

**LUBEL COAL COMPANY LIMITED
(REGISTERED IN BRITISH VIRGIN
ISLANDS – NO.1056038)**

Independent Auditor's Report

**Consolidated Financial Statements
for the Year Ended 31 December 2014**

LUBEL COAL COMPANY LIMITED

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LUBEL COAL COMPANY LIMITED

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Lubel Coal Company Limited (the "Company") and its subsidiaries (the "Group") as at 31 December 2014, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the countries where entities of the Group are incorporated;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2014 were approved by management on 28 August 2015.

On behalf of the Board and Management:


Boris Pokrass, Chairman


Dmytro Bodnya, Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To Shareholders and Board of Directors of Lubel Coal Company Limited:

We have audited the accompanying consolidated financial statements of Lubel Coal Company Limited and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 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 financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw your attention to Note 2 to the consolidated financial statements. The impact of the continuing economic crisis and political turmoil in Ukraine and their final resolution are unpredictable and may adversely affect the Ukrainian economy and the operations of the Group. Our opinion is not qualified in respect of this matter.

The Group is currently in the development stage. As discussed in Notes 1 and 4 to the consolidated financial statements, successful completion of the Group's development program and, ultimately, the attainment of profitable operations is dependent upon future events, including obtaining adequate financing to complete its development activities. Our opinion is not qualified in respect of this matter.

Deloitte & Touche

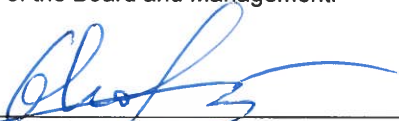
28 August 2015

LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS FOR THE YEAR ENDED 31 DECEMBER 2014 (in US Dollars)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Administrative expenses	7	(1,705,483)	(3,159,221)
Operating loss		(1,705,483)	(3,159,221)
Interest income		524,296	734,156
Other income		782	1,703
Foreign exchange gain		4,947,887	125,403
Profit/(Loss) before income tax		3,767,482	(2,297,959)
Income tax expense	8	-	-
Profit/(loss) for the year		3,767,482	(2,297,959)
Other comprehensive loss:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(13,184,108)	(797,013)
Loss on revaluation of investments to fair value		(258,367)	-
Total comprehensive loss for the year		(9,674,993)	(3,094,972)
Profit/(Loss) per share:			
Basic (cents per share)	15	1.70	(1.04)
Diluted (cents per share)	15	1.68	(1.03)

On behalf of the Board and Management:


Boris Pokrass, Chairman


Dmytro Bohnya, Chief Financial Officer

The notes on pages 8 to 32 form an integral part of these consolidated financial statements.

LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 (in US dollars)

	Notes	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Exploration and evaluation assets	9	2,000,973	2,058,047
Development assets	10	14,601,055	19,167,754
Property, plant and equipment	11	1,130,829	2,195,859
Prepayments to suppliers for exploration, evaluation and development expenditures		38,615	161,759
Investments available for sale		124,766	383,133
Total non-current assets		17,896,238	23,966,552
Current assets			
Other receivables	12	90,657	101,712
Cash and cash equivalents	13	6,511,052	726,507
Short-term bank deposits	13	53,736	9,383,623
Total current assets		6,655,445	10,211,842
Total assets		24,551,683	34,178,394
EQUITY AND LIABILITIES			
Equity			
Issued capital	15	61,580,561	61,580,561
Reserves	16	(12,370,344)	988,068
Accumulated losses		(24,763,126)	(28,530,608)
Total equity		24,447,091	34,038,021
Current liabilities			
Other payables	14	104,592	140,373
Total current liabilities		104,592	140,373
Total liabilities		104,592	140,373
Total equity and liabilities		24,551,683	34,178,394

On behalf of the Board and Management:


Boris Pokrass, Chairman


Dmytro Bodnya, Chief Financial Officer


The notes on pages 8 to 32 form an integral part of these consolidated financial statements.

LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014 (in US dollars)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before income tax		3,767,482	(2,297,959)
Adjustments for:			
Interest income		(524,296)	(734,156)
Change in allowance for irrecoverable VAT	7	219,551	797,788
Foreign exchange gain		(3,737,670)	(241,854)
Impairment of financial assets	7	-	230,880
Operating loss before changes in operating assets and liabilities		(274,933)	(2,245,301)
Increase in value added tax ("VAT") receivable		(219,551)	(797,788)
Increase in other receivables		(28,686)	(3,175)
(Decrease)/increase in other payables		(2,449)	78,557
Net cash used in operating activities		(525,619)	(2,967,707)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Exploration and evaluation assets		(1,163,615)	(975,229)
Development assets		(1,021,001)	(2,678,031)
Purchase of property, plant and equipment		(80,896)	(1,500,254)
Placement of short-term bank deposits		(2,000,000)	(9,379,593)
Withdrawal of short-term bank deposits		9,866,380	-
Obligatory conversion of cash on current accounts to investments available for sale		-	(614,013)
Interest received		524,296	734,156
Net cash generated by/(used in) investing activities		6,125,164	(14,412,964)
Net increase/(decrease) in cash and cash equivalents		5,599,545	(17,380,671)
Effect of exchange rate changes		185,000	1,828
CASH AND CASH EQUIVALENTS at the beginning of year	13	726,507	18,105,350
CASH AND CASH EQUIVALENTS at the end of year	13	6,511,052	726,507

On behalf of the Board and Management:


Boris Pokrass, Chairman


Dmytro Bodnya, Chief Financial Officer


The notes on pages 8 to 32 form an integral part of these consolidated financial statements.

