

## **URANIUM NORTH RESOURCES CORP.**

### **Financial Statements**

**May 31, 2006**

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

The financial statements of Uranium North Resources Corp. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. Smythe Ratcliffe, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the financial statements and their report is included herein.

*"Mark Kolebaba" (signed)*

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Mark Kolebaba  
President and Chief Executive Officer

Vancouver, British Columbia  
June 22, 2006

**Smythe Ratcliffe LLP**  
7<sup>th</sup> Floor, Marine Building  
355 Burrard Street  
Vancouver, BC V6C 2G8

**SmytheRatcliffe**  
CHARTERED ACCOUNTANTS

fax: 604.688.4675  
telephone: 604.687.1231

## AUDITORS' REPORT

### To the Directors of Uranium North Resources Corp.

We have audited the balance sheet of Uranium North Resources Corp. as at May 31, 2006 and the statements of operations and deficit and cash flows for the period from March 1, 2006 (Date of Incorporation) to May 31, 2006. 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 audit 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 May 31, 2006 and the results of its operations and its cash flows for the period from March 1, 2006 (Date of Incorporation) to May 31, 2006 in accordance with Canadian generally accepted accounting principles.

*"Smythe Ratcliffe" (signed)*

Chartered Accountants

Vancouver, British Columbia  
June 22, 2006, except as to Notes 3(c) and 9  
which are as of July 28, 2006



**URANIUM NORTH RESOURCES CORP.**

Statement of Operations and Deficit

For the Period from March 1, 2006 (Date of Incorporation) to May 31, 2006

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<b>General and administrative expenses</b>	
Accounting and audit	\$ 6,000
Administration fees	3,000
Bank charges	169
Consulting fees	7,500
Interest	2,801
Legal fees	107,072
Office and miscellaneous	2,312
	<hr/>
	128,854
<b>Other income</b>	
Interest income	(1,089)
	<hr/>
<b>Loss for period and deficit, end of period</b>	<b>\$ 127,765</b>

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See Accompanying Notes to the Financial Statements.

**URANIUM NORTH RESOURCES CORP.**

Statement of Cash Flows

For the Period from March 1, 2006 (Date of Incorporation) to May 31, 2006

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<b>Cash flows used in operating activities</b>	
Loss for the period	\$ (127,765)
Net change in non-cash working capital items:	
Accounts receivable	(4,929)
Accounts payable and accrued liabilities	55,731
	<hr/>
	(76,963)
<b>Cash flows provided by financing activities</b>	
Note payable issued for cash	300,000
Share issued for cash	1
	<hr/>
	300,001
<b>Increase in cash and cash, end of period</b>	<hr/>
	\$ 223,038

Supplemental Cash Flow Information (Note 7)

See Accompanying Notes to the Financial Statements.

## URANIUM NORTH RESOURCES CORP.

Notes to Financial Statements

For the Period from March 1, 2006 (Date of Incorporation) to May 31, 2006

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### 1. Nature of Operations and Economic Dependence

Uranium North Resources Corp. (the "Company") was incorporated on March 1, 2006 pursuant to the *Business Corporations Act* (British Columbia).

On March 14, 2006, the Company entered into an Arrangement Agreement with Diamonds North Resources Ltd ("Diamonds North") in order to implement a statutory procedure known as a plan of arrangement (the "Arrangement") pursuant to Section 288 of the Business Corporations Act (British Columbia). Under terms of the Arrangement, Diamonds North will transfer certain of its uranium mineral property interests covering approximately 3,000,000 acres of land in Nunavut and Northwest Territories to the Company in consideration for the Company assuming the ongoing obligations of Diamonds North with respect to the respective properties and varying royalty interests payable to Diamonds North ranging from 2% to 5% of production on the transferred properties. At the time of and in consideration for the transfer of the mineral property interests, the Company shall issue 1,500,000 common shares to Diamonds North.

Pursuant to the Arrangement, the shareholders of Diamonds North will receive shares in the Company on the basis of one share of the Company for each six common shares of Diamonds North held on the completion date. In addition, for every six common shares of Diamonds North issuable on exercise of stock options and share purchase warrants, the holder of Diamonds North stock options and share purchase warrants will receive one stock option on share purchase warrants of the Company with the same expiry dates and other material terms, but at adjusted exercise prices, which are six-sevenths of their original exercise prices.

