LUBEL COAL COMPANY LIMITED
(Registered in British Virgin Islands – No.1056038)

Independent Auditor's Report

Consolidated Financial Statements
for the Year Ended 31 December 2013

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 2013

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 2013, 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;
- 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 2013 were approved by management on 4 July 2014.

On behalf of the management:

Boris Pokrass, Chairman	Dmytro Bodnya, Chief Financial Officer

Deloitte.

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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 2013, 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 2013, 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 Group is currently in the development stage and requires significant financing to complete the mine development and commence production. The impacts 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 ability of the Group to raise the required financing. Our opinion is not qualified in respect of this matter.

Deloitte & Touche

4 July 2014

LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS FOR THE YEAR ENDED 31 DECEMBER 2013
(in US Dollars)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Administrative expenses	6	(3,159,221)	(2,194,086)
Operating loss		**(3,159,221)**	**(2,194,086)**
Interest income		734,156	941,521
Other income		1,703	15,361
Foreign exchange gain/(loss)		125,403	(182,307)
Loss before income tax		**(2,297,959)**	**(1,419,511)**
Income tax expense	7	-	-
Loss for the year		**(2,297,959)**	**(1,419,511)**
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(797,013)	179,539
Total comprehensive loss for the year		**(3,094,972)**	**(1,239,972)**
Loss per share:			
Basic (cents per share)	14	(1.04)	(0.64)
Diluted (cents per share)	14	(1.03)	(0.63)

On behalf of the management:

Boris Pokrass, Chairman

Dmytro Bodnya, Chief Financial Officer

The notes on pages 8 to 33 form an integral part of these consolidated financial statements.

LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
(in US Dollars)

	Notes	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Exploration and evaluation assets	8	2,058,047	1,145,112
Mining rights and development assets	9	19,167,754	16,630,434
Property, plant and equipment	10	2,195,859	868,569
Prepayments to suppliers for exploration, evaluation and development expenditures		161,759	165,145
Investments available for sale	12	383,133	-
Total non-current assets		**23,966,552**	**18,809,260**
Current assets			
Other receivables	11	101,712	98,537
Cash and cash equivalents	12	726,507	18,105,350
Short-term bank deposits	12	9,383,623	-
Total current assets		**10,211,842**	**18,203,887**
Total assets		**34,178,394**	**37,013,147**
EQUITY AND LIABILITIES			
Equity			
Issued capital	14	61,580,561	61,580,561
Reserves	15	988,068	1,603,419
Accumulated losses		(28,530,608)	(26,232,649)
Total equity		**34,038,021**	**36,951,331**
Current liabilities			
Trade and other payables	13	140,373	61,816
Total current liabilities		**140,373**	**61,816**
Total liabilities		**140,373**	**61,816**
Total equity and liabilities		**34,178,394**	**37,013,147**

On behalf of the management:

Boris Pokrass, Chairman

Dmytro Bodnya, Chief Financial Officer

The notes on pages 8 to 33 form an integral part of these consolidated financial statements.

LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(in US dollars)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income tax		**(2,297,959)**	**(1,419,511)**
Adjustments for:			
Interest income		(734,156)	(941,521)
Change in allowance for irrecoverable VAT	6	797,788	416,445
Change in allowance for irrecoverable prepayments	6	-	49,897
Unrealized foreign exchange (gain)/loss		(241,854)	183,155
Impairment of financial assets	6	230,880	-
Operating loss before changes in operating assets and liabilities		**(2,245,301)**	**(1,711,535)**
Incerase in Value added tax ("VAT") receivables		(797,788)	(416,445)
Increase in other receivables		(3,175)	(57,412)
Increase in trade and other payables		78,557	12,465
Net cash used in operating activities		**(2,967,707)**	**(2,172,927)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Exploration and evaluation expenditures		(975,229)	(326,866)
Mining rights and development expenditures		(2,678,031)	(2,802,075)
Purchase of property, plant and equipment		(1,500,254)	(10,074)
Placement of short-term bank deposits		(9,379,593)	-
Obligatory conversion of cash on current accounts to investments available for sale	12	(614,013)	-
Interest received		734,156	941,521
Net cash used in investing activities		**(14,412,964)**	**(2,197,494)**
Net decrease in cash and cash equivalents		**(17,380,671)**	**(4,370,421)**
Effect of exchange rate changes		1,828	(38,874)
CASH AND CASH EQUIVALENTS at the beginning of year	12	**18,105,350**	**22,514,645**
CASH AND CASH EQUIVALENTS at the end of year	12	**726,507**	**18,105,350**

On behalf of the management:

