UEC

Ukraine Enterprise Corporation

2000 Annual Report

This past year has not been an easy one for foreign investors in Ukraine but it was an improvement on the year before.

Real GDP contracted by 0.4 percent in 1999 compared to 1.9 percent the year before. Recently, however, the economy appears to have turned the corner for the first time since independence. It started the year strongly, and is forecast to grow by 1.5 percent this year and about the same next. Inflation is also expected to moderate. It appears to have peaked in the first quarter this year, but should begin falling over the remainder of this year and into the next. The exchange rate is surprisingly stable, though still trending moderately down, and should stabilize and perhaps strengthen somewhat before year-end.

The political climate is more promising but remains difficult to interpret. The appointment of Viktor Yushchenko as prime minister was widely applauded internationally, and the cabinet which he assembled moved expeditiously with a long list of overdue reforms. As time passes however, it remains to be seen whether he and his cabinet have the political support needed to carry the tough decisions which radical reforms are certain to entail.

Elsewhere in this report, you will see that the company again this year posted a loss on its operations, with predictable impact on cash resources and net worth. In cash terms, however, the loss was again reduced from the prior year. Revenues were up just over a quarter, and cash expenses were lower. While operating losses cannot be allowed to continue, the results this year reflect tighter expense control, and further progress in achieving longer-term operating stability.

The company has scaled itself down to the bare essentials but not without cost to its operating reach. The emphasis has been on making existing projects work, and doing so while incurring the least possible overhead costs. Those projects which show promise of performing are nurtured, and those which do not are candidates for divestment. In the climate prevailing in Ukraine, however, buyers are few and far between.

Electron Bank continues to perform solidly if not conservatively in a climate not particularly conducive to healthy banking operations. Along with all Ukrainian banks, however, it continues to deal with the challenge of increasing its capital, and that in turn results in an obligation to re-invest earnings rather than make distributions to shareholders. UEC has been willing to be patient as the bank builds its capacities but at some point that policy will have to change.

The coal operations, after protracted teething problems, now seem to have found their footing and are churning out product. Kalininskaya, the original of the two, still labours under the disadvantage of a dredging system which is yet to achieve rated capacity, but at Sukhodolska a similar system is running consistently and well.

The year 2000 may represent a turning point for UEC. The company now has its operations in order, has a clear view of its various investments, and similarly clear plans as to how it intends to build on or dispose of them.

The real estate properties will be sold as soon as acceptable terms can be achieved, and the resulting capital will then be available for re-investment. Meantime, it is expected that the cash flow of the company should turn positive this year for the first time, delivering further resources for new investment.

This is taking place at a time when a number of investors have withdrawn from the country, and there is relatively little activity by external investors. This should tilt the situation toward those foreign investors who are still on the ground and in business, and one would expect the competition for good investment opportunities may shift in favour of the investor.

UEC intends to be one of those investors. Knowing that Ukraine is not an easy place to do business, however, it will be a wary investor. It will require rates of return that may not have been available during the more optimistic period when it made its original investments.

"Frank Potter" (signed)

Frank Potter
Chairman

August 4, 2000

These management comments on the financial condition of the company and results of operations for the years ended March 31, 2000 and 1999 are the views of management and should be read in conjunction with the consolidated financial statements including related notes in this 2000 annual report.

The company has been formed to invest in ventures and opportunities in Ukraine. In addition, the company may consider other jurisdictions for investing, utilizing technology or processes that are in use in Ukraine. These investments may take various forms based upon the specific investment opportunity arising and might include direct equity investment as well as debt with appropriate conversion features. Other operations may include acting as intermediary for entities in Ukraine seeking capital or others wishing to invest in Ukraine. Investments will be recorded either on an investment basis, equity basis or proportionate consolidation basis, depending upon their individual circumstances.

CURRENCY DEVALUATION

The devaluation of certain world currencies that started with the crisis in August of 1998 has continued for the hryvnia, the currency of Ukraine. Prior to the crisis, the hryvnia had been trading at an average of 2.05 to the US dollar. This rate declined to a level of 4.00 to the US dollar at March 31, 1999 and to 5.45 to the US dollar at March 31, 2000.

