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

Independent Auditors' Report

Consolidated Financial Statements
For the year ended 31 December 2008

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 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the consolidated financial statements of Lubel Coal Company Limited and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly, in all material respects the financial position of the Group as at 31 December 2008, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- Maintaining proper accounting records that 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
- Detecting and preventing fraud and other irregularities.

The accompanying consolidated financial statements as at 31 December 2008 and for the year then ended were authorised for issue by Group's management on 19 March 2009.

On behalf of the management:

G. Mascall

Graham Mascall, Chief Executive Officer

Richard Round, Chief Financial Officer

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lubel Coal Company Limited

We have audited the accompanying consolidated financial statements of Lubel Coal Company Limited and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statements of operations, changes in equity and cash flow for the year ended 31 December 2008 and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 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 auditors' 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 Group'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 Group'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 consolidated financial position of the Group as at 31 December 2008 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

19 March 2009

LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2008
(in US Dollars)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Administrative expenses	6	(14,854,940)	(8,610,248)
OPERATING LOSS		(14,854,940)	(8,610,248)
Finance income		1,501,014	234,542
Finance costs		-	(80,845)
Foreign exchange loss		(964,577)	(1,155,929)
LOSS BEFORE INCOME TAX		(14,318,503)	(9,612,480)
INCOME TAX EXPENSE	7	-	-
NET LOSS FOR THE YEAR		(14,318,503)	(9,612,480)
Loss per share:			
Basic (cents per share)	8	6.46	17.31
Diluted (cents per share)	8	6.46	17.31

On behalf of the management:

G. Mascall

Graham Mascall, Chief Executive Officer

Richard Round, Chief Financial Officer

The notes on pages 9 to 31 form an integral part of these consolidated financial statements.
The Independent Auditors' Report is on pages 2-3.

LUBEL COAL COMPANY LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008
(in US Dollars)

	Notes	31 December 2008	31 December 2007
ASSETS			
NON-CURRENT ASSETS			
Intangible exploration and evaluation assets	9	4,414,339	2,605,180
Property, plant and equipment	10	323,023	145,968
Prepayments to suppliers for exploration assets		236,196	137,391
Other non-current assets		156,441	2,992
Total non-current assets		5,129,999	2,891,531
CURRENT ASSETS			
Other receivables	11	141,782	6,914
Cash and cash equivalents	12	41,527,760	52,825,206
Total current assets		41,669,542	52,832,120
TOTAL ASSETS		46,799,541	55,723,651
EQUITY AND LIABILITIES			
EQUITY			
Issued capital	15	61,580,561	61,580,561
Reserves	16	10,565,302	2,359,386
Accumulated losses		(26,209,862)	(11,891,359)
TOTAL EQUITY		45,936,001	52,048,588
NON-CURRENT LIABILITIES			
Long-term borrowings	13	-	121,842
Total non-current liabilities		-	121,842
CURRENT LIABILITIES			
Trade and other payables	14	855,015	3,539,756
Tax liabilities		8,525	13,465
Total current liabilities		863,540	3,553,221
TOTAL LIABILITIES		863,540	3,675,063
CONTINGENCIES AND CONTRACTUAL COMMITMENTS	18		
TOTAL EQUITY AND LIABILITIES		46,799,541	55,723,651

On behalf of the management:

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Graham Mascall, Chief Executive Officer

Richard Round, Chief Financial Officer

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LUBEL COAL COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(in US dollars)

	Note	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income taxes		(14,318,503)	(9,612,480)
Adjustments for:			
Interest income		(1,501,014)	(234,542)
Finance costs		-	80,845
Depreciation of property, plant and equipment		102,666	24,957
Change in allowance for VAT recoverable		486,877	-
Share issue to executive		-	2,571,660
Share options expense		9,704,863	2,362,588
Foreign exchange loss relating to non-operating activities		527,267	1,188,648
Other adjustments		-	8,069
Operating loss before changes in operating assets and liabilities		(4,997,844)	(3,610,255)
Increase in other non-current assets and other receivables		(288,317)	(7,213)
(Decrease)/Increase in trade and other payables		(1,515,033)	2,421,454
Cash used in operating activities		(6,801,194)	(1,196,014)
Interest paid		-	(80,845)
Net cash used in operating activities		(6,801,194)	(1,276,859)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Exploration and evaluation expenditures		(3,239,995)	(974,757)
Purchase of property, plant and equipment		(409,074)	(56,982)
Interest received		1,501,014	234,542
Net cash used in investing activities		(2,148,055)	(797,197)

LUBEL COAL COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)
(in US dollars)

