

Financial Statements of

UEX CORPORATION

Years ended December 31, 2010 and 2009



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of UEX Corporation

We have audited the accompanying financial statements of UEX Corporation, which comprise the balance sheets as at December 31, 2010 and 2009, the statements of operations, comprehensive loss and deficit, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UEX Corporation as at December 31, 2010 and 2009, and its results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

March 22, 2011
Vancouver, Canada

UEX CORPORATION

Balance Sheets

December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,798,832	\$ 16,938,416
Amounts receivable	76,665	200,152
Prepaid expenses	172,328	104,563
	17,047,825	17,243,131
Equipment (note 3)	131,699	164,788
Mineral properties (note 4)	148,706,547	145,909,266
	\$ 165,886,071	\$ 163,317,185

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 333,218	\$ 694,925
Future income taxes (note 5)	16,564,164	14,829,975
Shareholders' equity:		
Share capital (note 6)	143,692,774	138,144,108
Contributed surplus (note 7)	38,428,116	37,050,195
Deficit	(33,132,201)	(27,402,018)
	148,988,689	147,792,285
	\$ 165,886,071	\$ 163,317,185

Nature of operations and going concern (note 1)
Commitments (notes 4 and 8)
Subsequent event (notes 6(d) and 11)

See accompanying notes to financial statements.

Approved on behalf of the Board:

"Graham C. Thody" Director

"Emmet McGrath" Director

UEX CORPORATION

Statements of Operations, Comprehensive Loss and Deficit

Years ended December 31, 2010 and 2009

	2010	2009
Expenses:		
Amortization	\$ 10,736	\$ 11,840
Bank charges and interest	2,761	2,779
Filing fees and stock exchange	91,463	97,671
General and administration	278,604	203,396
Insurance	44,672	44,957
Legal and audit	125,310	204,046
Rent	91,282	88,375
Salaries and retiring allowance	440,569	1,116,372
Stock-based compensation (note 6(c))	967,347	6,760,244
Telephone	9,012	9,925
Travel and promotion	50,882	31,018
Loss before the undernoted items	(2,112,638)	(8,570,623)
Investment income	85,131	85,704
Write-down of mineral property (note 4(e))	(5,462,846)	-
Loss before income taxes	(7,490,353)	(8,484,919)
Future income tax recovery (note 5)	1,760,170	464,703
Net loss and comprehensive loss for the year	(5,730,183)	(8,020,216)
Deficit, beginning of year	(27,402,018)	(19,381,802)
Deficit, end of year	\$ (33,132,201)	\$ (27,402,018)
Basic and diluted loss per share	\$ (0.03)	\$ (0.04)
Basic and diluted weighted average number of shares outstanding	197,721,556	190,161,338

See accompanying notes to financial statements.

UEX CORPORATION

Statements of Cash Flows

Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used for):		
Operations:		
Net loss for the year	\$ (5,730,183)	\$ (8,020,216)
Items not involving cash		
Amortization	10,736	11,840
Future income tax recovery	(1,760,170)	(464,703)
Stock-based compensation	967,347	6,760,244
Write-down of mineral property	5,462,846	-
Changes in non-cash operating working capital:		
Amounts receivable	88,959	90,322
Prepaid expenses	(67,765)	82,207
Accounts payable and accrued liabilities	(20,709)	(107,990)
	(1,048,939)	(1,648,296)
Investments:		
Mineral property expenditures	(7,774,895)	(18,841,980)
Purchase of equipment	(47,961)	(44,867)
	(7,822,856)	(18,886,847)
Financing:		
Common shares issued, net of share issuance costs	8,732,211	13,307,254
Decrease in cash and cash equivalents	(139,584)	(7,227,889)
Cash and cash equivalents, beginning of year	16,938,416	24,166,305
Cash and cash equivalents, end of year	\$ 16,798,832	\$ 16,938,416
Supplementary information:		
Interest received	\$ 84,162	\$ 102,755
Non-cash transactions:		
Decrease in accounts payable and accrued liabilities relating to mineral property expenditures	(340,998)	(4,480,458)
Decrease in amounts receivable relating to mineral property expenditures	34,528	141,769
Non-cash stock-based compensation included in mineral property expenditures	526,613	977,271
Increase in mineral properties due to future income taxes	194,775	361,456
Amortization included in mineral properties	70,314	78,771

See accompanying notes to financial statements.

