

**Lubel Coal Company Limited
(Registered In British Virgin
Islands – No.1056038)**

Independent Auditor's Report

Consolidated Financial Statements
for the Year Ended 31 December 2017

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 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Lubel Coal Company Limited (hereinafter, the "Company") and its subsidiaries (the "Group") as at 31 December 2017, and the results of their 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved by management on 13 August 2018.

On behalf of the Board of Directors and Management:


Boris Pokrass, Chairman


Dmytro Bodnya, Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

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

Qualified Opinion

We have audited the consolidated financial statements of Lubel Coal Company Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the first paragraph of *Basis for Qualified Opinion* section of our report and except for the possible effects of the matter described in the second paragraph of *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Exploration and evaluation assets are carried in the consolidated statement of financial position at USD 1,911,705 as at 31 December 2017. As disclosed in Note 9, the Group's special permit for geological exploration for the Lubel #3 deposit has expired in September 2016. The future development of Lubel #3 deposit is subject to acquiring of a special permit for subsoil use for this deposit. Due to uncertainty related to obtaining the special permit for development of Lubel #3 deposit, we believe that the exploration and evaluation assets should be impaired. Had the management recorded the impairment loss related to these assets, the exploration and evaluation assets would have been decreased by USD 1,911,705 and USD 1,890,669 as at 31 December 2017 and 2016, respectively, loss for the period would have been increased by USD 78,525, exchange differences on translating foreign operations would have been increased by USD 57,490 and accumulated losses as at 31 December 2016 would have been increased by USD 1,890,669.

The Group issued 2,218,00 equity-settled share options to one of the directors with the carrying amount of reserve recognised in equity of USD 3,671,864 as at 31 December 2017. Under the terms of employee share option scheme the share-based options will expire on 30 September 2018. As stated in Note 17, Group has intention to prolong the contractual life of share options. We were unable to obtain sufficient appropriate audit evidence regarding prolongation of share options, as no formal decision has been taken as at the date of our opinion. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to Going Concern

The accompanying financial statements have been prepared assuming that the Group will continue as a going concern. The Group is currently in the development stage. As discussed in Notes 1 and 4 to the consolidated financial statements, during the reporting period the Group was not generating sufficient cash flows to sustain its operations. Successful completion of the Group's development program and, ultimately, the attainment of profitable operations is dependent upon future events, including securing adequate financing to complete its development activities. These events or conditions, along with other matters as set forth in Note 4, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as going concern. Management's plans regarding these matters are also discussed in Note 4 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte & Touche

13 August 2018

LUBEL COAL COMPANY LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017**

In US Dollars

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Administrative expenses	7	(1,309,046)	(1,364,656)
Operating loss		(1,309,046)	(1,364,656)
Interest income		40,043	106,747
Other income		66,576	762
Foreign exchange (loss)/gain, net		(5,968)	189,827
Loss before income tax		(1,208,395)	(1,067,320)
Income tax expense	8	-	-
Loss for the year		(1,208,395)	(1,067,320)
Other comprehensive loss:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(215,905)	(1,158,777)
Gain/(Loss) on revaluation of investments to fair value		3,775	(7,814)
Other comprehensive loss for the year		(212,130)	(1,166,591)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,420,525)	(2,233,911)
Loss per share:			
Basic loss (cents per share)	15	(0.54)	(0.48)
Diluted loss (cents per share)	15	(0.54)	(0.48)

On behalf of the Board of Directors and Management:


Boris Pokrass, Chairman


Dmytro Bodnya, Chief Financial Officer

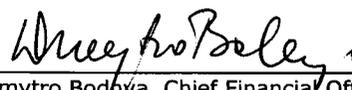
LUBEL COAL COMPANY LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
In US dollars**

	Notes	<u>31 December 2017</u>	<u>31 December 2016</u>
Assets			
Non-current assets			
Exploration and evaluation assets	9	1,911,705	1,890,669
Development assets	10	13,278,792	13,020,775
Property, plant and equipment	11	491,525	516,036
Prepayments to suppliers for exploration, evaluation and development expenditures		17,076	42,815
Investments available for sale		<u>74,063</u>	<u>70,288</u>
Total non-current assets		<u>15,773,161</u>	<u>15,540,583</u>
Current assets			
Other receivables	12	36,400	32,844
Cash and cash equivalents	13	761,679	1,819,727
Short-term bank deposits	13	-	<u>504,554</u>
Total current assets		<u>798,079</u>	<u>2,357,125</u>
Total assets		<u>16,571,240</u>	<u>17,897,708</u>
Equity and liabilities			
Equity			
Issued capital	15	61,580,561	61,580,561
Reserves	16	(18,225,874)	(18,079,465)
Accumulated losses		<u>(26,914,225)</u>	<u>(25,705,830)</u>
Total equity		<u>16,440,462</u>	<u>17,795,266</u>
Current liabilities			
Other payables	14	<u>130,778</u>	<u>102,442</u>
Total current liabilities		<u>130,778</u>	<u>102,442</u>
Total liabilities		<u>130,778</u>	<u>102,442</u>
Total equity and liabilities		<u>16,571,240</u>	<u>17,897,708</u>