	Note	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:			
Loans received from Members		-	2,028,431
Loans repaid to Members		-	(2,028,431)
Share capital issued for cash in private placement		-	59,169,610
Private placement incremental costs		(1,169,708)	(3,083,699)
Repayment of loan		(121,842)	-
Net cash (used in)/generated by financing activities:		(1,291,550)	56,085,911
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(10,240,799)	54,011,855
Effect of exchange rate changes		(1,056,647)	(1,188,648)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		52,825,206	1,999
CASH AND CASH EQUIVALENTS AT END OF YEAR		41,527,760	52,825,206
CHANGE IN CASH AND CASH EQUIVALENTS		(11,297,446)	52,823,207

On behalf of the management:

G. Mascall

Graham Mascall, Chief Executive Officer

Richard Round, Chief Financial Officer

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LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(in US dollars)

	Members' capital	Share capital	Share premium reserve	Accumulated loss	Equity settled employee benefit reserve	Foreign currency translation reserve	Total
As at 1 January 2007	**1,660,251**	**-**	**-**	**-**	**-**	**(3,202)**	**1,657,049**
Group re-organisation (see note 23)	(1,660,251)	3,939,130	-	(2,278,879)	-	-	-
Issue of equity shares	-	588,012	61,153,258	-	-	-	61,741,270
Share issue expenses	-	-	(4,099,839)	-	-	-	(4,099,839)
Share-based payment (see note 17)	-	-	-	-	2,362,588	-	2,362,588
Net loss for the year	-	-	-	(9,612,480)	-	-	(9,612,480)
As at 31 December 2007	**-**	**4,527,142**	**57,053,419**	**(11,891,359)**	**2,362,588**	**(3,202)**	**52,048,588**
Share-based payment (see note 17)	-	-	-	-	9,704,863	-	9,704,863
Foreign currency reserve	-	-	-	-	-	(1,498,947)	(1,498,947)
Net loss for the year	-	-	-	(14,318,503)	-	-	(14,318,503)
As at 31 December 2008	**-**	**4,527,142**	**57,053,419**	**(26,209,862)**	**12,067,451**	**(1,502,149)**	**45,936,001**

On behalf of the management:

Graham Mascall, Chief Executive Officer

Richard Round, Chief Financial Officer

The notes on pages 9 to 31 form an integral part of these consolidated financial statements.
The Independent Auditors' Report is on pages 2-3.

(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.

Group reorganisation during year ended 31 December 2007 – The beneficial ownership of Stelex LLC ("Stelex") was transferred to the Company in September 2007, at which point Stelex became wholly owned by the Company.

Stelex was formed under the laws of the State of Illinois on September 4, 2002 to create a low cost, coal mining company through the development of a mining area within Ukraine. In 2007 and 2008 the Company and Stelex, through its subsidiary CCI Lubelia, were primarily involved in developing a coal mine in Ukraine. In December 2007, the Company raised USD 55,069,771 net of expenses from a private placement. The capital is being used to develop the mine. A feasibility study to bankable standard is expected to be finalised and the outstanding permits to be received in 2009, following which development of the mine will commence. The speed of the development will be dependent on obtaining appropriate financing.

As at 31 December 2008 and 2007 the Company, was owned by the following shareholders:

	31 December 2008	31 December 2007
Pokrass, Boris	27%	27%
Severinovsky, Mark	20%	20%
Palant, Vladimir	14%	14%
Malavasia Enterprises Inc (BVI)	14%	14%
Zdanov, Alex	8%	8%
Other	17%	17%
	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 2008	Percentage controlled as at 31 December 2007	Principal activity	Consolidation method
Stelex LLC	USA	100%	100%	Holding	Full
CCI Lubelia	Ukraine	100%	100%	Coal mining	Full
Lubel Coal Company (UK) Limited	UK	100%	100%	Service Company	Full
Lakehold Limited	Cyprus	100%	100%	Financing Company	Full
Lubel Assets Limited (formerly Norit Mining Limited)	Cyprus	100%	100%	Holding Company	Full
Mine Lubelska LLC	Ukraine	100%	100%	Coal mining	Full
Lubel Licensing Limited	Cyprus	100%	n/a	Holding Company	Full

Lubel Licensing Limited was established on 2 July 2008 to become an intermediate Holding Company.

2. ADOPTION OF NEW AND REVISED STANDARDS

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Standards and interpretations effective in current period – Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 12 ”Service Concession Arrangements”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”, IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”. The adoption of these Interpretations has not led to any changes in the Group’s accounting policies.