LUBEL COAL COMPANY LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(in US dollars)**

	Share Capital	Share premium reserve	Accumulated losses	Equity settled employee benefit reserve	Foreign currency translation reserve	Investments revaluation reserve	Total
As at 1 January 2013	4,527,142	57,053,419	(26,232,649)	3,193,179	(1,589,760)	-	36,951,331
Share based payment charge (Note 17)	-	-	-	181,662	-	-	181,662
Loss for the year	-	-	(2,297,959)	-	-	-	(2,297,959)
Other comprehensive income	-	-	-	-	(797,013)	-	(797,013)
Total comprehensive (loss)/income for the year	-	-	(2,297,959)	181,662	(797,013)	-	(2,913,310)
As at 31 December 2013	4,527,142	57,053,419	(28,530,608)	3,374,841	(2,386,773)	-	34,038,021
Share based payment charge (Note 16)	-	-	-	84,063	-	-	84,063
Profit for the year	-	-	3,767,482	-	-	-	3,767,482
Other comprehensive loss	-	-	-	-	(13,184,108)	(258,367)	(13,442,475)
Total comprehensive (loss)/income for the year	-	-	3,767,482	84,063	(13,184,108)	(258,367)	(9,590,930)
As at 31 December 2014	4,527,142	57,053,419	(24,763,126)	3,458,904	(15,570,881)	(258,367)	24,447,091

On behalf of the Board and Management:


Boris Pokrass, Chairman


Dmytro Bodrya, Chief Financial Officer

The notes on pages 8 to 32 form an integral part of these consolidated financial statements.

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in US dollars)

1. GENERAL INFORMATION

Lubel Coal Company Limited ("the Company") is a private company incorporated in the British Virgin Islands (Company number 1056038). These consolidated financial statements include the financial statements of the Company and its subsidiaries which together are referred to as the "Group". The registered address of the Company is Geneva Place, Waterford Drive, PO Box 3469, Road Town, Tortola, British Virgin Islands.

The principal activity of the Group is the development of a mine in Western Ukraine through its Ukrainian-based subsidiary CCI Lubelia. In 2006, this entity obtained a license to operate Lubelska # 1-2 deposit in the Lviv-Volyn coal field for 20 years. A feasibility study to bankable standard has been finalised and the outstanding permits were received in June 2009, after which development of certain infrastructure works commenced.

In September 2011, the Group obtained a special permit for geological exploration for the Lubelska # 3 deposit. As at 31 December 2014, the Group continued exploration and evaluation of this deposit.

At the end of 2013, the Group engaged China Coal No.3 Construction Group Corporation LTD ("CCCGC") and Hefei design and research institute of coal industry to review the construction budget and mine project and update the mine feasibility study in line with amendments introduced by CCCGC. At the end of 2014, this study was successfully completed stating an updated construction budget of USD 1.081bn and construction period of 48 months including the period of preparation. The mine construction is dependent upon obtaining necessary financing.

As at 31 December 2014 and 2013, the Company was owned by the following shareholders:

	<u>2014</u>	<u>2013</u>
Pokrass, Boris	27.29%	27.29%
The Severinovskiy 2008 Family Trust	17.95%	17.95%
Malavasia Enterprises Inc (BVI)	13.92%	13.92%
Palant, Vladimir	12.38%	12.38%
Agrera Investments Limited	11.19%	11.19%
Zdanov, Alex (incl. Revocable Trust)	4.28%	4.28%
Other	12.99%	12.99%
	<u>100%</u>	<u>100%</u>

The Company is the parent company of the Group which includes the following subsidiaries in the consolidated financial statements:

<u>Name</u>	<u>Country of incorporation</u>	<u>Percentage controlled as at 31 December 2014</u>	<u>Percentage controlled as at 31 December 2013</u>	<u>Principal activity</u>	<u>Consolidation method</u>
CCI Lubelia	Ukraine	100%	100%	Mine development	Full
Lakehold Limited	Cyprus	100%	100%	Dormant company	Full
Lubel Assets Limited	Cyprus	100%	100%	Dormant company	Full

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in US dollars)

2. OPERATING ENVIRONMENT

In 2014, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. Political unrest and separatist movements in Eastern Ukraine evolved into armed conflict and full-scale military activities in certain parts of Luhansk and Donetsk regions effectively resulting in a loss of control over these territories by the Government of Ukraine. These events led to a significant deterioration of the relationship between Ukraine and the Russian Federation.

Active military conflict and inability to implement substantial and effective economic reforms have led to a significant fall in a gross domestic product, decline of international trade, deterioration of the state's finances and significant devaluation of the Ukrainian Hryvnia against major foreign currencies. The ratings of Ukrainian sovereign debt have been downgraded by all international rating agencies with a negative outlook for the future. All these factors have had a negative effect on the Ukrainian companies and banks hampering their ability to obtain funding from domestic and international financial markets. In addition, Ukraine has a large external debt refinancing requirement in the next few years, while its foreign reserves reached a critically low level.

The National Bank of Ukraine("NBU") introduced a range of measures aimed at limiting the outflow of foreign currencies from the country, inter alia, a mandatory sale of 75% of foreign currency earnings, certain restrictions on purchases of foreign currencies on the interbank market and on usage of foreign currencies for settlement purposes, limitations on remittances abroad, as well as limitations for individuals for foreign currency purchases and bank withdrawals. In addition, the Government of Ukraine has been taking efforts in attracting significant external financing, primarily from the International Monetary Fund, as well as negotiating terms and conditions with external creditors as to the curtailing and restructuring the terms of repayment of the principal amount of external debt.

Stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian Government's and NBU efforts, yet further economic and political developments, as well as the impact of these factors on the Group, its customers and contractors are currently difficult to predict.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of new and revised International Financial Reporting Standards – The following amendments to IFRS has been applied in the current year:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements". Investment Entities. Effective from 1 January 2014.
- Amendments to IAS 32 "Financial instruments: Presentation". Application guidance on the offsetting of financial assets and financial liabilities. Effective from 1 January 2014.
- Amendments to IAS 36 "Impairment of Assets". Recoverable amounts disclosures for non-financial assets. Effective from 1 January 2014.
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement". Novation of derivatives and continuation of hedge accounting. Effective from 1 January 2014.
- IFRIC 21 Levies. Effective from 1 January 2014.

