UEC

Ukraine Enterprise Corporation

2001 Annual Report

I began the Chairman's message last year by saying that the past year had not been an easy one for foreign investors in Ukraine, but it had been an improvement on the year before.

I think it is fair to say the same thing again this year. As a place to do business, Ukraine is improving. There are still too many unnecessary frustrations in dealing with a ubiquitous bureaucracy, and very few things turn out to be as straightforward and simple as they should be, but the climate is very definitely improving. Slowly but surely, the business culture is becoming more conventional and more western.

The same can be said of the economic environment. Forecasts of real GDP growth this year have been raised to about 6 percent, while average inflation is now expected to fall to about 12 percent and perhaps lower. Exports are strong and there is a healthy surplus in the current account.

All of this should make for more successful investments, but I am afraid that has not been the case. The optimism outlined in my report last year has not been borne out by the facts. The coal business, which I described as then having been put in order, has not performed anywhere near expectations, and that under-performance has been further complicated by difficulties with our Ukrainian partner.

The outlook a year ago was based on a revised operating relationship with our Ukrainian partner, the essence of which was that UEC would receive a fixed rate of return on its investment in the two coal projects and would otherwise not participate in the day-to-day management of the operations. Our local partner undertook full responsibility for the maintenance and operation of the production facilities, as well as marketing of the product. Beyond the obligation to pay a minimum monthly sum to UEC, the operating partner was encouraged to expand production, and the terms of the arrangement were designed to offer clear incentives to do so.

Unfortunately that arrangement held for only a few months before the Ukrainian partner suspended monthly payments and disputed the basis of UEC's claim. Much time has since been spent on trying to resolve the dispute but so far without success. Negotiations are ongoing but it is not at all clear at this point how they will turn out.

If they are not resolved satisfactorily, UEC's viability may well be compromised. The two coal projects represent 74 percent of the company's total portfolio, and any serious impairment of that capital will call into question the company's ability to carry on. For that reason, UEC's management is devoting virtually all its time and efforts to resolve the dispute, and to put in place a viable and sustainable commitment which will give the company a reasonable return on its investment.

Electron Bank continues to go about its business with admirable consistency, though the banking business is not easy for small regional institutions of its size. Just keeping up with the need to generate capital internally is a challenge, and there is very little left over to pay dividends to shareholders. By all appearances it is a bank with a future, however, and there should be a growing potential to use the relationship to find new business opportunities for UEC. The dilemma for UEC is that the bank, though a solid performer, is distributing very little cash to its shareholders. So long as the coal investments generate high cash returns, UEC can afford to be patient, but not otherwise.

The third business sector in the portfolio is real estate. UEC holds interests in two properties, both in Kyiv. One is a very well located small business suite in central Kyiv, currently rented, and the other is a vacant property in an area suited to office and small business development. Both are for sale. The market, however, is extremely slow, and the likelihood of an early sale of either property is not high.

"Frank Potter" (signed)

Frank Potter August 2, 2001
Chairman

These management comments on the financial condition of the company and results of operations for the years ended March 31, 2001 and 2000 are the views of management and should be read in conjunction with the consolidated financial statements including related notes in this 2001 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.

ECONOMIC FACTORS

The hryvnia, the currency of Ukraine, suffered from a devaluation against the US dollar between August 1998 and March 2000. Since that time it has remained stable and has actually improved slightly. This devaluation had hurt the economy of Ukraine and contributed to the economic downturn affecting the annual inflation rate which had climbed from 10% in 1997 to 20% in 1998, 19% in 1999 and 26% in 2000. The rate is expected to recover to a level of 12% in 2001. GDP declined by 1.9% in 1998 and a further 0.4% in 1999 while 2000 showed an increase of 6.0% and estimates are the same increase for 2001.

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 recorded a reduction in the carrying value of its investment in Electron Bank of $253,500 as at March 31, 2000 and $1,060,000 as at March 31, 1999. These amounts were 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. The total amount of the foreign currency translation adjustment is $1,313,500.

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

INVESTMENT PORTFOLIO

The company, as at March 31, 2001, has investments in five 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 number of 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 was reduced in 2000 to 18.3% from 20.8% because the company elected not to supplement the capitalized dividends.

The company's share of Electron Bank's earnings in 2001 was $73,123, recorded on a cost basis, while the amount recorded in 2000 was $17,935 calculated on the equity basis for the results for Electron Bank's year ended December 31, 1999.

As outlined above, the value of Electron Bank had to be examined in light of the currency devaluation. The carrying value of the company's investment in Electron Bank at March 31, 2001 and 2000 is $699,583 after the cumulative foreign currency translation adjustment.

