

Consolidated Financial Statements of

**UCORE RARE METALS INC.**

(FORMERLY UCORE URANIUM INC.)  
(A Development Stage Enterprise)

Years ended December 31, 2010 and 2009



**KPMG LLP**

**Chartered Accountants**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Ucore Rare Metals Inc.

We have audited the accompanying financial statements of Ucore Rare Metals Inc. (formerly Ucore Uranium Inc.), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the year then ended, and notes comprising, a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ucore Rare Metals Inc. as at December 31, 2010 and 2009 and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants  
May 6, 2011  
Halifax, Canada

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Consolidated Balance Sheets  
(Expressed in Canadian dollars)

December 31, 2010 and 2009

	2010	2009
<b>Assets</b>		
Current assets:		
Cash	\$ 9,306,218	\$ 183,830
Short-term deposits	2,306,363	1,993,533
Marketable securities	30,500	15,000
Sales taxes recoverable	51,605	23,892
Prepaid expenses (note 7)	38,786	34,646
	11,733,472	2,250,901
Capital assets (note 5)	66,273	67,365
Resource properties and related deferred costs (note 6)	19,243,927	18,089,688
	\$ 31,043,672	\$ 20,407,954

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 369,015	\$ 310,231
Future income tax liability (note 8)	878,000	878,000
	1,247,015	1,188,231
Shareholders' equity:		
Share capital (note 9)	30,486,290	19,690,320
Contributed surplus (note 10)	4,048,491	3,064,561
Warrants (notes 9 and 11)	4,884,270	2,320,708
Accumulated other comprehensive loss	(15,250)	(24,500)
Deficit	(9,607,144)	(5,831,366)
	29,796,657	19,219,723
Commitments (note 12)		
Subsequent events (note 13)		
	\$ 31,043,672	\$ 20,407,954

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed) "Jim McKenzie" Director

(signed) "Jos De Smedt" Director

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Consolidated Statements of Operations, Comprehensive Loss and Deficit

Years ended December 31, 2010 and 2009

	2010	2009
Expenses:		
Amortization	\$ 28,316	\$ 29,425
Investor relations and marketing	296,285	101,198
Office and premises	144,723	115,227
Professional services	50,095	69,273
Salaries and consultants	844,616	552,565
Securities and regulatory	117,043	58,544
Stock-based compensation	442,503	363,525
Travel	290,930	97,909
Impairment of resource properties (note 6)	2,025,371	-
	<u>4,239,882</u>	<u>1,387,666</u>
Other income (loss):		
Interest income	10,765	31,387
Gain on disposal of equipment	-	445
Recovery of resource property expenditure	-	24,500
Foreign exchange	(36,726)	(6,397)
	<u>(25,961)</u>	<u>49,935</u>
Loss before income taxes	(4,265,843)	(1,337,731)
Future income tax recovery (note 8)	(490,065)	-
Net loss for the year	<u>(3,775,778)</u>	<u>(1,337,731)</u>
Deficit, beginning of year	(5,831,366)	(4,139,635)
Modification of warrants (note 9)	-	(354,000)
Deficit, end of year	<u>\$ (9,607,144)</u>	<u>\$ (5,831,366)</u>
Loss per share - basic and diluted	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding - basic and diluted	<u>100,158,182</u>	<u>73,456,127</u>
Comprehensive loss:		
Net loss for the year	\$ (3,775,778)	\$ (1,337,731)
Unrealized gain (loss) on available-for-sale securities	9,250	(12,000)
	<u>\$ (3,766,528)</u>	<u>\$ (1,349,731)</u>

See accompanying notes to consolidated financial statements.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

## Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Cash flows from operating activities:		
Net loss for the years	\$ (3,775,778)	\$ (1,337,731)
Items not involving cash:		
Amortization	28,316	29,425
Stock based compensation	442,503	363,525
Future income tax recovery	(490,065)	-
Gain on disposal of equipment	-	(445)
Non-cash recovery of resource property expenditures	-	(24,500)
Impairment of resource properties	2,025,371	-
	(1,769,653)	(969,726)
Change in non-cash operating working capital:		
Decrease in accounts receivable	-	34,268
Decrease (increase) in sales taxes recoverable	(27,713)	125,582
Increase in prepaid expenses	(4,140)	(3,644)
Increase in accounts payable and accrued liabilities	153,773	4,766
	(1,647,733)	(808,754)
Cash flows from financing activities:		
Issuance of common shares for cash	14,000,000	4,000,000
Issuance of common shares on exercise of options and warrants	1,571,023	388,612
Financing costs	(1,254,491)	(306,231)
	14,316,532	4,082,381
Cash flows from investing activities:		
Purchase of capital assets	(27,224)	(8,469)
Proceeds on disposal of equipment	-	12,426
Resource property interests and options	(3,206,357)	(2,391,266)
Short-term deposits	(312,830)	(751,218)
Recovery of staking security deposits	-	2,300
	(3,546,411)	(3,136,227)
Increase in cash	9,122,388	137,400
Cash, beginning of year	183,830	46,430
Cash, end of year	\$ 9,306,218	\$ 183,830
Non-cash financing and investing activities:		
Issuance of common shares on payment of property option agreements	\$ -	\$ 9,450
Marketable securities received from property option agreements	6,250	24,500
Issuance of warrants as compensation pursuant to a private placement	707,954	335,000
Increase (decrease) in accounts payable and accrued liabilities related to resource properties and related deferred costs	(94,989)	54,835

See accompanying notes to consolidated financial statements.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

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## 1. Nature of operations:

Ucore Rare Metals Inc. (formerly Ucore Uranium Inc.) ("Ucore" or the "Company") is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be a development stage enterprise.

## 2. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and, in management's opinion, within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

### (a) Consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Ucore Resources LP (NS) Inc., Rare Earth One LLC (AK), Mineral Solutions LLC (AK), Landmark Alaska Limited Partnership (AK), Landmark Minerals Inc., 5621 N.W.T. Ltd. and Landmark Minerals US. All significant intercompany balances and transactions have been eliminated on consolidation.

### (b) Resource properties and related deferred costs:

As a development stage enterprise, the Company defers all expenditures related to its resource properties until such time as the properties are put into commercial production, sold or abandoned. Under this method, all amounts shown as resource properties represent costs incurred to date less amounts amortized, received from exploration partners and/or written off, and do not necessarily represent present or future values.

If a property is put into commercial production, the expenditures will be depleted following the units of production method. If a property is sold or abandoned, or considered to be impaired in value, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining in good standing its resource properties.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

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## 2. Significant accounting policies (continued):

Resource properties are reviewed for impairment, on a property-by-property basis, whenever events or changes in circumstances indicate that the carrying amount of a resource property may not be recoverable. If the Company has sufficient information about a resource property to estimate future cash flows expected to be generated by the resource property then recoverability is measured by a comparison of the carrying amount to the estimated cash flows. If the Company does not have sufficient information about the resource property to estimate future cash flows expected to be generated by the resource property, then the carrying amount is compared to the estimated fair value. If the carrying amount exceeds the estimated future cash flows or estimated fair value, the resource property will be written down to its estimated fair value. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write downs of capitalized property carrying values.

### (c) Property option agreements:

From time to time, the Company may acquire or dispose of an interest in a resource property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable, in accordance with the terms of the options, are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

### (d) Foreign currency translation:

The functional currency of the Company's operations is the Canadian dollar. Non-Canadian dollar balances are translated into Canadian dollars as follows: monetary assets and liabilities are translated into Canadian dollars at the period-end exchange rate; non-monetary assets and liabilities are translated at the rate prevailing at the time of the transaction; and revenue and expense transactions are translated using average exchange rates, except for expenses that relate to non-monetary assets and liabilities, which are translated at the same historical exchange rate as the related asset or liability. Translation gains or losses are recognized in earnings in the period in which they occur.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

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## 2. Significant accounting policies (continued):

(e) 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the carrying value of property plant and equipment, the valuation of resource properties, valuation allowances for future income taxes, and valuation of stock-based compensation. Actual results could differ from those estimates.

(f) Short-term deposits:

Short-term deposits consist of Guaranteed Investment Certificates which are convertible into cash without penalty with remaining maturities of one year, or less, when purchased.