Boris Pokrass, Chairman

Dmytro Bodnya, Chief Financial Officer

The notes on pages 8 to 33 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 2013
(in US dollars)

	Share capital	Share premium reserve	Accumulated losses	Equity settled employee benefit reserve	Foreign currency translation reserve	Total
As at 1 January 2012	**4,527,142**	**57,053,419**	**(24,813,138)**	**3,009,188**	**(1,769,299)**	**38,007,312**
Share based payment charge (Note 16)	-	-	-	183,991	-	183,991
Loss for the year	-	-	(1,419,511)	-	-	(1,419,511)
Other comprehensive income	-	-	-	-	179,539	179,539
Total comprehensive (loss)/income for the year	-	-	(1,419,511)	183,991	179,539	(1,055,981)
As at 31 December 2012	**4,527,142**	**57,053,419**	**(26,232,649)**	**3,193,179**	**(1,589,760)**	**36,951,331**
Share based payment charge (Note 16)	-	-	-	181,662	-	181,662
Loss for the year	-	-	(2,297,959)	-	-	(2,297,959)
Other comprehensive loss	-	-	-	-	(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**

On behalf of the management:

Boris Pokrass, Chairman

Dmytro Bodnya, Chief Financial Officer

The notes on pages 8 to 33 form an integral part of these consolidated financial statements.

(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 for operation of minefield Lubelska # 1-2 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, following which development of certain infrastructure works commenced. During the year ended 31 December 2013, the Group engaged China Coal Construction Group Corporation LTD, Republic of China, to review the construction budget and update the mine feasibility study (Note 4). The mine construction is dependent upon obtaining of appropriate financing.

In September 2011 the Group obtained a special permit for geological exploration for minefield Lubelska # 3.

As at 31 December 2013 and 2012 the Company was owned by the following shareholders:

	2013	2012
Pokrass, Boris	27%	27%
The Severinovskiy 2008 Family Trust	18%	18%
Palant, Vladimir	12%	12%
Malavasia Enterprises Inc (BVI)	14%	14%
Agrera Investments Limited	11%	11%
Zdanov, Alex	4%	4%
Other	14%	14%
	100%	**100%**

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

Name	Country of incorporation	Percentage controlled as at 31 December 2013	Percentage controlled as at 31 December 2012	Principal activity	Consolidation method
CCI Lubelia	Ukraine	100%	100%	Coal mining	Full
Lakehold Limited	Cyprus	100%	100%	Dormant company	Full
Lubel Assets Limited	Cyprus	100%	100%	Dormant company	Full

2. OPERATING ENVIRONMENT

Since November 2013, Ukraine has been in a political and economic turmoil. The Ukrainian Hryvnia devalued against major world currencies and significant external financing is required to maintain stability of the economy. The National bank of Ukraine, among other measures, has imposed temporary restrictions on processing of client payments by banks and on the purchase of foreign currency on the inter-bank market. In February 2014, Ukraine's sovereign rating has been downgraded to CCC with a negative outlook.

In February 2014, the Parliament of Ukraine voted for reinstatement of the 2004 Constitution and dismissal of the incumbent President. In March 2014, Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. On 25 May 2014, presidential elections took place and a new President of Ukraine was elected. The Group has no assets located in Crimea, thus, its annexation by the Russian Federation had no significant impact on the Group's assets and operations.

In April-May 2014, operating activities of the National bank of Ukraine, the banking system, and enterprises in general were additionally adversely affected by the separatist movements and the collapse of law and order enforcement in Luhansk and Donetsk regions. The Group has no assets located in Lugansk and Donetsk, thus, it had no significant impact on the Group's assets and operations.

The Government of Ukraine has been negotiating with the International Monetary Fund ("IMF") and other financial institutions the provision of financial aid and in April 2014 the Board of Governors of the IMF endorsed a two-year loan program for Ukraine in the total amount of USD 17.01 billion, out of which an installment of USD 3.19 billion was provided in May 2014. These measures will have stabilizing effect on the economy of Ukraine.

On 27 June 2014 an Association Agreement between Ukraine and the European Union ("EU") was signed. The agreement provides closer trade and political ties and allows for free trade within the EU, as well as key business-related reforms for Ukraine.