This devaluation has hurt the economy of Ukraine and contributed to the economic downturn. The annual inflation rate has climbed from 10% in 1997 to 20% in 1998 and to 19% as at December 31, 1999. The first quarter of 2000 has recorded a rate of 10%. GDP declined by 1.9% in 1998 and a further 0.4% in 1999. The first quarter of 2000 however shows a strengthening as the GDP has grown by 5.6% over the same period of the previous year. Industrial output for the first quarter has also increased by 9.7% over the previous year's level. These are indicators that the downturn may finally have been reversed.

Ukraine Enterprise Corporation reviews its investment portfolio regularly to determine if there has been a decline in value caused by the devaluation of the hryvnia. The coal recovery projects are determined to be unaffected because the revenue is denominated and collected in US dollars, the assets are depreciable against that revenue and the current replacement costs are consistent with the original cost.

The company has recorded a reduction in the carrying value of its investment in Electron Bank for each of the past two years - $253,500 as at March 31, 2000 and $1,060,000 as at March 31, 1999. These amounts are recorded as a reduction of shareholders' equity of the company. Accounting rules require any reduction in value of a self-sustaining operation resulting from currency valuation to be recorded outside of the earnings statement as a foreign currency translation adjustment within the equity section. Since Electron Bank carries on its activities predominately in Ukraine and reports its assets, liabilities and operations in hryvnia, it is considered to be a self-sustaining operation.

In addition, the carrying value of the property redevelopment project was determined to have declined by $38,500 in fiscal 2000 and $48,500 in fiscal 1999. These were recorded as foreign exchange losses in the earnings statement since this project does not qualify as a self-sustaining operation.

SHAREHOLDERS' EQUITY

Ukraine Enterprise Corporation was formed on November 21, 1994 and listed its common shares on the Alberta Stock Exchange, after an initial public offering, on November 18, 1996. At that date the share capital was $11,168,214 with 4,115,361 shares outstanding. In April 1999, the company issued a further 1,000,000 shares for proceeds of $250,000. This was effected by a private placement with the directors of the company. The issue price was higher than market at the time and other than legal and registration fees no significant costs were incurred.

In October 1997 the company issued stock options to its management, directors and consultants. These options allow the holders to purchase up to 411,000 shares at a price of $2.00 per share for the employees on 122,000 shares and $2.50 per share for the directors and consultant on 289,000 shares. None of these options have been exercised. At March 31, 2000 the balance of these October 1997 options outstanding was 246,000. The company has currently reviewed the benefits to the holders of the existing options. These options were granted in part to provide remuneration for services that were not fully compensated or compensated at all. The market price of the shares had been, for a lengthy period, below 10% of the existing exercise price. It was agreed with the holders to cancel the existing options from October 1997 and issue 368,000 new options at an exercise price of 25¢ expiring in February 2005. This new price was in excess of the market price at the time. The Canadian Venture Exchange has approved this cancellation and reissue subject to shareholder approval that will be sought at the 2000 annual general meeting of shareholders. In addition, during the year the company granted stock options for 106,500 shares at an exercise price of 25¢ expiring in February 2005.

As explained above, the shareholders' equity section of the balance sheet includes a cumulative foreign currency translation adjustment of $1,313,500 as a reduction of the total.

The book value of the company at March 31, 2000 is $4,238,018 or 83 cents per share.

INVESTMENT PORTFOLIO

The company, as at March 31, 2000, has investments in four projects or entities in Ukraine. Note 5 to the financial statements gives further details of the investments and activity that occurred during the year.

Electron Bank JSC, based in Lviv, Ukraine, has a full license to engage in all banking and finance operations including trust and custodial operations. It provides a full service through a number of branches and is one of the larger banks in western Ukraine.

The amount the company has invested in shares of Electron Bank is $2,020,625. This represents the initial investment plus additional shares acquired during rights issues over the past three years. The bank was required to enter into rights issues to increase their statutory capital to meet new National Bank of Ukraine requirements. The additional shares were acquired primarily through capitalization of dividends. Additional shares were acquired for $117,918 in 1999 and $113,400 in 2000. These amounts included capitalized dividends of $228,360. Ukraine Enterprise Corporation's percentage ownership of Electron Bank has been reduced to 18.3% from 20.8% because the company elected not to supplement the capitalized dividends in order to maintain its percentage constant through the closing of the rights issues. The company has obtained a right until December 31, 2000 to restore its percentage to the original level through the purchase of additional shares at 0.50 hryvnia each.

