TransDigm Group INC
Form 10-K
November 15, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2013

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-32833

TransDigm Group Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-2101738

(I.R.S. Employer Identification No.)

1301 East 9th Street, Suite 3000, Cleveland, Ohio	**44114**
(Address of principal executive offices)	**(Zip Code)**

(216) 706-2960

(Registrants telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock	**New York Stock Exchange**
(Title)	**(Name of exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of March 30, 2013, based upon the last sale price of such voting and non-voting common stock on that date, was $7,358,619,432.

The number of shares outstanding of TransDigm Group Incorporated s common stock, par value $.01 per share, was 52,669,105 as of October 26, 2013.

Documents incorporated by reference: The registrant incorporates by reference in Part III hereof portions of its definitive Proxy Statement for its 2014 Annual Meeting of Stockholders.

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Special Note Regarding Forward-Looking Statements

This report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and 27A of the Securities Act of 1933, as amended. Discussions containing such forward-looking statements may be found in Items 1,1A, 2, 3, 5 and 7 hereof and elsewhere within this Report generally. In addition, when used in this Report, the words believes, anticipates, expects, should and similar words or expressions are intended to identify forward-looking statements. Although the Company (as defined below) believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from the forward-looking statements made in this Report. The more important of such risks and uncertainties are set forth under the caption Risk Factors and elsewhere in this Report. Many such factors are outside the control of the Company. Consequently, such forward-looking statements should be regarded solely as our current plans, estimates and beliefs. We do not undertake, and specifically decline, any obligation, to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

In this report, the term TD Group refers to TransDigm Group Incorporated, which holds all of the outstanding capital stock of TransDigm Inc. The terms Company, TransDigm, we, us, our and similar terms refer to TD Group, together with TransDigm Inc. and its direct and indirect subsidiaries. References to fiscal year mean the year ending or ended September 30. For example, fiscal year 2013 or fiscal 2013 means the period from October 1, 2012 to September 30, 2013.

PART I

ITEM 1. BUSINESS

The Company

TransDigm Inc. was formed in 1993 in connection with a leveraged buyout transaction. TD Group was formed in 2003 to facilitate a leveraged buyout of TransDigm, Inc. The Company was owned by private equity funds until its initial public offering in 2006. TD Group s common stock is publicly traded on the New York Stock Exchange under the ticker symbol TDG.

We believe we are a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all commercial and military aircraft in service today. Our business is well diversified due to the broad range of products we offer to our customers. We estimate that about 90% of our net sales for fiscal year 2013 were generated by proprietary products. In addition, for fiscal year 2013, we estimate that we generated about $^{3}/_{4}$ of our net sales from products for which we are the sole source provider.

Most of our products generate significant aftermarket revenue. Once our parts are designed into and sold on a new aircraft, we generate net sales from aftermarket consumption over the life of that aircraft, which is generally estimated to be approximately 30 years. A typical platform can be produced for 20 to 30 years, giving us an estimated product life cycle of 50-60 years. We estimate that approximately 53% of our net sales in fiscal year 2013 were generated from aftermarket sales, the vast majority of which come from the commercial and military aftermarkets. These aftermarket revenues have historically produced a higher gross margin and been more stable than sales to original equipment manufacturers, or OEMs.

Products

We primarily design, produce and supply highly-engineered proprietary aerospace components (and certain systems/subsystems) with significant aftermarket content. We seek to develop highly customized products to solve specific needs for aircraft operators and manufacturers. We attempt to differentiate ourselves based on

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engineering, service and manufacturing capabilities. We typically choose not to compete for non-proprietary build to print business because it frequently offers lower margins than proprietary products. We believe that our products have strong brand names within the industry and that we have a reputation for high quality, reliability and customer support.

Our business is well diversified due to the broad range of products that we offer to our customers. Some of our more significant product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, NiCad batteries and chargers, engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, cockpit security components and systems, specialized cockpit displays, aircraft audio systems, specialized lavatory components, seatbelts and safety restraints, engineered interior surfaces and lighting and control technology.

Segments

During TransDigm s third quarter ended June 29, 2013, the Company changed its internal management structure and its reporting structure of financial information used to assess performance and allocate resources. The Company s businesses are organized and managed in three reporting segments: Power & Control, Airframe and Non-aviation.

The Power & Control segment includes operations that primarily develop, produce and market systems and components that predominately provide power to or control power of the aircraft utilizing electronic, fluid, power and mechanical motion control technologies. Major product offerings include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices and specialized AC/DC electric motors and generators. Primary customers of this segment are engine and power system and subsystem suppliers, airlines, third party maintenance suppliers, military buying agencies and repair depots. Products are sold in the original equipment and aftermarket market channels.

The Airframe segment includes operations that primarily develop, produce and market systems and components that are used in non-power airframe applications utilizing airframe and cabin structure technologies. Major product offerings include engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, cockpit security components and systems, aircraft audio systems, specialized lavatory components, seatbelts and safety restraints, engineered interior surfaces and lighting and control technology. Primary customers of this segment are airframe manufacturers and cabin system suppliers and subsystem suppliers, airlines, third party maintenance suppliers, military buying agencies and repair depots. Products are sold in the original equipment and aftermarket market channels.

The Non-aviation segment includes operations that primarily develop, produce and market products for non-aviation markets. Major product offerings include seatbelts and safety restraints for ground transportation applications, mechanical/electro-mechanical actuators and controls for space applications, and refueling systems for heavy equipment used in mining, construction and other industries. Primary customers of this segment are off road vehicle suppliers and subsystem suppliers, child restraint system suppliers, satellite and space system suppliers and manufacturers of heavy equipment used in mining, construction and other industries.

For financial information about our segments, see Note 16, Segments to our Consolidated Financial Statements.

Sales and Marketing

Consistent with our overall strategy, our sales and marketing organization is structured to continually develop technical solutions that meet customer needs. In particular, we attempt to focus on products and programs that will lead to high-margin, repeatable sales in the aftermarket.

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We have structured our sales efforts along our major product offerings, assigning a product manager to certain products. Each product manager is expected to grow the sales and profitability of the products for which he or she is responsible and to achieve the targeted annual level of bookings, sales, new business and profitability for such products. The product managers are assisted by account managers and sales engineers who are responsible for covering major OEM and aftermarket accounts. Account managers and sales engineers are expected to be familiar with the personnel, organization and needs of specific customers, to achieve total bookings and new business goals at each account and, together with the product managers, to determine when additional resources are required at customer locations. Most of our sales personnel are evaluated, in part, on their bookings and their ability to identify and obtain new business opportunities.

Though typically performed by employees, the account manager function may be performed by independent representatives depending on the specific customer, product and geographic location. We also use a number of distributors to provide logistical support as well as primary customer contact with certain smaller accounts. Our major distributors are Aviall, Inc. (a subsidiary of The Boeing Company) and Satair A/S (a subsidiary of Airbus).

Manufacturing and Engineering

We maintain 38 principal manufacturing facilities. Most of our manufacturing facilities are comprised of manufacturing, distribution and engineering functions, and most facilities have certain administrative functions, including management, sales and finance. We continually strive to improve productivity and reduce costs, including rationalization of operations, developing improved control systems that allow for accurate product profit and loss accounting, investing in equipment, tooling, information systems and implementing broad-based employee training programs. Management believes that our manufacturing systems and equipment contribute to our ability to compete by permitting us to meet the rigorous tolerances and cost sensitive price structure of aircraft component customers.

We attempt to differentiate ourselves from our competitors by producing uniquely engineered products with high quality and timely delivery. Our engineering costs are recorded in Cost of Sales and in Selling and Administrative Expenses captions in our Consolidated Statements of Income. Total engineering expense represents approximately 6% of our operating units aggregate costs, or approximately 3% of our consolidated net sales. Our proprietary products, and particularly our new product initiatives, are designed by our engineers and are intended to serve the needs of the aircraft component industry. These proprietary designs must withstand the extraordinary conditions and stresses that will be endured by products during use and meet the rigorous demands of our customers tolerance and quality requirements.

We use sophisticated equipment and procedures to comply with quality requirements, specifications and Federal Aviation Administration (the FAA) and OEM requirements. We perform a variety of testing procedures, including testing under different temperature, humidity and altitude levels, shock and vibration testing and X-ray fluorescent measurement. These procedures, together with other customer approved techniques for document, process and quality control, are used throughout our manufacturing facilities.

Customers

Our customers include: (1) distributors of aerospace components; (2) worldwide commercial airlines, including national and regional airlines; (3) large commercial transport and regional and business aircraft OEMs; (4) various armed forces of the United States and friendly foreign governments; (5) defense OEMs; (6) system suppliers; and (7) various other industrial customers. For the year ended September 30, 2013, Boeing (which includes Aviall, Inc., a distributor of commercial aftermarket parts to airlines throughout the world) accounted for approximately 12% of our net sales. Our top ten customers for fiscal year 2013 accounted for approximately 41% of our net sales. Products supplied to many of our customers are used on multiple platforms.