Further stabilization of the economy and the political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently unpredictable and their adverse affect on the Ukrainian economy may continue.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the year ended 31 December 2013, the Group adopted the following new and revised Standards and Interpretations:

- Presentation of items of Other Comprehensive Income" (Amendments to IAS 1). Effective for accounting periods beginning on or after 1 July 2012.
- IFRS 13 "Fair value measurement". Fair value measurement and disclosure. Effective from 1 January 2013;
- IAS 19 "Employee Benefits" (as revised in 2011). The revised version of IAS 19 was effective from 1 January 2013;
- Amendments to IFRS 7 "Financial instruments: Disclosures" – Offsetting of financial assets and financial liabilities. The amendments to IFRS 7 were effective from 1 January 2013;

- IFRS 10 "Consolidated Financial Statements". Effective from 1 January 2013;
- IFRS 11 "Joint Arrangements". Effective from 1 January 2013;
- IFRS 12 "Disclosure of Interests in Other Entities". Effective from 1 January 2013;
- IAS 27 "Separate Financial Statements (as revised in 2011)". Effective from 1 January 2013;
- IAS 28 "Investments in Associates and Joint Ventures (as revised in 2011)". Effective from 1 January 2013;
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine". Effective from 1 January 2013;
- Ammendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Government Loans. Effective from 1 January 2013;
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" – Transition Guidance.
- Amendments to IFRSs "Annual Improvements to IFRSs 2009-2011.

"Presentation of items of Other Comprehensive Income" (Amendments to IAS 1) – The main change resulting from amendments to IAS 1 is a requirement to group items presented in "Other comprehensive income" (OCI) on the basis of whether they are potentially able to be reclassified to profit or loss subsequently (reclassification adjustments). The amendments affect presentation only and have no impact on the Company's financial position or performance.

IFRS 13 "Fair value measurement" – IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirement do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

In accordance with the transitional provisions of IFRS 13, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no impact on the measurement of the Company's assets and liabilities.

IFRS 10 "Consolidated Financial Statements" – IFRS 10 replaces the parts of IAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and SIC-12 "Consolidation – Special Purpose Entities". IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

Management of the Group made a reassessment as at the date of initial application of IFRS 10 (1 January 2013) of its investments into CCI Lubelia, Lakehold Limited and Lubel Assets Limited in accordance with the new definition of control and the related guidance set out in IFRS 10 and concluded that the Group controls all of the above mentioned entities.

The adoption of other new or revised standards did not have any effect on the consolidated 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.

(in US dollars)

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 and Interpretations	Effective for annual period beginning on or after
Amendments to IAS 32 "Financial instruments: Presentation" – Application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
Amendments to IFRS 10, IFRS 11 and IFRS 12 – "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"	1 January 2014
Amendments to IAS 36 "Recoverable amounts disclosures for non-financial assets"	1 January 2014
Amendments to IAS 39 "Novation of derivatives and continuation of hedge accounting"	1 January 2014
IFRIC 21 "Levies"	1 January 2014
Amendments to IFRS 7 "Financial instruments: Disclosures" – Disclosures about the initial application of IFRS 9	1 January 2015
Amendments to IFRS 9 and 7 – "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	1 January 2015
IFRS 9 "Financial Instruments: Classification and Measurement and Accounting for financial liabilities and derecognition"	1 January 2015

Management is currently evaluating the impact of the adoption of IFRS 9 "Financial Instruments" and amendment to IFRS 7 "Financial instruments: Disclosures". For other standards and interpretations Management anticipates that their adoption in future periods will not have material effect on the financial statements of the Company in future periods.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

(b) 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.

(c) Going concern

Management has estimated that the Group needs to raise additional funds (in the form of both equity and debt) of approximately USD 1 billion to complete the mine development (refer Note 1) and to ensure sufficient working capital exists until coal sales commence. During the year ended 31 December 2013, the Group engaged China Coal Construction Group Corporation LTD ("CCCGC"), Republic of China, to review the construction budget and update the mine feasibility study. Based on the preliminary estimates there is high probability of a decrease in construction costs and a construction period of below 48 months instead of the initially forecasted period of 57 months. The Company is currently negotiating with several potential strategic investors about their acquiring an ownership interest in the Group. It is also expected that CCCGC will support the Group in negotiations with financial institutions in the Republic of China in negotiations of loan facilities.

Should the negotiations with strategic investors be unsuccessful, management will seek a private placement of the Group's shares among potential portfolio investors to raise funds of USD 80-100 million. Together with the Group's existing cash reserves, these funds should be sufficient to commence the mine construction and lower the main working shaft to the lower mining level. The sources of funding for further mine development would then be considered by the Group's shareholders.

At 31 December 2013, the Group had available cash balances of USD 10,110,130, while the budget for 2014 assumes total exploration, development and operating costs of approximately USD 6,500,000. Management considers that the available funds are sufficient to allow the Group to continue operations for the foreseeable future, being a period of 12 months from 31 December 2013.

(d) 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.

(e) 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.