The company records its share of earnings on an equity basis as the company has significant representation on the board and in management especially with regard to the long-term strategy. Because of the complexities involved in converting results to internationally accepted accounting standards, results are presented three months in arrears. The company's share of Electron Bank's earnings to December 31, 1999 was $17,935 and the amount recorded to December 31, 1998 was a loss of $11,000.

The results for the past two years were impacted by the economic downturn in Ukraine as discussed above. During the review and audit of the financial results, it was concluded that further reserves should be taken against receivables in excess of the provision that would have been recorded in accordance with the rules of the National Bank of Ukraine. The financial statements of Electron Bank are restated for reporting purposes in accordance with International Accounting Standards, which are substantially the same as Canadian standards.

As outlined above, the value of Electron Bank had to be examined in light of the currency devaluation. Measured in hryvnia terms, the bank is considered to be strong and stable, but in converting the balances into a convertible currency, the value is diminished. This procedure allows investors outside of Ukraine to determine what the value would be in their currency if it were liquidated at book value.

The carrying value of the company's investment in Electron Bank at March 31, 2000 is $699,583. The investment in shares of $2,020,625 is increased by the accumulated share of earnings since acquisition of

$319,094 less dividends received of $326,636. The dividends included stock dividends of $285,920 that were capitalized and a cash dividend of $40,716. The cumulative foreign currency translation adjustment of $1,313,500 reduces the value to the amount reported.

The company has made investments in two separate coal recovery projects with the same Ukrainian partner. The technology to recover discarded fines is proven and is in use elsewhere. Since historic methods of mining in Ukraine have resulted in these fines being collected in sediment or tailings ponds as opposed to being recovered during the production cycle, there are significant recovery potentials throughout Ukraine. It is significant that the recovery costs are substantially less than the costs of current mining techniques.

The company has invested $1,969,752 in the capital assets of the Kalininskaya coal recovery project in the Donbas region of Ukraine. The investment included $396,104 invested in fiscal 1999 to cover cost overruns on the original construction and upgrades that were required to prepare for the 1999 production cycle. Ukraine Enterprise Corporation's ownership in the project was increased during the year from 28.7% to 37.9%. In the year ended March 31, 2000 the company commenced recording amortization to recognize the depletion of the resources and the use of the related capital assets. This amortization is based upon the actual production output over the estimated reserves included in the project. The amount recorded for the year was $174,920. The carrying value of the investment at March 31, 2000 is $1,794,832. The company recognizes revenue as it is received or determined to be received in the near future based upon the production cycles and collectability of the amount. The investment is recorded on the cost basis.

While the project has delivered positive returns for the past two years, the project continues to be hampered by production shortfalls and low product prices, however production levels are improving.

The Sukhodolska coal recovery project recovers fines from a tailings pond in Krasnodon in the same region in eastern Ukraine. Ukraine Enterprise Corporation has a 29% participation in a Ukrainian joint venture that owns and operates the equipment and infrastructure. The investment at March 31, 2000 is $1,189,937 which includes additional contribution during the year of $237,492. This project completed the construction phase in September 1999 and commissioning took place in October. Full production levels are being achieved during the 2000 production cycle and it is possible that the project could be expanded if outputs and prices indicate acceptable rates of return. Revenue will be recorded as received from the project and the investment is recorded on the cost basis.

The company has a 50% interest in an 800 square meter vacant office building in the Podil area of Kyiv. The accumulated cost of this investment as at March 31, 2000 is $194,185. It was the original intention to sell the property after completion of renovations but a decision has been made to attempt to liquidate the property in its current state or to renovate only after a purchaser or long-term tenant is obtained. The real estate market in Kyiv is currently in a depressed state from the levels of a number of years ago and a short-term resolution does not appear likely. As discussed above, the real estate market was also affected by the currency devaluation. In examining this project, it was determined that foreign exchange losses of $38,500 in 2000 and $48,500 in 1999 were evident and the carrying value should be reduced accordingly.