Initial working capital of the Company has been provided by a \$300,000 loan with interest at 5% per annum from Diamonds North (see Note 4), which at the option of Diamonds North, may be convertible in whole or in part into the common shares of the Company at a conversion price equal to the planned private placement offering price, or may be repaid in cash.

Matters relating to the reorganization were approved by the Diamonds North shareholders at their annual general meeting held on May 10, 2006. Subsequent to May 31, 2006, the reorganization was approved by the Supreme Court of British Columbia and accepted by the TSX Venture Exchange (the "Exchange").

The Company is in the process of preparing a private placement financing (the "PP") for an amount and price to be determined and intends to list its shares on the Exchange.

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles on a going-concern basis, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business.

The Company has reported an operating loss of \$127,765 in the period from March 1, 2006 (Date of Incorporation) to May 31, 2006. The Company's ability to continue as a going-concern is dependent upon continued financial support from Diamonds North, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financing and further share issuances to meet the Company's liabilities as they become payable. These financial statements do not give effect to any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue its operations as a going-concern.

## URANIUM NORTH RESOURCES CORP.

Notes to Financial Statements

For the Period from March 1, 2006 (Date of Incorporation) to May 31, 2006

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### 2. Significant Accounting Policies

#### (a) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

#### (b) Financial Instruments

##### (i) Fair Value

The fair values of the Company's cash, accounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts because of the immediate or short-term to maturity of these financial instruments. It is not practicable to determine the fair value of the note payable due to its related party nature (see Note 4) and the absence of a market for such instruments.

##### (ii) Interest Rate Risk

The Company is exposed to interest rate price risk to the extent that the note payable (Note 4) bears a fixed rate of interest.

##### (iii) Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and accounts receivable. Cash is placed with a major Canadian financial institution. Accounts receivable are primarily comprised of amounts due from the Canadian federal government.

#### (c) Mineral Interests

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition, exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, a provision is made for the impairment in value.

Costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to income.

## URANIUM NORTH RESOURCES CORP.

Notes to Financial Statements

For the Period from March 1, 2006 (Date of Incorporation) to May 31, 2006

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### 2. Significant Accounting Policies (Continued)

#### (c) Mineral Interests (Continued)

Management's estimates of mineral prices, recoverable proven and probable reserves, and operating, capital and reclamation costs are subject to certain risks and uncertainties, which may affect the recoverability of mineral property costs. Although management will make its best estimate of these factors, it is possible that changes could occur in the near term that could adversely affect management's estimate of the net cash flow to be generated from its properties.

#### (d) Asset Retirement Obligations

The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA"), Handbook Section 3110 "*Asset Retirement Obligations*". This statement establishes standards for accounting for the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. As at May 31, 2006, the Company did not have any asset retirement obligations.

#### (e) Impairment of Long-Lived Assets

The Company has adopted CICA Section 3063, "*Impairment of Long-Lived Assets*". This statement establishes standards for the recognition, measurement and disclosure of the impairment of non-monetary long-lived assets, including property, plant and equipment, intangible assets with finite useful lives, deferred pre-operating costs and long-term prepaid assets. The adoption of this standard did not have a material impact on its financial position or results of operations.

#### (f) Stock-Based Compensation

The Company follows CICA Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*" to account for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this standard, stock-based payments are recorded as an expense in the period the option vests or when the awards or rights are granted, a corresponding increase to option compensation under shareholders' equity. When stock options are exercised, the corresponding fair value, previously recognized, is transferred to share capital or when stock options are forfeited, cancelled or expire, the corresponding fair value is transferred to contributed surplus.

#### (g) Income Taxes

Income taxes are calculated using the asset and liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax amounts (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

## URANIUM NORTH RESOURCES CORP.

Notes to Financial Statements

For the Period from March 1, 2006 (Date of Incorporation) to May 31, 2006

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### 3. Mineral Interests

(a) On May 15, 2006, Diamonds North entered into an option agreement with MPH Consulting Limited ("MPH") to acquire a 100% interest in four mineral permits near Amer Lake, Nunavut. It is the intention of Diamonds North to assign substantially all of the option agreement to the Company, at which time the Company would be obligated to pay or re-pay its share of costs to Diamonds North. In consideration, MPH will receive the following:

- (i) on or before the earlier of the date the Company lists its shares for trading on the Exchange (the "Listing Date") or September 30, 2006, \$50,000 in cash and a number of common shares of the Company equal to \$125,000 based on the price of PP (Note 1); and
- (ii) on or before the date that is 180 days following the first payment, \$50,000 in cash and a number of common shares of the Company equal to \$125,000 based on the average closing price of the Company for ten trading days.