On behalf of the Board of Directors and Management:


Boris Pokrass, Chairman

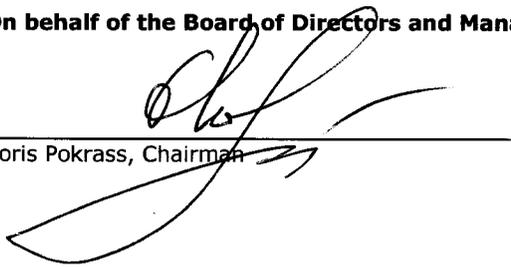

Dmytro Bodnya, Chief Financial Officer

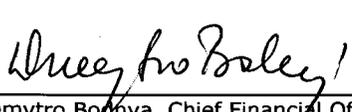
LUBEL COAL COMPANY LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
In US dollars**

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities			
(Loss)/profit before income tax		(1,208,395)	(1,067,320)
Adjustments for:			
Interest income		(40,042)	(106,747)
Change in allowance for irrecoverable VAT	7	37,948	(62,157)
Foreign exchange gain		(26,120)	(149,311)
Operating loss before changes in operating assets and liabilities		(1,236,609)	(1,385,535)
Change in value added tax ("VAT") recoverable		(37,948)	62,157
Change in other receivables		(3,687)	(547)
Change in other payables		25,541	21,094
Net cash used in operating activities		<u>(1,252,703)</u>	<u>(1,302,831)</u>
Cash flows from investing activities			
Exploration and evaluation assets		(78,609)	(187,462)
Development assets		(327,763)	(576,905)
Purchase of property, plant and equipment		(47,766)	(3,213)
Proceeds from disposal of property, plant and equipment		76,610	-
Placement of short-term bank deposits		-	(6,018)
Withdrawal of short-term bank deposits		504,554	502,522
Interest received		40,043	106,747
Net cash generated by/(used in) investing activities		<u>167,069</u>	<u>(164,329)</u>
Net decrease in cash and cash equivalents		(1,085,634)	(1,467,160)
Effect of exchange rate changes		27,586	(57,533)
Cash and cash equivalents at the beginning of year	13	1,819,727	3,344,420
Cash and cash equivalents at the end of year	13	<u>761,679</u>	<u>1,819,727</u>

On behalf of the Board of Directors and Management:


Boris Pokrass, Chairman

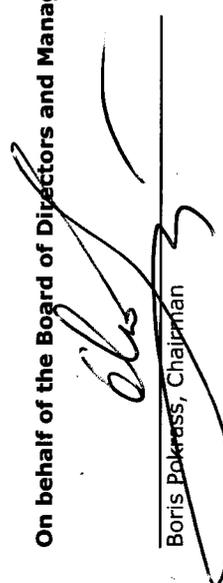

Dmytro Bohnya, Chief Financial Officer

LUBEL COAL COMPANY LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
In US dollars**

	Share capital	Share premium reserve	Accumulated losses	Equity settled employee benefit reserve	Foreign currency translation reserve	Investments revaluation reserve	Total
As at 31 December 2015	4,527,142	57,053,419	(24,638,510)	3,536,853	(20,213,986)	(305,031)	19,959,887
Share based payment charge (Note 17)	-	-	-	69,290	-	-	69,290
Loss for the year	-	-	(1,067,320)	-	-	-	(1,067,320)
Other comprehensive loss	-	-	-	-	(1,158,777)	(7,814)	(1,166,591)
Total comprehensive income/(loss) for the year	-	-	(1,067,320)	69,290	(1,158,777)	(7,814)	(2,164,621)
As at 31 December 2016	4,527,142	57,053,419	(25,705,830)	3,606,143	(21,372,763)	(312,845)	17,795,266
Share based payment charge (Note 17)	-	-	-	65,721	-	-	65,721
Loss for the year	-	-	(1,208,395)	-	-	-	(1,208,395)
Other comprehensive loss/(income)	-	-	-	-	(215,905)	3,775	(212,130)
Total comprehensive income/(loss) for the year	-	-	(1,208,395)	65,721	(215,905)	3,775	(1,354,804)
As at 31 December 2017	4,527,142	57,053,419	(26,914,225)	3,671,864	(21,588,668)	(309,070)	16,440,462

On behalf of the Board of Directors and Management:


Boris Pokrass, Chairman


Dmytro Bohynya, Chief Financial Officer

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

In US dollars

1. GENERAL INFORMATION

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

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

In September 2011, the Group obtained a special permit for geological exploration for the Lubel #3 deposit. This special permit has expired in September 2016 (Note 9).