UEX CORPORATION

Notes to Financial Statements

Years ended December 31, 2010 and 2009

1. Nature of operations and going concern:

The Company was incorporated under the Canada Business Corporations Act on October 2, 2001. On October 23, 2001, the Company entered into an agreement with Pioneer Metals Corporation (Pioneer) and Cameco Corporation (Cameco) to establish the Company as a public uranium exploration company. On July 17, 2002, under a plan of arrangement with Pioneer, Pioneer transferred to the Company its uranium exploration properties and all related assets, including the Riou Lake and Black Lake Projects. On the same date, Cameco transferred its Hidden Bay uranium exploration property and certain related assets, in exchange for shares of the Company.

The Company is in the business of exploring and developing its mineral properties and has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable ore reserves in its mineral properties, the ability of the Company to obtain the necessary financing to complete exploration and development, and upon future profitable production or proceeds from the disposition of its mineral properties. Based on the Board approved 2011 budgets of approximately \$11.2 million for exploration and development and administrative costs, the Company has sufficient funding to continue as a going concern.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

(b) Adoption of new accounting standards:

(i) Business combinations:

Effective January 1, 2010, the Company adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

- CICA Handbook Section 1582, *Business Combinations* which replaces CICA Handbook Section 1581, *Goodwill and Business Combinations*, and establishes revised standards for the recognition, measurement, presentation and disclosure of business acquisitions and aligns Canadian GAAP with International Financial Reporting Standards.
- CICA Handbook Section 1601, *Consolidated Financial Statements* and CICA Handbook Section 1602, *Non-Controlling Interests*, which replace Handbook Section 1600, *Consolidated Financial Statements*, and establish revised standards for the preparation of consolidated financial statements.

The adoption of these standards had no impact on these financial statements.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(c) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the valuation of mineral properties, determination of valuation allowances for future income tax assets and assumptions used in determining the fair value of non-cash stock-based compensation. Actual amounts may differ from such estimates.

(d) Cash equivalents:

Cash equivalents are highly liquid investments having a maturity of three months or less at the date of acquisition and are readily convertible to contracted amounts of cash.

(e) Equipment:

Equipment is stated at cost less accumulated amortization. Amortization is provided on a declining-balance basis over the expected useful lives of the assets, using the following rates:

Asset	Rate
Exploration equipment	30%
Computer equipment	30% - 100%
Furniture and fixtures	20%

In the year of acquisition, amortization is provided at one-half the declining balance rate.

(f) Mineral properties:

All acquisition, exploration and development costs are capitalized until such time as the project to which they relate is put into commercial production, sold, abandoned or the recovery of costs is determined to be unlikely. Upon reaching commercial production, these capitalized costs are amortized over the estimated ore reserves on a unit-of-production basis. For properties which do not yet have proven reserves, the amounts shown represent costs to date and are not intended to represent present or future values. The underlying value of all properties is dependent on the existence and economic recovery of reserves in the future. All administrative costs are expensed in the year incurred.

(g) Asset retirement obligations:

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it incurs a legal obligation, if a reasonable estimate of fair value can be made, based on the discounted estimated future cash settlement of an asset retirement obligation. The asset retirement obligation is capitalized as part of the carrying amount of the associated long-lived asset and a liability is recorded. This asset retirement cost will be depreciated over the life of the related asset. The liability is accreted, through operating expense, over a period ending when the liability is finally settled in cash, subject to annual adjustments for changes in estimates. The Company has assessed each of its mineral projects and determined that no material asset retirement obligations exist as at December 31, 2010 and 2009.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(h) Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities. Cash and cash equivalents are designated as held for trading and carried at fair value, with the unrealized gain or loss recorded in the statement of operations as interest income. Amounts receivable are classified as loans and receivables, and accounts payable and accrued liabilities are classified as other financial liabilities, and recorded at amortized cost using the effective interest rate method. In addition, any impairment of loans and receivables is deducted from the amortized cost. The Company does not hold any derivative financial instruments.

(i) Stock-based compensation:

The Company has a share option plan which is described in note 6(c). The Company records all stock-based payments using the fair value method.

Under the fair value method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable, and are charged to operations over the vesting period. The offset is credited to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

(j) Income taxes:

Income taxes are accounted for under the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period the substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

The future income tax benefit on eligible mineral property expenditures which are renounced to investors due to the issuance of flow-through shares is charged to share capital at the time the tax credits associated with the expenditures are renounced to shareholders, provided there is reasonable assurance that the expenditures will be made.

