

**STRATHMORE MINERALS CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

## AUDITORS' REPORT

To the Shareholders of  
Strathmore Minerals Corp.

We have audited the consolidated balance sheets of Strathmore Minerals Corp. 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 consolidated 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.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

April 7, 2006

A Member of SC INTERNATIONAL

**STRATHMORE MINERALS CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 31**

	2005	2004
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 12,143,821	\$ 9,083,026
Short term investments (Note 3)	9,001,064	-
Receivables	240,244	34,566
Prepaid expenses	<u>26,651</u>	<u>13,316</u>
	21,411,780	9,130,908
<b>Equipment</b> (Note 4)	208,229	70,058
<b>Mineral property interests</b> (Note 5)	5,579,778	2,688,728
<b>Deferred exploration costs</b> (Note 6)	<u>3,570,990</u>	<u>167,649</u>
	<u>\$ 30,770,777</u>	<u>\$ 12,057,343</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current**

Accounts payable and accrued liabilities	\$ 171,356	\$ 63,785
Due to related parties (Note 9)	<u>14,291</u>	<u>10,948</u>
	<u>185,647</u>	<u>74,733</u>

**Shareholders' equity**

Capital stock (Note 7)	41,299,968	23,457,405
Subscriptions received in advance	3,600	58,500
Contributed surplus (Note 7)	4,857,621	2,420,262
Deficit	<u>(15,576,059)</u>	<u>(13,953,557)</u>
	<u>30,585,130</u>	<u>11,982,610</u>
	<u>\$ 30,770,777</u>	<u>\$ 12,057,343</u>

**Nature of operations** (Note 1)

**Subsequent events** (Note 13)

**On behalf of the Board:**

“Dev Randhawa”

Director

“Steven Khan”

Director

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

**STRATHMORE MINERALS CORP.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED DECEMBER 31**

	2005	2004
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Amortization	\$ 43,046	\$ 8,432
Business development	96,636	96,072
Consulting fees	654,100	343,388
Investor relations	110,718	-
Office and miscellaneous	206,323	123,378
Property investigation	-	75,578
Professional fees	132,637	77,002
Promotion and advertising	89,210	-
Regulatory fees	16,384	65,589
Rent	47,581	17,767
Shareholder communications	9,329	26,059
Stock-based compensation (Note 7)	476,610	962,297
Telephone	37,031	29,283
Trade shows and conferences	229,792	167,017
Transfer agent	16,105	14,975
Travel	36,009	53,108
Wages and benefits	158,628	-
	<u>(2,360,139)</u>	<u>(2,059,945)</u>
<b>OTHER ITEMS</b>		
Investment income	365,930	65,735
Allowance for decline in short-term investments (Note 3)	(4,817)	-
	<u>361,113</u>	<u>65,735</u>
<b>Loss before income taxes</b>	(1,999,026)	(1,994,210)
<b>Future income tax recovery (Note 10)</b>	<u>376,524</u>	<u>-</u>
<b>Loss for the year</b>	(1,622,502)	(1,994,210)
<b>Deficit, beginning of year</b>	<u>(13,953,557)</u>	<u>(11,959,347)</u>
<b>Deficit, end of year</b>	<u>\$ (15,576,059)</u>	<u>\$ (13,953,557)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>
<b>Weighted average number of shares outstanding</b>	<u>53,550,088</u>	<u>26,140,368</u>

