

URANIUM POWER CORP.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

AUDITORS' REPORT

To the Shareholders of
Uranium Power Corp.

We have audited the consolidated balance sheets of Uranium Power Corp. as at September 30, 2006 and 2005 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 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.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

November 30, 2006

A Member of SC INTERNATIONAL

URANIUM POWER CORP.
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30

| | 2006 | 2005 |
|---|----------------------|---------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 468,238 | \$ 289,766 |
| Short-term investments (Note 3) | 3,350,054 | 3,309,906 |
| Marketable securities (Note 3) | 25,770 | 265,450 |
| Receivables | 4,714 | 5,571 |
| Prepaid expenses | <u>28,144</u> | <u>-</u> |
| | 3,876,920 | 3,870,693 |
| Equipment (Note 4) | 2,291 | - |
| Mineral properties (Note 5) | <u>6,980,711</u> | <u>3,908,649</u> |
| | <u>\$ 10,859,922</u> | <u>\$ 7,779,342</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 169,679 | \$ 19,301 |
| Finder's fee payable (Note 5) | <u>50,000</u> | <u>50,000</u> |
| | 219,679 | 69,301 |
| Finder's fee payable (Note 5) | <u>-</u> | <u>50,000</u> |
| | <u>219,679</u> | <u>119,301</u> |
| Shareholders' equity | | |
| Capital stock (Note 7) | 21,199,931 | 16,877,621 |
| Contributed surplus (Note 7) | 431,627 | 241,669 |
| Obligation to issue shares (Note 5) | 17,000 | 34,000 |
| Deficit | <u>(11,008,315)</u> | <u>(9,493,249)</u> |
| | <u>10,640,243</u> | <u>7,660,041</u> |
| | <u>\$ 10,859,922</u> | <u>\$ 7,779,342</u> |

Nature and continuance of operations (Note 1)

Commitments (Note 10)

Subsequent events (Note 13)

On behalf of the Board:

_____ Director _____ Director

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

URANIUM POWER CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED SEPTEMBER 30

| | 2006 | 2005 |
|---|-----------------------|-----------------------|
| EXPENSES | | |
| Amortization | \$ 384 | \$ - |
| Consulting fees | 4,860 | 12,535 |
| Foreign exchange gain (loss) | (12,038) | 15,348 |
| Management fees | 120,000 | 95,000 |
| Office and administration | 85,397 | 108,674 |
| Professional fees | 55,662 | 51,763 |
| Regulatory and transfer agent fees | 23,880 | 60,379 |
| Rent | 84,979 | 64,460 |
| Shareholder communications | 111,492 | 141,460 |
| Stock-based compensation (Note 7) | 152,858 | 175,718 |
| Travel and related | <u>46,525</u> | <u>25,286</u> |
| | <u>(673,999)</u> | <u>(750,623)</u> |
| OTHER ITEMS | | |
| Interest income | 91,243 | 46,454 |
| Costs recovered | 77,654 | 93,229 |
| Write-off of mineral properties (Note 5) | (1,598,123) | (177,211) |
| Gain on disposal of marketable securities (Note 3) | <u>588,159</u> | <u>5,515</u> |
| | <u>(841,067)</u> | <u>(32,013)</u> |
| Loss for the year | (1,515,066) | (782,636) |
| Deficit, beginning of year | <u>(9,493,249)</u> | <u>(8,710,613)</u> |
| Deficit, end of year | <u>\$(11,008,315)</u> | <u>\$ (9,493,249)</u> |
| Basic and diluted loss per common share | <u>\$ (0.02)</u> | <u>\$ (0.02)</u> |
| Weighted average number of common shares outstanding | <u>67,639,327</u> | <u>49,755,296</u> |

