



# 2005 Annual Financial Disclosure Documents



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# message to shareholders

It is a pleasure to report on a year of significant progress and accomplishments.

## **From Southern Cross to sxr Uranium One**

The most important achievement in 2005 was the completion in December of the merger of Southern Cross Resources and Afilease Gold and Uranium Resources. This produced sxr Uranium One – a mid-tier uranium and gold exploration and mining company, with an exciting portfolio of exploration and development assets in Australia, South Africa and Canada and a primary listing on the Toronto Stock Exchange and a secondary listing in Johannesburg.

Following completion of the merger, the Board was reconstituted with the appointment of six prominent new directors who succeeded the directors of the former Southern Cross other than Mark Wheatley, who agreed to continue with the Board in a non-executive capacity. The new Board reflects the international nature of the Corporation's operations and shareholder base and we have already significantly benefitted from the experience and perspective which our new directors have brought with them. We thank them, as well as the outgoing directors of both Southern Cross and Afilease, for their dedication and service.

## **Dominion Uranium Project**

Throughout 2005, we remained focussed on advancing our Dominion Uranium Project in South Africa towards our objective of commencing uranium production in the first quarter of 2007. To that end, we declared in May for the first time a substantial, code-compliant uranium resource at Dominion. This became the basis of the mine plan presented to and approved by the Board of Afilease in June. Thanks to the efforts of our South African technical team and its geotechnical consultants, we were able to announce at year end a significant increase in indicated and inferred uranium resources at Dominion, as well as a 50% increase in the indicated uranium resource grade. We are currently hard at work preparing a feasibility study for the first phase of the project, with a particular focus on delineating ore reserves for mining. In the meantime, long lead time capital items have been ordered and construction activities at the site have commenced.

## **Honeymoon Uranium Project**

The merger brought to Uranium One the Honeymoon Uranium Project in South Australia, a fully permitted in situ leach project with a mining lease valid until 2023. The Project has indicated resources of 9.3 million pounds of uranium and relatively low capital and operating costs. Our Australian technical team is currently focussed on preparing a feasibility study for Honeymoon, with a view to progressing the Project to a production decision later this year.

## **Aflease Gold**

During the year, we negotiated the acquisition of Sub Nigel Gold Mining Company. On the closing in January 2006 of this transaction, Uranium One acquired an approximate 80% interest in Sub Nigel (since renamed Aflease Gold Limited). Aflease Gold in turn holds the Modder East Gold Project and related assets, as well Sub Nigel's South African gold properties, and retains Sub Nigel's Johannesburg stock exchange listing. This transaction, which realizes Aflease's previously stated goal of separating its pure gold assets from its uranium assets, preserves for our shareholders some exposure to gold while giving the group a funding alternative to grow the gold business in a way which is not dilutive to the Uranium One shareholders. Currently, activity is focussed on the preparation of a feasibility study for the Modder East Project.

## **Weltevreden**

In July, we entered into an agreement with AngloGold Ashanti to acquire the Weltevreden gold assets in South Africa, including approximately [3.2] million ounces of indicated gold resources, for share consideration of R 75 million. This transaction is consistent with our strategic focus on the gold side of our business, which is to acquire and develop resources which are relatively shallow and therefore present relatively low technical risk. Closing is expected later this year, following receipt of South African regulatory approvals to the transfer to Aflease of the requisite new order mining rights.

## **Bonanza South**

In June, we commenced gold production at Bonanza South, a small primary gold project with uranium by-product potential operated by Uranium One as a component of the Dominion Project. As a result of delays in the build-up phase of Bonanza due to intersecting poor ground conditions and water-bearing structures, the project is not expected to reach design capacity until December 2006. In the meantime, Bonanza is serving as a pilot project for Dominion, giving us useful practical experience with the trackless decline method to be used at Dominion, as well as a platform to train and develop the Dominion mining teams.

## **Black Economic Empowerment**

During the year we completed a black economic empowerment transaction with respect to our assets at Dominion and Bonanza. Our new partners are a broadly based consortium, including trusts for the benefit of our workers and nearby communities. As a result of this transaction, we anticipate approval later this year of our application for the grant of mining rights at Dominion. In the meantime, we are gratified that the transaction, which is innovative in several respects, has become a model for others seeking to comply with the spirit as well as the letter of the South African Mining Charter. A similar agreement is planned for the Aflease Gold assets.

## **Exploration**

Uranium One has also implemented an active exploration and project generation program. In South Africa, we have moved aggressively

to acquire prospecting rights over some 500,000 hectares in parts of South Africa which are prospective for uranium, including in particular the Karoo and the Springbok Flats. In Australia we are proceeding with drilling at Goulds Dam, some 75 km from Honeymoon and with geophysical work on projects in the Eyre Peninsula and the Sturt Shelf. In Canada, through our joint venture with Pitchstone Exploration Ltd., we are earning a 50% interest in a suite of properties in Saskatchewan's Athabasca Basin by funding an extensive exploration and drilling program.

## **Financings**

In July 2005 Aflease completed a US \$20 million private placement. This was followed in February 2006 by a US \$147 million private placement of Uranium One common shares to investors in Canada, the United States and Europe. Both financings were completed through a syndicate of agents, led by our lead financial adviser, BMO Nesbitt Burns. The net proceeds will be used for the continued development of Dominion, as well as for general corporate purposes.

## **Looking Ahead**

Uranium One entered 2006 with a substantial uranium resource base, a diversified project pipeline, ranging from grassroots to advanced stage properties, and two of the very few new uranium projects in the world planned to come on-stream in the relatively near future. In addition, our recent capital raising has left us well positioned, not only to progress our Dominion and Honeymoon projects but also to take advantage of the consolidation opportunities which we see in the uranium industry, particularly in Australia and North America. In the meantime, our business continues to unfold against a backdrop of what we believe are increasingly strong fundamentals for both uranium and gold. With respect to uranium, in recent years prices have shown a continual upward trend, with the spot price increasing by 75% during 2005 alone, as demand increases and supply continues to be constrained. We also continue to be confident in the price of gold.

Our accomplishments in 2005 are the result of teamwork, focus and perseverance on the part of our employees and directors, past and present. We thank them for their hard work and dedication. We would also like to extend our gratitude to our shareholders for their support throughout the year. We look forward to continuing to grow our business, both organically and through strategic acquisitions, and to building value for all our shareholders and stakeholders.

Andrew B. Adams  
Chairman  
Executive Officer

Neal J. Froneman  
President and Chief

# management discussion and analysis

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

for the year ended December 31, 2005

Set out below is a review of the activities, results of operations and financial condition of sxr Uranium One Inc. ("Uranium One") and its subsidiaries for its 2005 and 2004 financial years, together with certain trends and factors that are expected to impact its 2006 financial year. This information is presented as of March 28, 2006. The discussion below should be read in conjunction with the audited consolidated financial statements of Uranium One for the years ended December 31, 2005 and 2004 and the notes thereto (referred to herein as the "consolidated financial statements"). Uranium One's consolidated financial statements and the financial data set out below have been prepared in accordance with Canadian generally accepted accounting principles. All amounts in this report are in US dollars, except where otherwise indicated.

Uranium One, formerly Southern Cross Resources Inc. ("Southern Cross"), is a Canadian corporation engaged in the acquisition, exploration and development of properties for production of uranium in South Africa, Australia and Canada and gold in South Africa.

In December 2005, Southern Cross Resources Inc. was acquired by way of a reverse take-over by Alease Gold and Uranium Resources Limited ("Alease") pursuant to a scheme of arrangement under the *Companies Act, 1973* (South Africa). The scheme of arrangement was finalized on December 8, 2005, being the date that the last condition precedent was met. In connection with this acquisition, Southern Cross filed articles of amendment to change its corporate name to "SXR Uranium One Inc." and to consolidate its outstanding common share capital on a 5:1 basis.

The business combination was accounted for by the purchase method pursuant to Canadian generally accepted accounting principles. The results of operations of Southern Cross have been included with effect from December 9, 2005. The consolidated balance sheet at December 31, 2005 reflects the financial position of Uranium One and its subsidiaries. Comparative information presented in this discussion is that of Alease.

Uranium One's securities are traded on the Toronto Stock Exchange and the JSE Limited (the Johannesburg stock exchange).

*This Management Discussion and Analysis includes certain forward-looking statements. Please read the cautionary note at the end of this report.*

## GENERAL

Uranium One's principal assets are the Dominion Uranium Project in South Africa, the Honeymoon Uranium Project in Australia and, through its approximately 79%-owned subsidiary, Alease Gold, the Modder East Gold Project in South Africa. In addition, Uranium One operates the Bonanza Gold Project, a small, developmental-stage gold mining operation in South Africa, as a component of the Dominion Uranium Project.

Uranium One has agreed to sell an undivided 26% interest in the Dominion Uranium Project and the Bonanza Gold Project to its black economic empowerment joint venture partner, Micawber 397 (Proprietary) Limited ("Micawber"). Alease and Micawber have agreed to contribute their interests in these assets to a joint venture, to be managed by Alease, and to fund the development and operation of those assets in accordance with their respective joint venture interests. The purchase price payable by Micawber for its 26% interest is an amount, in cash, equal to 26% of the net present value of the Dominion and Bonanza assets at the date (not later than three years after receipt by Micawber of its first joint venture distribution) when Micawber elects to pay at least 20% of the purchase price. After payment of the first 20%, Micawber is obliged to pay at least 20% of the purchase price during each subsequent three year period until the purchase price is paid in full. The Micawber transaction will be accounted for when the risks and rewards of the transaction are deemed to have passed to Micawber.

### **Dominion Uranium Project**

The Dominion and Bonanza Projects occupy an area of approximately 154 square kilometres in the West Rand basin, some 10 kilometres southwest of the Town of Klerksdorp, approximately 150 kilometres west-southwest of Johannesburg, South Africa.

Work on the establishment of the new Dominion Uranium project was expedited during the year. Following receipt in April 2005 of "new order" prospecting rights and the completion in May 2005 of a SAMREC-compliant mineral resource statement, a mine plan was developed for exploitation of the deposit. This plan formed the basis of the decision by the former board of Alease in July 2005 to proceed with mine development. Uranium One is currently completing a feasibility study for the first phase of the Dominion Uranium Project.

Development of the R1 decline portal started in November 2005. Partial re-commissioning of the Dominion incline shaft is planned to speed up R1 decline development. Portal development of an additional decline (D1) will commence in 2006. Design and procurement of equipment for the upgrading of Eskom electrical substations started at the end of 2005. Designs for the process and potable water supplies have been completed and negotiations with relevant authorities are scheduled for 2006 to secure future supply.

In June 2005, an order for the process review, upfront engineering and a definitive cost estimate for the planned Dominion uranium plant was placed with Bateman Africa. Process review and upfront engineering were completed in December 2005. In October 2005, an order was also placed with Bateman Africa to commence with the engineering, procurement, construction and management of the new uranium plant. Bulk earthworks activity commenced at the site in November 2005; by the end of December, orders for all long lead time items, including the autoclaves for the pressure leach process, had been placed.