Active commercial production programs include the Boeing 737, 747, 767, 777 and 787, the Airbus A319/20/21, A330/A340 and A380, the Bombardier CRJ s, Challenger and Learjets, the Embraer RJ s, the Cessna Citation family, the Raytheon Premier and Hawker and most Gulfstream airframes. Military platforms include aircraft such as the Boeing C-17, F-15, F-18 and V-22, the Airbus A400M, the Lockheed Martin C-130J, F-16 and F-35 Joint Strikefighter, the Northrop Grumman E-2C Hawkeye, the Sikorsky UH-60 helicopter, CH-47 Chinook and AH-64 Apache helicopters, the General Atomics Predator Drone and the Raytheon Patriot Missile. TransDigm has been awarded numerous contracts for the development of engineered products for production on the Airbus A350XWB and A320 NEO, the Bombardier Learjet 85, the Sikorsky S-97 and Boeing P-8 Poseidon.

The demand for our aftermarket parts and services depends on, among other things, the breadth of our installed OEM base, revenue passenger miles (RPMs), the size and age of the worldwide aircraft fleet and, to a lesser extent, airline profitability. We believe that we are also a leading supplier of components used on U.S. designed military aircraft, including components that are used on a variety of fighter aircraft, military freighters and military helicopters.

Competition

The niche markets within the aerospace industry that we serve are relatively fragmented and we face several competitors for many of the products and services we provide. Due to the global nature of the commercial aircraft industry, competition in these categories comes from both U.S. and foreign companies. Competitors in our product offerings range in size from divisions of large public corporations to small privately-held entities, with only one or two components in their entire product portfolios.

We compete on the basis of engineering, manufacturing and marketing high quality products, which we believe meet or exceed the performance and maintenance requirements of our customers, consistent and timely delivery, and superior customer service and support. The industry s stringent regulatory, certification and technical requirements, and the investments necessary in the development and certification of products, create barriers to entry for potential new competitors. As long as customers receive products that meet or exceed expectations and performance standards, we believe that they will have a reduced incentive to certify another supplier because of the cost and time of the technical design and testing certification process. In addition, we believe that the availability, dependability and safety of our products are reasons for our customers to continue long-term supplier relationships.

Government Contracts

Companies engaged in supplying defense-related equipment and services to U.S. Government agencies are subject to business risks specific to the defense industry. These risks include the ability of the U.S. Government to unilaterally: (1) suspend us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations; (2) terminate existing contracts; (3) reduce the value of existing contracts; (4) audit our contract-related costs and fees, including allocated indirect costs; and (5) control and potentially prohibit the export of our products.

Governmental Regulation

The commercial aircraft component industry is highly regulated by both the FAA in the United States and by the Joint Aviation Authorities in Europe and other agencies throughout the world, while the military aircraft component industry is governed by military quality specifications. We, and the components we manufacture, are required to be certified by one or more of these entities or agencies, and, in many cases, by individual OEMs, in order to engineer and service parts and components used in specific aircraft models.

We must also satisfy the requirements of our customers, including OEMs and airlines that are subject to FAA regulations, and provide these customers with products and services that comply with the government regulations applicable to commercial flight operations. In addition, the FAA requires that various maintenance routines be performed on aircraft components. We believe that we currently satisfy or exceed these maintenance standards in our repair and overhaul services. We also maintain several FAA approved repair stations.

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In addition, sales of many of our products that will be used on aircraft owned by non-U.S. entities are subject to compliance with U.S. export control laws.

Our operations are also subject to a variety of worker and community safety laws. The Occupational Safety and Health Act (OSHA), mandates general requirements for safe workplaces for all employees. In addition, OSHA provides special procedures and measures for the handling of certain hazardous and toxic substances.

Raw Materials

We require the use of various raw materials in our manufacturing processes. We also purchase a variety of manufactured component parts from various suppliers. At times, we concentrate our orders among a few suppliers in order to strengthen our supplier relationships. Raw materials and component parts are generally available from multiple suppliers at competitive prices.

Intellectual Property

We have various trade secrets, proprietary information, trademarks, trade names, patents, copyrights and other intellectual property rights, which we believe, in the aggregate but not individually, are important to our business.

Backlog

As of September 30, 2013, the Company estimated its sales order backlog at $1,081 million compared to an estimated sales order backlog of $833 million as of September 30, 2012. The increase in backlog is primarily due to acquisitions discussed below, totaling approximately $202 million and an increase in orders across existing OEM product lines and to a lesser extent the aftermarket. The majority of the purchase orders outstanding as of September 30, 2013 are scheduled for delivery within the next twelve months. Purchase orders may be subject to cancellation or deferral by the customer prior to shipment. The level of unfilled purchase orders at any given date during the year will be materially affected by the timing of the Company s receipt of purchase orders and the speed with which those orders are filled. Accordingly, the Company s backlog as of September 30, 2013 may not necessarily represent the actual amount of shipments or sales for any future period.

Foreign Operations

Although we manufacture a significant portion of our products in the United States, we manufacture some products in Belgium, China, Malaysia, Mexico, Sri Lanka and the United Kingdom. We sell our products in the United States, as well as in foreign countries. Although the majority of sales of our products are made to customers including distributors located in the United States, our products are ultimately sold to and used by customers, including airlines and other end users of aircraft, throughout the world. A number of risks inherent in international operations could have a material adverse effect on our results of operations, including currency fluctuations, difficulties in staffing and managing multi-national operations, general economic and political uncertainties and potential for social unrest in countries in which we operate, limitations on our ability to enforce legal rights and remedies, restrictions on the repatriation of funds, change in trade policies, tariff regulation, difficulties in obtaining export and import licenses and the risk of government financed competition.

Our direct sales to foreign customers were approximately $572.0 million, $508.8 million, and $305.5 million for fiscal years 2013, 2012 and 2011, respectively. Sales to foreign customers are subject to numerous additional risks, including the impact of foreign government regulations, political uncertainties and differences in business practices. There can be no assurance that foreign governments will not adopt regulations or take other action that would have a direct or indirect adverse impact on the business or market opportunities of the Company within such governments countries. Furthermore, there can be no assurance that the political, cultural and economic climate outside the United States will be favorable to our operations and growth strategy.

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Environmental Matters

Our operations and facilities are subject to a number of federal, state, local and foreign environmental laws and regulations that govern, among other things, discharges of pollutants into the air and water, the generation, handling, storage and disposal of hazardous materials and wastes, the remediation of contamination and the health and safety of our employees. Environmental laws and regulations may require that the Company investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. Certain facilities and third-party sites utilized by subsidiaries of the Company have been identified as potentially responsible parties under the federal Superfund laws and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under applicable laws.

Estimates of the Company s environmental liabilities are based on current facts, laws, regulations and technology. These estimates take into consideration the Company s prior experience and professional judgment of the Company s environmental advisors. Estimates of the Company s environmental liabilities are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and cost estimates, the extent of corrective actions that may be required and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation.

Accordingly, as investigation and remediation proceed, it is likely that adjustments in the Company s accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the Company s results of operations or cash flows in a given period. Based on currently available information, however, the Company does not believe that future environmental costs in excess of those accrued with respect to sites for which the Company has been identified as a potentially responsible party are likely to have a material adverse effect on the Company s financial condition.

Environmental liabilities are recorded when the liability is probable and the costs are reasonably estimable, which generally is not later than at completion of a feasibility study or when the Company has recommended a remedy or has committed to an appropriate plan of action. The liabilities are reviewed periodically and, as investigation and remediation proceed, adjustments are made as necessary. Liabilities for losses from environmental remediation obligations do not consider the effects of inflation and anticipated expenditures are not discounted to their present value. The liabilities are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect anticipated allocations among potentially responsible parties at federal Superfund sites or similar state-managed sites, third party indemnity obligations, and an assessment of the likelihood that such parties will fulfill their obligations at such sites.

Employees

As of September 30, 2013, we had approximately 6,100 full time, part time and temporary employees. Approximately 13% of our full time and part time employees were represented by labor unions. Collective bargaining agreements between us and these labor unions expire at various dates ranging from February 2014 to May 2018. We consider our relationship with our employees generally to be satisfactory.

Legal Proceedings

We are from time to time subject to, and are presently involved in, litigation or other legal proceedings arising in the ordinary course of business. Based upon information currently known to us, we believe the outcome of such proceedings will not have, individually or in the aggregate, a material adverse effect on our business, our financial condition or results of operations.

Available Information

TD Group s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, including any amendments, will be made available free of charge on the Company s website, *www.transdigm.com*, as soon as reasonably practicable, following the filing of the reports with the Securities and Exchange Commission.

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ITEM 1A. RISK FACTORS

Set forth below are important risks and uncertainties that could negatively affect our business and financial condition and could cause our actual results to differ materially from those expressed in forward-looking statements contained in this report.

Our business is sensitive to the number of flight hours that our customers planes spend aloft, the size and age of the worldwide aircraft fleet and our customers profitability. These items are, in turn, affected by general economic conditions.