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

URANIUM POWER CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED SEPTEMBER 30

| | 2006 | 2005 |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss for the year | \$ (1,515,066) | \$ (782,636) |
| Items not affecting cash: | | |
| Amortization | 384 | - |
| Write-off of mineral properties | 1,598,123 | 177,211 |
| Interest accrued on short-term investments | (39,054) | (17,920) |
| Stock-based compensation | 152,858 | 175,718 |
| Gain on disposal of marketable securities | (588,159) | (5,515) |
| Changes in non-cash working capital items: | | |
| (Increase) decrease in receivables | 857 | (2,349) |
| Increase in prepaid expenses | (28,144) | - |
| Increase in accounts payable and accrued liabilities | <u>6,381</u> | <u>6,866</u> |
| Net cash used in operating activities | <u>(411,820)</u> | <u>(448,625)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of short-term investments | (3,311,000) | (3,261,000) |
| Proceeds from short-term investments | 3,309,906 | 900,000 |
| Mineral property expenditures | (3,763,188) | (2,345,354) |
| Purchase of equipment | (2,675) | - |
| Proceeds from mineral property option payments | - | 12,600 |
| Proceeds from disposal of marketable securities | <u>827,839</u> | <u>11,565</u> |
| Net cash used in investing activities | <u>(2,939,118)</u> | <u>(4,682,189)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of capital stock for cash | 3,705,330 | 5,633,436 |
| Share issuance costs | <u>(175,920)</u> | <u>(396,583)</u> |
| Net cash provided by financing activities | <u>3,529,410</u> | <u>5,236,853</u> |
| Increase in cash during the year | 178,472 | 106,039 |
| Cash, beginning of year | <u>289,766</u> | <u>183,727</u> |
| Cash, end of year | <u>\$ 468,238</u> | <u>\$ 289,766</u> |
| Cash paid for interest | <u>\$ -</u> | <u>\$ -</u> |
| Cash paid for income taxes | <u>\$ -</u> | <u>\$ -</u> |

Supplemental disclosure with respect to cash flows (Note 8)

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

URANIUM POWER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

1. NATURE AND CONTINUANCE OF OPERATIONS

Uranium Power Corp. (the "Company") is incorporated in British Columbia and is primarily engaged in the acquisition and exploration of resource properties. On March 14, 2005, the Company changed its name from Bell Coast Capital Corp. to Uranium Power Corp. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

The Company is in the process of acquiring and exploring its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. These consolidated financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern.

| | 2006 | 2005 |
|-----------------|--------------|--------------|
| Working capital | \$ 3,657,241 | \$ 3,801,392 |
| Deficit | (11,008,315) | (9,493,249) |

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Minera Bell Coast S.A. de C.V., an inactive Mexican company, and BH Minerals USA Inc. ("BH USA") that held the Company's Nevada mineral properties. In conjunction with the disposition of the Nevada mineral properties (Note 5), BH USA was disposed of during fiscal 2005. All significant inter-company balances and transactions have been eliminated upon consolidation.

Marketable securities

Marketable securities are recorded at the lower of cost or market value on an aggregate basis.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

Stock-based compensation

The Company uses the fair value based method to recognize compensation costs for the granting of all stock options and direct awards of stock using the Black-Scholes option pricing model. Any consideration paid on the exercise of stock options is credited to capital stock.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Equipment

Equipment is recorded at cost. Amortization is recognized using the declining balance method at the following annual rates:

| | |
|------------------------|-----|
| Furniture and fixtures | 20% |
| Computer hardware | 30% |

Foreign currency translation

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollar equivalents using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at rates approximating those in effect at the date of transaction. Translation gains and losses are reflected in loss for the year.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Existing stock options and warrants have not been included in the computation of diluted loss per share because to do so would be anti-dilutive.

Loss per share is calculated using the weighted average number of common shares outstanding during the year.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

3. SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES

Short-term investments

Short-term investments consist of guaranteed investment certificates, bearing interest ranging from prime minus 1.9% to 4% per annum payable at maturity dates ranging from 173 days to one year. As at September 30, 2006, interest of \$39,054 (2005 - \$48,906) has been accrued by the Company.