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

**STRATHMORE MINERALS CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (1,622,502)	\$ (1,994,210)
Items not affecting cash:		
Allowance for decline in short-term investments	4,817	-
Amortization	43,046	8,432
Stock-based compensation	476,610	962,297
Future income taxes	(376,524)	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(205,678)	40,470
Increase in short term investments	(9,005,881)	-
Increase in prepaid expenses	(13,335)	(748)
Increase (decrease) in accounts payable and accrued liabilities	(12,247)	15,769
Increase in due to related parties	<u>3,343</u>	<u>-</u>
Net cash used in operating activities	<u>(10,708,351)</u>	<u>(967,990)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Equipment purchased	(181,217)	(72,621)
Mineral property costs	(513,300)	(1,784,245)
Deferred exploration costs	<u>(3,283,523)</u>	<u>(107,641)</u>
Net cash used in investing activities	<u>(3,978,040)</u>	<u>(1,964,507)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Subscriptions received in advance	3,600	58,500
Increase in due to related parties	-	10,948
Capital stock issued	18,901,938	11,473,387
Share issuance costs	<u>(1,158,352)</u>	<u>(517,591)</u>
Net cash provided by financing activities	<u>17,747,186</u>	<u>11,025,244</u>
<b>Increase in cash and equivalents during the year</b>	<b>3,060,795</b>	<b>8,092,747</b>
<b>Cash and equivalents, beginning of year</b>	<b><u>9,083,026</u></b>	<b><u>990,279</u></b>
<b>Cash and equivalents, end of year</b>	<b><u>\$ 12,143,821</u></b>	<b><u>\$ 9,083,026</u></b>

**Supplemental disclosure with respect to cash flows (Note 8)**

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

**1. NATURE OF OPERATIONS**

Strathmore Minerals Corp. (the "Company") is incorporated under the laws of the Province of British Columbia and is considered to be in the exploration stage.

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Peruran S.A. (incorporated under the laws of Peru), and Strathmore Resources (US) Inc. (incorporated under the laws of Nevada, USA). Significant inter-company balances and transactions are eliminated on consolidation.

**Use of estimates**

The preparation of 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 and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

**Cash and equivalents**

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**Short term investments**

Short term investments are recorded at the lower of cost or market value or on aggregate basis.

**Equipment**

Equipment is recorded at cost and amortization is calculated using the declining-balance method, unless otherwise noted, at the following annual rates:

Office equipment	20%
Leasehold improvements	5 year straight-line
Computer equipment	30%
Computer software	50%

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

**Mineral property interests and deferred exploration costs**

The Company records mineral property interests, which consist of the right to explore for mineral deposits, at cost. The Company records deferred exploration costs, which consist of costs attributable to the exploration of mineral property interests, at cost. All direct and indirect costs relating to the acquisition and exploration of these mineral property interests are capitalized on the basis of specific claim blocks until the mineral property interests to which they relate are placed into production, the mineral property interests are disposed of through sale or where management has determined there to be an impairment. If a mineral property interest is abandoned, the mineral property interest and deferred exploration costs will be written off to operations in the period of abandonment.

On an ongoing basis, the capitalized costs are reviewed on a property-by-property basis to consider if there is any impairment on the subject mineral property interest. Management's determination for impairment is based on: i) whether the Company's exploration programs on the mineral property interests have significantly changed, such that previously identified resource targets are no longer being pursued; ii) whether exploration results to date are promising and whether additional exploration work is being planned in the foreseeable future or iii) whether remaining lease terms are insufficient to conduct necessary studies or exploration work. As at December 31, 2005 and 2004, management believes that no impairment relating to the mineral property interests and deferred exploration costs was required.

The recorded cost of mineral property interests and deferred exploration costs is based on cash paid and the value of share considerations issued for mineral property interest acquisitions and exploration costs incurred. The recorded amount may not reflect recoverable value as this will be dependent on future development programs, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

**Foreign currency translation**

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollar equivalents using the temporal method. The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at rates approximating those in effect at the time of the transaction. Exchange gains and losses arising on translation are included in the statement of operations.

**Flow-through common shares**

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation.

Effective March 19, 2004, the Company adopted EIC 146 "Flow-Through Shares" that dictates the accounting treatment on renunciation of the tax deductibility of the qualifying expenditures that give rise to taxable temporary differences. The change in accounting policy was applied prospectively. When the Company renounces flow-through expenditures, a portion of the Company's future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, will be recognized as a recovery of income taxes in the statement of operations.