(f) Financial instruments

Financial assets and financial liabilities are recognized in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Other receivables – Other receivables are measured at initial recognition at fair value, and are subsequently carried at cost. Appropriate allowances for estimated irrecoverable amounts are recognized in the statement of profit or loss and other comprehensive loss when there is objective evidence that the asset is impaired.

Cash and cash equivalents – Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Short-term bank deposits – Short-term bank deposits comprise short-term deposits with an original maturity of more than three months.

Available-for-sale financial assets – Available-for-sale financial assets are non-derivatives that are either designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

The Group also has equity investments that are temporarily unlisted and classified as available-for-sale financial assets and which are carried at fair value at the end of each reporting period. The fair value is determined in the manner described in Note 21.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when 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 recognizes 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 recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities and equity instruments – Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Trade and other payables – Trade and other payables are initially measured at fair value and are subsequently measured at amortized cost, using the effective interest rate method.

(in US dollars)

The Group derecognizes trade and other payables when, and only when, the Group's obligations are discharged, cancelled or they expire.

(g) Foreign currencies

The individual 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 currency for the Ukrainian subsidiary is Ukrainian Hryvnia ("UAH") and for the Cypriot subsidiaries is USD. The Group presents its consolidated financial statements in 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 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.

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 consolidated statement of profit or loss or other comprehensive loss in the period in which they arise.

The relevant exchange rates are as follows:

	As at 31 December 2013	Average for the year ended 31 December 2013	As at 31 December 2012	Average for the year ended 31 December 2012
USD/UAH	0.119	0.121	0.124	0.122
EUR/USD	1.377	1.328	1.322	1.286
GBP/USD	1.649	1.564	1.615	1.585

(h) 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 Mining Rights and Development Assets.

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.

(i) Mining Rights and 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.

Mining Rights and 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 amortized on a unit of production basis from the end of the commissioning phase.

(j) Property, plant and equipment

Prior to 1 January 2001, the Ukrainian economy was considered to be hyperinflationary in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". Accordingly, the consolidated financial statements were adjusted to reflect the effects of the diminution of the purchasing power of Ukrainian Hryvnia. Property, plant and equipment, acquired by CCI Lubelia before 1 January 2001 are carried at historical cost adjusted for the effect of hyperinflation under IAS 29 less accumulated depreciation and recognised impairment loss, if any. All other property, plant and equipment are carried at historical cost less accumulated depreciation and recognised impairment loss, if any.

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 Company; (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 Company 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.

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

Depreciation of property, plant and equipment is designed to write off assets over their useful economic lives. The Group estimates the useful economic lives of property, plant and equipment as follows for the years ended 31 December 2013 and 2012:

	Years
Mining assets	10-50
Non-mining assets	3-25
Leasehold improvements	Lower of useful life of improvement or length of lease

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 eliminated from the consolidated financial statements. Any resulting gains or losses are included in the consolidated statement of profit or loss and other comprehensive loss.

(k) 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 licence 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.

(l) Interest income and interest expense recognition

Interest income and expense are recorded in the consolidated statement of profit or loss and other comprehensive loss for all interest bearing instruments on an accrual basis using the effective interest method, except for interest expenses directly attributable to the acquisition, construction or production of qualifying assets which are accounted for in accordance with borrowing costs policy.

(m) Issued capital

Issued capital is comprised of share capital and share premium reserve. Issued capital is recognised at the fair value of the contributions received by the Group.

(n) 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 statement of profit or loss and other comprehensive loss on a straight-line basis over the term of the relevant lease.

(o) Other income and other expenses recognition

Other income is credited to the consolidated statement of profit or loss and other comprehensive loss when the related transactions are completed. Operating and other expenses are generally recorded on an accrual basis when the product has been received or the service has been provided.

(p) 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.

(q) 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.

(r) Retirement benefit costs

In Ukraine, the Group does not operate a pension scheme for the benefit of its employees but instead makes contributions to their personal pension policies. The contributions due for the period are charged to the consolidated statement of profit or loss and other comprehensive loss.

(s) 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.

(t) 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.

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 statement of profit or loss and other comprehensive loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, 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.

(a) Recoverability of Value Added Tax ("VAT")

Significant input VAT was incurred by CCI Lubelia during exploration, evaluation and development to date 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 believes that due to uncertainties inherent in the Ukrainian tax legislation, the timing of commercial mining commencement, the amount receivable related to input VAT should be provided in full.

(in US dollars)

(b) 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. 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.