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in US dollars)

The adoption of new, revised or amendments to standards did not have any effect on the financial position or performance reported in the consolidated financial statements and had not resulted in any changes to the Group's accounting policies and the amounts reported for the current or prior years.

Standards and Interpretations in issue but not effective – At the date of authorization of these consolidated financial statements, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective:

Standards/Interpretations	<u>Effective for annual accounting period beginning on or after</u>
Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contribution	1 July 2014
Amendments to IFRSs – "Annual Improvements to IFRSs 2010-2012 Cycle"	1 July 2014
Amendments to IFRSs – "Annual Improvements to IFRSs 2011-2013 Cycle"	1 July 2014
Amendments to IFRS 7 "Financial instruments: Disclosures" – Disclosures about the initial application of IFRS 9	1 January 2015
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016
Amendment to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the consolidation exception	1 January 2016
Amendments to IAS 1: Disclosure Initiative	1 January 2016
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016
Amendments to IAS 16 and IAS 41: Bearer plants	1 January 2016
Amendments to IAS 16 and IAS 38: Classification of Acceptable Methods of Depreciation and Amortization	1 January 2016
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to IFRS 11: Accounting for acquisitions of Interests in Joint Ventures	1 January 2016
Amendments to IFRSs – "Annual Improvements to IFRSs 2012-2014 Cycle"	1 July 2016
IFRS 15 "Revenue from contracts with customers"	1 January 2017
IFRS 9 "Financial Instruments"	1 January 2018

Management is currently evaluating the impact of the adoption of these Standards and Interpretations, as well as the amendments to Standards, on the consolidated financial statements.

4. GOING CONCERN

At 31 December 2014, the Group had available cash and bank deposits of USD 6,564,788. For 2015, the Group has planned to undertake certain construction and preparation works at Lubelska # 1-2 deposit, and certain geological research and exploration activities at Lubelska # 3 deposit with aggregate costs around USD 3,500,000. Management has developed a detailed plan of exploration and development activities to 31 December 2017 using the remaining own cash.

As described in more detail in Note 1, in 2013 and 2014 the Group has been actively working with CCCGC and Hefei design and research institute of coal industry on the construction project and the mine feasibility study in line with requirements of CCCGC. In the view of the Group management, results of the mine feasibility study show a high potential of Lubelska # 1-2 deposit in terms of quality of coal and expected returns from development of this deposit. The Group considers CCCGC as the potential general contractor for coal mine construction and plans to continue active cooperation with it in 2015.

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in US dollars)

Management considers that the main goal for the Group over the next few years is the search of financing necessary for development of Lubelska # 1-2 deposit. The Group has been in discussions with a Chinese bank to attract a long-term financing. One of the necessary conditions that would facilitate such financing is the availability to the Group of Ukraine's sovereign guarantee to secure the loan. In 2015, the Group has been in the process of document collection for further state expertise by the Ministry of Fuel and Power of Ukraine and the Ministry of Economic Development and Trade of Ukraine in order to apply for such sovereign guarantee.

On the basis of their assessment the Group's management has a reasonable expectation that the Group will continue its operations in the foreseeable future and, accordingly, these consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the settlement of liabilities in the normal course of business.

5. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance – The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation – The consolidated financial statements have been prepared on the historical cost basis except for investments available for sale that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in US dollars)

Basis of consolidation – The consolidated financial statements incorporate the financial statements of Lubel Coal Company Limited (the “Company”) and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Foreign currencies – The separate financial statements of each Group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). The functional currency of the Company is the United States Dollar (“USD”). The functional currencies for the Ukrainian subsidiary is Ukrainian Hryvnia (“UAH”) and for the Cypriot subsidiaries is the USD. The Group presents its consolidated financial statements in the USD.

The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is done as follows:

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates existing at each reporting date;
- All income and expenses are translated at the monthly average exchange rates for the years presented, except for significant transactions that are translated at rates on the dates of such transactions;
- Resulting exchange differences are recognized directly in other comprehensive income as foreign currency translation reserve and accumulated in equity; and
- In the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the dates of such transactions.

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in US dollars)

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

Exchange differences arising on a monetary item that forms part of a Company's net investment in a foreign operation are initially recognised in other comprehensive income and reclassified to profit or loss on disposal of the net investment.

The relevant exchange rates are as follows:

	As at 31 December 2014	Average for the year ended 31 December 2014	As at 31 December 2013	Average for the year ended 31 December 2013
UAH/USD	0.062	0.085	0.119	0.121
EUR/USD	1.216	1.329	1.377	1.328
GBP/USD	1.553	1.648	1.649	1.564

Employee leave benefits – Liabilities for wages and salaries, including non-monetary benefits and accrued but unused annual leave are recognized in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Financial instruments – The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligation of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the consolidated profit or loss.

Effective interest method – The effective interest method is a method of calculating the amortised cost of a financial asset (liability) and of allocating interest income (expense) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (payments) – including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts – through the expected life of the financial asset (liability), or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (in US dollars)

Financial assets – Financial assets of the Group are classified into the following specified categories:

- Available-for-sale (“AFS”) financial assets;
- Loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

AFS financial assets – AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares held by the Group that are traded in an active market are classified as being AFS and are stated at fair value at the end of each reporting period. Gains and losses arising from changes in fair value are recognised in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in the consolidated profit or loss for the period.

Dividends on AFS equity instruments are recognised in the consolidated profit or loss when the Group’s right to receive the dividends is established.

Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including other receivables, cash and cash equivalents and short-term bank deposits) are measured at amortised cost using the effective interest method, less any impairment.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, cash on accounts with banks and short-term bank deposits with original maturity of three months or less.