(g) Future income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the enacted or substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted, with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

(h) Stock-based compensation:

The Company has a stock-based compensation plan, which is described in note 9(b). Awards of options under this plan are expensed based on the estimated fair value of the options at the grant date, with a corresponding credit to stock-based compensation in shareholders' equity. If the options are subject to a vesting period, the estimated fair value is recognized over this period on a straight-line basis. Consideration paid by employees on the exercise of stock options is credited to share capital together with the amounts originally recorded as stock-based compensation related to the exercised options.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

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## 2. Significant accounting policies (continued):

(i) Loss per share:

The calculation of basic loss per common share is based on net loss divided by the weighted average number of common shares outstanding. The Company follows the treasury stock method of calculating diluted per share amounts. Since the Company has a net loss for all years being presented, the effect of the exercise of options and warrants has not been included in the calculation as it would be anti-dilutive.

(j) Capital assets:

Capital assets are recorded at cost. The Company provides for amortization using the declining balance method at rates designed to amortize the cost of the capital assets over their estimated useful lives. The annual amortization rates are as follows:

Asset	Basis	Rate
Office equipment	Declining balance	30%
Exploration equipment	Declining balance	30%

(k) Flow-through shares:

The Company has, in prior years, financed portions of its exploration activities through the issuance of flow-through shares. The income tax attributes of the related exploration expenditures are renounced to investors in accordance with income tax legislation. When the resource expenditure deductions are renounced, capital stock is reduced and the future tax liability increased by the estimated tax benefit transferred to investors.

(l) Marketable securities:

Marketable securities are measured at fair value based on quoted market prices, with changes in fair value recorded in other comprehensive income (loss) or in the Statement of Operations to the extent that the decline in value is considered to be other than temporary.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

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## 2. Significant accounting policies (continued):

(m) Future accounting policies:

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will affect financial reporting requirements for Canadian companies. The AcSB's strategic plan outlines the convergence of Canadian GAAP with IFRS over a five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will be required to adopt IFRS on January 1, 2011. The transition will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The Company will implement these standards in the first quarter of fiscal year 2011.

Business combinations:

In January 2009, the CICA issued the new handbook Section 1582, "Business Combinations" effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on the consolidated financial statements, it will be limited to any future acquisitions beginning in fiscal 2011.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

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## 2. Significant accounting policies (continued):

Consolidated financial statements and non-controlling interests:

In January 2009, the CICA issued the new handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non controlling Interests", effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non controlling owners. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in fiscal 2011 in connection with the conversion to IFRS.

## 3. Financial instruments:

The Company recognizes financial instruments based on their classification. Depending on the financial instruments' classification, changes in subsequent measurements are recognized in net income or comprehensive income (loss).

If a financial instrument is measured at fair value, changes in its fair value shall usually be recognized in the period in which the change occurs, with some exceptions, such as for cash flow hedges and available-for-sale investments. For investments designated as being available-for-sale, changes in the fair value shall be recorded directly in shareholders' equity in a separate account called "Accumulated Other Comprehensive Income (Loss)" until the asset is disposed of or is impaired. At that time, the gains and losses are transferred to the Statement of Operations and Deficit.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

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### 3. Financial instruments (continued):

The Company has implemented the following classifications:

- Cash and short-term deposits are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net income at each period end.
- Marketable securities are classified as available-for-sale financial assets and are marked to market with changes in fair value recognized in other comprehensive income (loss) each period or in the Statement of Operations to the extent the decline in value is considered to be other than temporary.
- Sales taxes recoverable, accounts receivable and due from related parties are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest method.
- Accounts payable and due to related parties are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

#### Fair value

The fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair value.

The fair value of short term deposits were determined using level 2 inputs based on comparable interest rates for similar investments in an active market. The fair value of cash and marketable securities is determined using level 1 inputs as identical assets are traded in an active market.

The carrying values of cash, short term deposits, accounts receivable, due to/from related parties, and accounts payable and accrued liabilities approximate their fair value because of the short term nature of these instruments.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

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### 3. Financial instruments (continued):

#### Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. Short term deposits are held in interest bearing instruments that can be converted to cash without penalty at any time and are recorded at fair value.