Our business is directly affected by, among other factors, changes in revenue passenger miles (RPMs), the size and age of the worldwide aircraft fleet and, to a lesser extent, changes in the profitability of the commercial airline industry. RPMs and airline profitability have historically been correlated with the general economic environment, although national and international events also play a key role. For example, in the recent past, the airline industry has been severely affected by the downturn in the global economy, higher fuel prices, the increased security concerns among airline customers following the events of September 11, 2001, the Severe Acute Respiratory Syndrome, or SARS, epidemic and the conflicts in Afghanistan and Iraq. In addition, global market and economic conditions have been challenging with continued turbulence in the U.S. and international markets and economies and have prolonged declines in business and consumer spending. As a result of the substantial reduction in airline traffic resulting from these events, the airline industry incurred large losses and financial difficulties. Some carriers have also parked or retired a portion of their fleets and have reduced workforces and flights. During periods of reduced airline profitability, some airlines may delay purchases of spare parts, preferring instead to deplete existing inventories. If demand for new aircraft and spare parts decreases, there would be a decrease in demand for certain of our products.

Our sales to manufacturers of aircraft are cyclical, and a downturn in sales to these manufacturers may adversely affect us.

Our sales to manufacturers of large commercial aircraft, such as The Boeing Company, Airbus S.A.S, and related OEM suppliers, as well as manufacturers of business jets, which accounted for approximately 27% of our net sales in fiscal year 2013, have historically experienced periodic downturns. In the past, these sales have been affected by airline profitability, which is impacted by, among other things, fuel and labor costs, price competition, downturns in the global economy and national and international events, such as the events of September 11, 2001. In addition, sales of our products to manufacturers of business jets are impacted by, among other things, downturns in the global economy. Downturns adversely affect our net sales, gross margin and net income.

We rely heavily on certain customers for much of our sales.

Our largest customer for fiscal year 2013 was The Boeing Company (which includes Aviall, Inc., a distributor of commercial aftermarket parts to airlines throughout the world). Boeing accounted for approximately 12% of our net sales in fiscal year 2013. Our top ten customers for fiscal year 2013 accounted for approximately 41% of our net sales. A material reduction in purchasing by one of our larger customers for any reason, including but not limited to economic downturn, decreased production, strike or resourcing, could have a material adverse effect on our net sales, gross margin and net income.

We generally do not have guaranteed future sales of our products. Further, when we enter into fixed price contracts with some of our customers, we take the risk for cost overruns.

As is customary in our business, we do not generally have long-term contracts with most of our aftermarket customers and, therefore, do not have guaranteed future sales. Although we have long-term contracts with many of our OEM customers, many of those customers may terminate the contracts on short notice and, in most cases,

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our customers have not committed to buy any minimum quantity of our products. In addition, in certain cases, we must anticipate the future volume of orders based upon the historic purchasing patterns of customers and upon our discussions with customers as to their anticipated future requirements, and this anticipated future volume of orders may not materialize.

We also have entered into multi-year, fixed-price contracts with some of our customers, pursuant to which we have agreed to perform the work for a fixed price and, accordingly, realize all the benefit or detriment resulting from any decreases or increases in the costs of making these products. Sometimes we accept a fixed-price contract for a product that we have not yet produced, and this increases the risk of cost overruns or delays in the completion of the design and manufacturing of the product. Most of our contracts do not permit us to recover increases in raw material prices, taxes or labor costs.

U.S. military spending is dependent upon the U.S. defense budget.

The military and defense market is significantly dependent upon government budget trends, particularly the U.S. Department of Defense (the DOD) budget. In addition to normal business risks, our supply of products to the United States Government is subject to unique risks largely beyond our control. DOD budgets could be negatively impacted by several factors, including, but not limited to, a change in defense spending policy by the current presidential administration, the U.S. Government s budget deficits, spending priorities, the cost of sustaining the U.S. military presence in the Middle East and possible political pressure to reduce U.S. Government military spending, each of which could cause the DOD budget to remain unchanged or to decline. A significant decline in U.S. military expenditures could result in a reduction in the amount of our products sold to the various agencies and buying organizations of the U.S. Government.

We intend to pursue acquisitions. Our business may be adversely affected if we cannot consummate acquisitions on satisfactory terms, or if we cannot effectively integrate acquired operations.

A significant portion of our growth has occurred through acquisitions. Any future growth through acquisitions will be partially dependent upon the continued availability of suitable acquisition candidates at favorable prices and upon advantageous terms and conditions. We intend to pursue acquisitions that we believe will present opportunities consistent with our overall business strategy. However, we may not be able to find suitable acquisition candidates to purchase or may be unable to acquire desired businesses or assets on economically acceptable terms. In addition, we may not be able to raise the capital necessary to fund future acquisitions. Because we may actively pursue a number of opportunities simultaneously, we may encounter unforeseen expenses, complications and delays, including regulatory complications or difficulties in employing sufficient staff and maintaining operational and management oversight.

We regularly engage in discussions with respect to potential acquisition and investment opportunities. If we consummate an acquisition, our capitalization and results of operations may change significantly. Future acquisitions could likely result in the incurrence of additional debt and contingent liabilities and an increase in interest and amortization expenses or periodic impairment charges related to goodwill and other intangible assets as well as significant charges relating to integration costs.

Acquisitions involve risks that the businesses acquired will not perform in accordance with expectations and that business judgments concerning the value, strengths and weaknesses of businesses acquired will prove incorrect. In addition, we may not be able to successfully integrate any business we acquire into our existing business. The successful integration of new businesses depends on our ability to manage these new businesses and cut excess costs. The successful integration of future acquisitions may also require substantial attention from our senior management and the management of the acquired business, which could decrease the time that they have to service, attract customers and develop new products and services or attend to other acquisition opportunities.

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We are subject to certain unique business risks as a result of supplying equipment and services to the U.S. Government.

Companies engaged in supplying defense-related equipment and services to U.S. Government agencies are subject to business risks specific to the defense industry. These risks include the ability of the U.S. Government to unilaterally:

- suspend us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations;
- terminate existing contracts;
- reduce the value of existing contracts; and
- audit our contract-related costs and fees, including allocated indirect costs.

Most of our U.S. Government contracts can be terminated by the U.S. Government for its convenience without significant notice. Termination for convenience provisions provide only for our recovery of costs incurred or committed, settlement expenses and profit on the work completed prior to termination.

On contracts for which the price is based on cost, the U.S. Government may review our costs and performance, as well as our accounting and general business practices. Based on the results of such audits, the U.S. Government may adjust our contract-related costs and fees, including allocated indirect costs. In addition, under U.S. Government purchasing regulations, some of our costs, including most financing costs, amortization of intangible assets, portions of research and development costs, and certain marketing expenses may not be subject to reimbursement.

In addition, even where the price is not based on cost, the U.S. Government may seek to review our costs to determine whether our pricing is fair and reasonable . Five of our subsidiaries and divisions were subject to such a pricing review for years 2002 through 2004 and it is possible that we will be subject to a similar pricing review in the future. Such a review could be costly and time consuming for our management and could distract from our ability to effectively manage the business. As a result of such a review, we could be subject to providing a refund to the U.S. Government or we could be asked to enter into an arrangement whereby our prices would be based on cost or the DOD could seek to pursue alternative sources of supply for our parts. Any of those occurrences could lead to a reduction in our revenue from, or the profitability of certain of our supply arrangements with, certain agencies and buying organizations of the U.S. Government.

Our business may be adversely affected if we would lose our government or industry approvals or if more stringent government regulations are enacted or if industry oversight is increased.

The aerospace industry is highly regulated in the United States and in other countries. In order to sell our components, we and the components we manufacture must be certified by the FAA, the DOD and similar agencies in foreign countries and by individual manufacturers. If new and more stringent government regulations are adopted or if industry oversight increases, we might incur significant expenses to comply with any new regulations or heightened industry oversight. In addition, if material authorizations or approvals were revoked or suspended, our business would be adversely affected.

In addition to the aviation approvals, we are at times required to obtain approval from U.S. Government agencies to export our products. Failure to obtain approval to export or determination by the U.S. Government that we failed to receive required approvals or licenses could eliminate or restrict our ability to sell our products outside the United States, and the penalties that could be imposed by the U.S. Government for failure to comply with these laws could be significant.

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Our substantial indebtedness could adversely affect our financial health and could harm our ability to react to changes to our business and prevent us from fulfilling our obligations under our indebtedness.

We have a significant amount of indebtedness. As of September 30, 2013, our total indebtedness was approximately $5,731.2 million, which was approximately 106.2% of our total capitalization because of our recent dividends funded with indebtedness.

In addition, we may be able to incur substantial additional indebtedness in the future. For example, as of September 30, 2013, we had approximately $303.2 million of unused commitments under our revolving loan facility. Although our senior secured credit facility and the indentures (the Indentures) governing the $7\frac{3}{4}$% senior subordinated notes issued in December 2010 (the 2018 Notes), the $5\frac{1}{2}$% senior subordinated notes issued in October 2012 (the 2020 Notes), and the $7\frac{1}{2}$% senior subordinated notes issued in July 2013 (the 2021 Notes) contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and the indebtedness incurred in compliance with these qualifications and exceptions could be substantial. If we incur additional debt, the risks associated with our substantial leverage would increase.