Marketable securities

During fiscal 2005, the Company received 1,950,000 shares of Staccato Gold Resources Ltd. at a value of \$271,500 on the sale of certain mineral properties in Nevada (Note 5). The Company then sold 55,000 shares for proceeds of \$11,565 resulting in a gain of \$5,515. During fiscal 2006, the Company sold 1,723,200 shares for proceeds of \$827,839, resulting in a gain of \$588,159. As of September 30, 2006, the Company holds 171,800 (2005 - 1,895,000) common shares with a book value of \$25,770 (2005 - \$265,450) and a market value of \$80,736 (2005 - \$511,650).

URANIUM POWER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

3. SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES (cont'd...)

During fiscal 2006, the Company also received 25,000 common shares of Q-Gold Resources Ltd. as full and final settlement of its interest in certain oil and gas properties which the Company had abandoned and written off in a prior fiscal year. The shares had an insignificant value and the Company has recorded their receipt at \$Nil and, accordingly, no recovery has been recorded. The shares have a market value at September 30, 2006 of \$2,750.

4. EQUIPMENT

| | 2006 | | | 2005 | | |
|------------------------|-----------------|--------------------------|-----------------|-------------|--------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Computer hardware | \$ 2,323 | \$ 349 | \$ 1,974 | \$ - | \$ - | \$ - |
| Furniture and fixtures | <u>352</u> | <u>35</u> | <u>317</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 2,675</u> | <u>\$ 384</u> | <u>\$ 2,291</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

5. MINERAL PROPERTIES

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

| 2006 | Arizona | Colorado | Mongolia | Wyoming | Utah | Total |
|-----------------------------|----------------|----------------|--------------------|------------------|----------------|--------------------|
| Balance, beginning of year | \$ - | \$ - | \$ 1,566,881 | \$ 2,113,359 | \$ 228,409 | \$ 3,908,649 |
| Acquisition costs | - | - | - | 2,813,067 | 175,519 | 2,988,586 |
| Exploration costs | <u>448,388</u> | <u>601,574</u> | <u>31,242</u> | <u>468,627</u> | <u>131,768</u> | <u>1,681,599</u> |
| | <u>448,388</u> | <u>601,574</u> | <u>31,242</u> | <u>3,281,694</u> | <u>307,287</u> | <u>4,670,185</u> |
| | 448,388 | 601,574 | 1,598,123 | 5,395,053 | 535,696 | 8,578,834 |
| Written-off during the year | <u>-</u> | <u>-</u> | <u>(1,598,123)</u> | <u>-</u> | <u>-</u> | <u>(1,598,123)</u> |
| Balance, end of year | \$ 448,388 | \$ 601,574 | \$ - | \$ 5,395,053 | \$ 535,696 | \$ 6,980,711 |

URANIUM POWER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. MINERAL PROPERTIES (cont'd...)

| 2005 | Mongolia | Wyoming | Utah | Nevada | Total |
|-----------------------------|--------------|--------------|------------|------------|--------------|
| Balance, beginning of year | \$ 1,229,095 | \$ - | \$ - | \$ 406,511 | \$ 1,635,606 |
| Acquisition costs | - | 2,168,159 | 228,409 | - | 2,396,568 |
| Exploration costs | 337,786 | - | - | - | 337,786 |
| | 337,786 | 2,168,159 | 228,409 | - | 2,734,354 |
| | 1,566,881 | 2,168,159 | 228,409 | 406,511 | 4,369,960 |
| Option payments received | - | - | - | (12,600) | (12,600) |
| Proceeds from disposition | - | - | - | (271,500) | (271,500) |
| Written-off during the year | - | (54,800) | - | (122,411) | (177,211) |
| Balance, end of year | \$ 1,566,881 | \$ 2,113,359 | \$ 228,409 | \$ - | \$ 3,908,649 |