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. Ukraine Enterprise Corporation's ownership in the project was increased during 2000 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 was based upon the actual production output over the estimated reserves included in the project. The amount recorded for the year was $174,920. During 2001 it was determined that the fully recoverable reserves were less than originally determined. Accordingly the period of amortization was changed to reflect that the reserves might be exhausted by 2004 and would be recorded on a straight line basis. In 2001 the amortization was increased to $406,500. The carrying value at March 31, 2001 is $1,388,332 compared to $1,794,832 at March 31, 2000.

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 45% participation in the project up from 29% at March 31, 2000. The investment at March 31, 2001 is $1,344,147 which includes an additional contribution during 2000 of $237,492 and in 2001 an allocation of receivables from the projects of $144,210 for the additional 16% participation. In the year ended March 31, 2001 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 $163,505. The carrying value at March 31, 2001 is $1,170,842 compared to $1,189,937 at March 31, 2000.

For each of these investments the company records its investment at cost and recognizes revenue as it is realized based upon the production cycles. In fiscal 2001 it was agreed with the company's partners that the share of profits from this venture should be paid based upon a predetermined monthly amount. In exchange, the company agreed to leave full operational control with the partners. During the year the partners attempted to change this method as they were hampered by poor production at the plants and ceased making payments. The company had been recording as income on a monthly basis those amounts that had been agreed upon. Settlement was finally reached where the company received an additional 16% participation in the Sukhodolska project in settlement of all amounts owing for the year. The amount owing for the year was far greater than the accrued revenue the company had recorded when the item fell into dispute. Accordingly, the company, for conservatism, only recognized that accrued revenue of $144,210 as the value of the additional 16%.

The company is currently working closely with our partners to increase production and profitability at these two projects.

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, 2001 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 in previous years, 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 by those amounts. In 2001 it was determined that the property had a permanent impairment in value. Accordingly, the value of the investment was reduced to $50,000 by recording a reduction in value of $57,185.

In 2000 it was 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, 2001 is $190,000.

ASSETS AND LIABILITIES

The company holds its cash in short-term instruments. At March 31, 2001 this amounted to $106,946, which included $2,505 denominated in US currency. The balance at March 31, 2000 was $238,072 including US$78,915. Accounts receivable represent amounts due under contracts, expenditures and advances that are recoverable and accrued earnings. Prepaid expenses represent 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 2001, $1,092 was spent on acquisitions with $1,149 spent in fiscal 2000. 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.

SHAREHOLDERS' EQUITY

Ukraine Enterprise Corporation was formed on November 21, 1994 and listed its common shares on November 18, 1996 on the Alberta Stock Exchange, now Canadian Venture Exchange (CDNX), after an initial public offering. 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 February 2000 the company issued new stock options to its management, directors and consultants to replace existing options. This cancellation and replacement of options was approved by the shareholders at the last annual meeting in September 2000. These options allow the holders to purchase up to 432,500 shares at a price of $0.25 per share. None of these options have been exercised. The options expire 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, 2001 is $3,562,203 or 70 cents per share.

OPERATIONS

Revenue for fiscal 2001 was $522,148, which is up from the previous year's $402,282. Included in this total for fiscal 2001 is $418,398 as revenue from the coal recovery projects, $73,123 as our share of earnings of Electron Bank and rental income of $17,098. These components of revenue are outlined further above. Revenue also included interest of $4,750 and a foreign exchange gain of $8,779.

In fiscal 2000 the total revenue was comprised of revenue from the coal recovery projects of $373,605, the company's share of the earnings of Electron Bank of $17,935, and interest earned of $10,742.

The conversion of foreign currency during fiscal 2000 resulted in a loss of $43,992, which included $38,500 from the property redevelopment revaluation.

As discussed above, in fiscal 2001 the company recorded amortization of $569,805 as a charge against the earnings from the coal recovery projects and is included in expenses while in fiscal 2000 the charge was $174,920.

The total expenses for fiscal 2001 were $1,197,963 compared to $888,776 the previous year, the bulk of the increase being the amortization charge described above.

The salaries and benefits recorded in fiscal 2001 of $246,816 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 $261,423. Administrative expenses of $133,870 for fiscal 2001 decreased from $187,925 reported in fiscal 2000. 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.

Travel costs of $51,227 in 2001 reflect the cost of travel to and from Ukraine to monitor existing investments as well as investigating new projects, and are comparable to the 2000 costs of $51,842. Professional fees include legal and audit costs and were decreased in 2001 to $104,832 from $117,221 in 2000. Consulting fees also decreased to $29,460 in 2001 from $35,893 in 2000 and represent technical support engaged during the year.