### **Honeymoon Uranium Project**

The Honeymoon Uranium Project is located in northeast South Australia, approximately 75 kilometres northwest of Broken Hill, New South Wales. The Goulds Dam component of the Project is located some 75 kilometres to the west northwest.

During the year, Uranium One invested \$1.0 million in exploration and development of its South Australian uranium properties. The activities involved drilling at Honeymoon, including Goulds Dam, and at the Katchiwilleroo and Ethiudna properties. Drilling and exploration activities are continuing in 2006 at all four properties.

### **Bonanza Gold Project**

During 2005, the Bonanza operation achieved 4,762m of development and 30,587m<sup>2</sup> of production during 2005. 127,360 tons were milled at a recovery grade of 1.57g/t, producing 200kg (6,430 oz) of gold for 2005. The first gold production occurred during the end of the 2nd quarter of 2005. In addition, a further 24,562 tons of surface material at a grade of 0.38g/t were treated, producing 9 kg (289.4 oz) of gold. Production was constrained by a highly geologically disturbed mining area with severely erratic grades. Development of the two main development ends, 105 level and the Tammy decline shaft, has been adversely affected by the intersection of an extensive zone of highly disturbed water-bearing ground. This resulted in the curtailment of major development in the second half of the year and has delayed the establishment of production area in the higher grade southern half of the mine by at least 8 months.

### Modder East Gold Project

The Modder East Gold Project is located approximately 30 kilometres east of Johannesburg, South Africa. The Project is held by the former Sub Nigel Gold Mining Company (renamed Alease Gold Limited on the completion of the reverse take-over of Sub Nigel Gold Mining Company by a subsidiary of Uranium One in January 2006). As of the date hereof, Uranium One holds approximately 79% of the shares of Alease Gold Limited.

Exploration work at Modder East continued in 2005, with a surface drilling program of some 15,181 metres of drilling (including 2,337 metres of deflections). An additional 505 metres of drilling was completed in December 2005. Drilling is ongoing in connection with a feasibility study for the Project expected to be completed during the second quarter of 2006.

## SELECTED FINANCIAL INFORMATION

The table below sets forth selected financial data relating to Uranium One's years ended December 31, 2005, 2004 and 2003. This financial data is derived from Uranium One's audited consolidated financial statements which are prepared in accordance with Canadian GAAP. All figures are in thousands of US dollars, except per share amounts; earnings per share data is presented in cents.

	Years Ended December 31		
	2005	2004	2003
Total gold sales	2,730	1,892	13,361
Sundry income	770	609	-
Income (loss) from operations	(27,254)	(11,401)	(58,053)
Net income (loss)	(41,740)	(14,763)	(59,270)
Net income (loss) per share - basic	(58.67)	(33.81)	(156.09)
Net income (loss) per share - diluted	(58.67)	(33.81)	(156.09)
Total assets	178,925	59,746	39,283
Long term financial liabilities	26,810	6,258	12,552
Short term financial liabilities	17,490	15,050	9,690

## RESULTS OF OPERATIONS

### Revenue and operation results of gold production

During the year ended December 31, 2005, Uranium One produced and sold 209kg (6,719.4 oz) of gold from the Bonanza Project, of which 9kg (289.4 oz) were produced from the processing of stock-piled ore at an average price of \$406/oz. During the year ended December 31, 2004, Uranium One produced and sold 146kg (4,639.9 oz) of gold, all of which were produced from the processing of stock-piled ore from the former Inner Basin open cast mine, at an average gold price of \$399/oz.

Revenue from gold production increased to \$2.7 million for the year ended December 31, 2005 (2004 - \$1.9 million) due to the resumption of gold production from the Bonanza underground mine in June 2005.

For the year ended December 31, 2005, the cost of gold production was \$1,075/oz due to high unit costs resulting from low volumes during the start-up phase of operations at Bonanza and delays in development resulting from the intersection of poor ground conditions and water-bearing structures. For the year ended December 31, 2005, the loss from gold production (before other operating expenses, including exploration, administration and sundry income) decreased to \$4.5 million, compared with a loss of \$6.4 million for the prior year.

### General and administrative expenditure

Expenditures for the year ended December 31, 2005 were \$5.5 million, \$3.3 million higher than the comparative 2004 period, as a result of Uranium One's change in focus in 2005 to developing the company's South African uranium and gold properties, as well as increased corporate activity.

### Exploration expenditure

Included in the operating loss is exploration expenditure, which increased significantly to \$9.6 million for the year ended December 31, 2005 from \$1 million for the year ended December 31, 2004. An additional \$1.4 million in exploration expenditure was incurred during the year in connection with the ongoing feasibility study for the Dominion Project.

Exploration expenditure has increased in line with Uranium One's increased focus on advancing its properties towards commercial production, including the delineation of additional mineral resources. At Dominion, the increased exploration activity has yielded a significantly increased mineral resource and reserve base and increased geological confidence in the Project's mineral resources.

#### **Impairment of property, plant and equipment**

Due to the suspension of mining activities at the Inner Basin in December 2003, a substantial portion of Uranium One's then mineral reserves were reclassified as mineral resources, resulting in an impairment and write-down of some long-lived assets. There were, however, certain items that required further impairment at the end of the year ended December 31, 2004. This impairment amounted to \$4.9 million, \$3 million of which followed on an auction at which the assets could not be sold and it was decided to reduce the carrying value of the assets to \$0.9 million.

There was no impairment of assets in the 2005 financial year.

#### **Other costs**

There were no expenses associated with the raising of debt financing in 2005, compared with a cost of \$1.3 million in 2004. The balance of \$0.3 million in 2005 relates to profit on the sale of assets, which decreased from \$0.8 million in 2004. There were also rehabilitation and decommissioning and retrenchment costs of \$0.5 million in 2004, which did not re-occur in 2005.

#### **Operating loss**

Operating losses for the year ended December 31, 2005 increased by \$15.9 million to \$27.3 million, compared with operating losses of \$11.4 million in the prior year. The losses included an increase of \$3.0 million in losses from gold production due to unanticipated ground conditions and resulting delays in the development at Bonanza, as well as expenses incurred in the course of Uranium One's growth plan of \$3.3 million in general administrative expenses, \$8.6 million in exploration expenditures, \$1.4 million in connection with the Dominion feasibility study and \$5.9 million in expensing of share options, a decrease in the impairment of assets of \$4.9 million (as there was no impairment of assets in 2005) and a decrease in the other costs of \$1.3 million.

#### **Finance cost**

Net finance cost amounted to approximately \$1.4 million for both the year ended December 31, 2004 and the year ended December 31, 2005. Finance costs for these two years related predominantly to the loan servicing cost of equipment used in Uranium One's operations, a loan received from Nedbank Limited that was retired at the end of 2004 and the loan obligation to Eastbourne Capital Management LLC retired in September 2005 described in more detail below.

#### **Taxes**

Gold mining tax on mining income is determined by taking into account the taxable income, total mining income and capital expenditure from mining operations during the year. No mining tax was payable in 2005 as Uranium One has an estimated unredeemed capital expenditure balance of \$44.1 million (2004: \$40.0 million) and a calculated tax losses balance of \$77.2 million (2004: \$34.3 million). The mining tax rates utilized as at December 31, 2005 were 34.12% in Canada, 30% in Australia and 29% in South Africa.

These future deductions are utilizable only against income generated from Uranium One's current mining operations and do not expire unless Uranium One ceases operation for a period longer than one year. Non-mining taxable income, which consists primarily of net interest received, was shielded against mining tax losses that were not ring-fenced for tax purposes. Uranium One is exempt from payment of secondary taxation on companies.

In February 2006, the South African tax authorities issued income tax assessments for Alease for the tax years from 1998 to 2001. The tax authorities made substantial adjustments to the income tax returns submitted by Alease for these taxation years. These adjustments are primarily in respect of the disallowance of deductions for capital expenditure and the disallowance of mining contractor fees paid to a subsidiary company. At December 31, 2005, the potential tax liability of these adjustments was \$4.9 million (Rand 31.2 million), including interest. Alease has lodged objections to these assessments and has been advised that it has reasonable grounds to believe that these adjustments will be reversed by the taxing authorities.

## DISCUSSION OF CASH FLOWS

Cash outflow from operating activities was \$14.0 million in 2005, compared with \$7.3 million in 2004, due to an increase of \$8.6 million in exploration expenditure, an expense of \$1.4 million incurred in connection with the Dominion feasibility study, an increase of \$3.3 million in general and administrative expenditure and an increased cash loss on gold production of \$3.7 million (excluding the write-down of inventory and other assets during 2004). These increased cash costs were offset by a decrease in other costs (excluding profit on disposal of assets) of \$1.8 million and an increase in the movement of trade and other payables of \$9.5 million.

Cash inflow from financing activities was \$20.5 million in 2005, compared with \$4.5 million in 2004. This principally resulted from a private placement in July 2005 of 32 million ordinary shares of Alease (5,760,000 post-consolidation shares) at a price of \$0.64 (Rand 4.25) per share, for aggregate gross proceeds of \$20.5 million (Rand 136 million), and the issuance by Alease of 18.3 million shares (3.3 million post-consolidation shares) in a number of small private placements throughout the year for net proceeds of \$15.7 million (Rand 102.3 million), at an average price of \$0.85 (Rand 5.58) per share. The net proceeds of these placements were used to fund the development of the Dominion Uranium Project and for general corporate purposes.

In September 2005, Alease issued 21.5 million shares (3.9 million post-consolidation common shares) to Eastbourne and an equivalent number of share purchase warrants to settle a loan agreement entered into in 2004 between Alease and Randgold and Exploration Company ("Randgold") which had been purchased by Eastbourne in December 2004.

In 2004, concurrently with the Randgold loan transaction, Alease entered into a share swap transaction with Randgold pursuant to which it acquired 9.4 million Randgold shares in exchange for the issuance of 94 million Alease shares. In 2005, Alease used a futures-related structure to raise finance against its investment in Randgold shares. Additional futures in Randgold were purchased on August 10, 2005. This acquisition is accounted for as pure derivative and its carrying value represents its mark-to-market value due to or owed by Uranium One. The value of Uranium One's Randgold shares is unclear and therefore it was impaired to zero as at December 31, 2005. The finance raised against the investment as at December 31, 2005 was \$1.0 million.

In January 2005, trackless equipment to the value of \$1.9 million was financed through Wesbank Limited, at an interest rate of South African prime less 1%. The outstanding balance on December 31, 2005 was \$1.1 million.