(k) Earnings (loss) per share:

Basic earnings (loss) per share is calculated using the weighted-average number of common shares outstanding and earnings (loss) available to shareholders. For all periods presented, earnings (loss) available to shareholders equals reported earnings (loss). The treasury stock method is used to calculate diluted earnings per share. However, the Company's outstanding stock options have no dilutive effect on basic loss per share for 2010 and 2009.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(l) Variable interest entities:

The Company applies CICA Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15). AcG-15 prescribes the application of consolidation principles for entities that meet the definition of a variable interest entity (VIE). An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE's expected losses, receive the majority of its expected residual returns, or both. Management has determined the Company does not have any variable interest entities for the years ended December 31, 2010 and 2009.

(m) Adoption of International Financial Reporting Standards (IFRS):

In February 2008, the Accounting Standards Board announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective January 1, 2011. As a result, the Company will publish its first financial statements, prepared in accordance with IFRS, for the quarter ending March 31, 2011. The Company will provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2010.

3. Equipment:

2010	Cost	Accumulated amortization	Net book value
Exploration equipment	\$ 315,264	\$ 246,475	\$ 68,789
Computer equipment	307,063	251,403	55,660
Furniture and fixtures	13,218	5,968	7,250
	\$ 635,545	\$ 503,846	\$ 131,699

2009	Cost	Accumulated amortization	Net book value
Exploration equipment	\$ 313,198	\$ 217,437	\$ 95,761
Computer equipment	261,503	201,161	60,342
Furniture and fixtures	12,883	4,198	8,685
	\$ 587,584	\$ 422,796	\$ 164,788

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

4. Mineral properties:

The continuity of expenditures on mineral properties is as follows:

Project	Balance December 31, 2009	Exploration and development expenditures	Write-down of mineral property	Balance December 31, 2010
Hidden Bay	\$ 69,040,753	\$ 2,982,022	\$ -	\$ 72,022,775
Western Athabasca	46,403,391	4,941,276	-	51,344,667
Black Lake	15,409,894	41,060	-	15,450,954
Riou Lake	9,011,798	23,824	-	9,035,622
Northern Athabasca	5,438,633	24,213	(5,462,846)	-
Beatty River	604,797	247,732	-	852,529
	\$ 145,909,266	\$ 8,260,127	\$ (5,462,846)	\$ 148,706,547

Project	Balance December 31, 2008	Exploration and development expenditures	Write-down of mineral property	Balance December 31, 2009
Hidden Bay	\$ 59,337,816	\$ 9,702,937	\$ -	\$ 69,040,753
Western Athabasca	40,454,607	5,948,784	-	46,403,391
Black Lake	15,253,114	156,780	-	15,409,894
Riou Lake	8,931,497	80,301	-	9,011,798
Northern Athabasca	5,413,862	24,771	-	5,438,633
Beatty River	597,581	7,216	-	604,797
	\$ 129,988,477	\$ 15,920,789	\$ -	\$ 145,909,266

A summary of the company's mineral property interests is as follows:

(a) Hidden Bay Project:

The Company's 100%-owned Hidden Bay Project, including the Horseshoe, Raven and West Bear deposits, is located in the eastern Athabasca Basin of northern Saskatchewan, Canada.

(b) Western Athabasca Projects:

The Western Athabasca Projects, located in the western Athabasca Basin, which include the Kianna, Anne, Colette and 58B deposits, are ten joint ventures with the Company holding a 49% interest and AREVA Resources Canada Inc. (AREVA) holding a 51% interest as at December 31, 2010 and 2009. The Company is in the process of preparing joint venture agreements with AREVA.

The Kianna, Anne, Colette and 58B deposits are subject to a royalty of US\$0.212 per pound of U₃O₈ sold to a maximum royalty of US\$10,000,000.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

4. Mineral properties (continued):

(c) Black Lake Project:

The Black Lake Project, located in the northern Athabasca Basin, is a joint venture with the Company holding an 89.96% interest and AREVA holding a 10.04% interest as at December 31, 2010 and 2009.

(d) Riou Lake Project:

The Company holds a 100% interest in the Riou Lake Project located in the northern Athabasca Basin.

(e) Northern Athabasca Projects:

The Company holds a 100% interest in the Northern Athabasca Projects located in the northern Athabasca Basin. During the year ended December 31, 2010, the Company wrote off the deferred mineral property costs of \$5,642,846 associated with its Northern Athabasca Projects, being the Jacques Point, Butler Lake, Munroe Lake and Fond du Lac projects, as there has been a delay in exploration activities extending beyond three years and future exploration activities are not currently being pursued.