Impairment of financial assets – Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It is becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income under the heading of investments revaluation reserve.

Derecognition of financial assets – The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued by the Group's entities

Classification as debt or equity – Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments – An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group's entities are recorded at the proceeds received, net of direct issue costs.

Financial liabilities – The Group's financial liabilities are classified as "other financial liabilities".

Other financial liabilities – Other financial liabilities, comprising other payables are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities – The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated profit or loss.

Exploration and evaluation assets – The costs related to exploration properties, which include the cost of acquiring properties and exploration rights and costs incurred in exploration and evaluation activities, are capitalized as part of exploration and evaluation assets.

Exploration and evaluation assets are carried forward during the exploration and evaluation stage and are assessed for impairment in accordance with the indicators of impairment as set out in IFRS 6 "Exploration for and Evaluation of Mineral Resources". In circumstances where a property is abandoned, the cumulative capitalized costs relating to the property are written off in the period. No amortization is charged prior to the commencement of production.

In circumstances where a property is identified as containing economically recoverable resources then the accumulated exploration and evaluation costs associated with that property are transferred to Development assets.

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Expenditures related to the following activities are initially measured at cost and capitalized as Exploration and evaluation assets:

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling;
- Trenching, sampling; and
- Activities in relation to evaluating technical feasibility and commercial viability of extracting a mineral resource.

Development assets – Once a development decision has been taken, all costs related to development of the relevant area of interest are capitalized. Such costs include those directly attributable to the construction of a mine and the related infrastructure including an appropriate allocation of attributable overheads.

Development assets are held at cost and will be reclassified as Mining assets at the end of the commissioning phase of the mine. Mining assets are depreciated on a unit of production basis from the end of the commissioning phase.

Property, plant and equipment – The historical cost of an item of property and equipment comprises (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; (b) any costs directly attributable to bringing the item to the location and condition necessary for it to be capable of operating in the manner intended by Management of the Group; (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the Group incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to use in operating activity during that period. The cost of self-constructed assets includes the cost of material, direct labour and an appropriate portion of production overheads.

Items such as spare parts, stand-by equipment, servicing equipment and materials that will be used in construction and development activities are recognised as property, plant and equipment. Otherwise, such items are classified as inventory.

Capitalized costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue-generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to profit or loss as incurred.

Depreciation of assets under construction and those not placed in service commences from the date, when the assets are ready for their intended use.

Depreciation of property, plant and equipment is designed to allocate cost of the assets less residual value over their useful economic lives. The Group estimates the useful economic lives of property, plant and equipment as follows:

	<u>Years</u>
Buildings and equipment	10-50
Other fixed assets	3-25
Leasehold improvements	Lower of useful life of improvement or length of lease

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An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are derecognized. Any resulting gains or losses are included in the consolidated statement of profit or loss and other comprehensive loss.

Impairment of non-current assets – At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

The Group considers those assets which passed successful feasibility study as one cash-generating unit and therefore aggregates all Ukraine assets for the purpose of determining whether impairment has occurred.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The following facts and circumstances, among others, indicate that exploration and evaluation assets must be tested for impairment:

- The term of the exploration license in the specific area has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of coal resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of coal resources in the specific area have not led to the discovery of commercially viable quantities of coal resources and the decision was made to discontinue such activities in the specific area; and
- Sufficient data exists to indicate that, although a development in the specific area is likely to occur, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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Operating leases – Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases.

Rentals payable under operating leases are charged to the consolidated profit or loss on a straight-line basis over the term of the relevant lease.

Prepayments to suppliers – Prepayments to suppliers represent amounts paid to suppliers and contractors for goods/services which have not been yet delivered/rendered. Prepayments to suppliers are stated at nominal value less an allowance for estimated irrecoverable amounts.

Prepayments to suppliers made to acquire long-lived assets are presented as non-current assets.

Provisions – Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Retirement benefit costs – In Ukraine, the Group does not operate a pension scheme for the benefit of its employees but makes contributions to the State Pension Fund of Ukraine. These amounts are expensed when incurred.

Share-based payment transactions – The Group issues equity-settled share-based payments to certain directors. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date for each tranche of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Failure by an employee to meet a service condition (whether due to voluntary departure or involuntary redundancy) is accounted as forfeiture. Previously recognized expenses in respect of forfeited share-based payments are reversed through profit or loss.

The fair value of equity share-based payments is measured by use of the Monte Carlo Simulation Model and the Binomial Model. The expected life of equity share-based payments used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Taxation – Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are generally recognized for all deductible temporary differences and carried forward unused tax losses to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and tax losses can be utilized.

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(in US dollars)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the consolidated profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with directly in equity or other comprehensive loss.

Deferred tax assets are not recognized in respect of temporary differences and unutilized tax losses where there is insufficient evidence that the asset will be recovered. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Ukraine also has various other taxes, which are assessed on the subsidiary's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss and other comprehensive loss.

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 5, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and estimations that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Recoverability of Value Added Tax ("VAT") – Significant input VAT was incurred to date by CCI Lubelia during exploration, evaluation and development of the coal mine reserves. According to Ukrainian legislation, input VAT can be refunded from the State Budget or netted off against output VAT. The estimation of the allowance for the amount of input VAT which will not be recovered through refund or setting off against future output VAT on sales, involves an exercise of judgment. Management have considered that due to uncertainties inherent in the Ukrainian tax legislation and the timing of commercial mining commencement, the amount of VAT recoverable should be impaired in full (Note 12).

Deferred tax for unused tax losses – Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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Management believes that due to uncertainties inherent in the Ukrainian tax legislation and the timing of commercial mining commencement, no deferred tax asset for unused tax losses should be recognised.