(c) Compliance with Tax and Currency Legislation

Ukraine's tax and currency legislation is subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. It is possible that the tax treatment of transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

6. ADMINSTRATIVE EXPENSES

Administrative expenses for the years ended 31 December 2013 and 2012 were as follows:

	2013	2012
Employment costs	1,115,190	1,101,854
Change in allowance for irrecoverable VAT	797,788	416,445
Professional and consulting costs	735,866	442,354
Impairment of financial assets (Note 12)	230,880	-
Rent expenses and other office costs	187,501	149,143
Change in allowance for irrecoverable prepayments	-	49,897
Other expenses	91,996	34,393
Total	**3,159,221**	**2,194,086**

7. 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 year ended 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 19% tax rates, respectively (2012: 10% and 21%).

(in US dollars)

The Tax Code of Ukraine, which was enacted in December 2010, introduced gradual decreases in income tax rates from 25% to:

- 23% effective from 1 April 2011 to 31 December 2011;
- 21% effective from 1 January 2012 to 31 December 2012;
- 19% effective from 1 January 2013 to 31 December 2013;
- 16% effective from 1 January 2014.

In December 2013 amendments to the Tax Code of Ukraine enacted 18% income tax rate effective from 1 January 2014 with its gradual decrease to 17% effective from 1 January 2015 and 16% effective from 1 January 2016.

The deferred tax assets and liabilities as at 31 December 2013 and 2012 were measured based upon the tax rates expected to be applied to the periods when the temporary differences are expected to be realized.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deductible temporary differences as at 31 December 2013 and 2012, 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:

	2013	2012
Property, plant and equipment, mining rights and development assets, exploration and evaluation assets	3,588,810	1,980,737
Trade and other payables	70,360	2,267
Total	**3,659,170**	**1,983,004**

As at 31 December 2013 and 2012, the Ukrainian subsidiary had tax losses carried forward of USD 4,880,505 and USD 4,614,345, 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 2013 and 2012 was as follows:

	2013	2012
Loss before income tax	**(2,297,959)**	**(1,419,511)**
Theoretical income tax 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	(418,285)	(393,853)
Effect of expenses that are not deductible in determining tax loss	128,156	297,464
Deferred tax asset not recognised	290,129	96,389
Income tax expense	-	-

(in US dollars)

8. EXPLORATION AND EVALUATION ASSETS

During 2013 and 2012, additions to exploration and evaluation assets related to minefields Lubelska # 3 and 4. The following table presents the movement in exploration and evaluation assets for the years ended 31 December 2013 and 2012:

	2013	2012
At cost		
At the beginning of the year	1,145,112	587,464
Additions	975,229	547,513
Exchange differences on translating foreign operations	(62,294)	10,135
At the end of the year	**2,058,047**	**1,145,112**

9. MINING RIGHTS AND DEVELOPMENT ASSETS

The following table presents the movement in mining rights and development assets for the years ended 31 December 2013 and 2012:

	2013	2012
At cost		
At the beginning of the year	16,630,434	13,794,486
Additions	2,978,124	3,450,397
Transfer to property, plant and equipment	-	(616,059)
Exchange differences on translating foreign operations	(440,804)	1,610
At the end of the year	**19,167,754**	**16,630,434**

Mining rights and development assets relate to minefield Lubelska # 1-2 (Note 1) and are represented by capitalized evaluation and exploration expenses to the date of the Group took decision to develop the mine and subsequently incurred development expenses.

(in US dollars)

10. PROPERTY, PLANT AND EQUIPMENT

The following table presents the movement in property, plant and equipment for the years ended 31 December 2013 and 2012:

Cost	**Mining assets**	**Non-mining assets**	**Construction in Progress**	**Total**
Balance at 31 December 2011	114,079	274,689	68,416	457,184
Additions	616,059	10,075	2,351	628,485
Disposals	-	(183)	-	(183)
Exchange differences on translating foreign operations	11,026	16,619	595	28,240
Balance at 31 December 2012	**741,164**	**301,200**	**71,362**	**1,113,726**
Additions	930,940	52,031	517,283	1,500,254
Disposals	-	-	-	-
Exchange differences on translating foreign operations	(45,273)	(13,005)	(11,428)	(69,706)
Balance at 31 December 2013	**1,626,831**	**340,226**	**577,217**	**2,544,274**
Accumulated depreciation				
Balance at 31 December 2011	12,042	166,792	-	178,834
Charge for the year	11,948	38,063	-	50,011
Eliminated on disposals	-	(183)	-	(183)
Exchange differences on translating foreign operations	294	16,201	-	16,495
Balance at 31 December 2012	**24,284**	**220,873**	**-**	**245,157**
Charge for the year	57,526	57,519	-	115,045
Eliminated on disposals	-	-	-	-
Exchange differences on translating foreign operations	(1,931)	(9,856)	-	(11,787)
Balance at 31 December 2013	**79,879**	**268,536**	**-**	**348,415**
Net book value				
31 December 2012	**716,880**	**80,327**	**71,362**	**868,569**
31 December 2013	**1,546,952**	**71,690**	**577,217**	**2,195,859**