#### Foreign currency rate risk

A significant portion of the Company's transactions occur in United States dollars and accordingly, the related financial assets are subject to fluctuations in the respective exchange rates. At year end, the Company currently had net US dollar financial liabilities of \$10,000. A 10% weakening in the exchange rate would result in a foreign exchange loss of \$1,000. A 10% strengthening would have an equal but opposite impact.

#### Concentration of credit risk

The maximum credit risk exposure as at December 31, 2010 is \$11,612,581 (2009: \$2,177,363) comprised of cash and short term deposits, all of which is owing by a Canadian financial institution with a "AAA" rating. All of the sales taxes recoverable are with the Government of Canada.

#### Interest rate risk

The Company has cash, short term deposits and no interest-bearing debt. The Company's short term funds are held primarily in guaranteed investment certificates, the rates of which are fixed for periods ranging up to one year. A one-percent change in the interest rate for these instruments would affect the Company by an annualized amount of interest equal to approximately \$115,000.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

## 4. Capital management:

The Company's capital consists of share capital, contributed surplus, warrants and deficit. The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments.

These were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

## 5. Capital assets:

			2010
	Cost	Accumulated amortization	Net book value
Office equipment	\$ 102,283	\$ 62,819	\$ 39,464
Exploration equipment	101,151	74,342	26,809
	<u>\$ 203,434</u>	<u>\$ 137,161</u>	<u>\$ 66,273</u>
			2009
	Cost	Accumulated amortization	Net book value
Office equipment	\$ 75,059	\$ 45,964	\$ 29,095
Exploration equipment	101,151	62,881	38,270
	<u>\$ 176,210</u>	<u>\$ 108,845</u>	<u>\$ 67,365</u>

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

## 6. Resource properties and related deferred costs:

The Company's interests in resource properties consist of:

	December 31, 2009	Acquisition Costs	Deferred Exploration Costs	Impairment	December 31, 2010
Bokan Mountain, Alaska	\$ 12,859,236	\$ 123,585	\$ 3,029,913	\$ -	\$ 16,012,734
Lost Pond Uranium, Newfoundland	4,691,493	1,112	-	(1,892,605)	2,800,000
Canada - Other	538,959	25,000	-	(132,766)	431,193
	<u>\$ 18,089,688</u>	<u>\$ 149,697</u>	<u>\$ 3,029,913</u>	<u>\$ (2,025,371)</u>	<u>\$ 19,243,927</u>

  

	December 31, 2008	Acquisition Costs	Deferred Exploration Costs	December 31, 2009
Bokan Mountain, Alaska	\$ 10,357,952	\$ 108,979	\$ 2,392,305	\$ 12,859,236
Lost Pond Uranium, Newfoundland	4,646,851	9,450	35,192	4,691,493
Canada - Other	536,799	-	2,160	538,959
	<u>\$ 15,541,602</u>	<u>\$ 118,429</u>	<u>\$ 2,429,657</u>	<u>\$ 18,089,688</u>

The following notes describe property option and joint venture agreements and related activity for 2010.

### Bokan Mountain, Alaska

Ucore Rare Metals Inc. holds the right to acquire up to a 100% interest in the Bokan Mountain uranium and Rare Earth Element property, subject to certain royalties.

The Company holds a 100% interest in five separate option agreements to acquire a 100% interest in a parcel of unpatented mineral claims from underlying owners and staked a 100% interest in an additional parcel of land. The option agreements provide for the Company to acquire a 100% interest in the optioned claims in exchange for total remaining payments of US\$240,000. The vendors will retain Net Smelter Royalties ("NSR") ranging from 2% to 4% on their specific claims. The Company has the right to purchase between 33% and 100% of the NSR for cash payments of US\$500,000 to US\$1,000,000 per vendor.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

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## 6. Resource properties and related deferred costs (continued):

### Lost Pond, Newfoundland

The Company holds a 100% interest, or options to acquire a 100% interest, in the Lost Pond uranium and Rare Earth Element property, located east of Stephenville, Newfoundland. The Company's 100% interest is subject to a 2% NSR (1% on contiguous claims optioned from third parties), 50% of which can be purchased by the Company for cash payments of \$500,000 to \$1,000,000 to three different vendors.