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

**Asset retirement obligation**

CICA Handbook Section 3110 "Asset Retirement Obligations" is effective for years beginning on or after January 1, 2004. This standard requires recognition of a liability at its fair value for the obligation associated with the retirement of a tangible long-lived asset. A corresponding asset retirement cost would be added to the carrying amount of the related asset and amortized to expense over the useful life of the asset. The Company has determined that there are no asset retirement obligations at December 31, 2005.

**Stock-based compensation**

The Company uses the fair value method whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to capital stock.

**Income taxes**

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 period 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.

**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 earnings 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. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of shares outstanding during the year.

**3. SHORT TERM INVESTMENTS**

Short term investments are comprised of the following:

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	2005	2004
Canadian bond funds	\$ 2,986,357	-
Canadian short term investment fund	<u>6,014,707</u>	<u>-</u>
	<u>\$ 9,001,064</u>	<u>-</u>

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**STRATHMORE MINERALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**3. SHORT TERM INVESTMENTS (cont'd...)**

As at December 31, 2005, short term investments have an aggregate market value of \$9,001,064 (2004 - \$Nil). During fiscal 2005, the Company recorded an allowance for decline of \$4,817 (2004 - \$Nil) to reflect the market value of the investment.

**4. EQUIPMENT**

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 134,397	\$ 31,613	\$ 102,784	\$ 48,254	\$ 12,651	\$ 35,603
Leasehold improvements	55,817	5,936	49,881	-	-	-
Computer equipment	88,758	35,783	52,975	52,003	19,166	32,837
Computer software	<u>4,254</u>	<u>1,665</u>	<u>2,589</u>	<u>1,752</u>	<u>134</u>	<u>1,618</u>
	\$ 283,226	\$ 74,997	\$ 208,229	\$ 102,009	\$ 31,951	\$ 70,058

**5. MINERAL PROPERTY INTERESTS**

	2005	2004
Athabasca property, Canada	\$ 459,702	\$ 256,702
Chord property, USA	137,282	124,724
Comstock property, Canada	297,271	130,699
Dieter Lake property, Canada	421,792	15,792
Duddridge Lake property, Canada	191,245	191,245
New Mexico properties, USA	1,272,616	618,265
Staked properties, Canada	798,153	798,153
Staked properties, Peru	69,580	69,580
Wyoming properties, USA	1,615,698	327,516
Pre-acquisition property costs	<u>316,439</u>	<u>156,052</u>
	\$ 5,579,778	\$ 2,688,728

Title to mineral property interests 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 property interests. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its properties are in good standing.

**5. MINERAL PROPERTY INTERESTS (cont'd...)**

**Athabasca property, Canada**

The Company acquired an option to purchase a 100% interest in a uranium property located in Alberta, Canada, by paying \$98,192, incurring additional costs of \$29,510 and issuing 200,000 common shares valued at \$332,000. The property is subject to a 0.75% net smelter returns royalty on certain mineral production and a 4% gross over riding royalty on all diamond production from the property.

**Chord property, USA**

The Company acquired an option to purchase a 100% interest in a uranium property located in South Dakota, USA, by paying \$48,640. During fiscal 2003, the Company amended the terms of the lease agreement for consideration of 100,000 shares of the Company valued at \$56,000 and incurred additional fees of \$6,468. To earn its interest, the Company is required to make annual payments of either 50,000 common shares or US\$10,000 per year to July 1, 2009. In fiscal 2005, the Company paid \$12,558 (US\$10,000) (2004 - \$13,616 (US\$10,000)). The property is subject to a 2% gross royalty.

**Comstock property, Canada**

The Company acquired an option to purchase a 100% interest in certain claims located in British Columbia, Canada by issuing 200,000 common shares valued at \$294,000 and incurring additional fees of \$3,271. To earn its interest, the Company is required to issue an additional 100,000 common shares.