Standards and interpretations in issue not yet adopted – At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

Standard/Interpretation	**Effective for annual accounting period beginning on or after**
IAS 1 “Presentation of Financial Statements” (Revised 2008)	1 January 2009
IAS 16 “Property, Plant and Equipment” (Revised 2008)	1 January 2009
IAS 19 “Employee Benefits” (Revised 2008)	1 January 2009
IAS 20 “Government Grants and Disclosure of Government Assistance” (Revised 2008)	1 January 2009
IAS 23 “Borrowing Costs” (Revised 2007 and 2008)	1 January 2009
IAS 27 “Consolidated and Separate Financial Statements” (Revised 2008)	1 January 2009
IAS 28 “Investments in Associates” (Revised 2008)	1 January 2009
IAS 29 “Financial Reporting in Hyperinflationary Economies” (Revised 2008)	1 January 2009
IAS 31 “Interests in Joint Ventures” (Revised 2008)	1 January 2009
IAS 32 “Financial Instruments: Presentation” (Revised 2008)	1 January 2009
IAS 36 “Impairment of Assets” (Revised 2008)	1 January 2009
IAS 38 “Intangible Assets” (Revised 2008)	1 January 2009
IAS 39 “Financial Instruments: Recognition and Measurement” (Revised 2008)	1 January 2009
IAS 40 “Investment Property” (Revised 2008)	1 January 2009
IAS 41 ”Agriculture” (Revised 2008)	1 January 2009
IFRS 1 “First-time Adoption of International Financial Reporting Standards” (Revised 2008)	1 January 2009
IFRS 2 “Share-based Payment” (Revised 2008)	1 January 2009
IFRS 3 “Business Combinations” (Revised 2008)	1 July 2009
IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” (Revised 2008)	1 January 2009
IFRS 8 “Operating Segments”	1 January 2009
IFRIC 15 “Agreements for the Construction of Real Estate”	1 January 2009
IFRIC 17 “Distributions of Non-cash Assets to Owners”	1 July 2009
IFRIC 18 “Transfers of Assets from Customers”	1 July 2009

The management anticipates that the above IFRS and IFRIC will have no material impact on the consolidated financial statements of the Group in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements for the year ended 31 December 2008 (the "Consolidated Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets made for evaluation of net assets for the purposes of acquisition accounting for business combinations. Such revalued amounts became new cost basis for these non-current assets in the consolidated financial statements after business combinations. The principal accounting policies are set out below.

(c) 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 where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of operations from the effective date of acquisition or up to the effective date of disposal. Decrease in the parent's ownership interest in a subsidiary that does not result in a loss of control, is accounted for as equity transaction. The difference between the amount by which minority interest is adjusted (which represents the minority's share in net assets of a subsidiary including any goodwill in cash-generating units that are part of the subsidiary) and the fair value of the consideration received is recognised directly in equity and attributed to the owners of the parent.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets or net liabilities of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(d) Accounting for transactions with entities under common control

The assets and liabilities of subsidiaries acquired from entities under common control are recorded in these consolidated financial statements at pre-acquisition carrying values.
Any difference between the carrying value of net assets of these subsidiaries, and the consideration paid by the Group is accounted for in these consolidated financial statements as an adjustment to equity. The results of the acquired entity are reflected from the date of acquisition.

Any gain or loss on disposals to entities under common control are reflected as a component of equity.

(e) Employee leave benefits

Liabilities for wages and salaries, including non-monetary benefits and accrued but unused annual leave are recognised 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 recognised in the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently carried at cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of operations 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.

Trade payables

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

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.

(g) Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). Functional currency for Ukrainian subsidiaries of the Group is Ukrainian Hryvnia ("UAH"), Cypriot and BVI companies - United States Dollar ("USD"), and English companies - GB Pound ("GBP"). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in USD, which is the functional currency of the parent company and the presentation currency for the consolidated financial statements.

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 balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet 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 recognised in the consolidated statement of operations in the period in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in the consolidated statement of operations on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in USD using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising from retranslation of individual entities' accounts for presentational purposes are classified as equity and recognised in the Group's foreign currency translation reserve.

(h) Intangible assets – Exploration and evaluation assets

The costs of exploration properties and leases, which include the cost of acquiring prospective properties and exploration rights and costs incurred in exploration and evaluation activities, are capitalised as intangible assets 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 capitalised costs relating to the property are written off in the period. No amortisation is charged prior to the commencement of production.

When commercial production commences, exploration, evaluation and development costs previously capitalised are amortised over the commercial reserves of the mining property on a unit of production basis.

Expenditures related to the following activities are initially measured at cost and capitalised 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.

Expenditures not included in the initial measurement of exploration assets are:

- Development of a mineral resource once technical feasibility and commercial viability of extracting a mineral resource have been established; and
- Administration and other general overhead costs.

(i) Property, plant and equipment

Property, plant and equipment, acquired by CCI Lubelia before 1 January 2001 are carried at historical cost restated for inflation 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.

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:

	Years
Vehicles	8
Office equipment, furniture and fixtures	3-5
Leasehold improvements	Lower of useful life of improvement or length of lease

The cost of maintenance, repairs and replacement of minor items of property, plant and equipment are charged to the consolidated statement of operations as incurred.

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 operations.

(j) Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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.

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 recognised as an expense immediately.