On September 15, 2008, the Company entered into a Letter Agreement with Kirrin Resources Inc. ("Kirrin") pursuant to which Kirrin may earn up to a 50% interest in the Lost Pond property over approximately four years by completing work commitments of \$2,600,000 on the property and by issuing 300,000 Kirrin common shares (split adjusted) to the Company.

Subsequent to December 31, 2010, Kirrin Resources Inc. announced drill results associated with their exploration work on the property for Uranium, concluding that the results did not meet the objectives set. As a result of these results, the Company performed an impairment test which resulted in a write-down of \$1,892,605 with respect to the Lost Pond property.

Subsequent to year end, Kirrin has requested a reduction in their earn-in commitment. The company has entered in to negotiations with Kirrin which may result in changes to the terms of the original agreement. The Company will re-assess its carrying value of the Lost Pond property when Kirrin has completed their earn-in of the 50% interest.

### Canada - Other

#### Sandybeach Lake, Nunavut

The Company holds a 100% interest in the Sandybeach Lake uranium property located northeast of the northern extent of Neultin Lake, Manitoba in Nunavut. The Company undertook an impairment review with respect to the Sandybeach Lake property at December 31, 2010, which resulted in a write-down of \$107,766, to bring capitalized costs associated with this property to nil.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

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## 6. Resource properties and related deferred costs (continued):

Newfoundland and Labrador

### *(i) Central Mineral Belt/Makkovik River*

During 2006, the Company acquired a 100% interest in a number of claims in the Makkovik River area of the Central Mineral Belt, located in Labrador. Subsequently, the Company entered into a Letter Agreement with Bayswater Uranium Corporation ("Bayswater") to provide for, on a 50/50 basis, the joint ownership and exploration of their mutual uranium properties in the Central Mineral Belt, now referred to as the Makkovik River Project. In connection with the Letter Agreement, Bayswater continues to explore this property.

### *(ii) Notakwanon River, Labrador*

During 2007, the Company acquired a 100% interest in the Notakwanon River property. The vendor retains 2% NSR, 50% of which may be purchased by the Company for \$500,000. The carrying value of this property is nominal.

### *(iii) Other Newfoundland and Labrador*

The Company holds a 100% interest in the Deer Lake and Grommet Lake properties in the province of Newfoundland and Labrador. The carrying value of this property is nominal.

## 7. Related party transactions:

As at December 31, 2010, the Company has recorded an advance, for corporate expenses, to an Officer of the Company in the amount of \$13,095 (2009 - \$12,056) as a prepaid expense, which is non-interest bearing with no fixed terms of repayment.

During the year ending December 31, 2010, the Company paid \$24,125 (2009 - \$32,000) in consulting fees to Directors of the Company. Additionally, travel expenditures in the amount of \$4,984 (2009 - \$5,887) were reimbursed to directors of the Company.

During the year ended December 31, 2010, the Company contracted a company owned by an Officer of the Company to conduct airborne surveys, resulting in total fees paid of \$43,970 (2009 - \$39,810).

All related party transactions were in the normal course of operations and were valued at the exchange amount agreed to between the parties.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

## 8. Income taxes:

The tax effects of temporary differences that give rise to future income tax liabilities are as follows:

	US	2010 Canada	US	2009 Canada
Accounting value of resource properties in excess of tax value	\$ 878,000	\$ 824,000	\$ 878,000	\$ 1,494,000
Deductible share issue costs	-	(318,000)	-	(149,000)
Non-capital losses carried forward	-	(1,478,000)	-	(1,786,000)
Tax value of capital assets in excess of accounting value	-	(40,000)	-	(32,000)
Valuation allowance	-	1,012,000	-	473,000
Future tax liability - end of year	\$ 878,000	\$ -	\$ 878,000	\$ -

The Company has accumulated losses for Canadian tax purposes of approximately \$6,092,000, which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

2013	\$ 91,000
2014	151,000
2025	471,000
2026	851,000
2027	1,561,000
2028	1,119,000
2029	641,000
2030	1,207,000

The Company also has unamortized share issue costs of \$1,308,000 (2009 - \$473,000) available for deduction. These expenditures may be carried forward and used to reduce taxable income in future years.