On August 11, 2005, Southern Cross completed a private placement of (i) 2,727,300 flow-through common shares (545,460 post-consolidation shares) at \$0.91 (Canadian \$1.10) per share for aggregate proceeds of \$2,494,828 (Canadian \$3,000,030) and (ii) 3,157,895 non flow-through common shares (631,579 post-consolidation shares) at \$0.79 (Canadian \$0.95) for aggregate proceeds of \$2,494,802 (Canadian \$3,000,000), for total gross proceeds of \$4,989,630 (Canadian \$6,000,030).

On February 17, 2006, Uranium One completed a private placement of 22,300,000 common shares at a price of \$6.64 (Canadian \$7.65) per share, for gross proceeds of \$148,060,233 (Canadian \$170,595,000). The net proceeds of \$139,916,920 (Canadian \$161,212,275), after 5.5% agents' commission of \$8,143,313 (Canadian \$9,382,725), are being used primarily for the development of the Dominion property.

## DISCUSSION OF FINANCIAL POSITION AND LIQUIDITY

### Cash and Non-Cash Assets

Cash balances available at December 31, 2005 increased to \$10.9 million (December 31, 2004 - \$0.2 million) primarily due to increased financing and capital raising activities.

Accounts receivable increased to \$8.8 million at December 31, 2005 (December 31, 2004 - \$5.1 million). The increase was largely due to the following factors:

- a decrease in trade receivables of \$2.7 million due to the receipt of the proceeds of shares issued late in 2004 that were held in escrow over the year end;
- an increase in value-added tax owed to Uranium One of \$3.8 million attributable to the increased spending for the construction of the Dominion Uranium project; and
- an increase in pre-payments of \$2.1 million due to a deposit to Eskom in respect of an electricity upgrade for the Dominion Uranium project.

Non-current assets increased to \$158.5 million at December 31, 2005 (December 31, 2004 - \$54.2 million). The increase is primarily related to the acquisition of the following undeveloped properties of the former Southern Cross Resources:

- Honeymoon Project (\$34.7 million), Australia;
- Goulds Dam component of Honeymoon (\$24.9 million), Australia;
- Billeroo/Karkarook (\$43.2 million), Australia; and
- Athabasca (\$2.7 million), Canada.

Mine development costs of \$7.4 million were capitalized in respect of the Dominion Project.

The increase in non-current assets was offset in part by the reclassification (and subsequent write-down) of all investments in Randgold shares and futures to short term investments, amounting to \$10.9 million.

#### **Investing activities**

As a result of the Alease Randgold share swap, Alease was left with 6 million Randgold shares as at December 31, 2004. This investment was carried at \$11.7 million on December 31, 2004. As indicated above, Uranium One subsequently used a futures-related structure to raise finance against this investment.

The liquidity and marketability of 5.866 million Randgold shares which are still held by Uranium One has been adversely affected by the delisting of Randgold in 2005 by both the JSE Limited (the Johannesburg stock exchange) and the NASDAQ for failure to file audited financial statements for its 2004 financial year. Since suspension, the share price has not traded and has not moved from the price of \$1.39 per share. This has raised concerns of possible impairment of Uranium One's investment in Randgold. Given the uncertainty as to Randgold's future which still prevails management has written down the value of its investment in Randgold to zero.

#### **Financing activities**

Uranium One's interest-bearing long and short term borrowings totalled \$4.0 million at December 31, 2005 (December 31, 2004 - \$13.7 million). The decrease was due primarily to the issuance in September 2005 in repayment of a loan facility held by Eastbourne Capital Management LLC of 21.5 million Alease shares (3.87 million post-consolidation shares), and the same number of common share purchase warrants exercisable at a price of \$0.55 (Rand 3.50) per warrant for a period of three years from issue. These warrants were converted to warrants to purchase 3,876,319 post-consolidation common shares of Uranium One at an exercise price of \$3.01 (Canadian \$3.55).

During the year ended December 31, 2005, Alease sold 5.866 million of its Randgold shares and entered into a single stock long futures agreement on the same number of shares. The combination enabled Alease to raise funding from Nedbank Limited of up to \$6.4 million while retaining exposure to the Randgold shares (including voting rights). The Nedbank Limited loan is repayable in cash or by way of delivering the Randgold shares. The amount outstanding on the Nedbank Limited loan as at December 31, 2005 was \$1.0 million.

#### **Total liabilities**

Total liabilities increased to \$44.3 million at December 31, 2005 (December 31, 2004 - \$21.3 million), due to an increase in accounts payable and accrued liabilities of \$11.7 million associated with increased spending on the Dominion Project, the creation of a future taxation liability of \$21.2 million due to the revaluation of the purchased assets of Southern Cross Resources and the retirement of the Eastbourne loan facility referred to above.

#### **Shareholders' Equity**

Shareholders' equity increased to \$134.6 million at December 31, 2005 (December 31, 2004 - \$38.4 million) primarily due to the share issuances during the year described above and the shares issued in connection with the acquisition of Southern Cross in December, after setting off the net loss for the year of \$41.7 million.

## Contractual Obligations

As at December 31, 2005, Uranium One had the following contractual obligations towards suppliers and financiers (all figures are in thousands of US dollars):

Contractual Obligations (US\$'000)	Total	Payments due by Period – As at December 31, 2005					After 5 years
		Less than 1 year	1–2 Years	2–3 Years	3–4 Years	4–5 Years	
Lease obligations							
– short term	1,650	1,650	-	-	-	-	-
– long term	1,772	-	1,479	246	14	14	19
<b>Total</b>	<b>3,422</b>	<b>1,650</b>	<b>1,479</b>	<b>246</b>	<b>14</b>	<b>14</b>	<b>19</b>
Short term loan	993	993	-	-	-	-	-
Capital commitments	151,788	151,788	-	-	-	-	-
Asset retirement obligation	4,094	-	-	-	-	-	4,094
<b>Total contractual obligations</b>	<b>160,297</b>	<b>154,431</b>	<b>1,479</b>	<b>246</b>	<b>14</b>	<b>14</b>	<b>4,113</b>

## SUMMARY OF INTERIM INFORMATION

The table below sets forth selected financial data for the periods indicated. During the year ended December 31, 2005, in accordance with the rules of the Johannesburg stock exchange applicable to developmental companies, Aflease prepared half-yearly, and not quarterly, interim financial statements. Information is accordingly presented for the three month periods ended June 30, 2005 and 2004 and for the six month periods ended December 31, 2005 and 2004 as it is impracticable to present quarterly, interim financial information. The financial data presented is derived from Uranium One's unaudited financial statements, which are prepared in accordance with Canadian GAAP. All figures are in thousands of US dollars, except per share amounts; earnings per share data is presented in cents.

	Six Months Ended		Three Months Ended	Six Months Ended		Three Months Ended
	December 31, 2005	June 30, 2005	June 30, 2005	December 31, 2004	June 30, 2004	June 30, 2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Total gold sales	2,730	-	-	250	1,642	410
Sundry income	742	28	28	85	524	262
Loss from operations	(20,404)	(6,850)	(3,946)	(8,256)	(3,145)	(1,914)
Net loss	(19,453)	(22,287)	(8,194)	(10,757)	(4,006)	(2,411)
Net loss per share basic and diluted	(27.34)	(31.33)	(13.30)	(24.64)	(10.45)	(6.26)

## OUTLOOK

In 2006, Uranium One is focussed on (i) completing feasibility studies for the first phase of its Dominion Uranium Project and for the Honeymoon Uranium Project, (ii) advancing the Dominion Project to production in the first quarter of 2007 and (iii) progressing the Honeymoon Uranium Project to a production decision in 2006. Uranium One's cash position is sufficient to fund the completion of the Dominion feasibility study and, subject to the outcome of that study, the construction of all or substantially all of the Dominion Project. Additional financing would be required to construct the Honeymoon Project and for other corporate development activities which may be undertaken. A portion of this is anticipated to consist of debt finance. The amount of the additional financing, and the extent to which this will include debt as well as equity, is expected to be determined in the second quarter of 2006.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

### Undeveloped Properties and Mine Development Cost

Undeveloped properties and mineral rights therein are carried at original cost, amounting to \$122.6 million as at the end of December 31, 2005 (December 31, 2004 - \$17.7 million). All other property, plant and equipment is stated at historical cost less amortization.

Mine development costs consist primarily of direct expenditure, including direct borrowing costs, to develop an ore body for economic exploitation and to expand the production capacity of existing operations. These costs amounted to \$34.3 million for the year ended December 31, 2005, compared with \$22.0 million for the year ended December 31, 2004. Development costs incurred are capitalized until commercial production begins.

Amortization of mining assets commences after the metallurgical recovery plant has reached commercial production levels and is computed over the life of the mine, based on proven and probable ore reserves. Other fixed assets are amortized on a straight line basis over their estimated useful life.

Recoverability of the long-term assets of Uranium One, which include development costs and undeveloped property costs, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. In preparing this evaluation, Uranium One compares the recoverable amount of the asset to the carrying amount. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. To determine the recoverable amount, management makes its best estimate of the future cash inflows that will be obtained each year over the life of the mine and discounts the cash flows by a rate that is based on the time value of money adjusted for the risk associated with the applicable project. Management's best estimate includes only those projections which it believes are reliable. These estimates are subject to risks and uncertainties, including changes in future metal prices. It is therefore reasonably possible that changes could occur which may affect the recoverability of the assets.

The cost of waste stripping in excess of the expected pit life average stripping ratio are deferred and charged to production when the actual ratio is below the expected ratio. The expected pit life average stripping ratio is calculated as the ratio of future anticipated waste tons to be mined, to anticipated future ore tons to be mined. This ratio is recalculated annually in light of additional knowledge and changes in estimates. The expected pit life ratio is then compared to waste associated with ore mined during the period in order to calculate the deferred stripping costs to be deferred or released during the year.

Uranium One's Australian properties are valued based on a combination of net present valuation models and valuation per pound of resource.

### Asset Retirement Provision

On January 1, 2004, Uranium One adopted the new CICA accounting standard for asset retirement obligations. Under this new standard, Uranium One recognizes the fair value of a future asset retirement obligation as a liability in the year in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. Uranium One concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit adjusted risk-free interest rate. Provision is made in full for the estimated future costs of pollution control and rehabilitation, in accordance with statutory requirements. The fair value of asset retirement obligations is recognized and provided for in the financial statements and capitalized to mining assets when incurred.

Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

Annual increases in the provision are accreted into income and consist of financing costs relating to the change in present value of the provision and inflationary increases in the provision estimate. The present value of additional environmental disturbances created are capitalized to mining assets against an increase in rehabilitation provision.

Rehabilitation trusts have been set up as sinking funds for the purposes of environmental rehabilitation and closure costs. The trust deed prohibits use of the funds for any other purpose.