Our substantial indebtedness could have important consequences to investors. For example, it could:

- increase our vulnerability to general economic downturns and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to competitors that have less debt; and
- limit, along with the financial and other restrictive covenants contained in the documents governing our indebtedness, among other things, our ability to borrow additional funds, make investments and incur liens.

In addition, all of our debt under the senior secured credit facility, which includes a $3.1 billion term loan facility and a revolving loan facility of $310.0 million, bears interest at floating rates. Accordingly, in the event that interest rates increase, our debt service expense will also increase. In order to reduce the floating interest rate risk, as of September 30, 2013, three forward starting interest rate swap agreements were in place fixing the rate of interest through June 30, 2015 on an aggregate notional amount of $353 million of debt under the senior secured credit facility. In addition, in fiscal 2013, the Company entered into three forward starting interest rate swap agreements that fix the interest beginning September 30, 2014 on an aggregate notional amount of $1.0 billion of debt under the senior secured credit facility.

Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness, including the 2018 Notes, 2020 Notes and the 2021 Notes. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the senior secured credit facility or otherwise in amounts sufficient to enable us to service our indebtedness. If we cannot service our debt, we will have to take actions such as reducing or delaying capital investments, selling assets, restructuring or refinancing our debt or seeking additional equity capital.

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To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control and any failure to meet our debt service obligations could harm our business, financial condition and results of operations.

Our ability to make payments on our indebtedness, including the 2018 Notes, 2020 Notes, 2021 Notes and amounts borrowed under the credit facilities, and to fund our operations, will depend on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized on schedule or at all or that future borrowings will be available to us under the senior secured credit facility or otherwise in amounts sufficient to enable us to service our indebtedness, including the amounts borrowed under the senior secured credit facility and the 2018 Notes, 2020 Notes and the 2021 Notes, or to fund our other liquidity needs. If we cannot service our debt, we will have to take actions such as reducing or delaying capital investments, selling assets, restructuring or refinancing our debt or seeking additional equity capital. We cannot assure you that any of these remedies could, if necessary, be effected on commercially reasonable terms, or at all. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments, the Indentures and the senior secured credit facility may restrict us from adopting any of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on acceptable terms and would otherwise adversely affect the 2018 Notes, 2020 Notes and the 2021 Notes.

The terms of the senior secured credit facility and Indentures may restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

Our senior secured credit facility and the Indentures contain a number of restrictive covenants that impose significant operating and financial restrictions on TD Group, TransDigm Inc. and its subsidiaries (in the case of the senior secured credit facility) and TransDigm Inc. and its subsidiaries (in the case of the Indentures) and may limit their ability to engage in acts that may be in our long-term best interests. The senior secured credit facility and Indentures include covenants restricting, among other things, the ability of TD Group, TransDigm Inc. and its subsidiaries (in the case of the senior secured credit facility) and TransDigm Inc. and its subsidiaries (in the case of the Indentures) to:

- incur or guarantee additional indebtedness or issue preferred stock;
- pay distributions on, redeem or repurchase our capital stock or redeem or repurchase our subordinated debt;
- make investments;
- sell assets;
- enter into agreements that restrict distributions or other payments from our restricted subsidiaries to us;
- incur or allow to exist liens;
- consolidate, merge or transfer all or substantially all of our assets;
- engage in transactions with affiliates;

create unrestricted subsidiaries; and

engage in certain business activities.

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A breach of any of these covenants could result in a default under the senior secured credit facility or the Indentures. If any such default occurs, the lenders under the senior secured credit facility and the holders of the 2018 Notes, 2020 Notes and the 2021 Notes may elect to declare all outstanding borrowings, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. The lenders under the senior secured credit facility also have the right in these circumstances to terminate any commitments they have to provide further borrowings. In addition, following an event of default under the senior secured credit facility, the lenders under that facility will have the right to proceed against the collateral granted to them to secure the debt, which includes our available cash, and they will also have the right to prevent us from making debt service payments on the 2018 Notes, 2020 Notes and the 2021 Notes. If the debt under the senior secured credit facility or the 2018 Notes, 2020 Notes and the 2021 Notes were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full our debt.

We could incur substantial costs as a result of violations of or liabilities under environmental laws and regulations.

Our operations and facilities are subject to a number of federal, state, local and foreign environmental laws and regulations that govern, among other things, discharges of pollutants into the air and water, the generation, handling, storage and disposal of hazardous materials and wastes, the remediation of contamination and the health and safety of our employees. Environmental laws and regulations may require that the Company investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. Certain facilities and third-party sites utilized by subsidiaries of the Company have been identified as potentially responsible parties under the federal Superfund laws and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under applicable laws.

Estimates of the Company s environmental liabilities are based on current facts, laws, regulations and technology. These estimates take into consideration the Company s prior experience and professional judgment of the Company s environmental advisors. Estimates of the Company s environmental liabilities are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and cost estimates, the extent of corrective actions that may be required and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation.

Accordingly, as investigation and remediation proceed, it is likely that adjustments in the Company s accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the Company s results of operations or cash flows in a given period. Based on currently available information, however, the Company does not believe that future environmental costs in excess of those accrued with respect to sites for which the Company has been identified as a potentially responsible party are likely to have a material adverse effect on the Company s financial condition.

Environmental liabilities are recorded when the liability is probable and the costs are reasonably estimable, which generally is not later than at completion of a feasibility study or when the Company has recommended a remedy or has committed to an appropriate plan of action. The liabilities are reviewed periodically and, as investigation and remediation proceed, adjustments are made as necessary. Liabilities for losses from environmental remediation obligations do not consider the effects of inflation and anticipated expenditures are not discounted to their present value. The liabilities are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect anticipated allocations among potentially responsible parties at federal Superfund sites or similar state-managed sites, third party indemnity obligations, and an assessment of the likelihood that such parties will fulfill their obligations at such sites.

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We are dependent on our highly trained employees and any work stoppage or difficulty hiring similar employees could adversely affect our business.

Because our products are complicated and highly engineered, we depend on an educated and trained workforce. There is substantial competition for skilled personnel in the aircraft component industry, and we could be adversely affected by a shortage of skilled employees. We may not be able to fill new positions or vacancies created by expansion or turnover or attract and retain qualified personnel.

As of September 30, 2013, we had approximately 6,100 full time, part time and temporary employees. Approximately 13% of our full time and part time employees were represented by labor unions. Collective bargaining agreements between us and these labor unions expire at various dates ranging from February 2014 to May 2018. We consider our relationship with our employees generally to be satisfactory. Although we believe that our relations with our employees are satisfactory, we cannot assure you that we will be able to negotiate a satisfactory renewal of these collective bargaining agreements or that our employee relations will remain stable. Because we maintain a relatively small inventory of finished goods, any work stoppage could materially and adversely affect our ability to provide products to our customers.

Our business is dependent on the availability of certain components and raw materials from suppliers.

Our business is affected by the price and availability of the raw materials and component parts that we use to manufacture our components. Our business, therefore, could be adversely impacted by factors affecting our suppliers (such as the destruction of our suppliers facilities or their distribution infrastructure, a work stoppage or strike by our suppliers employees or the failure of our suppliers to provide materials of the requisite quality), or by increased costs of such raw materials or components if we were unable to pass along such price increases to our customers. Because we maintain a relatively small inventory of raw materials and component parts, our business could be adversely affected if we were unable to obtain these raw materials and components from our suppliers in the quantities we require or on favorable terms. Although we believe in most cases that we could identify alternative suppliers, or alternative raw materials or component parts, the lengthy and expensive FAA and OEM certification processes associated with aerospace products could prevent efficient replacement of a supplier, raw material or component part.

Our facilities are located near known earthquake fault zones and hurricane paths, and the occurrence of a natural disaster could cause damage to our facilities and equipment, which could require us to curtail or cease operations.

A number of our manufacturing facilities are located in the greater Los Angeles area, an area known for earthquakes, and are thus vulnerable to damage. In addition, a number of our manufacturing facilities are located along the Eastern seaboard area susceptible to hurricanes. We are also vulnerable to damage from other types of disasters, including power loss, fire, explosions, floods, communications failures, terrorist attacks and similar events. If any disaster were to occur, our ability to operate our business at our facilities could be impaired.

We have recorded a significant amount of intangible assets, which may never generate the returns we expect.

Mergers and acquisitions have resulted in significant increases in identifiable intangible assets and goodwill. Identifiable intangible assets, which primarily include trademarks, trade names, trade secrets, and technology, were approximately $1,189.5 million at September 30, 2013, representing approximately 19% of our total assets. Goodwill recognized in accounting for the mergers and acquisitions was approximately $3,343.9 million at September 30, 2013, representing approximately 54% of our total assets. We may never realize the full value of our identifiable intangible assets and goodwill, and to the extent we were to determine that our identifiable intangible assets or our goodwill were impaired within the meaning of applicable accounting standards, we would be required to write-off the amount of any impairment.

We face significant competition.