It was also determined that the 90 square meter office facility that the company had been using in Kyiv since 1997 was no longer required for the company's operational needs. It was leased to a third party and accordingly was re-classified as an investment rather than a capital asset as at March 31, 2000. The value used for the transfer was $140,000, the unamortized balance of the asset. The carrying value of the company's investments in properties as at March 31, 2000 is $247,185.

ASSETS AND LIABILITIES

The company holds its excess cash in short-term instruments. At March 31, 2000 this amounted to $238,072, which included $78,915 denominated in US currency. The balance at March 31, 1999 was $471,230 including US$33,098. Accounts receivable represent amounts due under contracts, expenditures and advances that are recoverable and accrued earnings. Prepaid expenses represents that portion of expenditures that apply to future periods. This includes a portion of the costs of an insurance policy. Capital assets are comprised of office and computer equipment and furniture. During fiscal 2000 $1,149 was spent on acquisitions with no amounts spent the previous year. During fiscal 2000 the office facility in Kyiv was transferred to investments, as discussed above.

Accounts payable and accrued liabilities represent various costs and expenses that have been incurred but not yet paid in the normal course.

OPERATIONS

Revenue for fiscal 2000 was $402,282, which is up from the previous year's $317,888. Included in this total for fiscal 2000 is $367,996 as revenue from the Kalininskaya coal recovery project, $5,609 from the Sukhodolska coal recovery project, and $17,935 as our share of earnings of Electron Bank. These components of revenue are outlined further above. Revenue also included interest of $10,742.

In fiscal 1999 the total revenue was comprised of revenue from the Kalininskaya coal recovery project of $264,736, the company's share of the loss from Electron Bank of $11,000, an additional gain on the 1998 sale of the building materials business of $23,460, and interest earned on its cash reserves of $40,692.

The conversion of foreign currency during fiscal 1999 resulted in a gain of $40,130. However this was offset by the foreign exchange loss of $48,500 from the revaluation of the property redevelopment assets, as explained above, creating a total foreign exchange loss of $8,370 included in the expense section of the statement of operations. The foreign exchange loss for fiscal 2000 was $43,992, which included $38,500 from the property redevelopment revaluation.

As discussed above, in fiscal 2000 the company recorded amortization of $174,920 as a charge against the earnings from Kalininskaya and is included in expenses.

The total expenses for fiscal 2000 were $888,776 compared to $660,883 the previous year, the bulk of the increase being the amortization charge described above.

The salaries and benefits recorded in fiscal 2000 of $261,423 include one senior management staff for the full year as well as the chairman on a reduced salary basis. Support staff was kept to a low level with one in Toronto and one in Kyiv. This salary cost is a reduction from the previous year's $346,457 as early in the year one senior staff member based in Kyiv was repositioned as a consultant at significant savings. Administrative expenses of $187,925 for fiscal 2000 increased from $153,463 reported in fiscal 1999. These costs include such items as office rent in Toronto, telephone, long distance, office expenses, insurance, corporate filing fees, reporting and expenses and project investigation. While the majority of costs were lower in fiscal 2000, the results appear to be an increase as the administrative expenses for fiscal 1999 were reduced by $61,877 relating to the reversal of directors' fees previously accrued.

Travel costs of $51,082 in 2000 reflect the cost of travel to and from Ukraine to monitor existing investments as well as investigating new projects, and are reduced from the 1999 costs of $65,081. Professional fees include legal and audit costs and the increase to $117,221 in 2000 from $69,777 in 1999 was caused by additional legal costs to review existing agreements and prepare amendments. Consulting fees of $35,893 in 2000 represent the costs of senior staff previously on salary as well as technical support engaged during the year.

Net loss for the year ended March 31, 2000 was $486,494 or 10 cents per share compared to a loss of $342,995 or 8 cents per share in 1999. The weighted average number of shares outstanding used to calculate the loss per share was 5,073,694 in 2000 and 4,115,361 in 1999.

YEAR 2000 COMPLIANCE

The company and its investments have not been aware of any problems arising from a failure to be year 2000 compliant. No significant costs were incurred to ensure compliance.