**Dieter Lake property, Canada**

The Company acquired an option to purchase a 100% interest in certain claims located in Quebec, Canada by issuing 200,000 common shares valued at \$406,000 and incurring additional costs of \$15,792. To earn its interest, the Company is required to issue an additional 100,000 common shares. An additional 200,000 shares will be issued in the event a resource of more than 60 million pounds containing U<sub>3</sub>O<sub>8</sub> (Uranium) is confirmed at the property.

**Duddridge Lake property, Canada**

The Company acquired an option to purchase a 100% interest in certain claims located in Saskatchewan, Canada by issuing 100,000 common shares valued at \$153,000 and incurring additional fees of \$38,245. To earn its interest, the Company is required to issue an additional 100,000 common shares.

**New Mexico properties, USA**

The Company acquired an option to purchase a 100% interest in certain claims located in New Mexico, USA, by paying \$272,825, incurring additional costs of \$315,791 and issuing 450,000 common shares valued at \$684,000. To earn its interest, the Company is required to issue an additional 150,000 common shares to an individual who subsequently became an officer of the Company. Certain claims are subject to a 1% royalty.

**Staked properties, Canada**

The Company acquired, by staking, a 100% interest in the following uranium properties located in north-central Saskatchewan: Davy Lake, Hall Lake, Patterson Lake, Virgin River, and Waterbury Lake.

**STRATHMORE MINERALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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**5. MINERAL PROPERTY INTERESTS (cont'd...)**

**Staked properties, Peru**

The Company acquired, by staking, a 100% interest in certain uranium properties located in Peru.

**Wyoming properties, USA**

The Company acquired options to purchase a 100% interest in a certain claims located in Wyoming, USA by paying \$87,560, incurring additional costs of \$261,888 and issuing 800,000 common shares valued at \$1,266,250. To earn its interest, the Company is required to issue an additional 350,000 common shares in stages over two years to an individual who subsequently became an officer of the Company.

**Pre-acquisition property costs**

The pre-acquisition property costs represent expenditures related to mineral property interests prior to implementation of the acquisition. These costs will be added to the mineral property interest costs to which they relate on completion of the acquisition or written-off to operations should the acquisition not proceed.

**6. DEFERRED EXPLORATION COSTS**

	Canada	USA	Peru	Total
As at December 31, 2003	\$ -	\$ 60,008	\$ -	\$ 60,008
General expenditures	<u>103,933</u>	<u>3,708</u>	<u>-</u>	<u>107,641</u>
As at December 31, 2004	103,933	63,716	-	167,649
Airborne geophysics surveys	1,497,325	-	-	1,497,325
Camp costs	41,534	-	4,573	46,107
Claim fees	38,178	168,188	22,165	228,531
Geologists fees and supplies	418,162	370,852	129,554	918,568
General expenses	16,326	8,074	1,861	26,261
Helicopter rental and equipment fuel	586,482	-	-	586,482
Lab analysis and sampling	38,802	-	-	38,802
NI 43-101 reports	21,334	3,841	-	25,175
Report/map preparation	<u>33,869</u>	<u>606</u>	<u>1,615</u>	<u>36,090</u>
As at December 31, 2005	\$ 2,795,945	\$ 615,277	\$ 159,768	\$ 3,570,990

**STRATHMORE MINERALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**7. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited number of common shares, without par value			
Issued			
As at December 31, 2003	14,157,777	\$ 12,624,793	\$ 577,281
Private placements	15,075,088	7,906,381	1,343,679
Exercise of options	250,000	79,698	(36,698)
Exercise of warrants	6,208,392	2,656,557	(476,230)
Agents' warrants	-	-	97,904
Acquisition of mineral property interests	550,000	757,500	-
Stock-based compensation	-	-	962,297
Share issuance costs	-	(567,524)	(47,971)
As at December 31, 2004	36,241,257	23,457,405	2,420,262
Private placements	10,144,286	12,752,584	2,505,917
Exercise of options	887,000	466,080	(169,381)
Exercise of warrants	7,082,971	4,280,507	(875,269)
Acquisition of mineral property interests	1,400,000	2,377,750	-
Stock-based compensation	-	-	476,610
Share issuance costs	-	(1,657,834)	499,482
Tax benefits renounced to flow through share subscribers	-	(376,524)	-
As at December 31, 2005	55,755,514	\$ 41,299,968	\$ 4,857,621