We operate in a highly competitive global industry and compete against a number of companies. Competitors in our product lines are both U.S. and foreign companies and range in size from divisions of large public corporations to small privately held entities. We believe that our ability to compete depends on high product performance, consistent high quality, short lead-time and timely delivery, competitive pricing, superior customer service and support and continued certification under customer quality requirements and assurance programs. We may have to adjust the prices of some of our products to stay competitive.

We could be adversely affected if one of our components causes an aircraft to crash.

Our operations expose us to potential liabilities for personal injury or death as a result of the failure of an aircraft component that we have designed, manufactured or serviced. While we maintain liability insurance to protect us from future products liability claims, in the event of product liability claims our insurers may attempt to deny coverage or any coverage we have may not be adequate. We also may not be able to maintain insurance coverage in the future at an acceptable cost. Any liability not covered by insurance or for which third party indemnification is not available could result in significant liability to us.

In addition, a crash caused by one of our components could damage our reputation for quality products. We believe our customers consider safety and reliability as key criteria in selecting a provider of aircraft components. If a crash were to be caused by one of our components, or if we were to otherwise fail to maintain a satisfactory record of safety and reliability, our ability to retain and attract customers may be materially adversely affected.

Our stock price may be volatile, and your investment in our common stock could suffer a decline in value.

There has been significant volatility in the market price and trading volume of equity securities, which is unrelated to the financial performance of the companies issuing the securities. These broad market fluctuations may negatively affect the market price of our common stock. You may not be able to sell your shares at or above the purchase price due to fluctuations in the market price of our common stock caused by changes in our operating performance or prospects, including possible changes due to the cyclical nature of the aerospace industry and other factors such as fluctuations in OEM and aftermarket ordering, which could cause short-term swings in profit margins, or unrelated to our operating performance, including market conditions affecting the stock market generally or the stocks of aerospace companies more specifically.

Future sales of our common stock in the public market could lower our share price.

We may sell additional shares of common stock into the public markets or issue convertible debt securities to raise capital in the future. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the public markets or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities to raise capital at a time and price that we deem appropriate.

Our corporate documents and Delaware law contain certain provisions that could discourage, delay or prevent a change in control of our company.

Provisions in our amended and restated certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our amended and restated certificate of incorporation authorizes our Board of Directors to issue up to 149,600,000 shares of blank check preferred stock. Without stockholder approval, the Board of Directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, holders of preferred stock could make it more difficult for a third party to acquire us. In addition, our amended and restated certificate of incorporation provides for a staggered Board of Directors, whereby directors serve for three-year

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terms, with approximately one-third of the directors coming up for re-election each year. Having a staggered board will make it more difficult for a third party to obtain control of our Board of Directors through a proxy contest, which may be a necessary step in an acquisition of us that is not favored by our Board of Directors. Our amended and restated certificate of incorporation also provides that the affirmative vote of the holders of at least 75% of the voting power of our issued and outstanding capital stock, voting together as a single class, is required for the alteration, amendment or repeal of certain provisions of our amended and restated certificate of incorporation, including the provisions authorizing a staggered board, and certain provisions of our amended and restated bylaws, including the provisions relating to our stockholders ability to call special meetings, notice provisions for stockholder business to be conducted at an annual meeting, requests for stockholder lists and corporate records, nomination and removal of directors, and filling of vacancies on our Board of Directors.

We are also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. Under these provisions, if anyone becomes an interested stockholder, we may not enter into a business combination with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For purposes of Section 203, interested stockholder means, generally, someone owning 15% or more of our outstanding voting stock or an affiliate of ours that owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in Section 203.

We do not pay regular quarterly or annual cash dividends on our stock.

On October 15, 2012 the Company s board of directors authorized and declared a special cash dividend of $12.85 on each outstanding share of common stock and cash dividend equivalent payments to holders of options under its stock option plans. The special cash dividend amounting to approximately $664.3 million in the aggregate was paid in November 2012.

On July 3, 2013 the Company s board of directors authorized and declared a special cash dividend of $22.00 on each outstanding share of common stock and cash dividend equivalent payments to holders of options under certain of its stock option plans. The special cash dividend amounting to approximately $1,155.8 million in the aggregate was paid in July 2013.

Notwithstanding the special cash dividends paid in October 2012 and July 2013, we do not anticipate declaring or paying regular quarterly or annual cash dividends on our common stock or any other equity security in the foreseeable future. The amounts that may be available to us to pay future special cash dividends are restricted under our debt and other agreements. Any payment of special cash dividends on our common stock in the future will be at the discretion of our Board of Directors and will depend on our results of operations, earnings, capital requirements, financial condition, future prospects, contractual restrictions and other factors deemed relevant by our Board of Directors. Therefore, you should not rely on regular quarterly or annual dividend income from shares of our common stock and you should not rely on special dividends with any regularity or at all.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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Total consideration paid	14,120

6. Related Party Transactions

a) During the period ended March 31, 2006, the Company incurred $1,175 (2005 - $3,000) for general and administrative expenses to a company controlled by a director of the Company. At March 31, 2006, $59,032 (2005 $8,678) is owing to this company, which is unsecured, non-interest bearing, and due on demand. As at March 31, 2006, the Company had $10,632 (2005 - $Nil) in prepaid expenses to this Company.

b) During the period ended March 31, 2006, the Company incurred $27,707 for consulting services (included in general and administrative expenses) to a company controlled by a director of the Company. At March 31, 2006, $191 is owing to this company, which is unsecured, non-interest bearing, and due on demand. As at March 31, 2006, the Company had $9,245 (2005 - $Nil) in prepaid expenses to this Company.

c) During the period ended March 31, 2006, the Company incurred $27,000 for consulting services (included in general and administrative expenses), $2,427 for general and administrative expenses to a director. During the period ended the Company settled $84,000 of debt by the granting of 110,805 options. At March 31, 2006, $4,867 is owed by this director, which is unsecured, non-interest bearing, and due on demand.

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6. Related Party Transactions (continued)

d) During the period ended March 31, 2006, the Company paid a total of $24,000 in consulting services (included in general and administrative expenses) to the President and a company controlled by the President of the Company. The Company also reimbursed the President of the Company $6,517 for general and administrative expenses incurred on behalf of the Company. As at March 31, 2006 the President is owed $17,767 for expenses incurred on behalf of the Company.

e) At December 31, 2005, $26,741 of advances to the President of the Company remained owing to the Company. During the period ended March 31, 2006, the President of the Company was advanced $15,000 for costs to be incurred on behalf of the Company. Of these advances, $11,651 was used to pay expenses incurred by the Company s subsidiary. As at March 31, 2006, $30,090 of these advances remained owing to the Company, which is unsecured, non-interest bearing, and due on demand.

f) During the period ended March 31, 2006, the Company reimbursed $7,875 of general and administrative expenses incurred by a director. At March 31, 2006 $6,494 is owing to this director, which is unsecured, non-interest bearing, and due on demand.

g) The mineral claims referred to in Note 4(b) were acquired from a company controlled by a director of the Company. The mineral licenses referred to in Note 4(c) and (f) were acquired and are held in the name of the President or the Vice President of the Company on behalf of the Company.

7. Common Stock

a) On March 3, 2006, the Company completed a private placement consisting of 7,245,000 units at $1.00 per unit for proceeds of $7,147,188 net of issue costs and commissions. At March 31, 2006, $151,750 of subscriptions were receivable net of commissions of $8,250. Each unit consists of one share of common stock and one-half share purchase warrant. The Company issued 7,245,000 shares of common stock and 3,622,500 warrants. Each full warrant entitles the holder to purchase one additional share of common stock for a period of two years at an exercise price of $1.75 per share until March 3, 2007, and at an exercise price of $2.50 per share until March 3, 2008. The Company issued 185,750 units for commissions pertaining to this private placement.

b) On March 17, 2006, the Company issued 12,500 shares of common stock upon the exercise of share purchase warrants at $0.60 per share for cash proceeds of $7,500.

8. Share Purchase Warrants

A summary of the changes in the Company s stock purchase warrants is presented below:

	Number	Weighted Average Exercise Price
Balance, December 31, 2003 and 2004		
Issued	2,710,000	0.60

Balance, December 31, 2005	2,710,000	0.60
Issued	3,715,625	1.75
Exercised	(12,500)	0.60
Balance, March 31, 2006	6,413,125	1.27

As at the March 31, 2006, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
2,610,000	0.60	October 17, 2006
87,500	0.60	November 17, 2006
3,715,625	1.75-2.50	March 3, 2008
6,413,125	1.27	

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9. Commitments

a) On September 1, 2005, the Company entered into an office and administration services agreement with a company controlled by a director, at $10,511 (Cdn$12,305) per month, for a three-year term expiring on August 31, 2008. Future payments for the next three fiscal years are as follows:

2006	$115,592
2007	126,100
2008	84,100
	$325,792

b) The Company entered into an agreement with a company effective November 1, 2005 for public and investor relations services to be provided to the Company for an initial term of one year at $5,000 per month.

c) The Company entered into an agreement with a company effective November 1, 2005 for public relations services to be provided to the Company for an initial term of three months. The Company agreed to pay $6,000 per month and issue 100,000 shares of common stock.

d) On July 1, 2005, the Company entered into an agreement with a company controlled by a director of the Company for consulting services to be provided to the Company at $8,598 (Cdn$10,000) per month.

e) On May 24, 2005, the Company entered into an agreement to acquire certain uranium related data and receive consulting services. The Company must pay $24,000 for the data, payable $2,000 per month over twelve months.

f) On March 1, 2005, the Company entered into an agreement with a company controlled by the President of the Company for consulting services to be provided to the Company at $8,020 per month.