RISKS

It is an inherent risk that the company might not generate sufficient earnings from its investments, on a cash basis, to fund the level of operations and expenses that are currently in existence. The failure to achieve those returns, on a timely basis, could lead to a reduction in the operations of the company and a need to raise additional funds at levels and rates below the appropriate or anticipated levels. Circumstances beyond the control of the company could influence the anticipated returns such as the actual operations and profits of the investees. Further, the company's anticipated returns could be flawed.

In addition, due to the location of the company's proposed investments, there are a significant number of additional risks that could severely impact upon the future profitability of the company and its abilities to sustain operations. These include political and economic risks, currency risks, non-liquidity of investments, transfer risks, lack of protection and difficulties in enforcing rights and taxation. Ukraine, similar to other Central European and former Soviet Union countries, is evolving slowly from the former centrally planned, socialist economy to a market-oriented democratic model. In achieving that position there are a number of factors and steps which increase risk. In the process there is the possibility that certain laws and rules will be enacted that could adversely affect the value of the company's investments. These rules could include the expropriation of assets or nationalization, enactment of tax laws that are onerous, imposition of currency controls and restrictions that might limit the amount of funds that can be withdrawn or that would require major adjustments to the carrying value, and imposition of controls on foreign ownership.

Beyond government intervention, the investment process is influenced by the speed to which the country moves to a market economy, the process of the amendment of laws relating to the protection of assets and investments according to international norms, the integration of Ukraine into the international trading community, success in dealing with inflation and the restabilization of the currency, and obviously, general market risks.

OUTLOOK

Ukraine Enterprise Corporation believes that investment in Ukraine will over time be profitable. Other former Soviet Union countries have moved towards a market economy and some have achieved impressive results. Ukraine has been slower than some of its neighbours in adopting reforms, but progress, although slow, can be seen.

Management believes that the two existing coal recovery projects should now begin to generate cash at sufficient levels to deliver positive returns to shareholders. The company is examining other potential sites as well financing sources such as export credit agencies and other government supported financing arms. The company is hampered by its lack of internal resources and the difficulty in raising additional funds at appropriate rates for projects in Ukraine.

Electron Bank has been under pressure to meet ambitious capital standards imposed by the National Bank of Ukraine on the banking sector. There is currently no indication that the current levels of capitalization will increase further. The bank continues to be well run and is a strong local entity within the regional banking sector. With the management of the bank, we are exploring areas of potential growth including strategic alliances with other financial institutions in Ukraine and the west.

Real estate and property redevelopment in Kyiv continues to be a questionable sector, especially with the reluctance of international companies and investors as a result of the continued economic downturn in Ukraine. Accordingly, we have agreed with our partners to defer further redevelopment activity and attempt to liquidate our holdings or earn lease income from them. The office apartment that the company owns is presently being leased out and is available for sale.

As stated, the investments that Ukraine Enterprise Corporation has undertaken in coal recovery projects should provide returns sufficient to show positive results to the shareholders at a level that is anticipated for the area of investment. The other investments should over time contribute to the value of the company.

AUDITORS' REPORT

Report to the Shareholders

We have audited the consolidated balance sheets of Ukraine Enterprise Corporation as at March 31, 2000 and 1999 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
June 16, 2000

MANAGEMENT RESPONSIBILITY

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors of the Corporation. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial statements.

Management is responsible for the maintenance of a system of controls designed to provide reasonable assurance that the Corporation's assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared.

The Corporation's Audit Committee is appointed by the Board of Directors and is comprised entirely of non-management directors. The Audit Committee meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The independent auditors have direct access to the Audit Committee of the Board of Directors.