Impairment of exploration and evaluation assets, development assets and property, plant and equipment – As at 31 December 2014 the Group performed review of its development assets and property, plant and equipment for impairment. An impairment review was carried out by preparing discounted cash flows involving assumptions on the expected future coal price, estimates of ore reserves, discount rate, foreign currency exchange rate and projected future production costs.

The Group also carried out an impairment review of its exploration and evaluation assets including review of the terms of its special permit for Lubelska # 3, estimates of coal resources, estimated expenditure on further exploration, evaluation and development and future coal prices.

Based on the assessment results as at 31 December 2014 the Group determined that the recoverable amount of the relevant assets exceeded their carrying amounts, i.e. the underlying assets were not impaired. If conditions change and the Group determines that the assets' value has decreased below their carrying value, the impairment will be recognized.

7. ADMINISTRATIVE EXPENSES

Administrative expenses for the years ended 31 December 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Employment costs	941,631	1,115,190
Professional and consulting costs	329,927	735,866
Impairment of financial assets	-	230,880
Change in allowance for irrecoverable VAT	219,551	797,788
Rent expenses and other office costs	170,852	187,501
Other expenses	<u>43,522</u>	<u>91,996</u>
Total	<u>1,705,483</u>	<u>3,159,221</u>

8. TAXATION

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the respective countries' tax legislation.

The current tax expense calculations of the companies within the Group are based on taxable profits for the year and are computed in accordance with the legislation of the respective countries of incorporation.

During the years ended 31 December 2014 and 31 December 2013, the holding company which is incorporated in the British Virgin Islands was tax exempt. The subsidiaries incorporated in the Republic of Cyprus and Ukraine are subject to 12.5% and 18% tax rates, respectively (2013: 12.5% and 19%).

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Deductible temporary differences as at 31 December 2014 and 2013, for which no deferred tax assets have been recognised due to the uncertainty that sufficient taxable profits will be available in the future to allow the assets to be recovered, are attributable to the following:

	<u>2014</u>	<u>2013</u>
Property, plant and equipment, development assets, exploration and evaluation assets	730,530	3,588,810
Other payables	-	70,360
Total	<u>730,530</u>	<u>3,659,170</u>

As at 31 December 2014 and 2013, the Ukrainian subsidiary had tax losses carried forward of USD 20,317,614 and USD 4,880,505 respectively. A deferred tax asset for tax losses carried forward was not recognised due to the uncertainty that sufficient taxable profits will be available to allow the assets to be recovered. According to current Ukrainian legislation, tax losses can be carried forward for an indefinite period of time.

Reconciliation between loss before income tax multiplied by the statutory tax rate and the tax benefit for the years ended 31 December 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Profit/(loss) before income tax	3,767,482	(2,297,959)
Theoretical income tax (expense)/benefit at tax rate applicable to profits in the country of the Parent domicile (zero tax rate)	-	-
Tax effect of:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	(4,679,806)	(418,285)
Effect of expenses that are not deductible in determining tax loss	76,474	128,156
Deferred tax asset not recognized	4,603,332	290,129
Income tax expense	<u>-</u>	<u>-</u>

9. EXPLORATION AND EVALUATION ASSETS

During 2014 and 2013, additions to exploration and evaluation assets related to the Lubelska # 3 and 4 deposits. The following table presents the movement in exploration and evaluation assets for the years ended 31 December 2014 and 2013:

	<u>2014</u>	<u>2013</u>
At cost		
At the beginning of the year	2,058,047	1,145,112
Additions	1,163,615	975,229
Exchange differences on translating foreign operations	(1,220,689)	(62,294)
At the end of the year	<u>2,000,973</u>	<u>2,058,047</u>

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10. DEVELOPMENT ASSETS

The following table presents the movements in development assets for the years ended 31 December 2014 and 2013:

	<u>2014</u>	<u>2013</u>
At cost		
At the beginning of the year	19,167,755	16,630,434
Additions	1,243,327	2,978,124
Exchange differences on translating foreign operations	<u>(5,810,027)</u>	<u>(440,804)</u>
At the end of the year	<u>14,601,055</u>	<u>19,167,754</u>

Development assets relate to the Lubelska # 1-2 deposits (Note 1) and are represented by capitalized evaluation and exploration expenses prior to the date when the Group took the decision to develop the mine and subsequently incurred development expenses.

11. PROPERTY, PLANT AND EQUIPMENT

The following table presents the movement in property, plant and equipment for the years ended 31 December 2014 and 2013:

	<u>Buildings and production equipment</u>	<u>Other fixed assets</u>	<u>Construction in Progress</u>	<u>Total</u>
Cost				
Balance at 31 December 2012	<u>741,164</u>	<u>301,200</u>	<u>71,362</u>	<u>1,113,726</u>
Additions	930,940	52,031	517,283	1,500,254
Disposals	-	-	-	-
Exchange differences on translating foreign operations	<u>(45,273)</u>	<u>(13,005)</u>	<u>(11,428)</u>	<u>(69,706)</u>
Balance at 31 December 2013	<u>1,626,831</u>	<u>340,226</u>	<u>577,217</u>	<u>2,544,274</u>
Additions	98,731	12,575	90,909	202,215
Disposals	-	(1,234)	(121,318)	(122,552)
Exchange differences on translating foreign operations	<u>(792,762)</u>	<u>(164,565)</u>	<u>(275,606)</u>	<u>(1,232,933)</u>
Balance at 31 December 2014	<u>932,800</u>	<u>187,002</u>	<u>271,202</u>	<u>1,391,004</u>