10. Subsequent Events

a) On April 4, 2006 the Company granted a consultant the option to acquire 500 shares of the Company s common stock at $1.57 per share to settle debt of $785.

b) On April 4, 2006 the Company granted a director the option to acquire 6,800 shares of the Company s common stock at $1.48 per share to settle debt of $10,000.

c) On April 5, 2006 the Company granted a director the option to acquire 5,000 shares of the Company s common stock at $1.57 per share to settle debt of $8,000.

d) The Company is proposing a private placement offering consisting of up to 2,875,000 units at $1.75 per unit for gross proceeds of $5,031,250. Each unit will consist of one share of common stock and one-half of one share purchase warrant. Each whole warrant will entitle the holder to acquire an additional common share exercisable at $2.25 per share for a period of one year. The warrants will also be subject to an acceleration clause. If the closing price of the Company s common stock is above $2.50 per share for twenty consecutive trading days, then the expiry date will be accelerated to the date that is thirty calendar days from the date that is the twentieth consecutive trading day above the price threshold. Any warrants not exercised within the accelerated exercise period will expire. The accelerated exercise period will only take effect if a registration statement for the warrant shares has been declared effective by the Securities and Exchange Commission. The proceeds will be used for general working capital purposes. A finder s fee or commission of 6%, payable in cash or units, may be payable. The Company received proceeds of $61,250 to March 31, 2006.

Item 2. Management s Discussion and Analysis or Plan of Operations

FORWARD-LOOKING STATEMENTS

The information in this Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties, including statements regarding our capital needs, business plans and expectations. Such forward-looking statements involve risks and uncertainties regarding the market price of metals, commodities and precious metals, availability of funds, government regulations, common share prices, operating costs, capital costs, outcomes of ore reserve development and other factors. Forward-looking statements are made, without limitation, in relation to operating plans, property exploration and development, availability of funds, environmental reclamation, operating costs and permit acquisition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may , will , should , expect , plan , anticipate , believe , estimate , predict , potential or continue , the negative of such terms or other co terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined below, and, from time to time, in other reports we file with the SEC. These factors may cause our actual results to differ materially from any forward-looking statement. We disclaim any obligation to publicly update these statements, or disclose any difference between our actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements

Overview

We are engaged in the acquisition, exploration and development of uranium properties. We own interests in properties in Wyoming, USA; Saskatchewan, Canada; and Mongolia. We have entered into joint venture agreements for each of our Saskatchewan and Mongolia properties whereby the joint venture partner for each property can earn an ownership interest in the property.

We hold interests in the following mineral properties:

Name of Property	Location
Cochrane River Property (joint ventured)	Saskatchewan, Canada
Eight Exploration Licenses (joint ventured)	Mongolia
State Mineral Leases, Federal Mining Claims and Private (Fee) Mineral	Wyoming, USA

Our plan of operations is to carry out exploration of our Wyoming properties while our joint partners will be responsible for carrying out exploration of our Saskatchewan and Mongolia properties. The specific exploration plans for our Saskatchewan, Mongolian and Wyoming properties, together with information regarding the location and access, history of operations, present condition and geology of each of our properties, is presented in Item 2 of our Annual Report on Form 10-KSB for the year ended December 31, 2005 under the heading Description of Properties.

We are an exploration stage company. All of our projects are at the exploration stage and there can be no assurance that a commercially viable mineral deposit, or reserve, exists on any of our properties until appropriate exploratory work is done and a comprehensive evaluation based on such work concludes legal and economic feasibility. Further exploration beyond the scope of our planned exploration activities will be required before a final evaluation as to the economic and legal feasibility of mining of any of our properties is determined. There is no assurance that further exploration will result in a final evaluation that a commercially viable mineral deposit exists on any of our mineral properties. We anticipate that we will

require additional financing in order to pursue full exploration of these claims. We do not have sufficient financing to undertake full exploration of our mineral claims at present and there is no assurance that we will be able to obtain the necessary financing. Because of the long lead times for environmental permitting of mining operations in North America, we will start collecting environmental baseline data on two or three of our properties in Wyoming that we feel have the potential, based on data in our possession, of being developed into commercial in-situ leach uranium mines.

Saskatchewan Cochrane River Property

We signed an option and joint venture agreement dated November 4, 2005 for our Cochrane River property located in northern Saskatchewan, Canada, with Triex Minerals Corporation (Triex). We granted Triex the option to earn a 60% interest in the Cochrane River property in consideration of agreement of Triex to pay to us an initial payment of Cdn$25,000 and to incur Cdn$200,000 of exploration expenditures on the property by February 1, 2006, each subject to Triex receiving approval of the agreement from the TSX Venture Exchange. Triex received approval from the TSX Venture exchange and has completed the initial payment of Cdn$25,000 and the $200,000 in exploration expenditures on the Cochrane River property required by February 1, 2006.

In order to maintain its option in good standing and exercise its option to earn a 60% interest in the Cochrane River property, Triex must:

- incur an aggregate of Cdn$500,000 in exploration expenditures and pay an additional Cdn$25,000 to us on or before May 1, 2007; and
- incur an aggregate of Cdn$1,500,000 in exploration expenditures and pay an additional Cdn$25,000 to us on or before May 1, 2008.

If Triex completes the earn-in phase by completing the required exploration expenditures and payments, Triex will be entitled to earn an additional 10% interest in the project by spending an additional Cdn$1,500,000 by November 1, 2009. Upon exercise by Triex of the option, a joint venture will be automatically formed between us and Triex in accordance with the terms of the option and joint venture agreement.

Under the terms of our agreement to joint venture our Cochrane River property with Triex Minerals Corporation, Triex will be the operator of the exploration programs for this joint venture. Any exploration undertaken by Triex will be at its expense under the terms of the joint venture agreement. There is no assurance that Triex will make the cash payments or undertake the full amount of the exploration expenditures necessary for it to earn an interest in our Saskatchewan properties.

Mongolia

We have signed a letter agreement dated February 17, 2006 to option and joint venture our eight Mongolian exploration licenses with Bluerock Resources Ltd. (Bluerock). Under the terms of the agreement, we have granted to Bluerock the option to acquire an undivided 55% interest in the properties, subject to a joint venture agreement to be entered into by Bluerock and us upon exercise of the option. The joint venture agreement to be entered into will be based upon the Rocky Mountain Mineral Law Foundation's Model Exploration, Development and Mine Operating Agreement, 1996 Edition ("Form 5A").

As consideration for the grant of the option, Bluerock paid us a total of $35,000 and issued to us 150,000 common shares of Bluerock. The cash payments were completed and the shares issued after an initial due diligence period and receipt by Bluerock of TSX Venture exchange approval.

Bluerock has the option to earn a 55% interest in our Mongolian properties by paying to us lease payments totaling $170,000 and by incurring exploration expenditures in the amount of $3,000,000 on the properties by October 18,

2009. The required cash payments and exploration expenditures required in order to enable Bluerock to exercise the option and acquire a 55% interest are summarized as follows:

(a) Cash Consideration

(i) $30,000 by October 18, 2006;

(ii) $40,000 by October 18, 2007;

(ii) $50,000 by October 18, 2008; and

(iii) $50,000 by October 18, 2009.

Bluerock has agreed that it will pay the first lease payment by October 18, 2006 and will complete the first $400,000 expenditure by October 18, 2006.

We have retained the right to earn back a 6% interest in the joint venture by spending US $300,000 on the Mongolian Properties. The joint venture agreement will be entered into upon Bluerock having completed the lease payments and having incurred $3,000,000 in exploration expenditures on the Mongolian properties by October 18, 2009, provided we elect not to expend $300,000 on the property by July 31, 2010. In this event, Bluerock will own a 55% interest in the Mongolian properties and we will own a 45% interest. Upon Bluerock earning a 55% interest in the project, we will be entitled to elect to spend the additional $300,000 on the properties by July 31, 2010. If we exercise this right, then we would earn back a 6% interest and would hold a 51% interest in the joint venture, with Bluerock holding a 49% interest in the joint venture.

The exploration programs to be carried out on our Mongolian properties during the term of our agreement will be managed by Bluerock. Bluerock expects to focus an aggressive drilling and trenching campaign on the Khavtsal Property, while conducting more reconnaissance level work on the other seven licenses. It is hoped that the drilling and trenching campaign will validate the historical work and give a clearer view of the economic potential of the Khavtsal project. The exploration team will consist of both Bluerock and Uranerz consultants, with the objective of combining the strengths of both companies to deliver an effective and efficient exploration program. Any exploration undertaken by Bluerock will be at its expense under the terms of the joint venture agreement. There is no assurance that Bluerock will make the cash payments or undertake the full amount of the exploration expenditures necessary for it to earn an interest in our Mongolian properties.