(f) Beatty River Project:

The Company holds an option with JCU (Canada) Exploration Company, Limited (JCU) to acquire a 25% interest in the Beatty River Project, located in the western Athabasca Basin, by funding \$865,000 in exploration expenditures by December 31, 2011.

5. Income taxes:

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2010 and 2009 are presented below:

	2010	2009
Future tax assets:		
Losses carried forward	\$ 1,506,687	\$ 1,055,763
Equipment	42,712	39,813
Share issuance costs	192,287	214,356
	1,741,686	1,309,932
Future tax liabilities:		
Mineral properties	(18,305,850)	(16,139,907)
Net future tax liabilities	\$ (16,564,164)	\$ (14,829,975)

At December 31, 2010, the Company has non-capital losses available for income tax purposes totaling approximately \$5,558,070 (2009 - \$3,890,000) which may be carried forward to reduce future years' taxable income. These losses, if not utilized, will expire by 2030.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

5. Income taxes (continued):

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
Loss before income taxes	\$ (7,490,353)	\$ (8,484,919)
Statutory rates	28.5%	30%
Income tax recovery at statutory rates	\$ 2,134,750	\$ 2,545,476
Non-deductible expenses and permanent differences	(276,795)	(2,029,130)
Future corporate tax rate differences	(97,785)	(51,643)
Future income tax recovery	\$ 1,760,170	\$ 464,703

6. Share capital:

(a) Authorized:

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series, of which 1,000,000 preferred shares have been designated Series 1 Preferred Shares.

(b) Issued and outstanding - common shares:

	Number of shares	Value
Balance, December 31, 2008	183,703,052	\$ 124,699,739
Issued in 2009:		
For cash by way of private placements, net of share issuance costs	13,303,100	13,294,734
For cash on exercise of stock options (note 6(c))	156,500	12,520
Contributed surplus transferred on exercise of stock options	-	12,041
Future income taxes on share issuance costs	-	125,074
Balance, December 31, 2009	197,162,652	138,144,108
Issued in 2010:		
For cash by way of private placements, net of share issuance costs	5,500,000	8,532,211
For cash on exercise of stock options (note 6(c))	200,000	200,000
Contributed surplus transferred on exercise of stock options	-	116,039
Future income taxes on share issuance costs	-	146,553
Future income taxes on flow-through expenditures renounced to shareholders	-	(3,446,137)
Balance, December 31, 2010	202,862,652	\$ 143,692,774

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

6. Share capital (continued):

(b) Issued and outstanding - common shares (continued):

On November 26, 2010, the Company issued 5,500,000 flow-through common shares at \$1.65 per share for gross proceeds of \$9,075,000, pursuant to a brokered private placement. A commission of \$453,750 was paid to the broker and \$89,039 of additional issuance costs were incurred.

On April 15, 2009, the Company issued 8,700,000 flow-through common shares at \$1.00 per share for gross proceeds of \$8,700,000, pursuant to a brokered private placement. A commission of \$348,000 was paid to the broker and \$78,968 of additional issuance costs were incurred.

On December 17, 2009, the Company issued 3,628,100 flow-through common shares at \$1.12 per share and 975,000 non-flow-through common shares at \$1.02 per share for aggregate gross proceeds of \$5,057,972, pursuant to a non-brokered private placement. The Company incurred issuance costs of \$36,270.

(c) Stock-based compensation:

Under the Company's stock-based compensation plan, the Company may grant options to its key employees, directors, officers and others providing services to the Company. The maximum number of shares issuable under the plan is a rolling number equal to 10% of the issued and outstanding common shares of the Company from time to time. Under the plan, the exercise price of each option shall be fixed by the Board of Directors but shall not be less than the quoted closing market price of the shares on the Toronto Stock Exchange on the date prior to the option being granted and an option's maximum term is 10 years. The shares subject to each option shall become purchasable at such time or times as may be determined by the Board of Directors.

A summary of the status of the Company's stock-based compensation plan as at December 31, 2010 and 2009 and changes during the years ended on these dates are presented below.