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	<u>Buildings and production equipment</u>	<u>Other fixed assets</u>	<u>Construction in Progress</u>	<u>Total</u>
Accumulated depreciation				
Balance at 31 December 2012	<u>24,284</u>	<u>220,873</u>	<u>-</u>	<u>245,157</u>
Charge for the year	57,526	57,519	-	115,045
Eliminated on disposals	-	-	-	-
Exchange differences on translating foreign operations	<u>(1,931)</u>	<u>(9,856)</u>	<u>-</u>	<u>(11,787)</u>
Balance at 31 December 2013	<u>79,879</u>	<u>268,536</u>	<u>-</u>	<u>348,415</u>
Charge for the year	82,241	26,548	-	108,789
Eliminated on disposals	-	(1,233)	-	(1,233)
Exchange differences on translating foreign operations	<u>(60,408)</u>	<u>(135,388)</u>	<u>-</u>	<u>(195,796)</u>
Balance at 31 December 2014	<u>101,712</u>	<u>158,463</u>	<u>-</u>	<u>260,175</u>
Net book value				
31 December 2013	<u>1,546,952</u>	<u>71,690</u>	<u>577,217</u>	<u>2,195,859</u>
31 December 2014	<u>831,088</u>	<u>28,539</u>	<u>271,202</u>	<u>1,130,829</u>

12. OTHER RECEIVABLES

Other receivables as at 31 December 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Value added tax ("VAT")	1,646,367	2,823,066
Other receivables	<u>90,657</u>	<u>101,712</u>
	<u>1,737,024</u>	<u>2,924,778</u>
Less: Allowance for irrecoverable VAT	<u>(1,646,367)</u>	<u>(2,823,066)</u>
Total	<u>90,657</u>	<u>101,712</u>

Management have considered that due to uncertainties inherent in the Ukrainian tax legislation, the Group's ability to receive VAT refund and other factors the outstanding VAT recoverable should be fully provided.

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13. CASH AND BANK DEPOSITS

Cash and bank deposits as at 31 December 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Short-term bank deposits (with initial maturities not exceeding three months)	5,342,045	7,735
Cash with banks	<u>1,169,007</u>	<u>718,772</u>
Total cash and cash equivalents for the purpose of the statement of cash flows	<u>6,511,052</u>	<u>726,507</u>
Short-term bank deposits (with initial maturities exceeding three months)	<u>53,736</u>	<u>9,383,623</u>
Total cash and bank deposits	<u>6,564,788</u>	<u>10,110,130</u>

As at 31 December 2014 and 2013, cash and cash equivalents were mainly placed with Ukrainian banks, and short-term bank deposits with initial maturities exceeding three months were placed with Ukrainian banks and a bank in Cyprus. In 2013, following the banking crisis in Cyprus, funds in the amount of USD 614,013 placed in a Cypriot bank were transferred into the shares of that bank. The Group recognizes a loss of USD 230,880 in relation to impairment of these shares in 2013 (Note 7).

14. OTHER PAYABLES

As at 31 December 2014 and 2013, other payables of the Group were as follows:

	<u>2014</u>	<u>2013</u>
Other creditors	104,581	140,361
Other taxes and social security	<u>11</u>	<u>12</u>
Total	<u>104,592</u>	<u>140,373</u>

No interest is charged on the outstanding balance of other payables.

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15. ISSUED CAPITAL

	Share Capital		Share Premium Reserve		Total	Total
	2014 No.	2013 No.	2014	2013	2014	2013
Authorized: 300,000,000 ordinary shares 1p each	300,000,000	300,000,000	-	-	-	-
Issued and fully paid: 221,810,000 ordinary shares 1p each	221,810,000	221,810,000	-	-	-	-
At the beginning of the year	<u>4,527,142</u>	<u>4,527,142</u>	<u>57,053,419</u>	<u>57,053,419</u>	<u>61,580,561</u>	<u>61,580,561</u>
At the end of the year	<u>4,527,142</u>	<u>4,527,142</u>	<u>57,053,419</u>	<u>57,053,419</u>	<u>61,580,561</u>	<u>61,580,561</u>

Basic and diluted loss per share – The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2014	2013
Profit/(loss) for the year	<u>3,767,482</u>	<u>(2,297,959)</u>
Profit/(loss) used in the calculation of basic loss per share	<u>3,767,482</u>	<u>(2,297,959)</u>
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>221,810,000</u>	<u>221,810,000</u>
Basic profit/(loss) per share, cents per share	<u>1.70</u>	<u>(1.04)</u>

The loss used in the calculation of diluted loss per share is as follows:

	2014	2013
Profit/(loss) used in the calculation of basic loss per share	<u>3,767,482</u>	<u>(2,297,959)</u>
Profit/(loss) used in the calculation of diluted loss per share	<u>3,767,482</u>	<u>(2,297,959)</u>

The weighted average number of ordinary shares for the purpose of diluted profit/(loss) per share reconciles to the weighted average number of ordinary shares used in the calculation of basic profit/(loss) per share as follows:

Weighted average number of ordinary shares used in the calculation of basic loss per share	221,810,000	221,810,000
Shares deemed to be issued for no consideration in respect of employee options (Note 16)	<u>2,218,100</u>	<u>2,218,100</u>
Weighted average number of ordinary shares used in the calculation of diluted loss per share	<u>224,028,100</u>	<u>224,028,100</u>
Diluted profit/(loss) per share, cents per share	<u>1.68</u>	<u>(1.03)</u>

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16. RESERVES

As at 31 December 2014 and 2013 the Group's reserves were as follows:

	<u>2014</u>	<u>2013</u>
Equity-settled employee benefit reserve	3,458,904	3,374,841
Foreign currency translation reserve	(15,570,881)	(2,386,773)
Investments revaluation reserve	(258,367)	-
	<u>(12,370,344)</u>	<u>988,068</u>
Equity-settled employee benefit reserve		
At the beginning of the year	3,374,841	3,193,179
Share based payment charge (Note 16)	84,063	181,662
At the end of the year	<u>3,458,904</u>	<u>3,374,841</u>
	<u>2014</u>	<u>2013</u>
Foreign currency translation reserve		
At the beginning of the year	(2,386,773)	(1,589,760)
Exchange differences on translating foreign operations	(13,184,108)	(797,013)
At the end of the year	<u>(15,570,881)</u>	<u>(2,386,773)</u>