(in US dollars)

11. OTHER RECEIVABLES

Other receivables as at 31 December 2013 and 2012 were as follows:

	2013	2012
Value added tax ("VAT")	2,823,066	2,124,387
Other receivables	101,712	98,537
	2,924,778	**2,222,924**
Less: Allowance for irrecoverable VAT	(2,823,066)	(2,124,387)
Total	**101,712**	**98,537**

The Group has accumulated significant input VAT during exploration and evaluation and mine development activities. According to Ukrainian legislation, VAT receivables can be refunded from the State Budget or netted off against output VAT from future sales. As at 31 December 2013 and 2012, from VAT receivable balances USD 1,244,803 and USD 570,437, respectively, were in process of legal proceedings with tax authorities (Note 17). Management believes that due to uncertainties inherent in the Ukrainian tax legislation, the Group's ability to receive VAT refund, the timing of commercial mining commencement and future prices on coal, an allowance should be provided against the full amount of input VAT receivable.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2013 and 2012 were as follows:

	2013	2012
Short-term bank deposits (with initial maturities of less than 3 months)	7,735	15,222,490
Cash with banks	718,772	2,882,860
Total	**726,507**	**18,105,350**
Short-term bank deposits (with initial maturities of more than 3 months)	9,383,623	-
Total	**10,110,130**	**18,105,350**

For the year ended 31 December 2013, deposits with banks bore an annual average interest rate of 5.74% (2012: 5.64%).

As at 31 December 2013, USD 8,900,000 was placed as deposits with three banks in Ukraine: PJSC "UKRSOTSBANK", PJSC "VTB" and JSC "SBERBANK OF RUSSIA".

As at 31 December 2012, USD 15,000,000 was placed as call deposits with five banks in Ukraine: PJSC "UKRSOTSBANK", PJSC "VTB", CJSC "BANK FORUM", JSC "SBERBANK OF RUSSIA" and OJSC "OTP".

(in US dollars)

As a result of the imposition by the Central Bank of Cyprus of restrictions on the use of cash held on current and deposit accounts with certain banks in Cyprus, all balances on the deposit accounts with such banks as at 26 March 2013 became subject to restrictions in the amount of the excess over the guarantee deposit of EUR 100 thousand. As at the above date, the Group held accounts with the banks in Cyprus subject to the mentioned above restrictions cash in the amount of USD 1,292,657. The impact on the Group's cash balance in 2013 is as follows:

- ***Investments:*** 47.5% of the cash balance placed with the Bank of Cyprus (USD 614,013) was converted into shares of the Bank of Cyprus, which, as at 31 December 2013, were measured at fair value of USD 383,133 and recorded in the consolidated statement of financial position as investments available for sale. An impairment loss of USD 230,880 was recognized within administrative expenses (Note 6).
- ***Deposits:*** 37.5% of the cash balance placed with the Bank of Cyprus (USD 483,623) was converted into three deposits of USD 161,208 each with maturities of 6, 9 and 12 months. The deposits were placed at annual interest rates of 0.55%, 0.65% and 0.80%, respectively. The Bank of Cyprus is entitled to extend the maturities of the said deposits for the same periods.

  Subsequent to 31 December 2013 deposits with maturities of 6 months were paid back to the Group in accordance with established schedules. Deposits with 9 months maturity were paid back in the amount of USD 53,736 and the remaining part of USD 107,472 was prolonged being payable equally on 29 July 2014 and 30 October 2014.
- **Cash and cash equivalents:** 15% of the cash held on current account (USD 195,020) was released to the Group.

13. TRADE AND OTHER PAYABLES

As at 31 December 2013 and 2012, trade and other payables of the Group were as follows:

	2013	2012
Trade and other creditors	140,361	52,911
Other taxes and social security	12	8,905
Total	**140,373**	**61,816**

The average credit period on purchases of goods and services is 30 days. No interest is charged on the outstanding balance of trade payables.