Exploration costs incurred are as follows:

| 2006 | Arizona | Colorado | Mongolia | Wyoming | Utah | Total |
|--------------------------------------|------------|------------|--------------|------------|------------|--------------|
| Balance, beginning of year | \$ - | - | \$ 1,409,022 | \$ - | \$ - | \$ 1,409,022 |
| Assessment | 51,057 | - | - | - | - | 51,057 |
| Contractors and labour | 22,404 | - | - | 45,340 | 4,420 | 72,164 |
| Drilling costs | 92,531 | 495,859 | - | 311,885 | 11,792 | 912,067 |
| Geological consulting | 2,065 | 507 | - | 6,680 | 13,714 | 22,966 |
| Holding costs | 256,037 | 79,945 | 31,242 | 67,166 | 68,563 | 502,953 |
| Operators fees | 24,294 | 25,263 | - | 30,069 | 4,300 | 83,926 |
| Professional fees | - | - | - | 5,040 | 27,794 | 32,834 |
| Travel and accommodation | - | - | - | 2,447 | 1,185 | 3,632 |
| Total exploration costs for the year | 448,388 | 601,574 | 31,242 | 468,627 | 131,768 | 1,681,599 |
| Balance, end of year | \$ 448,388 | \$ 601,574 | \$ 1,440,264 | \$ 468,627 | \$ 131,768 | \$ 3,090,621 |

URANIUM POWER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

5. MINERAL PROPERTIES (cont'd...)

| 2005 | Mongolia | Wyoming | Utah | Nevada | Total |
|--------------------------------------|-----------------|----------------|-------------|---------------|--------------|
| Balance, beginning of year | \$ 1,071,236 | \$ - | \$ - | \$ 250,605 | \$ 1,321,841 |
| Consulting | 33,313 | - | - | - | 33,313 |
| Drilling | 283,014 | - | - | - | 283,014 |
| Geophysics | 369 | - | - | - | 369 |
| Miscellaneous | 21,090 | - | - | - | 21,090 |
| Total exploration costs for the year | 337,786 | - | - | - | 337,786 |
| Balance, end of year | \$ 1,409,022 | \$ - | \$ - | \$ 250,605 | \$ 1,659,627 |

Wyoming

Sheep Mountain

The Company signed an agreement with U.S. Energy Corp. and Crested Corp. (collectively, the "Vendors") to acquire a 50% interest in the Sheep Mountain uranium project in Fremont County, Wyoming. The Company is required to make cash payments totaling US\$4,050,000 (US\$2,950,000 paid) and issue 4,000,000 shares (2,500,000 issued at a value of \$1,000,000) to the Vendors. The balance of cash and shares are to be paid in stages by December 29, 2007. Pursuant to the agreement and based on an increase in the price of uranium, the Company received notice from the Vendors that an additional option payment of US\$3,000,000 is due ½ on April 29, 2006 and ½ on October 29, 2006. The Company is also committed to a US\$500,000 exploration program on the project.

The Company and the Vendors of the Sheep Mountain property then entered into an amended agreement whereby the Company accelerated its 2006 cash payments of US\$1,600,000 and issued 1,500,000 common shares at a value of \$780,000 to the Vendors. In exchange for the accelerated payments, the Vendors agreed to defer for a period of one year, option payments due in two installments of US\$1,500,000 each to April 29, 2007 and October 29, 2007. As well, the Company has paid \$500,000 towards the 2007 installments.

The acquisition will close on or before December 29, 2007 and after receipt of all the payments described above. The agreement may be terminated by either party any time prior to closing by written notice with the Company forfeiting any interests it may have had in the project. At closing, a joint venture will be formed between the Company and the Vendors for the on-going exploration and development of the project. The property is subject to certain royalties ranging from 1% - 10% on the gross proceeds from the sale of any mineral ore produced.

The Sheep Mountain uranium project has a reclamation liability of approximately US\$4,000,000 with the Company and the Vendors responsible ½ each for the first US\$2,600,000 and the Vendor's responsible for the last US\$1,400,000. If the Company terminates this agreement prior to closing on December 29, 2007, the Company's reclamation liability will be extinguished. Since the agreement can be terminated by the Company prior to closing, the reclamation liability is considered a contingent liability and has not been recorded in the Company's financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. MINERAL PROPERTIES (cont'd...)

Wyoming (cont'd...)

Sheep Mountain (cont'd...)

A finder's fee of \$150,000 and 300,000 common shares is payable, of which \$100,000 and 200,000 shares at a value of \$34,000 have been paid. The remaining balance will be paid on the 2nd anniversary of the closing of the agreement and has been recorded as a finder's fee payable of \$50,000 and an obligation to issue shares at a value of \$17,000.