The Group considers the whole of Ukraine to be 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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

(k) Interest income and interest expense recognition

Interest income and expense are recorded in the consolidated statement of operations 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and commissions paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(l) 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.

(m) 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 income on a straight-line basis over the term of the relevant lease.

(n) Other income and other expenses recognition

Other income is credited to the consolidated statement of operations 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.

(o) 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 long-term assets.

(p) Provisions

Provisions are recognised 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 expenditure required to settle the present obligation at the balance sheet date.

(q) 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 operations.

For employees in the UK, contributions to defined contribution scheme are recognised as an expense when incurred.

(r) Share-based payment transactions

The Group issues equity-settled share-based payments to certain directors and employees. Equity settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) 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 and adjusted for the effect of non-market based vesting conditions.

During the year 2008 the Group modified the share options scheme, which resulted in increase of the fair value of the equity instruments granted, measured immediately before and after the modification. The Group included the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification.

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 used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(s) Taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the 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 generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

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 realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the consolidated statement of operations, 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 recognised in respect of timing differences relating to tax losses where there is insufficient evidence that the asset will be recovered. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The current tax expense of the Company and its subsidiaries is based on taxable profit for the year and is computed in accordance with the legislation of country of incorporation. The Company and all subsidiaries showed a net loss for the years ended 31 December 2008 and 2007 in their statutory tax books. No current income tax liabilities were accrued for the years.

Deferred tax calculated for the subsidiary is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the stand-alone 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 generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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.

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 realised. Deferred tax is charged or credited in the consolidated statement of operations, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

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 operations.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors are 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 recognised 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 Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Impairment of VAT

Significant input VAT was incurred by the Subsidiary during exploration for and evaluation of the coal mine reserves. According to the Ukrainian legislation input VAT is refunded or netted off against output VAT. The estimation of the allowance for the amount of input VAT which will not be recovered through setting off against future output VAT on sales, involves an exercise of judgment. The management believes that due to uncertainties inherent both to the Ukrainian tax legislation, the timing of commercial mining commencement, and future prices on coal, input VAT should be provided in full. It is impracticable to assess more precisely the extent of the possible effects of key assumptions or other sources of uncertainty on the balance at the balance sheet dates.

(b) Group reorganisation

The transfer of ownership rights from Stelex to Lubel Coal Company Ltd in 2007 has been accounted for on the basis that the transaction is a reorganisation of entities under common control. The shareholders remain the same and there has been no change in control. There is no change in the reporting Group's substance and so the transaction does not meet the definition of a business combination as defined in IFRS 3 Business Combinations. Refer to Note 23 Corporate Reorganisation for futher details.

(c) Share-based payments

The Group has an equity-settled share option scheme available to certain directors.
In accordance with IFRS 2 *Share-based payment*, in determing the fair value of options granted, the Group has applied the Monte-Carlo Simulation Model and Binomial Model. As a result, the Group makes assumptions for expected volatility, expected life, risk free rate and expected divided yield. The fair value of options granted in 2008 and 2007 are shown in note 17.

5. SEGMENT INFORMATION

The operations of the Group comprise one reportable segment being the exploration and development of the mining site in Ukraine.

The unallocated entries in the segment note relate to activities in the United Kingdom which comprise administration and treasury functions carrying out general expense processing and monitoring and placing of Group deposits.

The following table presents profits and losses and certain assets and liability information regarding the Group's reportable segment for the years ended 31 December 2008 and 2007:

	2008		2007	
	Ukraine	**Consolidated**	**Ukraine**	**Consolidated**
Segment result	(1,379,619)	(1,379,619)	(514,817)	(514,817)
Unallocated expenses	-	(13,475,321)	-	(8,095,431)
Group operating loss	-	(14,854,940)	-	(8,610,248)
Net finance income	20,097	1,501,014	10,117	153,697
Foreign Exchange Loss	(342,952)	(964,577)	-	(1,155,929)
Loss before taxation	-	(14,318,503)	-	(9,612,480)
Taxation	-	-	-	-
Loss for the year	**-**	**(14,318,503)**	**-**	**(9,612,480)**
Assets and liabilities				
Segment assets	3,325,790	3,325,790	2,197,844	2,197,844
Unallocated assets	-	43,473,751	-	53,525,807
Total assets	**-**	**46,799,541**	**-**	**55,723,651**
Segment liabilities	42,100	42,100	49,314	49,314
Unallocated liabilities	-	821,440	-	3,625,749
Total liabilities	**-**	**863,540**	**-**	**3,675,063**
Capital expenditure:				
Property, plant and equipment	129,893	409,074	56,982	56,982
Intangible assets	2,043,801	3,141,190	851,308	851,308
Depreciation	46,807	102,666	24,957	24,957

6. ADMINSTRATIVE EXPENSES

Administrative expenses for the years ended as at 31 December 2008 and 2007 were as follows:

	2008	**2007**
Share based payments (note 17)	9,704,863	2,362,588
Employment costs	2,192,423	506,706
Professional and consulting costs	1,375,679	291,890
Change in allowance for irrecoverable VAT	486,877	156,474
Rent expenses	424,323	102,294
Business trip expenses	203,082	187,215
Depreciation on property, plant and equipment	102,666	24,957
Award of shares and bonus to executive following share issue (including employer taxes)	-	4,729,183
Other expenses	365,027	248,941
Total	**14,854,940**	**8,610,248**

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 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. The companies within the Group show net losses for the years ended 31 December 2008 and 2007 in their statutory tax books. No current income tax liabilities were accrued for the years ended 31 December 2008 and 2007.

During the years ended 31 December 2008 and 2007 the corporate income tax for Ukrainian companies was established at the rate of 25%. The corporate income tax rate in the British Virgin Islands, the legal location of holding company of the Group, is nil. The subsidiaries incorporated in the Republic of Cyprus, USA and UK were subject to 10 %, 35% and 19% income tax rates, respectively. The entities incorporated in other than Ukrainian jurisdictions had losses of USD 8,033,366 for the year ended 31 December 2008 (2007: USD 9,107,780). The Group did not recognize deferred tax assets arising from such accumulated losses, as it is not probable that the Group will be able to utilise these deferred tax assets.

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.

Temporary differences as at 31 December 2008 and 2007 were as follows:

	2008	2007
Deductible temporary differences:		
Other liabilities	-	9,666
Exploration and evaluation assets	1,717,724	727,511
Total	**1,717,724**	**737,177**
Taxable temporary differences:		
Other assets	26,118	-
Property, plant and equipment	19,668	62,044
Total	**45,786**	**62,044**
Net deductible temporary differences	**1,671,938**	**675,133**
Deferred tax assets at the statutory rate 25% (eligible for Ukrainian subsidiaries)	417,985	168,783
Less valuation allowance	(417,985)	(168,783)
Net deferred tax assets	**-**	**-**

The valuation allowance was provided for deferred tax assets as at 31 December 2008 and 2007. This was due to the uncertainty that sufficient taxable profits will be available to allow the assets to be recovered.

As at 31 December 2008 Ukrainian subsidiaries had tax losses carried forward in the amount of USD 2,369,987. 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 Ukrainian current tax legislation tax losses can be carried forward for indefinite period of time.

Reconciliation between loss before income tax multiplied by the statutory tax rate and the tax expense / (benefit) for the years ended as at 31 December 2008 and 2007 was as follows:

	2008	2007
Loss before income tax	**(14,318,503)**	**(9,612,480)**
Less: losses of companies operating in jurisdictions other than Ukraine	8,033,366	9,107,780
Loss before income tax for Ukrainian subsidiaries	(6,285,137)	(504,700)
Theoretical income tax benefit at tax rate of 25% (eligible for Ukrainian subsidiaries)	(1,571,284)	(126,175)
Tax effect of:		
Non-deductible expenses	729,586	62,783
Effect of unused tax losses not recognised as deferred tax assets	592,496	
Change in deferred tax assets valuation allowance	249,202	63,392
Income tax expense/(benefit)	-	-

8. LOSS PER SHARE

The loss per share of cents 6.46 (2007: 17.31) has been based on a weighted average number of shares in issue of 221,810,000 (2007: 55,520,956). Basic and dilutive EPS are the same because the only outstanding share options are not anti-dilutive as the Group has made a loss.

9. INTANGIBLE EXPLORATION AND EVALUATION ASSETS

The following table represents movement in intangible exploration and evaluation assets for the years ended 31 December 2008 and 2007:

	2008	2007
At cost		
At beginning of year	2,605,180	1,753,872
Additions	3,141,190	851,308
Differences arising on foreign exchange translation	(1,332,031)	-
At end of year	**4,414,339**	**2,605,180**

For the years ended 31 December 2008 and 2007 additions to evaluation and exploration assets included capitalised borrowing costs as follows:

	2008	2007
Capitalised borrowing costs	8,856	9,539

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 100% of borrowing costs directly attributable to the acquisition, construction or production of qualifying assets.