14. ISSUED CAPITAL

	Share Capital		Share Premium Reserve		Total	Total
	2013 No.	2012 No.	2013	2012	2013	2012
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	**4,527,142**	**4,527,142**	**57,053,419**	**57,053,419**	**61,580,561**	**61,580,561**
At the end of the year	**4,527,142**	**4,527,142**	**57,053,419**	**57,053,419**	**61,580,561**	**61,580,561**

(in US dollars)

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:

	2013	2012
Loss for the year	(2,297,959)	(1,419,511)
Loss used in the calculation of basic loss per share	**(2,297,959)**	**(1,419,511)**
Weighted average number of ordinary shares for the purposes of basic loss per share	221,810,000	221,810,000
Basic loss per share, cents per share	**(1.04)**	**(0.64)**

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

	2013	2012
Loss used in the calculation of basic loss per share	(2,297,959)	(1,419,511)
Loss used in the calculation of diluted loss per share	**(2,297,959)**	**(1,419,511)**

The weighted average number of ordinary shares for the purpose of diluted loss per share reconciles to the weighted average number of ordinary shares used in the calculation of basic 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)	2,218,100	2,218,100
Weighted average number of ordinary shares used in the calculation of diluted loss per share	224,028,100	224,028,100
Diluted loss per share, cents per share	**(1.03)**	**(0.63)**

15. RESERVES

As at 31 December 2013 and 2012 the Group's reserves were as follows:

	2013	2012
Equity-settled employee benefit reserve	3,374,841	3,193,179
Foreign currency translation reserve	(2,386,773)	(1,589,760)
	988,068	**1,603,419**
Equity-settled employee benefit reserve		
At the beginning of the year	3,193,179	3,009,188
Share based payment charge (Note 16)	181,662	183,991
At the end of the year	**3,374,841**	**3,193,179**

(in US dollars)

	2013	2012
Foreign currency translation reserve		
At the beginning of the year	(1,589,760)	(1,769,299)
Exchange differences on translating foreign operations	(797,013)	179,539
At the end of the year	**(2,386,773)**	**(1,589,760)**

Foreign currency translation reserve arises from monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur and which form part of the net investment in a foreign operation and from retranslation of individual entities' accounts for presentational purposes.

16. 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:

	2013 Number of share options	2012 Number of share options
Outstanding at the beginning of year	2,218,000	2,218,100
Outstanding at the end of the year	**2,218,000**	**2,218,100**
Weighted average contractual life	**4.58 years**	**5.58 years**

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 2012, the Group revised the vesting period for its share options from 31 December 2013 to 30 September 2015. The revised estimate was based on the current condition of capital markets and the progress in negotiations with strategic investors. For the year ended 31 December 2013, the Group recognised a total charge of GBP 116,450 (equivalent to USD 181,662) (2012: GBP 116,450 (equivalent to USD 183,991) in respect of equity settled share based payment transactions which was capitalized in "Mining rights and development assets".

17. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Taxation – Ukraine's tax environment is characterized by complexity in tax administrating, 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 litigations 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 considers implementing certain reforms in the tax system of Ukraine. Currently, it is not clear what specific measures will be undertaken within these reforms, nor what overall impact they will have on the tax environment in general and on the tax standing of the Group in particular. Management believes that the Group has been in compliance with all requirements of the effective tax legislation.

The management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation and, therefore, no additional provisions are to be made in these consolidated financial statements, except for those already accrued in these consolidated financial statements.

Transfer pricing – Starting from 1 September 2013, the Ukrainian legislation was amended by new transfer pricing rules. These rules introduce additional reporting and documentation requirements to transactions. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including, but not limited to, transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Legal proceedings with tax authorities – As at 31 December 2013, the Group had a VAT receivable balance (before allowance for non-recoverability) of USD 2,823,066 (2012: USD 2,124,387), of which USD 1,244,803 (2012: USD 570,437) was in process of legal proceedings with tax authorities. The Ukrainian tax authorities have rejected the VAT refund claim based on the argument that the Group is not entitled for VAT refund as it was accumulated from non-business transactions. The Group disagreed with the tax authorities' decision and has commenced legal action for recovery of the total amount of USD 1,244,803 (2012: USD 570,437). The Group was able to win some of the VAT related cases in the courts of first and second instances, but a final decision remains outstanding with the Higher Administrative court of Ukraine. As a result of court wins,an insignificant amount of VAT was refunded to the Group.

(in US dollars)

Following a full-scope tax audit conducted by Ukrainian tax authorities in 2011 covering the period from 1 April 2009 to 30 June 2011, tax assessments were issued disallowing USD 4,440,199 of tax losses carried forward and USD 194,406 of deductible expenses and accruing USD 59,702 of additional income tax liabilities. The Group filed a lawsuit against these assessments. In January 2013, the Group received positive decisions from the court of second instance in regard to its appeals against the tax authorities':

- cancelling tax losses carried forward of USD 4,440,199;
- disallowing taxable expenses of USD 194,406;
- and the accrual of additional income tax liabilities of USD 59,702.

Regional tax administration submitted appeals to the Supreme Administrative Court. In October 2013 the Group received a positive decision of the Supreme Administrative Court that confirmed the decision of the court of second instance. This decision cannot be appealed further.