"GM Keaney" (signed)

Gregory M. Keaney
Managing Director

August 4, 2000

CONSOLIDATED BALANCE SHEETS

As at March 31, 2000 and 1999

	2000	1999
Assets		
Current assets:		
Cash and short-term investments (note 4)	$ 238,072	$ 471,230
Accounts receivable	134,018	55,045
Prepaid expenses	28,827	36,198
	400,917	562,473
Investments (note 5)	3,931,537	4,071,766
Capital assets, net (note 6)	23,839	178,250
	$ 4,356,293	$ 4,812,489
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 118,275	$ 84,477
Shareholders' equity:		
Capital stock (note 7)	11,418,214	11,168,214
Deficit	(5,866,696)	(5,380,202)
Foreign currency translation adjustment	(1,313,500)	(1,060,000)
	4,238,018	4,728,012
	$ 4,356,293	$ 4,812,489

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Frank Potter" (signed) "Charles B. Lowen" (signed)

Director *Director*

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

As at March 31, 2000 and 1999

	2000	1999
Revenue:		
Share of earnings from investments	$ 391,540	$ 253,736
Gain on sale of investment	—	23,460
Interest income	10,742	40,692
	402,282	317,888
General and administrative expenses:		
Salaries and benefits	261,423	346,457
Administrative	187,925	153,463
Professional fees	117,221	69,777
Travel	51,842	65,081
Consulting fees	35,893	2,317
Foreign exchange loss	43,992	8,370
Amortization	190,480	15,418
	888,776	660,883
Loss for the year	(486,494)	(342,995)
Deficit, beginning of year	(5,380,202)	(5,037,207)
Deficit, end of year	$ (5,866,696)	$ (5,380,202)
Loss per common share (note 8)	$ (0.10)	$ (0.08)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

As at March 31, 2000 and 1999

		2000		1999
Cash provided by (used in):				
Operating activities:				
Loss for the year	$	(486,494)	$	(342,995)
Items which do not involve cash:				
Amortization		190,480		15,418
Share of earnings from investments		(17,935)		(253,736)
Foreign exchange loss		38,500		48,500
Distribution from investments		180,280		353,532
Decrease (increase) in accounts receivable		(78,973)		166,455
Decrease (increase) in prepaid expenses		7,371		(34,322)
Increase (decrease) in accounts payable and accrued liabilities		33,798		(63,166)
		(132,973)		(110,314)
Investing activities:				
Investments advanced		(349,036)		(1,516,506)
Additions to capital assets		(1,149)		—
		(350,185)		(1,516,506)
Financing activities:				
Capital stock issued		250,000		—
Decrease in cash and short-term investments		(233,158)		(1,626,820)
Cash and short-term investments, beginning of year		471,230		2,098,050
Cash and short-term investments, end of year	$	238,072	$	471,230

See accompanying notes to consolidated financial statements.

Years ended March 31, 2000 and 1999

1. Principal activities:

   The objective of the Corporation is to invest in commercial and industrial enterprises in Ukraine.
   The Corporation's common shares are listed on the Canadian Venture Exchange.

2. Future operations:

   These financial statements have been prepared on a basis which assumes the realization of assets and liquidation of liabilities in the normal course of business.

   The Corporation has incurred substantial operating losses since inception and has an accumulated deficit, the recovery of which is dependent upon the Corporation's ability to generate profitable future operations and positive cash flows. Ultimate recoverability of the Corporation's investments in Ukraine is subject to a number of risks and uncertainties, including the general risk of conducting business in Ukraine due to its uncertain economic, foreign exchange and political environment.

3. Significant accounting policies:

   (a) Basis of presentation:

   The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years specified. Actual results could differ from those estimates.

   (b) Basis of consolidation:

   These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

   (c) Short-term investments:

   Short-term investments are valued at cost plus accrued interest which approximates fair value.

   (d) Investments:

   Investments over which the Corporation is able to exercise significant influence are accounted for by the equity method. Under the equity method, the original cost of the shares is adjusted for the Corporation's share of post-acquisition earnings or losses less dividends or distributions, foreign currency translation adjustments, amortization and declines in value which are other than temporary.

   (e) Capital assets:

   Office equipment is recorded at cost and amortized on a diminishing balance basis at 20% per annum.

   (f) Foreign currency translation:

   Monetary assets and liabilities expressed in foreign currencies are translated at the rates of exchange in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when assets are acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the consolidated statements of operations and deficit.

Unrealized gains and losses arising from translating self-sustaining investments in foreign operations are included in shareholders' equity as foreign exchange translation adjustment. Realized translation gains and losses related to foreign operations are included in the consolidated statements of operations and deficit.