Included in issued capital stock are 75,000 common shares subject to an escrow agreement that may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

**Private placements**

In January, 2004, the Company issued 4,767,444 units at \$0.27 per unit consisting of one common share and one share purchase warrant for total proceeds of \$1,287,210. Each warrant entitles the holder to acquire one additional common share at \$0.36 per share expiring January 20, 2006. An estimated fair value of \$417,712 was allocated to the warrants and is included in contributed surplus. The Company incurred finder's fees of \$23,490 on the private placement.

In February, 2004, the Company issued 1,501,334 units at \$0.60 per unit consisting of one common share and one share purchase warrant for total proceeds of \$900,800. Each warrant entitles the holder to acquire one additional common share at \$0.76 per share expiring February 23, 2006. An estimated fair value of \$299,582 was allocated to the warrants and is included in contributed surplus.

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

**Private placements (cont'd...)**

In April, 2004, the Company issued 3,436,167 units at \$0.60 per unit consisting of one common share and one share purchase warrant for total proceeds of \$2,061,700. Each warrant entitles the holder to acquire one additional common share at \$0.76 per share expiring April 16, 2006. An estimated fair value of \$626,385 was allocated to the warrants and is included in contributed surplus. The Company incurred finder's fees of \$132,803 on the private placement.

In September, 2004, the Company issued 2,857,143 common shares at \$0.70 per share for total proceeds of \$2,000,000. The common shares issued are subject to a hold period that expires on January 27, 2005. The Company paid \$150,000 and issued 142,857 share purchase warrants valued at \$42,357 as finder's fees. Each warrant entitles the holder to acquire one additional common share at \$0.74 per share expiring September 27, 2005.

In November, 2004, the Company issued 2,000,000 common shares at \$1.00 per share for total proceeds of \$2,000,000. The common shares issued are subject to a hold period that expires on March 1, 2005. The Company paid \$120,000 and issued 120,000 share purchase warrants valued at \$55,547 as finder's fees. Each warrant entitles the holder to acquire one additional common share at \$1.08 per share expiring October 29, 2006.

In December, 2004, the Company issued 513,000 flow-through common shares at a price of \$1.95 per share for total proceeds of \$1,000,350. The Company incurred finder's fees of \$55,019 on the private placement.

In January, 2005, the Company issued 30,000 flow-through common shares at a price of \$1.95 per share for proceeds of \$58,500 which were received in fiscal 2004.

In February, 2005, the Company issued 10,000,000 units at \$1.50 per unit for gross proceeds of \$15,000,000. Each unit consists of one common share and one half of one share purchase warrant. One whole warrant is exercisable at \$1.75 until February 21, 2006 and thereafter at \$2.00 expiring February 21, 2007. An estimated fair value of \$2,480,945 was allocated to the warrants and is included in contributed surplus. In connection with the placement the Company issued agent options to purchase 1,027,180 common shares at a price of \$1.75 per share in the first year and \$2.00 per share in the second year and paid commissions of \$1,027,180, of which \$169,892 was allocated to the commissions on the warrants and is included in contributed surplus. The fair value of the agents options, being \$802,026, was determined using the Black-Scholes option pricing model with a volatility of 62%, risk-free interest rate of 2.92%, expected life of 2 years, and a dividend rate of 0%.

In October, 2005, the Company issued 114,286 units at \$1.75 per unit for gross proceeds of \$200,001. Each unit consists of one common share and one half of one share purchase warrant exercisable at \$2.00 per share until October 26, 2007. An estimated fair value of \$24,972 was allocated to the warrants and is included in contributed surplus.