As explained above, the reduction in carrying value of one of the investments of $57,185 increased the expenses for fiscal 2001.

Net loss for the year-ended March 31, 2001 was $675,815 or 13 cents per share compared to a loss of $486,494 or 10 cents per share in 1999. The weighted average number of shares outstanding used to calculate the loss per share was 5,115,361 in 2001 and 5,073,694 in 2000.

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. If any of these events occur the company could be subject to evaluation as a going concern.

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.

A significant portion of the company's investments is in the coal sector, which has lately experienced increased volatility. There is a risk related to this economic sector with the fluctuations in the price and market.

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 generate cash at sufficient levels to deliver positive cash returns. The company is examining other potential sites as well as financing sources. 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 are indications that the current levels of capitalization will have to increase further. Discussions are being held with other entities that could lead to a merger to alleviate this problem. The bank continues to be well run and is a strong local entity within the regional banking sector.

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.

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 — August 2, 2001
Managing Director

UEC

Report to the Shareholders

We have audited the consolidated balance sheets of Ukraine Enterprise Corporation as at March 31, 2001 and 2000 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, 2001 and 2000 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" (signed)

Toronto, Canada

Chartered Accountants

July 24, 2001

CONSOLIDATED BALANCE SHEETS

As at March 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash and short-term investments (note 4)	$ 106,946	$ 238,072
Accounts receivable	16,340	134,018
Prepaid expenses	22,333	28,827
	145,619	400,917
Investments (note 5)	3,448,757	3,931,537
Capital assets, net (note 6)	20,163	23,839
	$ 3,614,539	$ 4,356,293
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 52,336	$ 118,275
Shareholders' equity:		
Capital stock (note 7)	11,418,214	11,418,214
Deficit	(6,542,511)	(5,866,696)
Foreign currency translation adjustment	(1,313,500)	(1,313,500)
	3,562,203	4,238,018
Going concern (note 2)		
	$ 3,614,539	$ 4,356,293

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Frank Potter" (signed) | **"GM Keaney" (signed)**

Director | *Director*

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended March 31, 2001 and 2000

	2001	2000
Revenue:		
Share of earnings from investments	$ 508,619	$ 391,540
Interest	4,750	10,742
Foreign exchange gain	8,779	—
	522,148	402,282
General and administrative expenses:		
Salaries and benefits	246,816	261,423
Administrative	133,870	187,925
Professional fees	104,832	117,221
Travel	51,227	51,842
Consulting fees	29,460	35,893
Foreign exchange loss	—	43,992
Amortization	574,573	190,480
	1,140,778	888,776
Writedown in carrying value of investment	57,185	—
	1,197,963	888,776
Loss for the year	(675,815)	(486,494)
Deficit, beginning of year	(5,866,696)	(5,380,202)
Deficit, end of year	$ (6,542,511)	$ (5,866,696)
Loss per common share (note 8)	$ (0.13)	$ (0.10)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (675,815)	$ (486,494)
Items which do not involve cash:		
Amortization	574,573	190,480
Share of earnings from investments	(144,210)	(17,935)
Foreign exchange loss	—	38,500
Distribution from investments	—	180,280
Reduction in carrying value of investment	57,185	—
Decrease (increase) in accounts receivable	117,678	(78,973)
Decrease in prepaid expenses	6,494	7,371
Increase (decrease) in accounts payable and accrued liabilities	(65,939)	33,798
	(130,034)	(132,973)
Financing activities:		
Capital stock issued	—	250,000
Investing activities:		
Investments advanced	—	(349,036)
Additions to capital assets	(1,092)	(1,149)
	(1,092)	(350,185)
Decrease in cash and short-term investments	(131,126)	(233,158)
Cash and short-term investments, beginning of year	238,072	471,230
Cash and short-term investments, end of year	$ 106,946	$ 238,072

See accompanying notes to consolidated financial statements.

Years ended March 31, 2001 and 2000

Ukraine Enterprise Corporation (the "Corporation") was incorporated on November 21, 1994 under the laws of the Province of Ontario.

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. Going concern:

These financial statements have been prepared on a going concern basis which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Corporation has not generated cash from operations or profitable operations for several years. The application of the going concern concept is dependent on the Corporation’s ability to generate future profitable operations, positive cash flows, realize upon its investments and receive support from its shareholders.

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 into Canadian dollars 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 as they are not exchange traded. 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 4.6% (2000 - 4.05%).