(g) Financial assets and liabilities:

The fair values of investments are not readily determinable. Other financial assets and liabilities recorded at cost are short-term in nature and therefore, their carrying values approximate fair values. Short-term investments mature within one year but are redeemable at any time without penalty. They bear interest at a rate of 4.05% (1999 - 3% to 5%).

4. Cash and short-term investments:

		2000		1999
Short-term deposits held at Canadian banks	$	100,000	$	390,000
Cash (including U.S. $78,915; 1999 - U.S. $33,098)		138,072		81,230
	$	238,072	$	471,230

5. Investments:

As at March 31, 2000, investments were comprised as follows:

(a) An 18.3% interest (1999 - 20.8%) in Electron Bank JSC, a fully licensed bank based in Lviv in western Ukraine. The investment was acquired for cash consideration and is accounted for by the equity method for Electron Bank's fiscal year ended December 31, 1999. In the year ended March 31, 2000, stock dividend distributions of $113,400 were received and reinvested in Electron Bank JSC. The Corporation has a right to increase its interest to 20.8% through the purchase of additional shares at a price of 0.50 UAH each.

(b) A 37.9% interest (1999 - 28.7%) in the Kalininskaya Coal Recovery Project in the Donbass region of eastern Ukraine. This project is to recover discarded coal fine particles from a sediment or tailings pond. The investment was acquired for cash consideration and is accounted for by the cost method. The capital asset portion of the investment is amortized on a cost recovery basis over the estimated reserves in the pond.

(c) A 29.0% interest (1999 - 29.0%) in the Sukhodolska Coal Recovery Project in Krasnodon in eastern Ukraine. This project is to recover discarded coal fine particles from a sediment or tailings pond. The investment was acquired for cash consideration and is accounted for by the cost method. The project completed its construction and start-up phase in the fall of 1999 and full production commenced in April 2000.

(d) A 50% interest (1999 - 50%) in a Property Redevelopment Project in the Podil area of Kyiv, Ukraine. The project is an 800 square meter office building that is now vacant and will be renovated to western standards after receipt of municipal approvals and potential buyers are found. It is intended that the building be sold after completion of the renovations. A foreign exchange loss of $38,500 (1999 - $48,500) has been recorded in the consolidated statement of operations and deficit for the Property Redevelopment Project.

(e) A 100% interest in an office apartment held for sale or lease in the central area of Kyiv, Ukraine. The property is a 90 square meter office apartment that was acquired for cash in 1997 and previously used as an office by the Corporation. The property was transferred to investments from capital assets as at March 31, 2000 at its net book value, and is held for sale or lease as it was no longer in use for operations.

(f) The continuity schedule of the investments is as follows:

During the past two years, the hryvnia ("UAH"), the currency of Ukraine, has devalued significantly against western currencies. The Corporation examined its exposure to this devaluation and its impact upon the carrying value of its investments. As a result, the carrying value of the investment in Electron Bank was reduced by $253,500 (1999 - $1,060,000). Electron Bank is deemed to be a self-sustaining operation and, accordingly, this reduction in carrying value is recorded as a component of shareholders' equity.

	Electron Bank	Kalininskaya Coal Project	Properties	Sukhodolska Coal Project	2000 Total	1999 Total
Balance, March 31, 1999	$ 935,148	$ 2,038,488	$ 145,685	$ 952,445	$ 4,071,766	$ 3,763,556
Acquired	113,400	(1,856)	—	237,492	349,036	1,516,506
Transferred	—	—	140,000	—	140,000	—
Share of earnings	17,935	—	—	—	17,935	253,736
Amortization	—	(174,920)	—	—	(174,920)	—
Distributions	(113,400)	(66,880)	—	—	(180,280)	(353,532)
Foreign currency translation adjustment	(253,500)	—	—	—	(253,500)	(1,060,000)
Foreign exchange loss	—	—	(38,500)	—	(38,500)	(48,500)
Balance, March 31, 2000	$ 699,583	$ 1,794,832	$ 247,185	$ 1,189,937	$ 3,931,537	$ 4,071,766

6. Capital assets:

	2000			1999
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	$ 53,853	$ 30,014	$ 23,839	$ 28,362
Office facilities – Kyiv	—	—	—	149,888
	$ 53,853	$ 30,014	$ 23,839	$ 178,250

7. Share capital:

(a) Capital stock continuity:

		2000		1999
Authorized:				
Unlimited common shares				
Issued:				
4,115,361 common shares, beginning of year	$	11,168,214	$	11,168,214
1,000,000 common shares	$	250,000	$	—
5,115,361 common shares, end of year	$	11,418,214	$	11,168,214

During the year, the Corporation completed a private placement of 1,000,000 common shares for $250,000.