10. PROPERTY, PLANT AND EQUIPMENT

The following table represents movement in property, plant and equipment for the years ended 31 December 2008 and 2007:

	Vehicles	Office equipment, furniture and Fixtures	Total
At cost			
1 January 2007	129,226	14,776	144,002
Additions	34,868	22,114	56,982
Disposals	-	(1,018)	(1,018)
31 December 2007	164,094	35,872	199,966
Additions	104,883	304,191	409,074
Disposals	-	(957)	(957)
Differences arising on foreign exchange retranslation	(93,454)	(82,332)	(175,786)
31 December 2008	175,523	256,774	432,297
Accumulated depreciation			
1 January 2007	24,230	5,829	30,059
Charge for the year	17,255	7,702	24,957
Eliminated on disposals	-	(1,018)	(1,018)
31 December 2007	41,485	12,513	53,998
Charge for the year	29,268	73,398	102,666
Eliminated on disposals	-	(957)	(957)
Differences arising on foreign exchange retranslation	(24,516)	(21,917)	(46,433)
31 December 2008	46,237	63,037	109,274
Net book value			
31 December 2008	**129,286**	**193,737**	**323,023**
31 December 2007	**122,609**	**23,359**	**145,968**

As at 31 December 2008, the Group has pledged property, plant and equipment with a net book value of USD nil (2007: USD 145,968) to secure the Group's borrowings (Note 13).

11. OTHER RECEIVABLES

Other receivables as of 31 December 2008 and 2007 were as follows:

	2008	2007
Taxes	1,400	1,841
Other receivables	140,382	5,073
Total	**141,782**	**6,914**

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December 2008 and 2007 were as follows:

	2008	2007
Cash with banks	875,160	1,325,063
Short-term deposits with banks	40,652,600	51,500,143
Total	**41,527,760**	**52,825,206**

As at 31 December 2008 and 2007 short-term deposits with banks consisted of deposits with original maturity of less than three months. For the year ended 31 December 2008 deposits with banks in USD bore an annual weighted average interest rate of 2.85% (2007: Nil); deposits in GBP – 2.53% (2007: 5.23%).

13. LONG TERM BORROWINGS

As at 31 December 2008 and 2007 the borrowings of the Group were as follows:

Creditor	Effective interest rate	Final maturity	2008	2007
Lunar Estate Development Ltd.	11%	30 June 2014	-	121,842

	2008		2007	
	Capital	Interest	Capital	Interest
At beginning of year	86,948	34,894	86,948	25,330
Interest accrued during the year	-	8,899	-	9,564
Loan repayment	(86,948)	(43,793)	-	-
At end of year	**-**	**-**	**86,948**	**34,894**

The secured loan is USD denominated at fixed rate and secured by rights over the subsidiary's property, plant and equipment, and working capital. The security was released on the settlement of the loan, which was repaid ahead of final maturity in December 2008 with no penalty.

As at 31 December 2008 and 2007 the carrying value of pledged assets was as follows:

	2008	2007
Cash and cash equivalents	-	70,999
Other short-term assets	-	2,974
Property, plant and equipment (note 10)	-	145,968
Total	**-**	**219,941**

14. TRADE AND OTHER PAYABLES

As at 31 December 2008 and 2007 the trade and other payables of the Group were as follows:

	2008	2007
Trade and other creditors	824,499	1,386,086
Director's bonus	-	1,592,000
Other taxes and social security	30,516	561,670
Total	**855,015**	**3,539,756**

The average credit period on purchases of goods and services is 30 days. No interest is charged on the outstanding balance of trade payables. At 31 December 2008 all trade payables were due within one month.

15. ISSUED CAPITAL

	Share Capital		Share Premium	
	2008	2007	2008	2007
Authorised:	No.	No.		
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		
	USD	USD	USD	USD
At beginning of year	4,527,142	-	57,053,419	-
Group reorganisation (see note 23)	-	3,939,130	-	-
Shares issued in private placement	-	563,520	-	58,606,090
Share issue expenses	-	-	-	(4,099,839)
Share issue to executive	-	24,492	-	2,547,168
At end of year	**4,527,142**	**4,527,142**	**57,053,419**	**57,053,419**

During the year 2007 the Company issued 221,810,000 shares with par value of 1p, which resulted in the issued share capital of USD 4,527,142.

16. RESERVES

As at 31 December 2008 and 2007 the Group's reserves were as follows:

	2008	2007
Equity-settled employee benefit reserve	12,067,451	2,362,588
Foreign currency translation reserve	(1,502,149)	(3,202)
	10,565,302	**2,359,386**
Equity-settled employee benefit reserve		
At beginning of year	2,362,588	-
Share based payment	9,704,863	2,362,588
At end of year	**12,067,451**	**2,362,588**

The equity-settled employee benefits reserve arises on the grant of share options to directors and employees under the share option plan. Further information about share based payments is set out in note 17.

Foreign currency translation reserve	**31 December 2008**	**31 December 2007**
At beginning of year	(3,202)	(3,202)
Foreign currency exchange for the year	(1,498,947)	-
At end of year	**(1,502,149)**	**(3,202)**

The 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.