Wasatch and Battle Springs

In a prior fiscal year, the Company entered into an option agreement to acquire certain mineral claims in the Wasatch and Battle Springs Formation in Wyoming from Southwest Geothermal Inc., ("SWG"). Under the terms of the option agreement, the Company paid US\$30,000 and issued 100,000 common shares at a value of \$18,000, and was required to pay US\$25,000 and issue 100,000 on the first, second and third anniversary of the closing date, being October 25, 2004. The Company decided not to proceed with this option agreement and, accordingly, related acquisition costs of \$54,800 were written off to operation in fiscal 2005.

Arizona and Colorado

The Company has entered into an amended agreement with U.S. Energy Corp. and Crested Corp. to add two additional uranium projects to the Sheep Mountain agreement described above. The two projects are the Breccia Pipes project in Arizona and the Burro Canyon project in Colorado. As consideration for including these projects in the Sheep Mountain agreement and in order to earn a 50% interest, the Company is committed to a US\$500,000 exploration program on each project. As additional consideration for the Breccia Pipes project, the Company will issue, subject to regulatory approval, up to 500,000 common shares based on drilling results outlining an inferred mineral resource.

Utah

Green River

The Company initially entered into an agreement to earn a 70% interest in the Sahara uranium mine project located in Emery County, Utah. In order to earn its interest, the Company issued 100,000 shares at a value of \$33,000 and is required to pay a minimum of US\$650,000 over 10 years in advance royalty payments and spend at least US\$1,750,000 on exploration.

5. MINERAL PROPERTIES (cont'd...)

Utah (cont'd...)

Green River (cont'd...)

The Company then entered into amended agreements with the parties to contribute its interest in its Green River South (formerly Sahara) uranium mine project into a 50% interest in an exploration joint venture. In exchange, the partners will contribute their property now known as the Green River North property to the venture. As consideration for its original interest in the Sahara property, the Company issued 100,000 shares at a value of \$33,000, and, pursuant to the amended agreement, will issue an additional 200,000 shares over four years, pay a minimum of US\$585,000 over 4 years in advance royalty payments and spend at least US\$1,365,000 on exploration by December 31, 2009. In the event that uranium prices are below US\$20 per pound for four consecutive weeks, the advance royalty payments and exploration commitments will be reduced by one-half with the balance of the payments and commitments deferred to December 31, 2010. Upon earning its 70% interest in the former Sahara property, the joint venture may elect to increase its interest to 85% by paying US\$300,000 and incurring an additional \$700,000 in exploration expenditures. A finder's fee of US\$7,500 was paid when the Company acquired its original interest in the property.

Red Seep

During the year ended September 30, 2006, the Company staked certain claims in the Red Seep uranium project in Emery County, Utah.

Nevada

During fiscal 2004, the Company entered into an option agreement to acquire various interests in certain mineral properties located in Nevada, U.S.A. To earn the interests, the Company was required to pay US\$398,540, issue 412,500 common shares and incur US\$732,000 in exploration expenses. The Company issued 247,500 common shares at a value of \$49,500 to the vendor and 50,000 common shares at a value of \$7,500 as a finder's fee.

The Company then entered into an agreement with Staccato Gold Resources. ("Staccato") whereby Staccato could earn various interests in certain of the properties in exchange for payments totaling US\$247,500. Staccato would also resume various payments due to the underlying holders of the interests. The Company received option payments of \$229,094. The Company and Staccato replaced the agreement above with an agreement whereby each party would hold a 50% interest in the properties and each will be responsible for 50% of ongoing exploration expenses.

During fiscal 2004, the Company also entered into an option agreement to acquire a 100% interest in additional properties. To earn the interest, the Company was required to pay US\$45,000 and escalating annual payments on the first through sixth anniversary totaling US\$540,000 plus US\$150,000 every anniversary thereafter. The Company then entered into an agreement with Staccato whereby Staccato could earn a 50% interest by assuming 50% of the costs of the underlying option agreement.

