.

Notes to the Audited Financial Statements

Years ended December 31, 2005 and 2004

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
January 2006	99,998	\$ 0.55
January 2006	82,050	0.75
October 2006	3,562,208	0.50
October 2006	760,416	0.40
November 2007	1,333,333	0.35
November 2007	266,666	0.27
November 2007	133,333	0.30
December 2007	1,100,000	0.30
December 2007	200,000	0.27
	7,538,004	\$ 0.41

Subsequent to year end, the January 2006 warrants, noted above, were not exercised and expired.

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:

	2005		2004	
	Weighted Average Exercise Price	No. of Options (000's)	Weighted Average Exercise Price	No. of Options (000's)
Outstanding at beginning of year	\$ 0.51	2,490	\$ 0.52	2,120
Transactions during the year:				
Exercised	0.38	(150)	0.32	(50)
Granted	0.44	1,200	0.51	1,240
Forfeited	0.56	(500)	0.44	(195)
Expired	0.30	(200)	0.56	(625)
Outstanding at end of year	\$ 0.49	2,840	\$ 0.51	2,490
Exercisable at year end	\$ 0.49	2,840	\$ 0.51	2,490

GLR Resources Inc.

Notes to the Audited Financial Statements

Years ended December 31, 2005 and 2004

The following table provides additional information about outstanding stock options at December 31, 2005.

Range of Exercise Prices	No. of Options Outstanding (000's)	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
\$0.25 - \$0.30	300	2.98	\$ 0.30
0.31 - 0.50	1,125	1.82	0.43
0.51 - 0.65	1,415	1.91	0.58
	2,840	1.90	\$ 0.49

9. Income Taxes

GLR's future income tax liability results from the tax effects of temporary differences between the book value of its mineral properties capitalized for accounting purposes and the amount capitalized for income tax purposes.

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

Income taxes and Federal and Provincial statutory rates	\$ 950,000	36.1%
Tax-free portion of capital gain on distribution of subsidiary shares	(715,600)	(27.2)%
Expenses not deductible for income tax purposes:		
Stock-based compensation	97,900	3.7%
Write-down on mineral properties and deferred exploration expenditures	30,500	1.2%
Write-down of investment	7,500	0.3%
Other	15,700	0.6%
	\$ 386,000	14.7%

10. Subsequent Event

On February 27, 2006, the Company entered into an agreement with Investec Bank (UK) limited ("Investec") for the provision of project financing services for its Goldfields project ("Goldfields Project"). Under the terms of the agreement, Investec will arrange and underwrite the project debt (the "Facilities") for the Goldfields Project, located in Beaverlodge Area of Northern Saskatchewan. As compensation for its services under the agreement, an arranging fee of 2.5% of the amount of the Facilities will be paid to Investec. In addition, Investec has been issued 250,000 common shares of the Company.