The joint venturing of the exploration of these Mongolian projects will allow Uranerz to focus its resources on the exploration of its Wyoming projects.

Wyoming

Wyoming Mining Claims (federal mineral)

We have staked 198 federal lode mining claims on federal and private surface lands in the state of Wyoming where the mineral rights are owned by the federal government. In general, the claim staking is either in the Powder River Basin or the northern Great Divide Basin. We have staked 198 individual mining claims covering approximately 2,025 hectares (5,000 acres) and they have been recorded with the county and federal governments. It is our objective to purchase or lease additional mineral claims and fee minerals directly from current private owners during the next twelve months, although there is no assurance that any acquisitions will be completed. The company has acquired the rights to another 54 federal mining claims in the Powder River Basin from private individuals covering about 437 hectares

(1080 acres). We will continue to acquire more federal mining claims through the normal claim staking and filing process, primarily in the Powder River Basin.

Our plan of operations for exploration of our Wyoming federal mining claims is generally as follows:

Year 1 – obtain all possible existing geologic information and evaluate the information. Describe surface geology. Review all available regional information and information that may be available from neighbors. Identify those claim areas with best potential and design exploration programs that include some drilling. Prepare summary geologic report on each property. Commence exploration drilling and logging based on the aforementioned research, evaluate results and prepare summary reports.

Year 2 continue exploration by drilling on those claim areas identified in Year 1 as having the best potential. Evaluate the results of the drilling program and prepare summary reports for management including reserve calculations where appropriate. At the end of the year drop those claims that have been identified as having low potential. Design exploration drilling programs for the next year on those areas continuing to show significant uranium potential.

Year 3 conduct exploration drilling program on the claims with best potential. Evaluate results of the drilling program. At end of the year drop any of the claims that been identified from the drilling to have low potential. Prepare summary report for management including an assessment of mineralization and recommendations for development using in-situ leach mining.

Wyoming State Mineral Leases

We have acquired 16 state mineral leases in Wyoming covering approximately 14,000 acres of land, and we will continue to apply for additional state mineral leases as our exploration program identifies areas of good potential and the associated land is available for leasing. None of our current state mineral leases have known uranium resources, but they are located in geologically favourable areas.

Our plan of operations for exploration on our Wyoming state mineral leases is generally as follows:

Year 1 obtain all possible existing geologic information and evaluate the information. Describe surface geology. Review all available regional information and information that may be available from neighbors. Identify those state leases with best potential and design exploration programs that may include some drilling. Prepare summary geologic report on each state section for management. No drilling planned for Year 1.

Year 2 conduct either exploration by surface sampling and/or exploration by drilling on those state leases identified as having the best potential. Evaluate the results of the drilling program and prepare summary reports for management. At the end of the year drop those state leases that have been identified as having low potential. Design exploration drilling programs for the next year on those state leases continuing to show significant uranium potential.

Year 3 conduct exploration drilling program on the state leases with best potential. Evaluate results of the drilling program. At end of the year drop any of the state leases that have been identified from the drilling to have low potential. Prepare summary report for management including an assessment of mineralization and recommendations for development using in-situ leach mining.

Wyoming Private (Fee) Mineral

We have initiated a program to acquire the rights to explore and mine on certain lands in the Powder River Basin where the mineral is owned by private parties. To acquire the rights it is necessary to sign an agreement with the mineral and the surface owner. This program to date has yielded only minor and relatively insignificant results, and it is not known with certainty that uranium exists on any of these properties. We will continue to attempt to acquire the surface and mineral rights on privately owned mineral on lands that we think are geologically favourable or we have historical information in our possession that indicates uranium mineralization might be present. At this point it is not planned to spend any significant amounts of money on exploration on any of the private mineral rights we have acquired. This could change and we would spend money on exploration if we are able to acquire fee mineral with known historical resources.

Plan of Operations

Our plan of operations for Wyoming for the next twelve months is to continue mineral property acquisition and to conduct exploration on our mineral properties. Unlike Mongolia and Saskatchewan where we have farmed out exploration to joint venture partners, we will carry out these exploration activities using our staff and contractors.

Our planned exploration expenditures for the next twelve months on our Wyoming mineral properties, together with amounts due to maintain our interest in these federal claims and state leases, are summarized as follows:

Property	**Planned Exploration Program Expenditures for the Next Twelve Months:**	**Amount of Annual Claim/Lease Maintenance Fees due;**	**Amount of Property Payment Due:**
Powder River Basin	$273,500	$65,000	$77,500
Great Divide Basin	$48,000	$9,400	$13,500

Our plan of operations for Wyoming for the next twelve months also includes work on the preparation of the environmental permit applications for our planned commercial mining facilities to be located in the Powder River Basin. As part of preparing the environmental permit applications it will be necessary for us to prepare the preliminary design of the facilities. The cost break down for these two functions are presented below:

Location	**Preliminary Environmental Permits Preparation** (next 12 months)	**Preliminary Design** (next 12 months)
Powder River Basin	$408,100	$68,500

In addition to our planned exploration expenditures, we anticipate spending approximately $114,000 in ongoing general and administrative expenses per month for the next twelve months. General administration added together with land work, project development and licensing expenditures are anticipated to total $1,918,400 over the next twelve months. Capital spending and new project acquisition expenditures are anticipated to be $1,689,500 for this period. Total expenditures then for the next twelve months are anticipated to be $3,607,900. The general and administrative expenses for the year will consist primarily of salaries for our senior officers, staff salaries, consulting fees, and professional fees for the audit and legal work relating to our regulatory filings throughout the year, as well as transfer agent fees and general office expenses.

We had cash in the amount of $8,422,952 and a working capital in the amount of $8,294,504 as of March 31, 2006. We estimate that our total expenditures over the next twelve month period will be approximately $3,607,900. Accordingly, we have sufficient financing with which to pursue our plan of operations over the next twelve months. We intend to focus most of our exploration efforts on our Wyoming federal mineral claims, as discussed above.

During the twelve month period following the date of this quarterly report, we anticipate that we will not generate any revenues. We anticipate that any additional funding will be in the form of equity financing from the sale of our common stock and share purchase warrants. There is no assurance that we will be able to achieve additional sales of our common stock and share purchase warrants.

Our exploration and development plans will be continually evaluated and modified as exploration and environmental results become available. Modifications to our plans will be based on many factors, including: results of exploration, assessment of data, weather conditions, exploration costs, the price of uranium and available capital. Further, the extent of our exploration programs that we undertake will be dependent upon the amount of financing available to us.

Results of Operations

References below to the first quarters of fiscal 2006 and fiscal 2005 are to the three month periods ending March 31, 2006 and 2005, respectively. References to fiscal 2006 and fiscal 2005 are to our fiscal years ended December 31, 2006 and 2005, respectively.

Our results of operations for the first quarter of fiscal 2006 are summarized below:

	Accumulated For the Period May 26, 1999 (Date of Inception) To March 31, 2006 $	For the Three Months Ended March 31, 2006 $	For the Three Months Ended March 31, 2005 $
Revenue	-	-	-
Expenses			
Depreciation	1,731	524	59
Foreign exchange loss	5,876	2,082	-
General and administrative	7,569,541	2,978,889	7,500
Impairment loss on mineral acquisition costs	652,650	312,455	-
Mineral exploration	146,991	43,141	3,000
Total Operating Expenses	8,376,789	3,337,091	10,559
Operating Loss	(8,376,789)	(3,337,091)	(10,559)
Other Income (Expense)			
Mineral property option payments received	26,167	5,000	-
Loss on settlement of debt	(232,675)	(100,675)	-
Net Loss	(8,583,297)	(3,432,766)	(10,559)

Revenues

We have not earned any revenues to date and we anticipate that we will not generate any revenues during the twelve month period following the date of this quarterly report.

General and Administrative

Our general and administrative expenses for the year consist primarily of salaries for our senior officers, staff salaries, consulting fees, and professional fees for the audit and legal work relating to our regulatory filings throughout the year, as well as transfer agent fees and general office expenses.

During the first quarter of fiscal 2006, we recorded stock based compensation expense in the amount of $2,758,408. This stock based compensation expense was attributable to stock options that we granted to our directors, officers and consultants during the first quarter of 2006. The balance of our general administrative expense increased to $220,481 for the first quarter of 2006 compared to $10,559 for the first quarter of 2005. This increase reflects our exploration activities, our efforts to acquire new mineral properties and our joint venturing of our Mongolian properties. Our operations were minimal for the first quarter of fiscal 2005.

Impairment Loss on Mineral Property Costs

Impairment costs on mineral properties represent mineral property acquisition costs incurred by the Company during the respective periods. The Company recognized an impairment loss of $312,455 during the three month period ended March 31, 2006, as it has not yet been determined whether there are proven or probable reserves on the properties.

Mineral Exploration

Mineral exploration expense is comprised of expenses that we incur on carrying out exploration of our mineral properties.

Our mineral exploration expenses in the first quarter of 2006 were attributable to exploration activities that we carried out mainly on our Wyoming mineral properties.