During the current financial year, an extensive independent and internal review was performed of the rehabilitation obligations at Uranium One's South African operations. As at December 31, 2005, the preliminary cost estimate for the existing infrastructure at Uranium One's Klerksdorp operations (including both Dominion and Bonanza) was \$3.9 million, compared with \$4.0 million as at the end of December 31, 2004. An additional \$0.2 million of obligation relates to the Modder East Gold project and related mining assets on the East Rand. The total retirement obligation for the South African assets of \$4.1 million as at December 31, 2005 includes a foreign exchange gain of \$0.4 million (2004 loss of \$0.6 million)

#### **Derivative Instruments**

As indicated above, the Eastbourne loan facility was repaid by way of conversion into Alease shares and warrants. The volatility of the Alease share price impacted on the cost of converting the loan into shares. The warrants issued to Eastbourne represent a derivative instrument, the effective cost of which will vary due to the volatility of the Uranium One share price.

The single stock long future position referred to above represents an equity derivative which exposes Uranium One to movements in the price of Uranium One's 5.866 million Randgold shares.

The value of these futures was written down to zero because of the uncertainty surrounding the valuation of these instruments after the trading of Randgold shares was suspended during the year.

### **RISKS AND UNCERTAINTIES**

Uranium One's operations and results are subject to various risks and uncertainties. These include, but are not limited to, the following: exploration and mining involves operational risks and hazards; mineral resources and mineral reserves are estimates only; there is no certainty that further exploration will result in new economically viable mining operations or yield new reserves to replace and expand current reserves; feasibility studies to determine the economic viability of Uranium One's principal projects, Dominion, Honeymoon and Modder East, are in progress and Uranium One cannot give any assurance that these projects will become operating mines; mineral rights and tenures may not be granted or renewed on satisfactory terms and may be revoked, altered or challenged by third parties; limited supply of desirable mineral lands for acquisition; risks and problems associated with integrating acquisitions; competition in marketing uranium and gold; in the case of uranium, competition from other sources of energy and public acceptance of nuclear energy; volatility and sensitivity to uranium and gold prices; the capital requirements to complete Uranium One's current projects and expand its operations are substantial; currency fluctuations; Uranium One's operations and activities are subject to environmental risks; government regulation may adversely affect Uranium One; risks associated with foreign operations including, in relation to South Africa, economic, social and political issues such as employment creation, black economic empowerment and land redistribution, crime, corruption, poverty and HIV/AIDS; Uranium One is dependent on key personnel; and potential conflicts of interest.

Uranium One's risk factors are discussed in detail in its Annual Information Form for the year ended December 31, 2005, which is available on SEDAR at [www.sedar.com](http://www.sedar.com), and should be reviewed in conjunction with this document.

### **RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2005, Uranium One paid \$344,122 to Davis Et Company LLP, a partner of which is also a director of Uranium One and was prior to December 27, 2005 a director of Alease. These payments were on account of fees for legal services rendered in connection with the acquisition of Southern Cross by Alease and related matters.

### **OUTSTANDING SHARE DATA**

As at March 27, 2006, Uranium One had issued and outstanding 111,748,076 common shares and the following common share purchase warrants, each exercisable for one common share of Uranium One:

- 300,000 Series D warrants exercisable at Cdn \$6.95 per warrant
- 1,800,000 broker warrants exercisable at U.S. \$5.39 per warrant
- 3,876,319 warrants exercisable at Cdn \$3.55 per warrant

In addition, Uranium One had an aggregate of 6,674,572 options outstanding under its stock option plan, at exercise prices ranging from \$1.15 to \$6.78 per share.

## DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including Uranium One's President and Chief Executive Officer and Chief Financial Officer, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management of Uranium One, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Uranium One's disclosure controls and procedures as required by Canadian securities laws.

Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in Uranium One's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management of Uranium One, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## ADDITIONAL INFORMATION

Additional information relating to Uranium One, including Uranium One's most recent annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

*This Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements. Forward-looking statements include but are not limited to those with respect to the price of uranium and gold, the estimation of mineral resources and reserves, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage and the timing and possible outcome of pending litigation. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Uranium One to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such risks and uncertainties include, among others, the actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, possible variations in grade and ore densities or recovery rates, failure of plant, equipment or processes to operate as anticipated, accidents, labour disputes or other risks of the mining industry, delays in obtaining government approvals or financing or in completion of development or construction activities, risks relating to the integration of acquisitions, to international operations, to prices of uranium and gold as well as those factors referred to in the section entitled "Risks and Uncertainties" in this document. Although Uranium One has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Uranium One expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

# management's responsibility for financial reporting

March 23, 2006

## **Management's Responsibility for Financial Reporting**

The consolidated financial statements have been prepared by management who, when necessary, has made informed judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management acknowledges its responsibility for the fairness, integrity and objectivity of all information in the consolidated financial statements.

As a means of fulfilling its responsibility, management relies on the company's system of internal control. This system has been established to ensure, within reasonable limits, that the assets are safeguarded, transactions are properly recorded and are executed in accordance with management's authorization and that the accounting records provide a solid foundation from which to prepare the consolidated financial statements.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting solely of non-management directors. This committee meets periodically, reviews the scope of the external audit, the adequacy of the system of internal control and the appropriateness of the financial reporting and then makes its recommendations to the Board of Directors. Based on those recommendations, the Board of Directors approves the consolidated financial statements.

"Neal Froneman"  
Chief Executive Officer

"Jean Nortier"  
Chief Financial Officer

# auditors' report

## **Auditors' Report to the Shareholders**

We have audited the consolidated balance sheet of srx Uranium One Inc. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these 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.

"PricewaterhouseCoopers LLP"  
Chartered Accountants  
Toronto, Ontario, Canada  
March 23, 2006

# annual financial statements

sxr Uranium One Inc.  
**Consolidated Balance Sheets**

as at December 31  
(in US Dollars)

	Notes	2005 US\$'000	2004 US\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		10,891	229
Accounts receivable	3	8,823	5,099
Inventories	4	681	197
Short term investments	7	-	-
		<b>20,395</b>	<b>5,525</b>
<b>Non-current assets</b>			
Property, plant and equipment	5	157,255	39,954
Asset retirement fund	6	1,275	1,597
Other investments	7	-	12,670
		<b>158,530</b>	<b>54,221</b>
<b>Total assets</b>		<b>178,925</b>	<b>59,746</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	8	15,045	3,394
Current portion of lease obligations	9	1,452	2,794
Short term loan	10	993	8,862
		<b>17,490</b>	<b>15,050</b>
<b>Non-current liabilities</b>			
Asset retirement obligations	11	4,094	4,195
Lease obligations	9	1,560	2,063
Future taxation liability	17	21,156	-
		<b>26,810</b>	<b>6,258</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	12	216,123	80,736
Accumulated deficit		(114,399)	(72,659)
Contributed surplus	13	11,367	2,790
Currency translation adjustments		21,534	27,571
		<b>134,625</b>	<b>38,438</b>
<b>Total equity and liabilities</b>		<b>178,925</b>	<b>59,746</b>

See accompanying notes to the Consolidated Financial Statements, including:

- Basis of presentation (note 2.1)
- Commitments (notes 19 and 23)
- Subsequent events (note 24)

Approved on behalf of the Board of Directors

"Andrew Adams"  
Director

"Neal Froneman"  
Director

sxr Uranium One Inc.

## Consolidated Statements of Operations and Deficit

for the years ended December 31

(in US Dollars)

	Notes	2005 US\$'000	2004 US\$'000
<b>Gold sales</b>	14	<b>2,730</b>	<b>1,892</b>
Cost of sales	15	(7,221)	(8,302)
<b>Gross loss</b>		<b>(4,491)</b>	<b>(6,410)</b>
Sundry income	14	770	609
General and administrative expenditure		(5,539)	(2,225)
Share options expensed		(7,240)	(1,324)
Exploration expenditure	16	(11,019)	(996)
Other net income/(costs)		265	(1,055)
<b>Operating loss</b>		<b>(27,254)</b>	<b>(11,401)</b>
Interest received		1,065	251
Interest paid		(2,480)	(1,678)
Profit on disposal of investments		27	737
Fair value adjustment of short-term investments	7	(2,169)	(2,672)
Impairment of investments	7	(10,929)	-
<b>Loss before income taxes</b>		<b>(41,740)</b>	<b>(14,763)</b>
Provision for income taxes	17	-	-
<b>Net loss</b>		<b>(41,740)</b>	<b>(14,763)</b>
Accumulated deficit at the beginning of the year		(72,659)	(57,896)
<b>Accumulated deficit at the end of the year</b>		<b>(114,399)</b>	<b>(72,659)</b>
Basic loss per common share (cents)	18	(58.67)	(33.81)
Fully diluted loss per common share (cents)	18	(58.67)	(33.81)
Weighted average number of basic common shares outstanding	18	71,139,266	43,661,816
Fully diluted weighted average number of basic common shares outstanding	18	71,139,266	43,661,816

See accompanying notes to the Consolidated Financial Statements

sxr Uranium One Inc.  
**Consolidated Statements of Cash Flows**

for the years ended December 31  
(in US Dollars)

	Notes	2005 US\$'000	2004 US\$'000
Loss before taxation		(41,740)	(14,763)
Add back: Net finance costs		1,415	1,427
Add back: Non-cash items:			
- Depreciation and amortization		767	179
- Write down of inventory		-	631
- Write down of heap leach and other inventory items		-	1,934
- Impairment of property, plant and equipment		-	2,984
- Expensing share options		7,240	1,324
- Profit on disposal of property, plant and equipment		(265)	(821)
- Provision for rehabilitation		-	468
- Finance charges on short term loan		-	966
- Profit on disposal of investments		(27)	(737)
- Fair value adjustment of listed investments		2,169	2,672
- Impairment of investments		10,929	-
		<b>(19,512)</b>	<b>(3,736)</b>
Movement in working capital:			
- Increase in inventories		(484)	(568)
- Increase in trade receivables and prepayments		(1,183)	(1,182)
- Increase/(decrease) in trade and other payables		8,978	(491)
- Increase in asset retirement obligations		(340)	-
<b>Cash utilized by operations</b>		<b>(12,541)</b>	<b>(5,977)</b>
Net finance costs paid		(1,415)	(1,360)
- Net finance costs per Income Statement		(1,415)	(1,427)
- Add back: Capitalized interest on short term loan		-	67
<b>Cash flows from operating activities</b>		<b>(13,956)</b>	<b>(7,337)</b>
Proceeds from disposal of property, plant and equipment		265	2,528
Cash taken over from Southern Cross	21	8,389	-
Additions to property, plant and equipment		(14,762)	(6,144)
Proceeds on disposal of investments		10,615	7,563
Increase in environmental trust and other investments		(8)	(207)
<b>Cash flows from investing activities</b>		<b>4,499</b>	<b>3,740</b>
Net proceeds from the issue of ordinary shares		29,288	6,399
(Decrease)/Increase in investment in debt redemption fund	7	970	(395)
Loan (repaid) / received during the year		(7,869)	7,174
Decrease in capital element of finance lease and other long term debt		(1,924)	(8,734)
(Decrease)/Increase in bank overdraft		(14)	14
<b>Cash flows from financing activities</b>		<b>20,451</b>	<b>4,458</b>
<b>Effects of exchange rate changes on cash held in foreign currencies</b>		<b>(332)</b>	<b>(2,495)</b>
Net (decrease)/increase in cash		10,662	(1,634)
Cash at the beginning of the year		229	1,863
<b>Cash at the end of the year</b>		<b>10,891</b>	<b>229</b>

See accompanying notes to the Consolidated Financial Statements

## **1 NATURE OF OPERATIONS**

sxr Uranium One Inc. (the "Corporation") is a Canadian corporation engaged in the acquisition, exploration and development of properties for production of uranium in South Africa, Australia and Canada and gold in South Africa.

sxr Uranium One Inc. is a Canadian uranium and gold resource company with a primary listing on the Toronto Stock Exchange and a secondary listing on the JSE Limited (the Johannesburg stock exchange). The Corporation owns 100% of the Dominion uranium project in South Africa and the fully permitted Honeymoon uranium project in South Australia. Through a joint venture with Pitchstone Exploration Ltd., the Corporation is also engaged in uranium exploration activities in the Athabasca Basin of Saskatchewan. The Corporation's Alease Gold and Uranium Resources Limited subsidiary owns the Modder East gold property and related gold assets in South Africa.