During the 2005 fiscal year, the Company and Staccato entered into an agreement whereby Staccato could acquire the Company's remaining 50% interest in exchange for 1,000,000 shares of Staccato (received at a value of \$129,000) and \$125,000. The Company received an additional 950,000 shares of Staccato at a value of \$142,500 as settlement of the cash payment owing by Staccato. The Company has written-off to operations during fiscal 2005 the remaining mineral property costs of \$122,411.

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5. MINERAL PROPERTIES (cont'd...)

Mongolia

The Company beneficially holds a 100% interest in certain properties in Mongolia, which are subject to a 2% net smelter royalty. During fiscal 2006 the Company abandoned its interest and has written off its acquisition and exploration costs.

6. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued consulting fees of \$4,860 (2005 - \$ 10,075) to directors.
- b) Paid or accrued management fees of \$120,000 (2005 - \$95,000) to a company controlled by a director.
- c) Paid or accrued administration fees of \$22,100 (2005 – nil) to a director.

These transactions were in the normal course of operations and were measured at the exchange amount which was the amount established and agreed to by the related parties.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

| | Number of Shares | Capital Stock | Contributed Surplus |
|---|---------------------|------------------|------------------------|
| Authorized | | | |
| Unlimited common shares, without par value | | | |
| Issued | | | |
| Balance at September 30, 2004 | 30,950,354 | \$ 11,388,795 | \$ 62,924 |
| Private placement | 23,649,178 | 4,020,360 | - |
| Corporate finance fee | 250,000 | 42,500 | - |
| Agents' broker warrants | - | - | 180,892 |
| Share issuance costs | - | (619,975) | - |
| Shares issued for acquisition of mineral properties | 1,100,000 | 238,000 | - |
| Exercise of warrants | 4,549,197 | 1,663,456 | (135,380) |
| Exercise of options | 500,000 | 127,485 | (42,485) |
| Finders fee for mineral properties | 100,000 | 17,000 | - |
| Stock-based compensation | - | - | 175,718 |
| Balance at September 30, 2005 | 61,098,729 | 16,877,621 | 241,669 |
| Private placement | 3,750,000 | 1,500,000 | - |
| Agents' broker warrants | - | - | 264,276 |
| Share issuance costs | - | (440,196) | - |
| Shares for mineral properties | 1,600,000 | 813,000 | - |
| Finders fee for mineral properties | 100,000 | 17,000 | - |
| Exercise of warrants | 8,127,963 | 2,060,441 | (103,111) |
| Exercise of options | 1,420,000 | 372,065 | (124,065) |
| Stock-based compensation | - | - | 152,858 |
| Balance at September 30, 2006 | 76,096,692 | \$ 21,199,931 | \$ 431,627 |

URANIUM POWER CORP.
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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Private placements

- a) During fiscal 2006, the Company completed a brokered private placement of 3,750,000 units at a price of \$0.40 per unit for gross proceeds of \$1,500,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share at an exercise price of \$0.50 per share expiring March 20, 2008.

The agent received 375,000 broker warrants exercisable into one unit at an exercise price of \$0.40 per unit. Each unit consists of one common share and one share purchase warrant exercisable into one common share at an exercise price of \$0.50 per share expiring March 20, 2008.

The agent also received an 8% commission totaling \$120,000 and a corporate finance fee of \$35,000.

- b) During fiscal 2005, the Company completed a brokered private placement of 23,649,178 units at a price of \$0.17 per unit for gross proceeds of \$4,020,360. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional common share at an exercise price of \$0.25 per share expiring December 24, 2006.

The agent received 2,364,917 broker warrants exercisable into one common share of the Company at an exercise price of \$0.17 per share expiring December 24, 2006.

The agent also received an 8% commission totaling \$321,629 and a corporate finance fee of 250,000 units at a value of \$42,500. Each unit consisted of one common share and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional common share at an exercise price of \$0.25 per share expiring December 24, 2006.