(b) Share option plan:

The Corporation has a share option plan for the officers, employees and directors of the Corporation. The plan provides for the granting of rights for the purchase of up to 10% of the issued and outstanding shares of the Corporation, subject to regulatory approval, at an exercise price that is not less than the closing price of the shares on the Canadian Venture Exchange immediately prior to the granting. The directors shall award the options and set the exercise price. The period for the exercise of the right to purchase shall not exceed five years from the granting of the option. No one participant shall be eligible to hold options to acquire more than 5% of the issued and outstanding shares at any given time.

At March 31, 2000, there are 352,500 options outstanding under this plan, of which 106,500 expire on February 22, 2005, exercisable at a price of $0.25 each, and 246,000 expire on October 16, 2002, exercisable at $2.00 on 71,000 and $2.50 on 175,000.

The Corporation has agreed with the holders to cancel the 246,000 options that expire on October 16, 2002 and replace them with 368,000 options that expire on February 22, 2005, exercisable at a price of $0.25 each. The Canadian Venture Exchange has approved this cancellation and new issue subject to the approval of shareholders.

8. Loss per common share:

The weighted average number of common shares used to calculate loss per common share for the years ended March 31, 2000 and 1999 is 5,073,694 and 4,115,361, respectively.

9. Income taxes:

As of March 31, 2000, the Corporation has non-capital losses of approximately $4,900,000 for income tax purposes available to carry forward and apply against future years' taxable income, of which approximately $60,000 expires in the year 2002, $1,050,000 in 2003, $2,370,000 in 2004, $850,000 in 2005, $290,000 in 2006 and $280,000 in 2007. In addition, share issue costs of approximately $1,300,000 incurred in 1995, 1996 and 1997 have been charged to deficit for accounting purposes, which are deductible for income tax purposes on a straight-line basis over five years, of which $1,118,088 has been deducted to date. The tax benefit of these losses and share issue costs have not been recognized in these financial statements.

10. Profit-sharing plan:

Effective June 12, 1996, a profit-sharing plan was approved by the Board of Directors. The plan will allow for 10% of the Corporation's annual consolidated net income, before corporate taxes, as determined in accordance with the Corporation's consolidated financial statements, to be distributed to senior management within 180 days following completion of the Corporation's fiscal year.

CORPORATE INFORMATION

BOARD OF DIRECTORS	Dr. Walter Curlook, Toronto, Ontario [2] Sen. Jerry S. Grafstein, Q.C., Minden, Gross, Grafstein & Greenstein, Toronto, Ontario James Hatt, Metromedia International Telecommunications Inc., New York, New York [2] Charles B. Loewen, Corporate Services International Inc., Toronto, Ontario [2] Frank Potter, Emerging Markets Advisors Inc., Toronto, Ontario [1] James C. Temerty, Northland Power, Toronto, Ontario [1] Chairman of the Board [2] Member of Audit Committee
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KYIV OFFICE	15 Khreshchatyk Street, Suite 74 Kyiv 01001, Ukraine Telephone: 38044-229-2604 Fax: 38044-464-1309
AUDITORS	KPMG LLP P.O. Box 31, Suite 3300, Commerce Court West Toronto, Ontario M5L 1B2
REGISTRAR & TRANSFER AGENT	Computershare Investor Services, Inc. (formerly Montreal Trust Company of Canada) Toronto, Calgary
EXCHANGE LISTING	CDNX – Symbol UKN
ANNUAL & SPECIAL MEETING	Thursday, September 21, 2000 at 11:00 a.m. Hotel Inter-Continental, Mayfair Room Toronto, Ontario

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