The exploration and development of mineral properties involves significant financial risk. In the event these properties are determined to be commercially viable, additional financing will be required.

### **1.1 Acquisition of Southern Cross Resources Inc.**

The acquisition by Southern Cross Resources Inc. ("Southern Cross") of all of the issued and outstanding Alease Gold and Uranium Resources Limited ("Alease") shares pursuant to the Acquisition Agreement dated as of September 14, 2005 and the Scheme of Arrangement, was finalized on December 8, 2005, being the date that the last condition precedent was met.

The essence of the transaction was that Alease shareholders were offered 0.9 new Southern Cross shares for each Alease issued and outstanding share, resulting in Alease eventually being wholly owned by Southern Cross. Subsequent to this issue, there were the following:

- The share consolidation: Southern Cross shareholders were offered 1 share for every 5 shares held;
- The name change, with Southern Cross being changed to sxr Uranium One Inc.; and
- The grant of the replacement options in consideration of the Alease options.

For accounting purposes, the transaction is considered a reverse takeover whereby Alease is considered the acquiring company as the shareholders of Alease acquired more than 50% of the issued and outstanding shares of Southern Cross.

Note that the comparative information contained in the consolidated balance sheet as at December 31, 2004 and the consolidated statements of operations and deficit and cash flows for the year then ended therefore represent the financial position and results of operations of Alease ("Corporation"). The results of operations of Southern Cross were included with effect from December 9, 2005. The consolidated balance sheet at December 31, 2005 represents the financial position of the entire Group.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Basis of presentation**

#### **Consolidation**

These consolidated financial statements have been prepared in accordance with Canadian GAAP. The consolidated financial statements include the amounts of the Corporation and all of its subsidiaries. All significant inter company balances and transactions are eliminated on consolidation.

### **2.2 Use of estimates**

The preparation of these audited consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the audited consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those reported.

## 2.3 Foreign currency translation

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the statements of operations and deficit, except when deferred in equity as qualifying cash flow hedges.

The Group considers the United States ("US") Dollar to be the reporting currency and the South African Rand, Australian Dollar and Canadian Dollar to be the functional currencies. The translated amounts are of a foreign entity and as such, the translation to US Dollars was made using the current rate method, as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date; non-monetary assets and liabilities are translated at rates prevailing at the respective transaction dates; revenues and expenses are translated at either the exchange rate at the date of the transaction or the average exchange rate where it was impractical to establish the former rate. All resulting exchange differences are classified as equity and disclosed as currency translation adjustments in the balance sheet.

## 2.4 Financial Instruments

Financial assets and financial liabilities are recognized on the balance sheet when the Corporation has become party to the contractual provisions of the instruments.

Financial instruments recognized on the balance sheet include:

- Investments
  - Investment
  - Environmental Trust Fund
  - Investment – Debt Redemption Fund
  - Investment – Rehabilitation Cash Management Account
  - Investment in listed shares
- Receivables
- Cash and cash equivalents
- Long term debt
- Short term loans
- Trade payables

### Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below:

### Investments

Purchases and sales of investments are recognized on the trade date, which is the date that the Corporation commits to purchase or sell the asset. After initial recognition, investments, which include the Corporation's listed investments and which are designated as long term investments, are measured at the lesser of historic cost or net realizable value. Listed investments which are designated as short term investments are measured at fair value. Losses on long term investments and profits and losses on short term investments are recognized in the income statement.

Other long-term investments that are intended to be held to maturity are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. For investments carried at amortized cost, gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, bank balances, deposits held at call and certificate of deposits with a remaining maturity of three months or less. Bank and cash balances are reported separately from bank overdraft balances, which are included in accounts payable.

**Accounts receivable**

Accounts receivable are carried at original invoice amount unless a provision has been recorded for impairment of these receivables. A provision for impairment of accounts receivable is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables.

**Financial liabilities**

After initial recognition, financial liabilities other than trading liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

**Accounts payable**

Liabilities for trade and other payables which are normally settled on 30 to 90 day terms are carried at cost.

**Impairment and uncollectability of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of the asset is determined and an impairment loss is recognized for the difference between the recoverable amount and the carrying amount as follows: The carrying amount of the asset is reduced to its discounted estimated recoverable amount, either directly or through the use of an allowance account, and the resulting loss is recognized in the income statement for the period.

**Loans payable**

Loans payable are recognized initially at the proceeds received, net of transaction costs incurred. Loans payable are subsequently stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the loan.

**Offset**

Where a legally enforceable right of offset exists for recognized financial assets and financial liabilities, and there is an intention to settle the liability and realize the asset simultaneously, or settle on a net basis, all related financial effects are offset.

**Equity instruments**

Equity instruments issued by the Corporation are recorded at the proceeds received, net of direct issue costs.

The carrying amounts for cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate fair value due to the short maturities of these instruments.

**2.5 Property, plant and equipment****Mine development and infrastructure**

Mining assets are initially recorded at cost and will include mine development and mine plant facilities. Costs include pre-production expenditure. Development costs incurred to evaluate and develop new ore bodies or to define mineralization in existing ore bodies or to establish or expand productive capacity are capitalized. Mine development costs in the ordinary course to maintain production are expensed as incurred. Initial development and pre-production costs relating to a new ore body are capitalized until the reef horizon is intersected and commercial levels of production are achieved, at which time the costs are amortized.

**Mineral and surface rights**

Mineral and surface rights are recorded at cost of acquisition. When there is little likelihood of a mineral right being exploited, or the value of mineral rights have diminished below cost, a write-down is effected against income in the period that such determination is made.

**Mining exploration**

Exploration costs are expensed as incurred. When a decision is made that commercial production on a mining property should commence, all further pre-production expenditures are capitalized. These costs include evaluation costs.

**2.6 Capitalization of interest**

Net interest costs incurred during the development, construction and start up phase of major projects are capitalized.

**2.7 Other assets**

The Company's interest in process technology is carried at acquisition cost and is being amortized on a straight-line basis over a twenty year period.

**2.8 Asset retirement obligations**

On January 1, 2004, the Corporation adopted the new CICA accounting standard for asset retirement obligations. Under this new standard, the Corporation recognizes the fair value of a future asset retirement obligation as a liability in the year in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Corporation concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at credit adjusted risk-free interest rate. Provision is made in full for the estimated future costs of pollution control and rehabilitation, in accordance with statutory requirements. The fair value of asset retirement obligations is recognized and provided for in the financial statements and capitalized to mining assets when incurred.

Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the long-lived asset that is depreciated over the remaining life of the asset. The impact of this change in accounting policy was not material.

Annual increases in the provision are accreted into income and consist of financing costs relating to the change in present value of the provision and inflationary increases in the provision estimate. The present value of additional environmental disturbances created are capitalized to mining assets against an increase in rehabilitation provision.

**2.9 Impairment of long-lived assets**

Where impairment is identified, the carrying value of the related property, plant and equipment is written down to fair value. Recoverability of the long-term assets of the Corporation, which includes development costs and undeveloped property costs, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, based on future undiscounted cash flows. In preparing this evaluation, the Corporation compares the carrying amount of the asset to its fair value. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. To determine fair value, management makes its best estimates of the future cash inflows that will be obtained each year over the life of the asset and discounts the cash flows by a rate that is based on the time value of money, adjusted for the risk associated with the applicable asset.

Management's best estimate includes only those projections which it believes are reliable. These estimates are subject to risks and uncertainties including future metal prices. It is therefore reasonably possible that changes could occur which may affect the recoverability of the assets.

## **2.10 Future income and mining taxes**

The Corporation utilizes the asset and liability method of accounting for income and mining taxes. Under the asset and liability method, future income and mining 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 reduced by a valuation allowance to reflect the recoverability of any future income tax asset. Future income and mining tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future income and mining tax assets and liabilities of a change in tax rates is recognized in income in the year that enactment or substantive enactment occurs.

## **2.11 Stock-based compensation**

The Corporation's stock-based compensation plan is described in note 13. The Corporation recognizes as an expense the fair value of employee share-stock compensation, including stock options. Any consideration paid upon the exercise of stock options, in addition to the fair value attributable to stock options granted is credited to share capital. The fair value attributable to stock options that expire unexercised is credited to contributed surplus.

## **2.12 Revenue recognition**

Revenue from the sale of gold is recognized when significant risks and rewards of title and ownership of the goods are transferred upon delivery to the final refiner.

Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

## **2.13 Leased assets**

Leases of property, plant and equipment where the Corporation has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the instalment is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

## **2.14 Inventories**

Inventories, which include gold in process and consumable stores are stated at the lower of cost or net realizable value. The related direct production costs associated with gold in process are deferred and charged to costs as the contained gold is recovered. Consumable stores are valued on the weighted average basis. Gold in process is identified and measured from the ore stockpiles up to and including the on-site refining plant.

## **2.15 Earnings or loss per share**

Basic earnings or loss per share is computed by dividing earnings or loss available to common shareholders by the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted earnings or loss per share. Diluted earnings or loss per share is similar to basic earnings or loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding assuming that options and warrants with an average market price for the year greater than their exercise price are exercised and the proceeds used to repurchase common shares. As a result of the loss for each of the reporting years, the potential effect of exercising stock options and warrants has not been included in the calculation of diluted loss per share as to do so would be anti-dilutive.

## 2.16 Comparatives

Certain numbers in the comparative financial statements have been reclassified to conform to changes in presentation in the current year.