17. SHARE BASED PAYMENT TRANSACTIONS

Equity settled share based payments – In 2008, the Group issued 2,218,100 share options to one of the directors under the terms of its Employee Share Option Scheme (the "Scheme"). These options were to vest on completion of an Initial Public Offering ("IPO") or at sale of the Company. The fair value of these options was estimated at the grant date using a Monte Carlo Simulation Model combined with a Binomial Model, taking into account the terms and conditions upon which the instruments were granted. The Monte Carlo Simulation Model generates an estimate of the offer share price which is then input into a Binomial Model. The contractual life of these options was 10 years and there were no cash settlement alternatives. The fair value of these options was estimated at the grant date to be GBP 1.05 per option. The exercise price of these options was nil.

The following table illustrates the number and movements in share options:

	<u>2014</u>	<u>2013</u>
	<u>Number of share options</u>	<u>Number of share options</u>
Outstanding at the beginning of year	2,218,000	2,218,100
Outstanding at the end of the year	<u>2,218,000</u>	<u>2,218,100</u>
Weighted average contractual life	<u>3.68 years</u>	<u>4.68 years</u>

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The valuation assumptions utilized in the Binomial Model are as follows:

Weighted average share price	GBP 1.05
Weighted average exercise price	GBP nil
Expected volatility	42%
Expected life	5.25 years
Risk-free rate	4.95%

As the Company is unlisted, expected volatility was determined by considering the historical volatility of similar entities with publicly traded securities over the most recent period that is commensurate with the expected term of the option and as at the time of grant.

During the year ended 31 December 2014, the Group revised the vesting period for its share options from 30 September 2015 to 31 December 2017. The revised estimate was based on the evaluation of available cash sufficiency and the progress in negotiations with strategic investors.

For the year ended 31 December 2014, the Group recognised a total charge of GBP 50,947 (equivalent to USD 84,063) (2013: GBP 116,450 (equivalent to USD 181,662) in respect of equity settled share based payment transactions which was capitalized to development assets.

18. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Taxation – The companies of the Group operate in British Virgin Islands, Cyprus and Ukraine with the primary operations conducted in the latter country. Ukraine's tax environment is characterized by complexity in tax administering, arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on tax payers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigation which, as a consequence, may result in the imposition of additional taxes, penalties, and interest, and these amounts could be material. Facing current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting the Law of Ukraine "On Amending the Tax Code of Ukraine and Certain Laws of Ukraine" which is effective from 1 January 2015, except for certain provisions which will take effect at a later date.

Most significant changes to the Tax Code concern a revision of rules governing the payment of Value Added Tax ("VAT"), a revision of rules on computation of corporate income tax, and introduction of real estate (property) tax, in the following way:

- According to the Law, the output VAT to be paid to tax authorities is based on the supply of goods or services, net of input VAT if this VAT is determined to have been paid to tax authorities by the Company's suppliers. Also, the minimal tax base for VAT input on goods and services purchased was introduced and special VAT accounts for every taxpayer to be opened at the State Treasury of Ukraine for the VAT purposes. The purpose of these special VAT accounts is to guarantee fulfillment of VAT liabilities by the taxpayers.
- Taxable income to be computed solely based on the accounting data by adjusting profit (loss) before tax by the amount of certain differences resulting from different treatment in accounting rules and the Tax Code of Ukraine, rather than through a separate calculation of taxable income and deductible expenses.
- A new real estate (property) tax was introduced which to be levied based on the floor area of the Company's buildings (subject to certain reliefs).

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Management believes that the Company has been in compliance with all requirements of the effective tax legislation and currently is assessing the possible impact of the introduced amendments.

Transfer pricing – Starting from 1 September 2013 the Tax Code of Ukraine introduced new, based on the OECD transfer pricing guidelines, rules for determining and applying fair market prices which significantly changed transfer pricing regulations in Ukraine. For the year ended 31 December 2014 the Company did not have any operations which may potentially be in the scope of the new Ukrainian TP regulations.

Legal proceedings with tax authorities – As at 31 December 2014, the Group had a VAT recoverable balance (before impairment allowance) of USD 1,646,367 (2013: USD 2,823,066). The Ukrainian tax authorities have rejected the VAT refund claim based on the argument that the Group was not entitled for VAT refund as it was accumulated on non-business transactions. The Group disagreed with the tax authorities' decision and initiated several legal actions for a recovery of VAT of USD 1,090,061 (2013: USD 1,244,803). The court rulings were in favour of the Group.

Operating lease commitments – Starting from October 2009 the Group leases land on which the Group plans to locate its mining facilities through operating lease agreements, which expire in various years through 2061. The Group does not have an option to purchase the leased land at the expiry of the lease periods, but it has preferential right to renew the lease.

During the years 2014 and 2013 the Group also leased administrative offices through operating lease agreements, which expire in various years through 2016. The Group does not have an option to purchase the leased offices at the expiry of the lease periods, but it has preferential right to renew the lease.

As at 31 December 2014 and 2013 the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	<u>2014</u>	<u>2013</u>
Within one year	80,896	129,299
In the second to fifth year inclusive	323,584	517,196
After five years	<u>1,313,145</u>	<u>2,174,020</u>
Total	<u>1,717,625</u>	<u>2,820,515</u>

Capital Commitments – As at 31 December 2014 the Group had outstanding contracts with third party engineering companies for project development works for the total amount of USD 558,412 (2013: USD 1,330,392).

19. RELATED PARTY TRANSACTIONS

Related parties include shareholders and members of key management personnel.