Stock options

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of five years and are subject to certain vesting provisions as determined by the Board of Directors, but shall vest no more frequently than equally on a quarterly basis over at least 18 months or 12 months for Investor Relations.

As at September 30, 2006, incentive stock options were outstanding enabling optionees to acquire the following number of shares:

| Number of Shares | Exercise Price | Expiry Date |
|---------------------|-------------------|------------------|
| 300,000 | 0.32 | February 8, 2007 |
| 200,000 | 0.50 | May 5, 2007 |

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock options (cont'd...)

Stock option transactions are summarized as follows:

| | Number of Shares | | Weighted Average Exercise Price |
|-----------------------------------|---------------------|----|--|
| Outstanding at September 30, 2004 | 2,250,000 | \$ | 0.18 |
| Granted | 750,000 | | 0.43 |
| Expired/cancelled | (350,000) | | 0.26 |
| Exercised | <u>(500,000)</u> | | 0.17 |
| Outstanding at September 30, 2005 | 2,150,000 | | 0.26 |
| Expired/cancelled | (230,000) | | 0.50 |
| Exercised | <u>(1,420,000)</u> | | 0.17 |
| Outstanding at September 30, 2006 | 500,000 | \$ | 0.39 |
| Exercisable at September 30, 2006 | 486,957 | \$ | 0.38 |

Warrants

At September 30, 2006, warrants were outstanding enabling holders to acquire the following number of shares:

| Number of Shares | Exercise Price | Expiry Date |
|---------------------|-------------------|-------------------|
| 4,391,088 | 0.25 | December 24, 2006 |
| 34,999 | 0.17 | December 24, 2006 |
| 3,750,000 | 0.50 | March 20, 2008 |

URANIUM POWER CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Warrant transactions are summarized as follows:

| | Number of Broker's Warrants | Weighted Average Exercise Price |
|-----------------------------------|-----------------------------------|--|
| Outstanding at September 30, 2004 | 8,630,006 | \$ 0.40 |
| Granted | 14,314,505 | 0.24 |
| Exercised | (4,549,197) | 0.34 |
| Expired | <u>(3,425,000)</u> | 0.30 |
| Outstanding at September 30, 2005 | 14,970,314 | 0.28 |
| Granted | 3,750,000 | 0.50 |
| Expired/cancelled | (2,416,264) | 0.50 |
| Exercised | <u>(8,127,963)</u> | 0.24 |
| Outstanding at September 30, 2006 | 8,176,087 | \$ 0.37 |

Broker warrants

As at September 30, 2006, broker warrants were outstanding enabling the holder to acquire the following number of units, each unit consisting of one common share and one share purchase warrant exercisable into one common share at an exercise price of \$0.50:

| Number of Units | Exercise Price | Expiry Date |
|--------------------|-------------------|----------------|
| 375,000 | \$ 0.40 | March 20, 2008 |

Broker warrant transactions are summarized as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|--|-----------------------|--|
| Outstanding at September 30, 2004 and 2005 | - | \$ - |
| Granted | <u>375,000</u> | 0.40 |
| Outstanding at September 30, 2006 | 375,000 | \$ 0.40 |

URANIUM POWER CORP.
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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock-based compensation

During fiscal 2006, the Company granted Nil (2005 – 750,000) incentive stock options with a fair value of \$Nil (2005 - \$187,751). The Company has recorded stock-based compensation of \$152,858 (2005 - \$175,718) in connection with the vesting of the options. The Company also recorded share issuance costs of \$264,276 (2005 - \$180,892) as a result of 375,000 (2005 – 2,364,917) broker warrants issued on private placements.

The weighted average fair value of stock options granted was \$Nil (2005 - \$0.25) per option.

The fair value of compensatory options and warrants granted is estimated on the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in calculating fair value are as follows:

| | 2006 | 2005 |
|--|---------|------------|
| Risk-free interest rate | 3.90% | 2.9 – 3.8% |
| Expected option or warrant life in years | 2 years | 2 years |
| Expected stock price volatility | 179% | 95 – 98% |
| Expected dividend yield | 0% | 0% |

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended September 30, 2006 consisted of the Company:

- a) Issuing 1,600,000 common shares at a value of \$813,000 for the acquisition of mineral properties.
- b) Issuing 100,000 shares at a value of \$17,000 to settle obligation to issue shares.
- c) Incurring mineral property expenditures through accounts payable of \$143,997.
- d) Issuing 375,000 broker warrants at a value of \$264,276 in connection with a private placement.