17. SHARE BASED PAYMENT TRANSACTIONS

Equity settled share-based payments – During 2007, the Group issued share options to one director and one employee under terms of its Employee Share Option Scheme ("the Scheme"). Certain of these options will vest on completion of an Initial Public Offering ("IPO") and certain of these options will vest 6 months after the completion of an Initial Public Offering ("IPO"). The fair value of these options is estimated at the grant date using a Monte Carlo simulation model combined with a Binomial lattice model, taking into account the terms and conditions upon which the instruments were granted. At each iteration, the Monte Carlo simulation model generates an estimate of the offer share price which is then inputted into a Binomial model. The average exercise price of these options is GBP 1.12. The contractual life of these options is 10 years and there are no cash settlement alternatives.

The Group also issued nil-cost options to one director in 2007. These options will vest on a successful completion of an exit event. The fair value of these options has been estimated as the share price at the grant date, being GBP 1.05. The exercise price of these options is nil. The contractual life of these options is 10 years and there are no cash settlement alternatives.

During 2008 the Group amended the terms of the share options issued to a director (who in 2007 was an employee). The terms were amended as follows:

Original terms – 500,000 options to vest on completion of IPO and 500,000 options to vest 6 months after completion of IPO. The average exercise price of these options is GBP 1.12.

Amended terms (September 2008) – 554,525 options to vest on completion of IPO at an exercise price of GBP nil and 554,525 options to vest on completion of IPO at an exercise price of GBP 1.05.

During the year 2008, 2,218,100 options were issued to an employee to vest on completion of an IPO at an exercise price of GBP nil.

The following table illustrates the number and weighted average exercise prices of, and movements in, share options:

	2008		2007	
	Number of share options	**Weighted average exercise price GBP**	**Number of share options**	**Weighted average exercise price GBP**
Outstanding at beginning of year	6,500,000	0.26	-	-
Granted during the year	2,218,100	-	6,500,000	0.26
Original replaced during the year	(1,000,000)	1.12	-	-
Amended during the year	1,109,050	0.53	-	-
Outstanding at the end of the year	**8,827,150**	**0.13**	**6,500,000**	**0.26**
Exercisable at the end of the year	**-**	**-**	**-**	**-**
Weighted average contractual life	**9.67 years**		**9.75 years**	

The valuation assumptions utilised in the Binomial model are as follows:

	2008	**2007**
Weighted average share price	GBP1.05	GBP1.05
Weighted average exercise price	GBP1.08	GBP1.12
Expected volatility	42%	42%
Expected life	5.25 years	5.25 years
Risk-free rate	4.95%	4.95%
Expected dividend yields	-	-

As the company is unlisted, expected volatility was determined by considering the historical volatility of other listed similar entities over the most recent period that is commensurate with the expected term of the option and as at the time of grant. For the year ended 31 December 2008 the Group recognised total expenses of GBP 5,315,148 (USD 9,704,863) (2007: GBP 1,155,300 (USD 2,362,588)) related to equity-settled share-based payment transactions.

18. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Operating environment – The principal business activities of the Group are within Ukraine. Laws and regulations affecting businesses operating in Ukraine are subject to frequent changes and the subsidiary's assets and operations could be at risk if there are any adverse changes in the political and business environment. Such a situation is typical for other entities in Ukraine.

Recent volatility in global and Ukrainian financial markets – In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Ukraine, notwithstanding any potential economic stabilisation measures that may be put into place by the Ukrainian government and the National bank of Ukraine, there exists as at the date these consolidated financial statements are authorised for issue economic uncertainties surrounding the availability, and cost, of external financing. The potential for economic uncertainties may continue into the foreseeable future and, as a consequence, there is a potential that assets may not be recovered at their carrying amount in the ordinary course of business.

However, management considers that the value of the tangible assets are recoverable at current carrying amounts and the fair value of the intangible assets are significantly greater than the book value despite the current economic crisis around the world.

Taxation – Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. In this respect, the local and national tax environment in Ukraine is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and interest. Future tax examinations could raise issues or assessments, which are contrary to the Ukrainian subsidiary's tax filings. Such assessments could include taxes, penalties and interest, and these amounts could be material. While the subsidiary believes it has complied with local tax legislation, there are regular new tax and foreign currency laws and related regulations, which are not always clearly written.

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.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Operating lease commitments – As at 31 December 2008 and 2007 the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	2008	**2007**
Within one year	130,150	-
In the second to fifth year inclusive	130,150	-
After five years	-	-
Total	**260,300**	**-**

Operating lease payments represent rentals payable for office premises.

Capital Commitments – As at 31 December 2008 the Group had outstanding contracts with third party engineering companies for exploration and project development works for the total amount of USD 659,161.