If by September 30, 2006 either the PP (Note 1) has not been completed or the Listing Date has not occurred, MPH may agree in writing to an extension of the September 30, 2006 date, failing which, in lieu of issuing shares of the Company to MPH, Diamonds North may make the payments noted above in cash.

The permits are subject to a 3% royalty on uranium payable to MPH, of which Diamonds North may purchase two-thirds of this royalty for total cash payments of \$2,000,000. In addition, the permits are also subject to a 2% net smelter return royalty, a 3% royalty on uranium and a 2% gross overriding royalty on diamonds, all payable to Diamonds North.

(b) On May 15, 2006, Diamonds North entered into a staking agreement with MPH to stake a minimum of 83,000 hectares of land in the Athabasca Basin of Saskatchewan. It is the intention of Diamonds North to assign substantially all of the staking agreement to the Company, at which time the Company would be obligated to pay or re-pay its share of the costs to Diamonds North. In consideration, MPH will receive the following:

- (i) on or before the earlier of the Listing Date or September 30, 2006, a number of common shares of the Company equal to \$125,000 based on the price of the PP (Note 1); and
- (ii) reimbursement for up to \$5,000 in professional services.

If by September 30, 2006 either the PP (Note 1) has not been completed or the Listing Date has not occurred, MPH may agree in writing to an extension of the September 30, 2006 date, failing which, in lieu of issuing shares of the Company, Diamonds North may make the payments noted above in cash.

The permits are subject to a 2% royalty on uranium payable to MPH, of which Diamonds North may purchase one-half of this royalty for a cash payment of \$1,000,000. In addition, the property is also subject to a 2% net smelter return royalty, a 3% royalty on uranium and a 2% gross overriding royalty on diamonds, all payable to Diamonds North.

(c) On July 28, 2006, the Company entered into an assignment agreement whereby Diamonds North assigned substantially all of the interest in the option and staking agreements noted above together with certain mineral claims and permits held by Diamonds North to the Company. In consideration for this assignment, the Company will assume all of the obligations of Diamonds North under the option and staking agreements and issue 2,000,000 common shares to Diamonds North.

## URANIUM NORTH RESOURCES CORP.

Notes to Financial Statements

For the Period from March 1, 2006 (Date of Incorporation) to May 31, 2006

### 4. Note Payable

Diamonds North advanced a working capital loan in the amount of \$300,000 to the Company. The loan is repayable in whole or in part on demand and bears interest at 5% per annum. The loan can be repaid at the option of the Company, provided 30 days' notice is given to Diamonds North. If not repaid earlier, the entire loan plus accrued interest shall be repaid in cash on March 15, 2008.

At any time prior to repayment, whether before or after a notice of prepayment has been given, the loan and accrued interest or any portion thereof may be convertible at the sole discretion and option of Diamonds North into securities of the Company as follows:

- (a) prior to the first anniversary of the Listing Date, the loan and accrued interest or any portion thereof may be converted into units ("Unit") of the Company at a per Unit conversion price equal to the price of the PP (Note 1), with each Unit consisting of one common share of the Company and one share purchase warrant entitling Diamonds North to purchase one additional common share of the Company at a price equal to a 20% premium over the Unit conversion price, up to the first anniversary of the Listing Date, whereupon the warrants will expire; and
- (b) on or after the first anniversary of the Listing Date, the loan and accrued interest or any portion thereof may be converted into common shares of the Company at a per share conversion price equal to the price of the PP (Note 1).

As at May 31, 2006, interest of \$2,801 is included in accounts payable and accrued liabilities

### 5. Share Capital

#### (a) Authorized

Unlimited common shares without par value.

#### (b) Issued

	Number of Shares	Amount
Shares issued during the period		
Issued for cash		
Initial share on incorporation	1	\$ 1
Balance at May 31, 2006	1	\$ 1

For share issuances after May 31, 2006, see Subsequent Events (Note 9).