**Stock options and warrants**

The Company has a stock option plan whereby, from time to time, at the discretion of the Board of Directors, stock options are granted to directors, officers, employees and certain consultants. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less an applicable discount. The options can be granted for a maximum term of five years with vesting provisions determined by the Board of Directors.

**STRATHMORE MINERALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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

**Stock options and warrants (cont'd...)**

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants		Stock Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2003	6,322,229	\$ 0.30	850,000	\$ 0.21
Granted	9,967,801	0.56	2,675,000	0.78
Exercised	(6,208,392)	0.35	(250,000)	0.17
Expired/cancelled	-	-	-	-
Outstanding, December 31, 2004	10,081,638	0.54	3,275,000	0.68
Granted	6,084,323	1.75	1,600,000	1.69
Exercised	(7,082,971)	0.48	(887,000)	0.33
Expired/cancelled	-	-	(100,000)	1.44
Outstanding, December 31, 2005	9,082,990	\$ 1.39	3,888,000	\$ 1.16
Number currently exercisable	9,082,990	\$ 1.39	2,888,000	\$ 1.04

As at December 31, 2005, incentive stock options and share purchase warrants were outstanding as follows:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	350,000	\$ 0.50	January 9, 2006
	1,238,000	0.60	June 22, 2006
	700,000	1.25	November 3, 2006
	250,000	1.75	January 14, 2007
	300,000	2.20	April 29, 2008
	50,000	2.25	February 8, 2008
	<u>1,000,000</u>	1.50	October 6, 2010
Total	<u>3,888,000</u>		
<b>Warrants</b>	543,000	0.36	January 20, 2006 <sup>(1)</sup>
	177,833	0.76	February 23, 2006
	2,341,167	0.76	April 16, 2006
	5,963,847	1.75/2.00	February 21, 2007 <sup>(2)</sup>
	<u>57,143</u>	2.00	October 26, 2007
Total	<u>9,082,990</u>		

**STRATHMORE MINERALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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

**Stock options and warrants (cont'd...)**

- (1) The warrants are subject to accelerated expiry in the event that the 10 day average closing price of the Company's common stock is greater than or equal to \$0.75. If the \$0.75 average is achieved, the Company may notify holders of the warrants that the remaining term of the warrants will be shortened to 30 days although the exercise price will remain the same.
- (2) The warrants are exercisable at \$1.75 until February 21, 2006 and thereafter at \$2.00 expiring February 21, 2007

**Stock-based compensation**

During fiscal 2005, the Company granted 1,600,000 (2004 - 2,675,000) options to employees, consultants and directors. Accordingly, using the Black-Scholes option pricing model, the stock options are recorded at fair value in the statement of operations. Total stock-based compensation recognized in the statement of operations during fiscal 2005 was \$476,610 (2004 - \$962,297) as a result of options granted and vested. The weighted average fair value of options granted was \$0.62 (2004 - \$0.36). This amount was also recorded as contributed surplus on the balance sheet.

The following assumptions were used for the valuation of stock options and warrants:

	2005	2004
Risk-free interest rate	2.92 – 3.52%	2.40 – 3.02%
Expected life	2 – 4 years	1 – 1.5 years
Annualized volatility	46 – 69%	65 - 131%
Dividend rate	0.00%	0.00%

**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2005	2004
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -
Cash and equivalents:		
Cash balances	\$ 12,032,505	\$ 9,083,026
Term deposits	<u>111,316</u>	<u>-</u>
	<u>\$ 12,143,821</u>	<u>\$ 9,083,026</u>

**STRATHMORE MINERALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)**

Significant non-cash transactions during the year ended December 31, 2005 included:

- a) Issuing 1,400,000 (2004 - 550,000) common shares valued at \$2,377,750 (2004 -\$757,500) pursuant to the acquisition of mineral property interests and issuing 1,027,180 (2004 - 262,857) agents options valued at \$802,026 (2004 - \$97,904) as finders' fees on private placements.
- b) Accruing mineral property expenditures on accounts payable and accrued liabilities of \$119,818 at December 31, 2005.
- c) Issuing 30,000 common shares for proceeds of \$58,500 received in the prior year.