	Number of options	Weighted average exercise price
Outstanding, December 31, 2008	11,051,200	\$ 2.65
Granted during the year	10,135,000	1.41
Exercised during the year	(156,500)	0.08
Surrendered during the year	(6,375,000)	3.46
Outstanding, December 31, 2009	14,654,700	1.47
Granted during the year	2,100,000	0.86
Exercised during the year	(200,000)	1.00
Outstanding, December 31, 2010	16,554,700	\$ 1.39
Exercisable, December 31, 2010	14,171,368	\$ 1.44

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

6. Share capital (continued):

(c) Stock-based compensation (continued):

As at December 31, 2010, the Company had a total of 16,554,700 stock options outstanding related to director, employee and consultant options, the details of which are as follows:

Exercise price	Number outstanding, December 31, 2010	Weighted average remaining contractual life
\$ 0.72	200,000	2.4 years
0.84	300,000	3.5 years
0.87	1,900,000	8.5 years
0.95	575,000	3.7 years
1.00	400,000	9.0 years
1.20	4,020,000	5.2 years
1.34	1,685,000	8.7 years
1.45	6,350,000	6.0 years
1.80	99,700	4.5 years
2.75	175,000	4.2 years
3.56	850,000	5.7 years
	16,554,700	6.2 years

The estimated fair value of all options granted and vested during 2010 is \$1,493,960 (2009 - \$7,737,515). Of this amount, included in deferred exploration and development expenditures for the year is \$526,613 (2009 - \$977,271). The unamortized balance of stock-based compensation expense for options that were not vested at December 31, 2010 is \$1,042,406 (2009 - \$1,022,703).

The weighted average fair value of options granted during the year ended December 31, 2010 was \$0.50 (2009 - \$0.82) per option using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Volatility	92%	91%
Risk-free interest rate	2.2%	1.7%
Dividend yield	-	-
Expected life of options	3 years	3 years

(d) Flow-through shares:

In February 2010, the Company renounced \$12,763,472 of tax deductions associated with qualified expenditures incurred and to be incurred with flow-through funds raised in 2009, and the Company recorded a future income tax liability of \$3,446,137, with a corresponding reduction in share capital.

Subsequent to December 31, 2010, the Company renounced \$9,075,000 of tax deductions associated with qualified expenditures incurred and to be incurred with flow-through funds raised in 2010, and the Company will record a future income tax liability of \$2,450,250, with a corresponding reduction in share capital.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

7. Contributed surplus:

The continuity of the Company's contributed surplus is as follows:

	2010	2009
Contributed surplus, beginning of year	\$ 37,050,195	\$ 29,324,721
Fair value of options granted and vested during the year	1,493,960	7,737,515
Transferred to share capital on exercise of options	(116,039)	(12,041)
Contributed surplus, end of year	\$ 38,428,116	\$ 37,050,195

8. Commitments:

The Company has an obligation under an operating lease for its office premises. The future minimum lease payments are as follows:

2011	\$ 56,197
2012	57,653
2013	59,110
2014	60,566
2015	56,734

Other commitments in respect of the Company's mineral properties are disclosed in note 4.

9. Management of capital:

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development programs on its mineral properties. The Company manages its capital structure, consisting of shareholders' equity, and makes adjustments to it, based on funds available to the Company, in order to support the exploration and development of its mineral properties. Historically, the Company has relied exclusively on the issuance of common shares for its capital requirements.

All of the Company's cash and cash equivalents are available for exploration and development programs and administrative operations. The Company has not changed its approach to capital management during the current period, and is not subject to any external capital restrictions.

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Notes to Financial Statements

Years ended December 31, 2010 and 2009

10. Management of financial risk:

The Company operates entirely in Canada and is therefore not subject to any significant foreign currency risk. The Company's financial instruments are exposed to limited liquidity risk, credit risk and interest rate risk.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure as outlined in note 9 of these financial statements. Accounts payable and accrued liabilities are due within the current operating period.

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk includes cash and cash equivalents and amounts receivable. The Company reduces its credit risk by maintaining its bank accounts at large national financial institutions. The maximum exposure to credit risk is equal to the carrying value of cash and cash equivalents and amounts receivable. The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments that are redeemable 90 days or less from the original date of acquisition.

The Company is subject to interest rate risk on its cash and cash equivalents.

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2 – Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3 – Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The carrying values of amounts receivable, and accounts payable and accrued liabilities are a reasonable estimate of their fair values because of the short period to maturity of these instruments.

Cash and cash equivalents are classified as held-for-trading and are therefore recorded at fair value. At December 31, 2010 and 2009, the Company's cash and cash equivalents of \$16,798,832 (2009 - \$16,938,416) are classified as Level 1 within the fair value hierarchy.

11. Subsequent events:

Subsequent to December 31, 2010, the Company issued 205,000 common shares on the exercise of stock options for proceeds of \$192,350.