Future income tax recovery differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of 32% (2009 - 33.0%) to net loss before income taxes. The reasons for the difference are as follows:

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

## 8. Income taxes (continued):

	2010	2009
Computed tax recovery	\$ (1,365,000)	\$ (441,000)
Stock-based compensation, not deductible for tax purposes	142,000	147,000
Impact of reduction in future statutory tax rates	114,000	39,000
Expiry of non-capital losses	-	32,000
Change in valuation allowance	1,027,000	441,000
Finance fees recorded through equity	(401,000)	(89,000)
Other differences	(7,065)	(129,000)
	<b>\$ (490,065)</b>	<b>\$ -</b>

## 9. Share capital:

Authorized:

- Unlimited number of common voting shares
- Unlimited number of first preferred non-voting shares issuable in series
- Unlimited number of second preferred non-voting shares issuable in series

Issuance of common shares:

	2010		2009	
	Number of shares	Ascribed value	Number of shares	Ascribed value
Balance, beginning of year	86,475,198	\$ 19,690,320	61,019,782	\$ 16,850,999
Pursuant to private placements (a)	43,181,818	8,084,329	23,500,000	2,286,281
For cash and fair value pursuant to option agreements (b)	60,000	11,400	621,666	140,850
For cash and fair value pursuant to warrant agreements (c)	6,936,237	2,700,241	1,318,750	402,740
Pursuant to property agreements	-	-	15,000	9,450
<b>Total issued and outstanding</b>	<b>136,653,253</b>	<b>\$ 30,486,290</b>	<b>86,475,198</b>	<b>\$ 19,690,320</b>

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

## 9. Share capital (continued):

### a) Private placements

- (i) On June 18, 2010, the Company completed a brokered private placement financing of 18,181,818 units at a price of \$0.22 per unit, for aggregate gross proceeds of \$4,000,000. Each unit consisted of one common share and one half warrant, with each whole warrant entitling the holder to purchase an additional common share at a price of \$0.30 per share until June 18, 2012. The value allocated to the common shares issued was \$2,909,091, and the value allocated to the warrants was \$1,090,909. The Company paid broker fees of 7% of the gross proceeds in cash and broker warrants with the right to purchase one common share at a price of \$0.22 for a period of two years. A total of \$280,000 and 1,272,727 broker warrants were paid and issued. Other costs associated with the private placement totaled \$103,105. The fair value of the broker warrants was \$165,454.

The value allocated to the warrants was based on the Black-Scholes model, using an assumed volatility of 115% and an expected life of 2 years, resulting in the following allocation of proceeds and costs between common shares and warrants:

	Common shares value	Warrants value	Total
Gross proceeds	\$ 2,909,091	\$ 1,090,909	\$ 4,000,000
Cash costs	(278,622)	(104,483)	(383,105)
Broker warrants	(165,454)	165,454	-
Net proceeds	\$ 2,465,015	\$ 1,151,880	\$ 3,616,895

- (ii) On December 9, 2010, the Company completed a brokered private placement financing of 25,000,000 units at a price of \$0.40 per unit, for aggregate gross proceeds of \$10,000,000. Each unit consisted of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.55 until December 9, 2012. The value allocated to the common shares was \$6,780,000 and the value allocated to the warrants was \$3,250,000. The Company paid finder's fees of 7% of the gross proceeds in cash and issued broker's warrants equal to 7% of the units issued. Each broker's warrant gives the holder the right to purchase one common share at an exercise price of \$0.40 for a period of two years. A total of \$700,000 and 1,750,000 broker's warrants were paid and issued. Other costs associated with the private placement totaled \$171,386. \$283,201 of the issued costs have been allocated to the issue of the warrants. An officer of the Company purchased 75,000 of the units issued.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

## 9. Share capital (continued):

The value allocated to the warrants was based on the Black-Scholes model, using an assumed volatility of 88% and an expected life of 2 years, resulting in the following allocation of proceeds and costs between common shares and warrants:

	Common shares value	Warrants value	Total
Gross proceeds	\$ 6,750,000	\$ 3,250,000	\$ 10,000,000
Cash costs	(588,186)	(283,201)	(871,387)
Broker warrants	(542,500)	542,500	-
Net proceeds	\$ 5,619,314	\$ 3,509,299	\$ 9,128,613

- (iii) On April 1, 2009, the Company completed a non-brokered private placement financing of 5,000,000 units at a price of \$0.06 per unit, for aggregate gross proceeds of \$300,000. Each unit consisted of one common share and one whole warrant, with each warrant entitling the holder to purchase an additional common share at a price of \$0.10 per share until April 1, 2011. The value allocated to the common shares issued was \$175,000, and the value allocated to the warrants was \$125,000. Total costs associated with the financing were \$6,032. The Company allocated \$3,519 to the cost of issuing the common shares and \$2,513 to the cost of issuing the warrants. An Officer of the Company purchased 2,000,000 of the units issued.
- (iv) On July 24, 2009, the Company completed a non-brokered private placement financing of 18,500,000 units at a price of \$0.20 per unit, for aggregate gross proceeds of \$3,700,000. Each unit consisted of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.30 until July 24, 2011. The value allocated to the common shares was \$2,670,000 and the value allocated to the warrants was \$1,030,000. The Company paid finder's fees of 8% of the gross proceeds in cash and issued finder's warrants equal to 10% of the units issued. Each finder's warrant gives the holder the right to purchase one common share at an exercise price of \$0.26 for a period of two years. A total of \$268,000 and 1,675,000 finder's warrants were paid and issued. Other costs associated with the private placement totaled \$32,199. Directors of the Company purchased 600,000 of the units issued.

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

## 9. Share capital (continued):

### b) Stock options

The Company has adopted an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees and consultants to the Company (“the plan”). Pursuant to the terms of the plan, up to 10% of the issued and outstanding common shares have been reserved for issuance as options, with no one individual being granted more than 5% of the issued and outstanding common shares. Options granted under the plan generally vest over three years. Stock options expire up to five years after the date of grant.

Stock options may also be granted to agents in certain public and private placements. Options granted to agents vest immediately and generally expire two years after the date of grant.

On December 21, 2006, 750,000 stock options were issued to an Officer of the Company at an exercise price of \$1.04 per share, for a period of up to five years before expiry. 50% of these options vest over a three year period, with the remaining 50% subject to market conditions, such that 16.67% of the options will vest based on the 30 day average of the market share price exceeding each of \$3.00, \$4.00 and \$5.00 per share. The number of these options exercisable at December 31, 2010 was 375,000 (2009 - 375,000).

For the year ended December 31, 2010, the Company recognized a stock based compensation charge of \$516,995 (2009 - \$456,060) for options granted to directors, employees and non employees of which \$74,492 (2009 - \$92,535) was capitalized in resource properties and related deferred costs and \$442,563 (2009 - \$363,525) was charged to earnings.

The fair value of options recognized in the consolidated statements of operations, comprehensive income and deficit have been estimated using the Black Scholes option pricing model. The weighted average assumptions used in the pricing model for options granted during the year are as provided below:

	2010	2009
Risk-free interest rate	1.98%	1.07%
Expected life	5.0 years	5.0 years
Expected volatility	164%	178%
Expected dividends	nil	nil
Weighted average grant date fair value	\$0.57	\$0.25

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

## 9. Share capital (continued):

A summary of changes in stock options during the year is as follows:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	4,177,420	\$ 0.59	3,904,910	\$ 0.61
Granted	1,670,000	0.58	1,700,000	0.28
Exercised	(60,000)	0.10	(621,666)	0.15
Forfeited	(517,500)	0.48	(805,324)	0.38
<b>Balance, end of year</b>	<b>5,269,920</b>	<b>\$ 0.61</b>	<b>4,177,920</b>	<b>\$ 0.59</b>

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2010:

Exercise price per share	Number of outstanding options	Expiry date	Number of exercisable options
\$ 0.10	450,000	April 24, 2014	225,000
0.21	150,000	June 10, 2014	75,000
0.35	250,000	August 6, 2014	166,667
0.38	200,000	February 1, 2015	66,666
0.40	300,000	August 19, 2015	-
0.45	150,000	July 2, 2013	112,500
0.47	850,000	March 31, 2013	850,000
0.49	20,000	December 1, 2015	-
0.50	300,000	October 2, 2011	300,000
0.67	1,150,000	September 29, 2015	-
0.75	50,000	November 21, 2012	50,000
0.76	102,000	March 13, 2011	102,000
0.84	250,000	September 21, 2014	62,500
0.97	47,600	November 16, 2011	47,600
1.00	100,000	February 1, 2012	100,000
1.04	750,000	December 21, 2011	375,000
1.22	50,320	April 8, 2012	50,320
1.25	100,000	June 13, 2012	100,000
	<b>5,269,920</b>		<b>2,683,253</b>

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

## 9. Share capital (continued):

### (c) Share purchase warrants

The fair value of warrants have been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for each of the warrants granted during the year are as provided below:

	2010	2009
Risk-free interest rate	1.97%	1.18%
Expected life	2.0 years	2.0 years
Expected volatility	99%	110%
Expected dividends	nil	nil
Weighted average grant date fair value	\$ 0.42	\$ 0.15

A summary of the Company's share purchase warrants at December 31, 2010 and 2009, and the changes for the years then ended, is presented below:

	2010		2009	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of year	18,538,750	\$ 0.30	5,829,550	\$ 0.80
Granted	24,613,636	0.43	15,925,000	0.23
Exercised	(6,936,237)	0.23	(1,318,750)	0.22
Expired	(3,701,250)	0.55	(1,897,050)	1.33
Balance, end of year	32,514,899	\$ 0.39	18,538,750	\$ 0.30

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

## 9. Share capital (continued):

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2010.

Exercise price per share	Expiry date	Number of exercisable warrants
\$ 0.10	April 2, 2011	2,250,000
0.22	June 18, 2012	394,625
0.26	July 24, 2011	285,000
0.30	July 24, 2011	7,075,000
0.30	June 18, 2012	8,260,274
0.40	December 9, 2012	1,750,000
0.55	December 9, 2012	12,500,000
		<hr/> 32,514,899

- (d) On June 9, 2009, the Company extended the term of 3,932,500 common share purchase warrants that were issued by the Company as part of a private placement that occurred between June 23, 2008 and July 2, 2008 by 12 months. The amended fair value of the warrants has been estimated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.26%, expected life of 1.06 years, expected volatility of 176%, and an expected dividend yield of 0%. The Black-Scholes value attributed to this modification was \$354,000 and has been recorded in shareholder's equity.

## 10. Contributed surplus:

	2010	2009
Balance, beginning of year	\$ 3,064,561	\$ 1,643,177
Stock based compensation	516,995	456,060
Fair value of exercised options	(5,400)	(45,675)
Expired warrants	962,400	1,010,999
Tax effect of expired warrants	(490,065)	-
	<hr/> \$ 4,048,491	<hr/> \$ 3,064,561

# UCORE RARE METALS INC.

(FORMERLY UCORE URANIUM INC.)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

## 11. Warrants:

	2010	2009
Balance, beginning of year	\$ 2,320,708	\$ 1,679,522
Warrants issued, net of issue costs	4,661,179	1,407,487
Warrants exercised	(1,135,217)	(109,302)
Warrants expired	(962,400)	(1,010,999)
Amendment to warrants	-	354,000
	<u>\$ 4,884,270</u>	<u>\$ 2,320,708</u>

## 12. Commitments:

The Company has a commitment in respect of its operating lease on its premises in Halifax, which can be terminated by either party with three months notice. The commitment results in total minimum payments as follows:

Year ending December 31, 2011	\$ 15,000
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## 13. Subsequent events:

- (a) Subsequent to December 31, 2010 a total of 12,481,499 shares were issued pursuant to the exercise of warrant and option agreements, for total proceeds of \$3.5 million.
- (b) Subsequent to December 31, 2010, the Company made payments totalling US\$150,000 with respect to property option agreements on Bokan Mountain referred to in note 6. Payments remaining to be made under property option agreements now total US\$90,000.

## 14. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.