### 3 ACCOUNTS RECEIVABLE

	2005 US\$'000	2004 US\$'000
Trade receivables	54	2,800
Value Added Tax and General Sales Tax	4,614	854
Prepayments and advances	3,803	-
Deposits and guarantees	93	94
Other receivables	259	1,351
	<b>8,823</b>	<b>5,099</b>

### 4 INVENTORIES

	2005 US\$'000	2004 US\$'000
In-process metal	231	-
Spares and consumables	450	197
	<b>681</b>	<b>197</b>

Certain inventory items classified as spares and consumables were identified for sale and were placed on auction during the previous financial year. As part of the auction process, it was determined that the inventory items were over valued, and as such the inventory was written down by \$1.9 million to its net realizable value.

### 5 PROPERTY, PLANT AND EQUIPMENT

	2005			2004		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Mine development costs and mine plant facilities	38,014	(3,676)	34,338	23,349	(1,337)	22,012
Undeveloped properties	122,639	-	122,639	17,725	-	17,725
Motor vehicles	433	(316)	117	255	(145)	110
Office equipment	544	(383)	161	291	(184)	107
	<b>161,630</b>	<b>(4,375)</b>	<b>157,255</b>	<b>41,620</b>	<b>(1,666)</b>	<b>39,954</b>
Owned assets			156,890			38,830
Leased assets			365			1,124
Total net carrying amount as at end of the year			<b>157,255</b>			<b>39,954</b>

	Mineral properties		Undeveloped properties	
	2005	2004	2005	2004
Undeveloped properties comprise:	US\$'000	US\$'000	US\$'000	US\$'000
New Kleinfontein	-	-	15,807	17,725
Honeymoon, Australia	6,016	-	28,670	-
Goulds Dam, Australia	-	-	24,921	-
Billeroo / Karkarook, Australia	-	-	43,170	-
Athabasca, Canada	1,281	-	1,427	-
Loan guarantees, Native title and project generation	-	-	1,347	-
	<b>7,297</b>	<b>-</b>	<b>115,342</b>	<b>17,725</b>

#### Impairment of property, plant and equipment

During 2004 management determined that assets directly related to suspended open-pit operations with a carrying value of \$3.9 million were impaired and should be written down to a fair value of \$0.9 million.

#### Native title claims

The Corporation's interests in the Honeymoon and Goulds Dam properties are subject to two Native Title claims. Agreements have been secured with both groups, whereby the Corporation pays annual administration fees to each claimant group.

## 6 ASSET RETIREMENT FUND

	2005	2004
	US\$'000	US\$'000
Investments in Environmental Trust Fund	1,171	1,488
- Opening balance	1,488	1,087
- Investment income	13	173
- Costs incurred	(168)	-
- Foreign exchange gain / (loss)	(162)	228
Rehabilitation Cash Management account	104	109
	<b>1,275</b>	<b>1,597</b>

The Environmental Trust Fund is a trust under the Corporation's control and is to be used to fund the rehabilitation liabilities. Funds in the trust consist of primarily cash held in interest bearing accounts, together with investments in South African equities.

The Rehabilitation Cash Management account is a money market fund investment. Interest is capitalized on a monthly basis.

## 7 OTHER INVESTMENTS

	2005	2004
	US\$'000	US\$'000
Debt Redemption Fund	-	970
Listed investment	-	11,700
	<b>-</b>	<b>12,670</b>
Designated short term investment	-	-
Designated long term investment	-	12,670
	<b>-</b>	<b>12,670</b>

The **Debt Redemption Fund** was used to fully settle a long term loan.

The Listed Investment classified as short term investments resulted from the share swap transaction with Randgold and Exploration Company Limited ("Randgold"). The Corporation acquired 9.4 million ordinary shares, fully paid up, in the issued share capital of Randgold against the allotment and issue to Randgold of 94.0 million ordinary shares, fully paid up, in the issued share capital of the Corporation. The terms of the transaction included the intention of the Corporation to dispose of the Randgold swap shares in a commercially prudent manner, in consultation with Randgold.

After disposing of some 3 million shares, the Corporation was left with 6 million Randgold shares on December 31, 2004. This investment was valued at \$11.7 million on that date.

The Corporation subsequently sold 1,340,000 shares, where after it used a futures related structure to raise finance against this investment. To this end, Aflease bought futures representing a future obligation to purchase 5.866 million Randgold shares. Refer note 10.

The Corporation then entered into a further transaction acquiring 2.88 million futures in Randgold. In terms of the futures contract, the Corporation must purchase Randgold and Exploration Company shares at a price of \$0.95 at some future date. The terms of the contract include a profit sharing arrangement whereby up to a share price of \$1.58, the Corporation will only retain 30% of the profit arising out of the contract. This percentage increases to 70% for any profit beyond a price of \$1.58 per share.

Fair value adjustments to the total investment (shares and futures) amounted to \$2.2 million for the year (2004: \$2.7 million).

In July 2005, Randgold shares were suspended on the JSE Limited (the Johannesburg stock exchange). Effective from September 21, 2005, the company was delisted from the NASDAQ. Since suspension, the share price has not traded and has not moved from the price of \$1.39 per share. This has raised concerns of possible impairment of the Corporation's investment in Randgold. Due to uncertainty that still prevails however, management has resolved to write this investment down to a zero value. The impairment charge amounted to \$8.2 million.

The underlying shares pertaining to the contractual commitment to acquire shares in Randgold in terms of the futures contract referred to above, were also impaired. A provision of \$2.7 million has been recorded to recognize the Corporation's future obligation under the contractual commitment. Refer note 8.

## 8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2005 US\$'000	2004 US\$'000
Bank overdraft balances	-	14
Trade payables	6,651	1,398
Accruals	4,396	81
Provisions	3,998	1,901
- Provision for leave pay	79	136
- Provision for bonuses	1,238	454
- Provision for settlement of employee taxes	-	795
- Provision for diminution in value of shares	2,681	-
- Other provisions	-	516
	<b>15,045</b>	<b>3,394</b>

## 9 LEASE OBLIGATIONS

	2005 US\$'000	2004 US\$'000
Present value of finance lease obligations payable within 1 year	1 452	2,794
Minimum lease payments	1,650	2,798
Finance charges	(198)	(4)
Present value of finance lease obligations payable within 2 to 5 years	1,560	2,063
Minimum lease payments	1,772	2,690
Finance charges	(212)	(627)
Payable in	3,422	5,488
- 2005	-	2,276
- 2006	1,650	1,492
- 2007	1,479	1,491
- 2008	246	229
- 2009	14	-
- 2010	14	-
- Thereafter	19	-
<b>Total debt</b>	<b>3,012</b>	<b>4,857</b>
Short term portion of finance leases	1 452	2,794
Total long term debt	1,560	2,063

Finance leases were obtained for the purchase of equipment required for mining operations. Monthly instalments payable range from \$0.6k (2004: \$0.7k) to \$35k (2004: \$36k) and are repayable over various terms. Interest rates are linked to prime and range from prime less 2.5% to prime less 0.5%.

Included in the lease obligations are loans that are secured by a general notarial bond over all moveable assets..

## 10 SHORT TERM LOAN

	2005 US\$'000	2004 US\$'000
Convertible short term loan	-	8 140
Value of share options	-	(151)
Nedbank loan	993	-
Foreign exchange loss	-	873
<b>Total liability</b>	<b>993</b>	<b>8,862</b>

The convertible loan facility of \$8.9 million, which was purchased by Eastbourne Capital Management LLC. from the original financier, bore interest at a 1.5% margin above the South African prime rate. This loan was fully settled in September and October 2005 through:

- a) Conversion of the loan balance to shares of Alease at an issue price of \$0.49 per share plus a 3 year option with an exercise of \$0.62 per Alease share. The shares and warrants have since been converted to the equivalent of the Corporation's shares and warrants. The warrants are exercisable within 3 years from the date of issue; and
- b) Settlement of \$157 thousand of the loan through cash.

The Nedcor loan represents draw-downs on a facility availed by Nedcor Securities on the back of Alease's investment in Randgold shares. This loan attracts interest at a flat rate of 7.75% per annum. The loan has no fixed repayment terms.

## 11 ASSET RETIREMENT OBLIGATIONS

	Klerksdorp Operations	New Kleinfontein	TOTAL 2005	TOTAL 2004
	US\$'000	US\$'000	US\$'000	US\$'000
Opening balance	4,004	182	4,186	3,076
- Incurred during the year	-	-	-	-
- Settled	-	-	-	-
- Accretion expense	344	16	360	-
- Revision	-	-	-	468
- Foreign exchange loss	(432)	(20)	(452)	642
Closing balance	<b>3,916</b>	<b>178</b>	<b>4,094</b>	<b>4,186</b>
Amount owing to AFL Rehabilitation Trust	-	-	-	9
<b>Total obligations</b>	<b>3,916</b>	<b>178</b>	<b>4,094</b>	<b>4,195</b>

The rehabilitation trusts have been set up as sinking funds for the purposes of the environmental rehabilitation and closure costs. The trust deed prohibits use of the funds for any other purpose.

The fair value of the restricted assets at year end is \$1.3 million. Refer note 6.

During 2004 an extensive independent and internal review was performed of the rehabilitation obligations at the operations. As stated in the Competent Person's Report signed in March 2004, the preliminary closure cost estimate for the existing infrastructure at the Klerksdorp Operations amounts to \$4.0 million. The provision was therefore increased by \$0.5 million from \$3.6 million (after foreign exchange loss) to \$4.1 million as at the end of December 2004. The remainder of the obligation relates to the East Rand region.

The associated long lived assets are in the East Rand and Klerksdorp regions. The liability for the entire East Rand excluding the old plant and slimes dam entails the plugging of the shafts and cover with topsoil. The old plant will be demolished and the small slimes dam will be cleaned, and vegetated. The open pit of the Dominion operations will be landscaped and covered with topsoil, vegetated and monitored for organic growth. There are also shafts that will be plugged and covered with topsoil. The Corporation is in the process of compiling a rehabilitation programme for the two slimes dams at Dominion. The plant will also be demolished at the end of the life of mine. The demolished old plant might be used in future for additional plant facilities.

The above table provides a reconciliation of the present value of the liability at year end:

The following are the key assumptions used in the model:

- (i) The total undiscounted and uninflated amount of the estimated cash flows is \$5.8 million
- (ii) It is estimated that the liability in respect the Klerksdorp Operations will be payable 11 years hence and the New Kleinfontein Group liability, 5 years hence.
- (iii) Inflation of 5% and a discount rate of 9.65% were used to discount nominal future liabilities.

AFL Rehabilitation Trust is a trust set up as a sinking fund for the Corporation's mine rehabilitation and closure costs.

## 12 SHARE CAPITAL

On December 8, 2005, sxr Uranium One Inc. was created through the reverse acquisition of Southern Cross Resources Inc. by Alease Gold and Uranium Resources Limited ("Alease"). See note 1.1 for the acquisition terms. Below is disclosure of the movement of the Corporation's share options as well as disclosure of the Corporation's shares in issue as at December 31, 2005.