4. Cash and short-term investments:

	2001	2000
Short-term deposits held at Canadian banks	$ 100,000	$ 100,000
Cash (including U.S. $2,505; 2000 – U.S. $78,915)	6,946	138,072
	$ 106,946	$ 238,072

5. Investments:

As at March 31, 2001, investments were comprised as follows:

(a) An 18.3% interest (2000 - 18.3%) in Electron Bank JSC ("Electron Bank"), a fully licensed bank based in Lviv in western Ukraine. The investment was acquired for cash consideration and is accounted for by the cost method for Electron Bank's fiscal year ended December 31, 2000.

(b) A 37.9% interest (2000 - 37.9%) in the Kalininskaya Coal Recovery Project in the Donbas 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. In fiscal 2001, the Corporation revised its estimate of the reserves in the pond and accordingly, has changed the effective useful life from 10 years to 4 years.

(c) A 45.0% interest (2000 - 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 principally acquired for cash consideration and is accounted for by the cost method.

During fiscal 2001, the Corporation acquired a further 16% in settlement of $144,210 owing to the Corporation from its partners.

(d) A 50% interest (2000 - 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. In fiscal 2000, a foreign exchange loss of $38,500 has been recorded in the consolidated statement of operations and deficit for the Property Redevelopment Project.

In fiscal 2001, the Corporation recorded a permanent impairment of $58,175 in the value of this investment.

(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.

The continuity schedule of the investments is as follows:

Prior to March 31, 2000, the hryvnia ("UAH"), the currency of Ukraine, 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 in 2000. 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	2001 Total	2000 Total
Balance, March 31, 2000	$ 699,583	$ 1,794,832	$ 247,185	$ 1,189,937	$ 3,931,537	$ 4,071,766
Acquired	—	—	—	144,210	144,210	349,036
Transferred	—	—	—	—	—	140,000
Share of earnings	—	—	—	—	—	17,935
Amortization	—	(406,500)	—	(163,305)	(569,805)	(174,920)
Distributions	—	—	—	—	—	(180,280)
Foreign currency translation adjustment	—	—	—	—	—	(253,500)
Foreign exchange loss	—	—	—	—	—	(38,500)
Reduction in value	—	—	(57,185)	—	(57,185)	—
Balance, March 31, 2001	$ 699,583	$ 1,388,332	$ 190,000	$ 1,170,842	$ 3,448,757	$ 3,931,537

6. Capital assets:

		2001		2000
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	$ 54,945	$ 34,782	$ 20,163	$ 23,839

7. Share capital:

(a) Capital stock continuity:

	2001		2000	
	Common shares	Amount	Common shares	Amount
Authorized:				
Unlimited common shares				
Issued:				
Balance, beginning of year	5,115,361	$ 11,418,214	4,115,361	$ 11,168,214
Issued for cash	—	—	1,000,000	250,000
Balance, end of year	5,115,361	$ 11,418,214	5,115,361	$ 11,418,214

(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, 2001, there are 432,500 options outstanding under this plan. They expire on February 22, 2005 and are exercisable at a price of $0.25 each.

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, 2001 and 2000 is 5,115,361 and 5,073,694, respectively.

9. Income taxes:

As of March 31, 2001, the Corporation has currently estimated non-capital losses of approximately $5.5 million 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 , $120,000 in 2007 and the balance in 2008. The tax benefit of these losses has 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.

UEC

BOARD OF DIRECTORS	**Dr. Walter Curlook,** Toronto, Ontario (2) **Sen. Jerry S. Grafstein, Q.C.,** Minden, Gross, Grafstein & Greenstein, Toronto, Ontario **Gregory M. Keaney,** Toronto, Ontario **George A. Ochrym,** 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
REGISTERED OFFICE	Sun Life Centre, Merrill Lynch Tower, 200 King St. West, Suite 1300, P.O. Box 47 Toronto, Ontario M5H 3T4 Telephone: (416) 591-3653 Fax: (416) 591-8772
KYIV OFFICE	15 Khreshchatyk Street, Suite 75 Kyiv 01001, Ukraine Telephone: 38044-229-2604 Fax: 38044-462-0759
AUDITORS	KPMG LLP P.O. Box 31, Suite 3300, Commerce Court West Toronto, Ontario M5L 1B2
REGISTRAR & TRANSFER AGENT	Computershare Trust Company of Canada Toronto, Calgary
EXCHANGE LISTING	CDNX – Symbol UKN
ANNUAL & SPECIAL MEETING	Wednesday, September 26, 2001 at 11:00 a.m. Boardroom, Ukraine Enterprise Corporation 200 King Street West, Suite 1300 Toronto, Ontario

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