**9. RELATED PARTY TRANSACTIONS**

The Company entered into transactions with related parties as follows:

- a) Paid or accrued \$225,598 (2004 - \$102,087) for consulting fees to a director and a company controlled by a director.
- b) Paid or accrued \$225,684 (2004 - \$46,250) for consulting fees to officers of the Company.
- c) Pursuant to private placements, issued NIL (2004 - 200,000) common shares to directors and a company controlled by a director for total proceeds of \$NIL (2004 - \$54,000).

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

Amounts due to related parties are due to directors and companies controlled by directors and are unsecured, non-interest bearing and have no specific repayment terms.

**10. INCOME TAXES**

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

	2005	2004
Loss before income taxes	\$ (1,999,026)	\$ (1,994,210)
Expected income tax recovery	\$ 697,061	\$ 709,939
Other items not deductible for income tax purposes	(229,573)	(238,476)
Stock-based compensation not deductible for income tax purposes	(166,194)	(342,578)
Recognized (unrecognized) benefits of non-capital losses	<u>75,230</u>	<u>(128,885)</u>
Future income tax recovery	\$ 376,524	\$ -

**STRATHMORE MINERALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**10. INCOME TAXES (cont'd...)**

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

	2005	2004
Future income tax assets:		
Equipment	\$ 45,074	\$ 31,704
Mineral property interests and related exploration expenditures	-	735,372
Other assets	434,843	21,360
Non-capital losses available for future periods	<u>1,001,692</u>	<u>1,181,641</u>
	1,481,609	1,970,077
Future income tax liabilities:		
Mineral property interests and related exploration expenditures	(119,860)	-
Valuation allowance	<u>(1,361,749)</u>	<u>(1,970,077)</u>
Net future income tax asset	\$ -	\$ -

The Company has available approximately \$2,936,000 of non-capital losses which, if unutilized, will expire through 2015. Subject to certain restrictions, the Company also has capital losses of \$367,000 and resource exploration expenditures of approximately \$8,800,000 available to reduce taxable income of future years.

The Company renounced certain deductions for Canadian exploration expenditures incurred on the Company's resource properties resulting in a future income tax recovery of \$376,524 and a charge against capital stock.

**11. SEGMENTED INFORMATION**

The Company primarily operates in one reportable operating segment, being the exploration of mineral property interests and considers its loss from operations for fiscal years 2005 and 2004 to relate to this segment.

The Company has mineral property interests located in the USA, Canada and Peru and conducts administrative activities from Canada. The total amount of assets attributable to Canada is \$26,584,117 (2004 - \$10,697,489), Peru is \$229,348 (2004 - \$69,580) and the USA is \$3,957,312 (2004 - \$1,290,274).

**12. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and equivalents, short term investments, receivables, accounts payable and accrued liabilities and amounts due to related parties. 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 value, unless otherwise noted. The Company is subject to financial risk arising from fluctuations in foreign currency exchange rates. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

**13. SUBSEQUENT EVENTS**

Subsequent to December 31, 2005, the Company:

- a) Granted 100,000 stock options at \$1.95 per share, exercisable for a period of 3 years.
- b) Issued 5,597,264 common shares for proceeds of \$8,118,597 pursuant to the exercise of stock options and warrants.
- c) Acquired options to purchase a 100% interest in certain mineral property interests located in Wyoming, USA and Alberta, Canada in consideration for the payment of staking costs and the staged issuance of 300,000 common shares over a period of three years.
- d) Issued 850,000 common shares pursuant to the acquisition of mineral property interests.