	Number of shares		Value of shares	
	2005	2004	2005 US\$'000	2004 US\$'000
<b>Ordinary Shares</b>				
Opening balance of common shares in issue	336,451,321	210,952,406	80,736	52,495
Common shares issued in public or private offering	50,325,405	31,675,250	35,508	9,836
Shares issued in settlement of Eastbourne Capital loan (refer note 10)	21,535,107	-	9,312	-
Shares bought back by subsidiary	-	(4,000,000)	-	(12)
Shares sold by subsidiary	-	4,000,000	-	12
Share swap issue (refer note 7)	-	94,000,000	-	19 154
Cancelled during the year	-	(300,000)	-	(296)
Exercise of stock options	998,288	123,665	634	-
Share issue costs			(6,220)	(453)
Closing balance of issued and outstanding shares on December 8, 2005	<b>409,310,121</b>	<b>336,451,321</b>	<b>119,970</b>	<b>80,736</b>
Conversion of Alease shares to sxr Uranium One Inc. shares at a ratio of 0.9	368,379,109		119,970	
Share consolidation: 1 share for every 5 shares held	73,675,822		119,970	
Acquisition of Southern Cross Resources Inc. (refer to note 21)	15,427,992		95,976	
Warrants issued after December 8, 2005			177	
Closing balance of issued and outstanding shares on December 31, 2005	<b>89,103,814</b>		<b>216,123</b>	

## 13 CONTRIBUTED SURPLUS

The following table details the movements of contributed surplus during the year:

	Warrants	Options	TOTAL	TOTAL
	US\$'000	US\$'000	2005 US\$'000	2004 US\$'000
At the beginning of the year	217	2,573	2,790	1,276
Share options expensed	-	7,240	7,240	1,324
Share options exercised	-	(259)	(259)	(27)
Warrants issued to Eastbourne Capital LLC.	-	-	-	217
Warrants issued to BMO Nesbitt	1,773	-	1,773	-
Warrants exercised	(177)	-	(177)	-
At the end of the year	<b>1,813</b>	<b>9,554</b>	<b>11,367</b>	<b>2,790</b>

### Options

Under the Corporation's Option plan, options granted are non-assignable and may be granted for a term not exceeding ten years. The plan is administered by the Board of Directors, which determines individual eligibility under the plan, number of shares reserved for optioning to each individual (not exceeding 50% of issued and outstanding shares to any one individual) and any vesting period which is generally one-third on grant date, one-third on the first anniversary of the grant date and the remainder on the second anniversary of the grant date. The maximum number of shares of the Corporation that are issuable pursuant to the plan is limited to 10% of issued and outstanding shares. On December 8, 2005, the Corporation issued replacement share options to Alease's as well as to SXR Inc's employees. The replacement options were issued on the same basis as the replacement shares to shareholders. Below is disclosure of the movement of Alease's share options as well as a reconciliation to the Corporation's share options outstanding on December 31, 2005.

The fair value of stock options used to calculate compensation expense has been estimated using the binomial option pricing model with the following assumptions:

	Dec 31, 2005	Dec 8, 2005	Dec 31, 2004
Risk free interest rate: Canadian rates (Dec 8 and 2004: South African rates)	3.70% - 4.12%	7.41% - 12.41%	13.42%
Expected dividend yield	0%	0%	0%
Expected volatility of the Company's share price	61%	41% - 176%	53% - 62%
Average expected life of option - for options with 5 years to expiry	3.88 years	4.20 years	3.04 years
Average expected life of option - for options with 1 year to expiry	0.95 years	-	-

Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

The following is a summary of the Corporation's options granted under its stock-based compensation plan:

	Number of options		Weighted Average Exercise Price	
	2005	2004	2005 US\$	2004 US\$
At the beginning of the year	13,139,178	8,045,443	0.47	0.61
Granted during the year	12,759,147	9,575,239	0.46	0.27
Exercised during the year	(997,130)	(123,665)	0.40	0.29
Forfeiture of share options	(784,847)	(4,357,839)	0.36	0.51
At the end of the year	<b>24,116,348</b>	<b>13,139,178</b>	<b>0.47</b>	<b>0.47</b>
Replacement options issued to Alease at a conversion rate of 0.18	4,340,943			
Southern Cross options converted at a rate of 0.20	927,667			
Outstanding options as at December 31, 2005	<b>5,268,610</b>		<b>2.74</b>	

The stock option compensation expense for 2005 was \$7.2 million (2004: \$1.3 million). As at December 31, 2005 the aggregate unexpensed fair value of unvested stock options granted amounted to \$6.4 million (2004: \$3.6 million).

The following table summarizes certain information about the Corporations stock options outstanding at December 31, 2005:

Range of Exercise Prices US\$	Options outstanding			Options exercisable	
	Number outstanding as at Dec 31, 2005	Weighted average remaining life years	Weighted average exercise price US\$	Number exercisable as at Dec 31, 2005	Weighted average exercise price US\$
1.15 to 1.73	2,232,903	4.85	1.46	1,282,327	1.45
2.19 to 2.68	333,445	4.88	2.32	221,741	2.32
3.15 to 3.98	1,788,744	4.17	3.55	1,373,081	3.57
4.05 to 4.32	699,803	4.07	4.16	409,702	4.18
5.06 to 5.52	213,715	2.93	5.31	164,359	5.26
	<b>5,268,610</b>	<b>4.44</b>	<b>2.74</b>	<b>3,451,210</b>	<b>2.85</b>

Options exercised during January 2004 resulted in 17,000 shares being issued at a price of \$0.13; 53,333 shares at a price of \$0.32 each and 6,667 shares at a price of \$0.26 each.

Options exercised during April 2004 resulted in 46,665 shares being issued at a price of \$0.28 each.

Options exercised during the first quarter 2005 resulted in 19 366 shares being issued at a price of \$0.44.

88 620 options were exercised during the third quarter of the year resulting in that many shares being issued at an average price of \$0.41.

Options exercised during the fourth quarter of the year resulted in 889 144 shares being issued at an average price of \$0.23.

None of the replacement options were exercised in the 2005 financial year.

## Warrants

	Number of warrants		Allocated value		Average exercise price	
	2005	2004	2005	2004	2005	2004
			US\$'000	US\$'000	US\$	US\$
At the beginning of the year	3,876,319	-	217	-	2.73	-
Issued to Eastbourne Capital LLC.	-	3,876,319	-	217	-	2.73
Issued to BMO Nesbitt	1,800,000	-	1,773	-	5.39	-
Warrants acquired	300,000	-	-	-	5.96	-
At the end of the year	<b>5,976,319</b>	3,876,319	<b>1,990</b>	<b>217</b>		

The fair value of the Eastbourne warrants was valued, for Canadian GAAP purposes, at \$0.2 million on December 31, 2004. The warrants have a term of 3 years from the date of issue and expire on September 23, 2008.

The fair value of the BMO warrants was valued at \$1.8 million on December 30, 2005 using the binomial option pricing model with the following assumptions: United States zero coupon rates of between 4.39% and 4.83%, expected dividend yield of nil, expected 90 day volatility of 51.5% and expected warrants term of 1.18 years.

The expiry date of the these warrants is the later of (i) March 5, 2007 and (ii) the expiry of 12 months from the date on which ordinary SXR shares become listed on Toronto Stock Exchange ("TSX").

Warrants acquired represent those acquired from Southern Cross through the reverse take over. These warrants expire on September 17, 2007 and the beneficiary is Pitchstone Exploration Ltd. Refer note 23.

## 14 REVENUE

	2005	2004
	US\$'000	US\$'000
Gold sales	2,730	1,892
Sundry income	770	609
- Royalties	-	543
- Sundry	770	66
	<b>3,500</b>	<b>2,501</b>

In the previous year, royalties were received from Petrex (Proprietary) Limited, for mining on property owned by New Kleinfontein Mining Company Limited, a wholly owned subsidiary of Afl ease Gold and Uranium Resources Limited.

## 15 COST OF SALES

	2005	2004
	US\$'000	US\$'000
Cash operating costs	6,454	2,574
Depreciation and amortization	767	179
Write down of inventory	-	631
Write down of heap leach and other inventory items	-	1,934
Impairment of property, plant and equipment	-	2,984
	<b>7,221</b>	<b>8,302</b>

## 16 EXPLORATION EXPENDITURE

	2005 US\$'000	2004 US\$'000
Exploration and pre-feasibility expenditure	(9,570)	(996)
Bankable feasibility	(1,449)	-
	<b>(11,019)</b>	<b>(996)</b>

## 17 INCOME TAXES

	2005 US\$'000	2004 US\$'000
South African taxation – current	-	-
Future income taxes	-	-

A reconciliation between the average effective tax rate and the applicable tax rate is presented below:

### Income tax rate reconciliation

	%	%
Statutory rate of taxation	34.12%	30.00%
Income not subject to tax	0.44%	(0.07%)
Expenses not deductible for tax purposes	(23.15%)	20.64%
Future taxes not provided	(2.17%)	(50.57%)
Adjustment due to different tax rate – Australia	(4.12%)	-
Adjustment due to different tax rate – South Africa	(5.12%)	-
Effective tax rate	-	-

Gold mining tax on mining income is determined by taking into account the taxable income, total mining income and capital expenditure from mining operations during the year. Various Group jurisdictions are regulated by their respective tax regimes. No mining tax was payable in 2005 as the Corporation has an estimated unredeemed capital expenditure balance of \$44.1 million (2004: \$40.0 million) and calculated tax losses balance of \$77.2 million (2004: \$34.3 million). This is made up as follows:

	Unredeemed capital expenditure		Tax losses	
	2005 US\$'000	2004 US\$'000	2005 US\$'000	2004 US\$'000
South Africa	44,075	40,035	50,509	34,296
Canada	-	-	21,125	-
Australia	-	-	5,592	-
	<b>44,075</b>	<b>40,035</b>	<b>77,226</b>	<b>34,296</b>

The mining tax rates utilized as at December 31, 2005 were 34.12% in Canada, 30% in Australia and 29% in South Africa.

These future deductions are utilizable only against income generated from the Corporation's current mining operation and do not expire unless the mine ceases to trade.

Non-mining taxable income, which consists primarily of net interest received, was shielded against mining tax losses that were not ring-fenced for tax purposes. In South Africa, the Corporation is exempt from payment of secondary taxation on companies, having made an election to be taxed based on the "gold tax formula".

Except to the extent disclosed below, a net future tax asset arising from tax losses and unredeemed capital expenditure, has not been recognized in the current period as its recoverability is not more likely than not.

The Corporation's future income tax assets as at December 31, 2005 and 2004 are summarized below. These amounts incorporate the unredeemed capital expenditure as well as the tax loss balances referred to above multiplied by the applicable tax rates.