19. RELATED PARTY TRANSACTIONS

	Interest payable	Loan
As at 31 December 2008 and for the year ended 31 December 2008		
Loan to a director	-	64,670
As at 31 December 2007 and for the year ended 31 December 2007		
Enterprises in which a substantial interest in the voting power is owned by individuals owning an interest in the voting power of the Group that gives them significant influence over the Group	80,845	-

Remuneration of key management personnel – The remuneration of the directors and other key management personnel of the Group is set out below, in aggregate, for each of the categories specified in IAS24 – Related Party Disclosures:

	2008	2007
Short-term employee benefits	1,527,265	397,567
Share-based payments (see note 17)	9,704,863	2,362,588
Share award of bonus to executive following private placement (excluding employer taxes)	-	4,204,460
Total	**11,232,128**	**6,964,615**

20. EMPLOYEE BENEFITS AND RETIREMENT BENEFITS

Employees of CCI Lubelia receive pension benefits from the Government in accordance with the laws and regulations of Ukraine.

Employees and directors employed in the United Kingdom receive defined contribution payments into private pension policies. The total expense recognised in the consolidated statement of operations of USD 101,093 (2007: USD 44,374) represents contributions to these plans at rates specified by these plans.

As at 31 December 2008 and 2007 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees other than outstanding pension contribution of USD 82,796 (2007: USD 40,420).

21. 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 takes 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 – The Group's principal financial liabilities comprise trade payables, other current liabilities and accrued expenses. The Group financial cash and cash equivalents and its trade and other receivables are its only financial assets.

	2008	2007
Financial assets		
Cash and cash equivalents	41,527,760	52,825,206
Other receivables	140,382	-
Total financial assets	**41,668,142**	**52,825,206**

	2008	2007
Financial liabilities		
Loans and borrowings	-	121,842
Trade and other payables	855,015	3,539,756
Total financial liabilities	**855,015**	**3,661,598**

The main risks arising from the Group's financial instruments are foreign currency risks since at 31 December 2008 some of the cash balances and financial liabilities were denominated in GBP.

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 2008 the Group converted the majority of funds raised in 2007 in GBP to USD, being the currency of major exposure. Sufficient GBP is maintained to cover the next 12 months forecast GBP expenditure.

The carrying amounts of the Group companies' monetary assets and liabilities denominated in foreign currency as at 31 December 2008 and 2007 were as follows:

2008	**USD**	**GBP**	**EUR**
Financial assets			
Cash and cash equivalents	329,824	1,282,764	916
Total financial assets	**329,824**	**1,282,764**	**916**
Trade and other payables	130,000	118,891	151,696
Total financial liabilities	**130,000**	**118,891**	**151,696**
Total net position	**199,824**	**1,163,873**	**(150,780)**

2007	**USD**	**GBP**
Financial assets		
Cash and cash equivalents	5,394	51,416,023
Total financial assets	**5,394**	**51,416,023**
Trade and other payables	1,281,400	2,222,135
Loans and borrowings	121,842	-
Total financial liabilities	**1,403,242**	**2,222,135**
Total net position	**(1,397,848)**	**49,193,888**

The table below details the sensitivity to strengthening/weakening of functional currency of Group companies against foreign currencies by 10% as at 31 December 2008. The analysis was applied to monetary items at the balance sheet date denominated in respective currencies.

	UAH/USD + 10%	**UAH/USD - 10%**	**GBP/USD + 10%**	**GBP/USD - 10%**	**EUR/USD +10%**	**EUR/USD - 10%**
Profit /(loss)	19,982	(19,982)	116,387	(116,387)	(15,078)	15,078

Interest rate risk – Interest rate risk is the risk that changes in floating interest rates will adversely impact the consolidated financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure. The Group is not exposed to interest rate risk on borrowings as the borrowings are at a fixed interest rate. The Group has cash balances which receive interest income, cash is deposited on short periods and the level of income is linked to both US dollar LIBOR and GBP LIBOR.

Liquidity risk – Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due.

The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The following table details the Group's remaining contractual maturity as at 31 December 2008 for its non-derivative financial liabilities, based on the earliest date on which the Group can be required to pay:

	Less than 1 month	**1 month to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities					
Trade and other payables	156,564	698,451	-	-	855,015
Total	**156,564**	**698,451**	**-**	**-**	**855,015**

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Management believes that the carrying values of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates their fair values.

23. CORPORATE REORGANISATION

As described in Note 1, a corporate reorganisation was completed in 2007. This was done in order to establish Lubel Coal Company Limited as the ultimate holding company of the Group.

As the corporate reorganisation did not have a direct result on Lubel Coal Company Limited or its subsidiaries and the underlying business has operated for all periods, the consolidated financial statements have been prepared to present all years on a comparative basis. There has been no accounting impact from the corporate reorganisation except as follows:

Share capital and retained earnings – For the periods prior to the corporate reorganisation, members' capital is that of Stelex LLC. Upon the corporate reorganisation beneficial ownership of the members' capital was transferred to the share capital of Lubel Coal Company Limited. The Group has elected to record the offset to members' capital against retained earnings.

24. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Group management and authorised for issue on 19 March 2009.