Significant non-cash transactions for the year ended September 30, 2005 consisted of the Company:

- a) Issuing 1,100,000 common shares at a value of \$238,000 for the acquisition of mineral properties.
- b) Issuing 100,000 common shares at a value of \$17,000 as a finder's fee related to the acquisition of a mineral property.
- c) Receiving 1,950,000 shares of Staccato at a value of \$271,500 on the sale of certain mineral properties.
- d) Incurring finder's fees payable of \$100,000 and an obligation to issue shares at a value of \$34,000 related to the acquisition of a mineral property.
- e) Issuing 250,000 units at a value of \$42,500 as a corporate finance fee.
- f) Issuing 2,364,917 broker warrants at a value of \$180,892 in connection with a private placement.

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SEPTEMBER 30, 2006

9. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported income taxes is as follows:

| | 2006 | 2005 |
|--|----------------|----------------|
| Loss for the year | \$ (1,515,066) | \$ (782,636) |
| Expected income tax (recovery) | \$ (554,817) | \$ (275,840) |
| Write-off of mineral properties | 585,233 | 62,458 |
| Share issue costs | (81,298) | (71,204) |
| Other non-deductible items | 169,422 | - |
| Gain on disposal of marketable securities | (215,384) | - |
| Unrecognized benefit of non-capital losses | <u>96,844</u> | <u>284,586</u> |
| Total income taxes | \$ - | \$ - |

The significant components of the Company's future income taxes assets are as follows:

| | 2006 | 2005 |
|---|--------------------|--------------------|
| Future income tax assets: | | |
| Non-capital loss carryforwards | \$ 439,740 | \$ 444,230 |
| Capital loss carry forwards | 1,022,800 | 942,285 |
| Cumulative exploration and development expenses | 1,251,371 | 755,070 |
| Share issue costs | <u>194,168</u> | <u>229,400</u> |
| | 2,908,079 | 2,370,985 |
| Valuation allowance | <u>(2,908,079)</u> | <u>(2,370,985)</u> |
| Net future income tax assets | \$ - | \$ - |

The Company has non-capital losses of approximately \$1,418,133 available for deduction against future taxable income. These losses, if not utilized, will expire through 2026. Subject to certain restrictions, the Company also has resource expenditures and share issue costs of approximately \$11,017,391 and \$626,348 respectively, available to reduce taxable income in future years. In addition, the Company has capital losses of \$6,598,708 to apply against any future capital gains. Future tax benefits which may arise as a result of these non-capital and capital losses, resource deductions and share issue costs have not been recognized in these financial statements and have been offset by a valuation allowance.

10. COMMITMENTS

In March 2005, the Company renewed a management agreement with a company controlled by a director of the Company for a term of two years. The renewed agreement requires the Company to pay management fees of \$10,000 per month.

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10. COMMITMENTS (cont'd...)

The Company is committed to future minimum lease payments for premises of approximately \$8,490 per month through to March 31, 2009. The Company's lease costs may be reduced due to recoveries through sub-leases.

11. SEGMENTED INFORMATION

The Company operates in one business segment, being the acquisition and exploration of resource properties.

The Company's capital assets are located in the following countries:

| | 2006 | 2005 |
|---------------|---------------------|---------------------|
| Canada | \$ 2,291 | \$ - |
| Mongolia | - | 1,566,881 |
| United States | <u>6,980,711</u> | <u>2,341,768</u> |
| | <u>\$ 6,983,002</u> | <u>\$ 3,908,649</u> |

12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, short-term investments, marketable securities, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

13. SUBSEQUENT EVENTS

Subsequent to September 30, 2006, the Company issued 1,143,588 common shares for proceeds of \$306,522 pursuant to the exercise of warrants.