	2005 US\$'000	2004 US\$'000
Mining Assets	(33,043)	(10,493)
Non-mining assets	(3,719)	(68)
Provisions	1,300	(1,456)
	(35,462)	(12,017)
Unredeemed capital expenditure	12,782	18,366
Taxation losses	22,893	15,778
Net future income tax asset	213	22,127
Adjustment due to different tax rates per various jurisdictions	386	-
Valuation adjustment	(21,755)	(22,127)
<b>Net future income tax liability recognized</b>	<b>(21,156)</b>	<b>-</b>

The Company has recorded a valuation allowance in the amount of \$21.8 million as at December 31, 2005 (2004 - \$22.1 million) because management believes that the future income tax assets are not more likely than not to be realized in the carry-forward period.

The revaluation of mining assets arose on the fair valuation of assets that formed part of the reverse take over of Southern Cross by Alease. In compliance with accounting practice, a future tax liability on this revaluation was recognized to the extent that the ring-fenced future tax asset of \$2.5 million was insufficient to off-set the full liability of \$23.7 million.

## 18 BASIC LOSS PER SHARE AND FULLY DILUTED LOSS PER SHARE

	2005 US\$'000	2004 US\$'000
<b>Basic loss per share:</b>		
Net loss (\$'000)	(41,740)	(14,763)
Weighted average number of shares outstanding	71,139,266	43,661,816
<b>Fully diluted loss per share:</b>		
The calculation of fully diluted basic loss per share is based on net loss of the year of (\$'000)	(41,740)	(14,763)
and a weighted average number of shares outstanding of	71,139,266	43,661,816

The dilutive effects of warrants and employee stock options were not taken into account during the current or prior financial year as the warrants and options bore no profit potential for the beneficiaries.

## 19 COMMITMENTS

	2005 US\$'000	2004 US\$'000
Capital expenditure commitments contracted for	37,931	-
Capital expenditure commitment authorized by the Directors but not yet contracted for	113,857	150,230
	151,788	150,230
Payable in	151,788	150,230
- 2005		15,241
- 2006	151,788	134,989
- 2007	-	-
- 2008	-	-
- 2009	-	-
- 2010	-	-
- Thereafter	-	-

The capital commitment relates to capital expenditure on the Bonanza and Modder East projects.

## 20 FINANCIAL INSTRUMENTS

### Financial risk factors

The Corporation's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Corporation's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Corporation. The Corporation does not hedge its exposure to foreign currency exchange risk.

Risk management carried out by the Corporation is approved by the Board of Directors.

#### (i) Foreign exchange risk

The Corporation is exposed to foreign exchange risk arising predominantly from foreign currency denominated sales. The Corporation, however, does not hedge its exposure to foreign currency exchange risk.

#### (ii) Interest rate risk

The Corporation's income and operating cash flows are substantially independent of changes in market interest rates. The Corporation has no set policy on maintenance of a set proportion of borrowings in fixed rate instruments versus variable instruments. At the year end no debt was at fixed rates.

#### (iii) Credit risk

The Corporation has no significant concentrations of credit risk. The Corporation has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Corporation has policies that limit the amount of credit exposure to any one financial institution.

#### (iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

### Fair value estimation

The fair value of publicly traded derivatives and trading securities is based on quoted market prices at the balance sheet date. In assessing the fair value of other financial instruments, the Corporation uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Corporation for similar financial instruments.

The actual disclosed values of the financial instruments all approximate the fair values of these instruments.

## 21 REVERSE TAKE OVER OF SOUTHERN CROSS RESOURCES INC.

The aggregate fair values of assets acquired and liabilities assumed on the purchase of Southern Cross Resources Inc. were as follows:

	US\$'000
Property, plant and equipment	32,373
Undeveloped properties	76,490
Other assets	96
Receivables and prepayments	2,541
Cash	8,389
Interest bearing borrowings	(79)
Trade and other payables	(2,678)
Future taxation liability	(21,156)
Purchase price	95,976
Cash taken over	8,389
Shares consideration	(95,976)
Net Cash Flow	8,389

The terms of the purchase price were agreed between the parties in terms of an agreement of acquisition dated September 14, 2005. The effective date of the reverse take over was December 8, 2005.

## 22 NON-CASH TRANSACTIONS

In the current financial year the merger between Southern Cross and Alease was accomplished through the issue of 0.9 new Southern Cross shares for each Alease issued and outstanding share, as detailed in note 1.1.

During the previous financial year, the Corporation issued 94.0 million ordinary shares in exchange for 9.4 million Randgold and Exploration Company Limited ordinary shares by way of a share swap agreement, as detailed in note 7.

These transactions have been excluded from the cash flow statement as it did not result in an exchange of cash.

## 23 JOINT VENTURE AGREEMENT

On September 7, 2004, Southern Cross entered into a Letter Agreement, (the "Joint Venture") with Pitchstone Exploration Ltd. ("Pitchstone"). The Corporation has an option to earn a 50% interest in the five properties located in the Athabasca Basin of Northern Saskatchewan for \$3.9 million over a period of 3 years.

The Company must invest \$3.4 million in exploration on the properties and make cash payments to Pitchstone of \$0.3 million to acquire the 50% interest. The Corporation will invest \$2.6 million over the first 3 years with a maximum of one-third during the first year, a minimum of one-third in the second year and the balance in the third year. The remaining \$0.8 million is expected to be spent during the third year but the Corporation and Pitchstone can negotiate and mutually agree on an extension. If the Corporation terminates the 50% option prior to exercising, it will be required to pay the balance of \$2.6 million dollars less expenditures incurred to the date of termination.

The terms of the Joint Venture included the issuance of 1 million common shares and 1.5 million share purchase warrants, half upon TSX approval and the balance by January 10, 2005. Pitchstone is the operator of the Joint Venture and is responsible for managing exploration programs on the properties as jointly agreed. The Corporation has the right to become operator under a number of conditions including if its interest in the Joint Venture increases to over 50%. The first tranche of shares and warrants (500,000 and 750,000 warrants respectively) issued in relation to the Joint Venture were valued at \$528 thousand and \$408 thousand respectively. The second tranche of shares and warrants issued on January 4, 2005, were valued on the same basis as the first tranche.

As at December 31, 2005 the Company had incurred \$1.4 million (2004 - \$0.2 million) of qualifying exploration expenses in connection with the Joint Venture.

## 24 SUBSEQUENT EVENTS

### Aflease Gold Limited

During January 2006, Sub Nigel Gold Mining Company Limited ("Sub Nigel") acquired all of the issued and outstanding ordinary shares of New Kleinfontein Mining Company Limited ("New Kleinfontein"), a wholly-owned subsidiary of Aflease, and all amounts due by New Kleinfontein to Aflease on loan account. The net assets so acquired had a carrying value of \$15.0 million at December 31, 2005 and the purchase consideration was \$54.6 million, settled by issuing 339,011,680 new Sub Nigel ordinary shares to Aflease at \$0.16 per share. Sub Nigel subsequently changed its name to Aflease Gold Limited. Through this transaction, Aflease now owns 80% of Aflease Gold.

### Capital raising

On February 17, 2006 the Corporation announced the closing of a private placement of 22,300,000 of its common shares, at a price of \$6.64 per share for aggregate gross proceeds of \$148 million.

### Options

On February 22, 2006 the Corporation granted a further 1,746,530 options in terms of its stock-based compensation plan. The options were granted at an exercise price of \$6.80 each.

## 25 SEGMENTED INFORMATION

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Corporation is managed according to the same segments.

### For the year ended December 31, 2005:

	Total South Africa US\$'000	Total Australia US\$'000	Total Canada US\$'000	2005 TOTAL US\$'000
Gold Sales	2,730	-	-	2,730
Cost of Sales	(7,039)	(180)	(2)	(7,221)
<b>Gross loss</b>	<b>(4,309)</b>	<b>(180)</b>	<b>(2)</b>	<b>(4,491)</b>
Sundry income	768	2	-	770
General and administrative expenditure	(5,584)	151	(106)	(5,539)
Share options expensed	(7,052)	-	(188)	(7,240)
Exploration expenditure	(10,342)	-	(677)	(11,019)
Other net income/(costs)	265	-	-	265
<b>Operating loss</b>	<b>(26,254)</b>	<b>(27)</b>	<b>(973)</b>	<b>(27,254)</b>
Interest received	1,054	-	11	1,065
Interest paid	(2,480)	-	-	(2,480)
Profit on disposal of investments	27	-	-	27
Fair value adjustment of short-term investments	(2,169)	-	-	(2,169)
Impairment of investments	(10,929)	-	-	(10,929)
<b>Loss before income taxes</b>	<b>(40,751)</b>	<b>(27)</b>	<b>(962)</b>	<b>(41,740)</b>
Provision for income taxes	-	-	-	-
<b>Net loss</b>	<b>(40,751)</b>	<b>(27)</b>	<b>(962)</b>	<b>(41,740)</b>
<b>Total assets</b>	<b>34,189</b>	<b>69,700</b>	<b>75,036</b>	<b>178,925</b>
<b>Total liabilities</b>	<b>(20,178)</b>	<b>(1,040)</b>	<b>(23,082)</b>	<b>(44,300)</b>
<b>Other segment items</b>				
Capital expenditure	14,688	74	-	14,762
Amortization and depreciation	752	13	2	767

For the year ended December 31, 2004

	Total South Africa US\$'000	Total Rest of world US\$'000	2004 TOTAL US\$'000
<b>Gold Sales</b>	<b>1,892</b>	-	<b>1,892</b>
Cost of Sales	(8,302)	-	(8,302)
<b>Gross (loss)/profit</b>	<b>(6,410)</b>	-	<b>(6,410)</b>
Sundry income	609	-	609
General and administrative expenditure	(2,225)	-	(2,225)
Share options expensed	(1,324)	-	(1,324)
Exploration expenditure	(996)	-	(996)
Other net income/(costs)	(1,055)	-	(1,055)
<b>Operating (loss)/profit</b>	<b>(11,401)</b>	-	<b>(11,401)</b>
Interest received	251	-	251
Interest paid	(1,678)	-	(1,678)
Profit on disposal of investments	737	-	737
Fair value adjustment of short-term investments	(2,672)	-	(2,672)
<b>(Loss)/profit before income taxes</b>	<b>(14,763)</b>	-	<b>(14,763)</b>
Provision for income taxes	-	-	-
<b>Net (loss)/profit for the year</b>	<b>(14,763)</b>	-	<b>(14,763)</b>
<b>Total assets</b>	<b>59,746</b>	-	<b>59,746</b>
<b>Total liabilities</b>	<b>(21,308)</b>	-	<b>(21,308)</b>
<b>Other segment items</b>			
Capital expenditure	6,144	-	6,144
Amortization and depreciation	179	-	179

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## **Stock Exchange Listings**

The Toronto Stock Exchange  
Trading Symbol: SXR  
The Johannesburg Securities Exchange  
Trading Symbol: SXR

### **ANNUAL MEETING**

The Annual General meeting of Shareholders will be held on June 7, 2006.