The Group entered into the following transactions with related parties:

During the years ended 31 December 2014 the Group received professional and consulting services from its shareholders in the amount of USD 140,004 (2013: USD 140,004).

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Remuneration of key management personnel – The remuneration of directors and other key management personnel of the Group is set out below, in aggregate, for each of the categories specified in IAS 24 “Related Party Disclosures”:

	<u>2014</u>	<u>2013</u>
Employment costs	799,107	1,078,474
Share-based payments charge (Note 17)	<u>84,063</u>	<u>181,662</u>
Total	<u>883,170</u>	<u>1,260,136</u>

20. FINANCIAL RISK MANAGEMENT

Capital risk management – The Group is a development stage company and its capital comprises contributions made by the equity holders. Capital risk management primarily relates to managing the capital on the level sufficient to undertake exploration and evaluation, and development activities on the planned level. Management has assessed that it has sufficient funds to continue its budgeted activities till the end of 2017. Based on the latest mine feasibility study, the Group requires USD 1.081bn over the period of 48 months in order to complete a full development of the mine. For this purpose, the Group is considering attracting loans and borrowings, however, the offers of equity stakes to strategic and portfolio investors are also being considered.

Major categories of financial instruments

	<u>2014</u>	<u>2013</u>
Financial assets		
Short-term bank deposits	53,736	9,383,623
Cash and cash equivalents	6,511,052	726,507
Investments available for sale	124,766	383,133
Other receivables	<u>90,657</u>	<u>101,712</u>
Total financial assets	<u>6,780,211</u>	<u>10,594,975</u>
Financial liabilities		
Other payables	<u>104,581</u>	<u>140,361</u>
Total financial liabilities	<u>104,581</u>	<u>140,361</u>

The Group has an exposure to certain financial risks, including the risk of changes in foreign currency exchange rates and the credit risk.

Foreign currency risk – Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The companies of the Group operate in British Virgin Islands, Cyprus and Ukraine with the primary operations conducted in the latter country. In 2014, the Ukrainian Hryvnia, the functional currency of CCI Lubelia, significantly devalued against major foreign currencies. Management carefully monitors the changes in foreign currencies and manages its exposure to losses from the currency risk primarily by maintaining its cash and cash equivalents, and short-term bank deposits in the USD.

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The carrying amounts of the Group companies' monetary assets and liabilities denominated in foreign currency as at 31 December 2014 and 2013 were as follows:

2014	USD	GBP	EUR
Financial assets			
Cash and cash equivalents	5,234,263	1,309	1,293
Investments available for sale	-	-	124,766
Total financial assets	5,234,263	1,309	126,059
Financial liabilities			
Other payables	-	-	14,778
Total financial liabilities	-	-	14,778
Total net position	5,234,263	1,309	111,281
2013	USD	GBP	EUR
Financial assets			
Cash and cash equivalents	386,755	1,551	7,345
Investments available for sale	-	-	383,133
Short-term bank deposits	8,900,000	-	-
Total financial assets	9,286,755	1,551	390,478
Financial liabilities			
Trade and other payables	-	(4,481)	(29,418)
Total financial liabilities	-	(4,481)	(29,418)
Total net position	9,286,755	(2,930)	361,060

The table below details the sensitivity to weakening of functional currencies of the Group companies against foreign currencies by 60 % and 10% as at 31 December 2014 and 2013 respectively. The analysis was applied to monetary items at the reporting date denominated in respective currencies.

	USD impact	GBP impact	EUR impact
Profit as at 31 December 2014	3,140,558	785	66,769
Profit/(loss) as at 31 December 2013	928,676	(293)	36,106

Credit risk – Credit risk is the risk that a counterparty will default or not meet its obligations to the Group on a timely basis leading to financial losses to the Group. As at 31 December 2014 and 2013, the maximum exposure of credit risk was represented by the total carrying amounts of cash and cash equivalents, short-term bank deposits and other receivables. The Group's cash and cash equivalents, and short-term bank deposits are placed primarily with the Ukrainian banks. The Group manages its credit risk by selecting banks only with adequate credit ratings and by conducting consistent monitoring of their financial position and performance.

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21. FAIR VALUE OF FINANCIAL INSTRUMENTS

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 "Financial Instruments: Disclosure" and IFRS 13 "Fair Value Measurement". Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

As at 31 December 2014 and 2013, the fair values were estimated to be the same as the carrying values for cash and cash equivalents, short-term bank deposits, other receivables and other payables due to the short-term nature of these financial instruments.

Investments available for sale are measured at fair value at the end of the reporting period. As at 31 December 2014 the fair value was determined based on the market price of the underlying shares, e.g. Level 1 measurement categorization. The following table shows fair value measurement methods in respect of the investments available for sale as at 31 December 2013 (in particular, valuation techniques and inputs used).

Financial assets/ financial liabilities	Fair value as at 31 December 2013	Fair value hierarchy	Valuation technique(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Investments available for sale	Assets – USD 383,133	Level 3	A share of net assets in the Bank of Cyprus (the "Bank")	The Group's ownership interest in the Bank's contributed capital as at 31 December 2013 amounts to 0.0102%. In absence of the data on the value of net assets as at the conversion date (26 March 2013), the Group used the data on the value of the Bank's net assets from its public financial statements as at 30 June 2013, which amounted to EUR 2,920,000 thousand (USD 3,799,784 thousands). Value of the Bank's net assets as at 31 December 2013 is EUR 2,730,594 thousand (USD 3,758,508 thousands).	The higher is the value of the Bank's net assets, the higher will be the fair value.

22. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2014, the Ukrainian Hryvnia continued to devalue against the USD. As of the date of these consolidated financial statements the UAH/USD exchange rate comprised 0.047.

23. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board and Management and authorised for issue by Boris Pokrass, the Chairman, and Dmytro Bodnya, the Chief Financial Officer, on 28 August 2015.