### 6. Related Party Transactions

As at May 31, 2006, the Company is a wholly-owned subsidiary of Diamonds North and is also related to Diamonds North by virtue of certain common officers and directors. In addition to the note payable disclosed in Note 4, the Company had the following related party transactions and balances:

- (a) The Company incurred \$3,000 in administrative fees to an officer of the Company. At May 31, 2006, \$1,500 is owed to this officer.
- (b) The Company incurred \$97,118 in legal fees to a personal law corporation in which a director is a principal. At May 31, 2006, \$28,218 is owed to this law corporation.

## URANIUM NORTH RESOURCES CORP.

Notes to Financial Statements

For the Period from March 1, 2006 (Date of Incorporation) to May 31, 2006

### 6. Related Party Transactions (Continued)

These transactions are in the normal course of business and are measured at the exchange amount, which is the amount agreed upon by the transacting parties.

### 7. Supplemental Cash Flow Information

Other cash flow information

Interest received	\$	1,089
Interest paid	\$	-
Income taxes paid	\$	-

### 8. Income Taxes

As at May 31, 2006, the Company has non-capital losses for Canadian tax purposes of approximately \$128,000, which may be applied against future taxable income and which expire over a period to 2017. The potential income tax benefits of the losses have not been recorded in these financial statements.

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for Canadian income tax purposes.

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates of 34.12%, are as follows:

	<b>May 31, 2006</b>
Future income tax assets	
Non capital losses carried forward	\$ 43,593
Valuation allowance	(43,593)
Net future income tax assets	-
Future income tax liabilities	-
Future income tax assets, net	\$ -

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	<b>May 31, 2006</b>
	34.12%
Income tax benefit computed at Canadian statutory rates	\$ 43,593
Unrecognized tax losses	(43,593)
	\$ -

## URANIUM NORTH RESOURCES CORP.

Notes to Financial Statements

For the Period from March 1, 2006 (Date of Incorporation) to May 31, 2006

### 9. Subsequent Events

- (a) On July 21, 2006, the Company completed an initial non-brokered private placement of 1,025,000 common shares at a price of \$0.40 per share for gross proceeds of \$410,000.
- (b) The registered holders of common shares, stock options and share purchase warrants of Diamonds North as at July 28, 2006, the completion date of the Arrangement, received common shares, stock options and share purchase warrants, respectively, as follows:

(i) Common Stock

At July 28, 2006, Diamonds North had issued and outstanding common shares of 43,585,398. As a result of the Arrangement, the Company issued to existing shareholders of Diamonds North approximately 7,264,233 common shares of the Company.

(ii) Stock Options

At July 28, 2006, Diamonds North had issued and outstanding 5,627,500 stock options with a weighted average remaining life of 3.07 years. As a result of the Arrangement, the Company issued the following options:

Expiry Date	Exercise Price	Number
September 11, 2006	\$ 0.215	3,332
January 10, 2007	\$ 0.215	1,583
July 15, 2007	\$ 0.429	177,048
December 19, 2007	\$ 0.686	8,333
February 20, 2008	\$ 0.686	80,367
March 4, 2008	\$ 0.686	16,666
May 22, 2008	\$ 0.686	9,999
October 6, 2008	\$ 0.600	22,664
March 30, 2009	\$ 1.021	33,333
August 8, 2009	\$ 0.944	93,330
October 18, 2009	\$ 0.858	50,000
January 27, 2010	\$ 0.858	8,333
March 22, 2010	\$ 0.987	42,083
May 17, 2010	\$ 0.729	91,665
April 12, 2011	\$ 0.848	276,662
July 13, 2011	\$ 1.020	22,500
Options outstanding		937,898
Weight average price	\$ 0.750	

## URANIUM NORTH RESOURCES CORP.

Notes to Financial Statements

For the Period from March 1, 2006 (Date of Incorporation) to May 31, 2006

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### 9. Subsequent Events (Continued)

(b) (Continued)

(iii) Share Purchase Warrants

At July 28, 2006, Diamonds North had issued and outstanding 5,220,426 share purchase warrants with a weighted average remaining life of 0.75 years. As a result of the Arrangement, the Company issued the following share purchase warrants:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Number</b>
December 13, 2006	\$ 0.815	261,798
July 12, 2007	\$ 0.858	35,000
July 19, 2007	\$ 1.286	573,256
Warrants outstanding		870,054
Weighted average price	\$ 1.127	