Mineral Property Option Payments Received

Mineral property option payments received represent amounts that we are paid as consideration for the granting of options to acquired interests in our mineral properties.

Mineral property option payments received in the first quarter of 2006 in the amount of $5,000 were attributable to the initial payment received from Bluerock under the option and joint venture agreement for our Mongolian properties.

Net Loss for the Period

Our net loss increased to $3,432,766 for the first quarter of fiscal 2006 from $10,559 for the first quarter of fiscal 2005 as a result of increased business activity and the granting of stock options to directors, officers, and employees. We anticipate that our expenses and net loss will continue to increase throughout the current fiscal year in comparison with our fiscal year ended December 31, 2005 as a result of our planned exploration activities and as a result of payments required to maintain our interests in our mineral properties. In addition, we anticipate continued increased professional fees as we comply with our obligations as a reporting company under the Securities Exchange Act of 1934 and as we plan to file a registration statement with the Securities and Exchange Commission under the Securities Act of 1933. We anticipate that we will not earn any revenues during the current fiscal year or in the foreseeable future as we are presently engaged in the exploration of our mineral properties.

Liquidity and Capital Resources

Our cash position at March 31, 2006 was $8,422,952 compared to $1,925,021 as at December 31, 2005. We had working capital of $8,294,504 as of March 31, 2006 compared to working capital of $1,775,579 as of December 31, 2005.

Plan of Operations

We estimate that our total expenditures over the next twelve months will be approximately $3,607,900, as outlined above under the heading “Plan of Operations”. We intend to focus most of our exploration efforts on our Wyoming federal mining claims. We intend to fund these planned expenditures over the next twelve months using our current cash and working capital.

Cash Used in Operating Activities

We used cash in operations in the amount of $177,504 during the first quarter of fiscal 2006, compared to cash used in operations in the amount of $1,592 during the first quarter of fiscal 2005. Cash used in operations was attributable primarily to general and administrative expenses and exploration activities.

Cash Used in Investing Activities

We used cash in investing activities in the amount of $312,503 during the first quarter of fiscal 2006, compared to cash used in investing activities in the amount of $3,568 during the first quarter of fiscal 2005. Cash used in investing activities during the first quarter of fiscal 2006 was attributable primarily to mineral properties acquired during the first quarter of 2006.

Cash Flows from Financing Activities

We generated cash from financing activities in the amount of $6,987,938 during the first quarter of fiscal 2006, compared to cash generated from financing activities in the amount of $25,000 during the first quarter of fiscal 2005. Cash generated from financing activities during the first quarter of fiscal 2006 was attributable primarily to the completion of our March 2006 private placement, as described below.

We completed a private placement financing in March 2006 comprised of the issue of an aggregate of 7,245,000 units (each a Unit) at a price of $1.00 per Unit to an aggregate of 134 purchasers for total gross proceeds of $7,245,000. Our net proceeds from this private placement financing were $7,002,938. Each Unit is comprised of one share of common stock and one-half share purchase warrant (a Warrant) with one full warrant exercisable to purchase one additional common share for a period of two years from the date of issue (the Offering) at $1.75 per share during the first year and at a price of $2.50 per share during the second year.

Going Concern

We have not attained profitable operations and are dependent upon obtaining financing to pursue any extensive exploration activities. For these reasons our auditors stated in their report that they have substantial doubt we will be able to continue as a going concern. However, our management is of the opinion that we have sufficient financing with which to pursue our plan of operations over the next twelve months.

Future Financings

We will require additional financing in order to proceed with the exploration of our mineral properties. We plan to complete private placement sales of our common stock in order to raise the funds necessary to pursue our plan of operations and to fund our working capital. Issuances of additional shares will result in dilution to our existing shareholders. There is no assurance that we will be successful in completing any private placement financings.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Critical Accounting Policies

Mineral Property Costs

We have been in the exploration stage since our formation on May 26, 1999 and have not yet realized any revenues from our planned operations. We are primarily engaged in the acquisition and exploration of mining properties. Mineral property exploration costs are expensed as incurred. Mineral property acquisition costs are initially capitalized when incurred using the guidance in EITF 04-02, “Whether Mineral Rights Are Tangible or Intangible Assets”. We assess the carrying costs for impairment under

SFAS 144, "Accounting for Impairment or Disposal of Long Lived Assets" at each fiscal quarter end. Payments received from options for mineral properties are applied against mineral property costs. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, the costs incurred to develop such property, are capitalized. Such costs will be amortized using the units-of-production method over the estimated life of the probable reserve. If mineral properties are subsequently abandoned or impaired, any capitalized costs will be charged to operations. During the three months ended March 31, 2006, mineral property acquisition payments totaling $312,455 were impaired as there are no proven or probable reserves on these properties.

Foreign Currency Translation

Our functional and reporting currency is the United States dollar. Foreign currency transactions are primarily undertaken in Canadian dollars and are translated into United States dollars using exchange rates at the date of the transaction in accordance with SFAS No. 52 *Foreign Currency Translation* . Monetary assets and liabilities denominated in foreign currencies are remeasured at each balance sheet date at the exchange rate prevailing at the balance sheet date. Foreign currency exchange gains and losses are charged to operations. We have not entered into derivative instruments to offset the impact of foreign currency fluctuations.

Stock-based Compensation

Prior to January 1, 2006, we accounted for stock-based awards under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* using the intrinsic value method of accounting, under which compensation expense was only recognized if the exercise price of the Company s employee stock options was less than the market price of the underlying common stock on the date of grant. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R *Share Based Payments* , using the modified retrospective transition method. We did not issue any stock options or share based payments prior to January 1, 2006. Accordingly, there was no effect on the Company s reported loss from operations, cash flows or loss per share as a result of adopting SFAS No 123R.

Item 3. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2006, being the date of our most recently completed fiscal quarter. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer, Glenn Catchpole, and our Chief Financial Officer, Ms. Aileen Lloyd. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Securities and Exchange Commission (the SEC).

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

During our most recently completed fiscal quarter ended March 31, 2006, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

The term internal control over financial reporting is defined as a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

(a) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;

(b) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and

(c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

PART II

Item 1. Legal Proceedings.

We currently are not a party to any material legal proceedings and to our knowledge, no such proceedings are threatened or contemplated.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We have reported sales of securities without registration under the Securities Act of 1933 during our fiscal quarter ended March 31, 2006 on the following Current Reports on Form 8-K that we have filed with the Securities and Exchange Commission.

Report	Date of Filing with SEC
Current Report on Form 8-K	March 7, 2006
Amended Current Report on Form 8-K	March 20, 2006
Amended Current Report on Form 8-K	April 4, 2006
Amended Current Report on Form 8-K	April 12, 2006

We did not complete any sales of securities without registration pursuant to the Securities act of 1933 during the fiscal quarter ended March 31, 2006 that were not reported on the Current Reports on Form 8-K and amendments described above.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to our security holders for a vote during the first quarter of our fiscal year ended March 31, 2006

Item 5. Other Information

None

Item 6. Exhibits

The following exhibits are attached to this Quarterly Report on Form 10-QSB:

Exhibit Number	Description
3.1	Articles of Incorporation (1)
3.2	Bylaws, as amended (1)
3.3	Articles of Amendment (3)
4.1	Share Certificate (1)
10.1	Office and Administration Services Agreement between the Company and Senate Capital Group Inc. dated September 1, 2005 **(2)**
10.2	Agreement for Services between the Company and Highlands Capital, Inc. dated November 1, 2005**(2)**
10.3	Financial Public Relations Agreement between the Company and Accent Marketing Ltd. dated November 1, 2005(2)
10.4	Mineral Property Purchase Agreement between the Company and Ubex Capital Inc. dated April 26, 2005(2)
10.5	Joint Venture Agreement between the Company and Triex Minerals Corporation dated November 4, 2005(2)
10.6	Consulting Agreement between the Company and Ubex Capital Inc. for management and consulting services **(2)**
10.7	Consulting Agreement between Catchpole Enterprises and the Company **(3)**
10.8	Joint Venture Agreement between the Company and Bluerock Resources Ltd. **(3)**
10.9	Option and Purchase Agreement for federal mining claims in Wyoming **(3)**
10.10	Agreement to Purchase ten mining claims in Wyoming **(3)**
10.11	2005 Stock Option Plan **(4)**
10.12	Hartman letter agreement. **(3)**
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act **(5)**
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act **(5)**
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **(5)**

32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (5)

(1) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant s Form AB-2 filed March 15, 2002
(2) Previously filed as an exhibit to the Quarterly Report on Form 10-QSB filed November 21, 2005
(3) Previously filed as an exhibit to the Annual Report on Form 10-KSB filed April 14, 2006
(4) Filed as an exhibit to our Registration Statement on Form S-8 filed with the SEC on November 21, 2005
(5) Filed as an exhibit to this Quarterly Report on Form 10-QSB

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SIGNATURES

In accordance with the Securities Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

URANERZ ENERGY CORPORATION

By: */s/ Glenn Catchpole*
Glenn Catchpole
President and Chief Executive Officer
Date: May 17, 2006