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 2013 and 2012 the Group also leased administrative offices through operating lease agreements, which expire in various years through 2015. 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 2013 and 2012 the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	2013	2012
Within one year	129,299	129,329
In the second to fifth year inclusive	517,196	517,315
After five years	2,174,020	2,341,712
Total	**2,820,515**	**2,988,356**

Capital Commitments – As at 31 December 2013 the Group had outstanding contracts with third party engineering companies for project development works for the total amount of USD 1,330,392 (2012: USD 397,089).

18. 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 2013 and 2012, the Group received professional and consulting services from its shareholders in the amount of USD 140,004.

During the year ended 31 December 2012, a loan to a key management employee was provided and fully repaid in the amount of USD 158,600.

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":

	2013	2012
Employment costs	1,078,474	1,093,410
Share-based payments charge (Note 16)	181,662	183,991
Total	**1,260,136**	**1,277,401**

19. EMPLOYEE BENEFITS AND RETIREMENT BENEFITS

Employees of CCI Lubelia receive pension benefits from the Government in accordance with the laws and regulations of Ukraine. Contributions to State Pension Fund are recorded in profit or on the accrual basis. Total expenses on contributions to the State Pension Fund of Ukraine reflected in the consolidated statement of comprehensive loss for the years ended 31 December 2013 and 2012 amounted to USD 231,038 and USD 149,513, respectively.

20. FINANCIAL RISK MANAGEMENT

Capital risk management – The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group have taken steps to balance its overall capital structure through new share issues as well as taking of new loans and borrowings or redemption of existing loans and borrowings.

Major categories of financial instruments

	2013	2012
Financial assets		
Short-term bank deposits	9,383,623	-
Cash and cash equivalents	726,507	18,105,350
Investments available for sale	383,133	-
Other receivables	101,712	44,942
Total financial assets	**10,594,975**	**18,150,292**
Financial liabilities		
Trade and other payables	140,361	52,911
Total financial liabilities	**140,361**	**52,911**

The main risks arising from the Group's financial instruments are foreign currency risks since at 31 December 2013 and 2012 some of the cash balances and financial liabilities were denominated in GBP, EUR and USD.

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 Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Group is trying to mitigate such risk by managing monetary assets and liabilities in foreign currency at the same (more or less stable) level.

(in US dollars)

The carrying amounts of the Group companies' monetary assets and liabilities denominated in foreign currency as at 31 December 2013 and 2012 were as follows:

2013	USD	GBP	EUR
Financial assets			
Short-term bank deposits	8,900,000	-	-
Cash and cash equivalents	386,755	1,551	7,345
Investments available for sale	-	-	383,133
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**

2012	USD	GBP	EUR
Financial assets			
Cash and cash equivalents	15,313,954	1,122	1,236
Total financial assets	**15,313,954**	**1,122**	**1,236**
Financial liabilities			
Trade and other payables	-	-	(19,294)
Total financial liabilities	**-**	**-**	**(19,294)**
Total net position	**15,313,954**	**1,122**	**(18,058)**

The table below details the sensitivity to strengthening of functional currency of Group companies against foreign currencies by 10% as at 31 December 2013 and 2012. There would be an equal or negative impact on the profit and the balances below will have opposite showings.
The analysis was applied to monetary items at the reporting date denominated in respective currencies.

	USD impact 2013	GBP impact 2013	EUR impact 2013	USD impact 2012	GBP impact 2012	EUR impact 2012
Profit/(loss)	928,676	(293)	36,106	1,531,395	112	(1,806)

(in US dollars)

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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.

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.

The fair value is estimated to be the same as the carrying value for cash and cash equivalents, short-term bank deposits, other receivables and trade and other payables due to the short-term nature of the financial instruments.

Investments available for sale are measured at fair value at the end of the reporting period. The following table shows fair value measurement methods in respect of the financial assets and financial liabilities (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.

Had the value of the Bank's net assets increased/decreased by 10%, with the other variables remaining unchanged, then the carrying amounts of investments available for sale as at 31 December 2013 would increase/decrease by USD 38,313.

22. EVENTS AFTER THE REPORTING PERIOD

In March 2014, the Verkhovna Rada of Ukraine adopted the Law "On Preventing Financial Catastrophe and Creating Prerequisites for Economic Growth in Ukraine" (Law # 1166) which fixed the application of basic corporate income tax rate at the level of 18% and value added tax rate at the level of 20%. Also, the Law introduced a value added tax at the rate of 7% for the supply of medicines and medical products.

On 27 June 2014 an Association Agreement between Ukraine and EU was signed.

23. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by Group management and authorised for issue on 4 July 2014.