As at 31 December 2017 and 2016, the Company was owned by the following shareholders:

	<u>2017</u>	<u>2016</u>
Pokrass, Boris	27.29%	27.29%
The Severinovskiy 2008 Family Trust	17.95%	17.95%
Malavasia Enterprises Inc (BVI)	13.92%	13.92%
Palant, Vladimir	12.38%	12.38%
Agrera Investments Limited	11.19%	11.19%
Zdanov, Alex (incl. Revocable Trust)	4.28%	4.28%
Other	12.99%	12.99%
	<u>100.00%</u>	<u>100.00%</u>

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

Name	<u>Country of incorporation</u>	<u>Percentage controlled as at 31 December 2017</u>	<u>Percentage controlled as at 31 December 2016</u>	<u>Principal activity</u>	<u>Consolidation method</u>
CCI Lubelia	Ukraine	100%	100%	Mine development	Full
Lakehold Limited	Cyprus	100%	100%	Dormant company	Full
Lubel Assets Limited	Cyprus	100%	100%	Dormant company	Full

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

In US dollars

2. OPERATING ENVIRONMENT

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2016-2017, an armed conflict with separatists continued in certain parts of Luhanska and Donetska regions. These events resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease of GDP, illiquidity, and volatility of financial markets.

In 2017, annual inflation rate amounted to 13.7% (2016: 12.4%). The Ukrainian economy proceeded recovery from the economic and political crisis of previous years that resulted in real GDP smooth growth of around 2.5% (2016: 2.4%) and stabilization of national currency. From trading perspective, the economy was demonstrating refocusing on the European Union ("EU") market, which was a result of the signed Association Agreement with the EU in January 2016 that established the Deep and Comprehensive Free Trade Area ("DCFTA"). Under this agreement, Ukraine has committed to harmonize its national trade-related rules, norms, and standards with those of the EU, progressively reduce import customs duties for the goods originating from the EU member states, and abolish export customs duties during a 10-year transitional period. Implementation of DCFTA began on 1 January 2017. As a result, the Russian Federation implemented a trade embargo or import duties on key Ukrainian export products. In response, Ukraine implemented similar measures against Russian products.

In terms of currency regulations, the National Bank of Ukraine ("NBU") decreased the required share of mandatory sale of foreign currency proceeds from 65% to 50% from April 2017, increased settlement period for export-import transactions in foreign currency from 120 to 180 days from May 2017, and allowed companies to pay the 2013 (and earlier) dividends with a limit of USD 2 million per month from November 2017 (from June 2016, companies were allowed to pay dividends for 2014-2016 to non-residents with a limit of USD 5 million per month).

In March 2015, Ukraine signed four-year Extended Fund Facility ("EFF") with the International Monetary Fund ("IMF") that will last until March 2019. The total program amounted to USD 17.5 billion, while Ukraine has so far received only USD 8.7 billion from the entire amount. In September 2017, Ukraine successfully issued USD 3 billion of Eurobonds, of which USD 1.3 billion is new financing, with the remaining amount aimed to refinance the bonds due in 2019. The NBU expects that Ukraine will receive another USD 3.5 billion from the IMF in 2018. To receive next tranches, the government of Ukraine has to implement certain key reforms, including in such areas as pension system, anti-corruption regulations, and privatization.

Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- Amendments to IAS 12 *Income Taxes – Recognition of deferred tax assets for unrealised losses.*
- Amendments to IAS 7 *Statement of Cash Flows – Disclosure initiative.*
- Annual Improvements to IFRSs 2014-2016 Cycle – *amendments to IFRS 12.*

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

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 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/Interpretations	Effective for annual accounting period beginning on or after
IFRS 15 <i>Revenue from Contracts with Customers</i> including amendments to IFRS 15 Clarifications to IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
IFRS 9 <i>Financial Instruments</i>	1 January 2018
Amendments to IFRS 2 <i>Share-based Payment</i> – Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to IFRS 4 Applying IFRS 9 <i>Financial Instruments</i> with IFRS 4 <i>Insurance Contracts</i>	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
IFRS 16 <i>Leases</i>	1 January 2019
Amendments to IFRSs – Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
IFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendment to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> – Sale or contribution of assets between an investor and its associate or joint venture	Effective date to be determined

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

IFRS 9 Financial Instruments

All financial assets and financial liabilities will continue to be measured on the same bases as are currently adopted under IAS 39. Financial assets measured at amortised cost will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its financial assets as required or permitted by IFRS 9. In general, the management anticipates that the application of the expected credit loss model of IFRS 9 by means of earlier recognition of credit losses for the respective items will not result in any significant change of the amount of loss allowance recognised for these financial instruments.

At present, the Group's management evaluates the impact of other amendments and new standards to the Group's financial statements in future periods.

4. GOING CONCERN

During the years ended 31 December 2017 and 2016 the Group did not generated revenue due to development stage of the project, recurring losses comprised USD 1,208,395 and USD 1,067,320, respectively, and negative cash flow from operations comprised USD 1,252,703 and USD 1,302,831.

As of 31 December 2017, the Group had available cash and bank deposits of USD 762 thousand. Costs budget approved for 9 months ended 30 September 2018 year assumes aggregate costs of USD 964 thousand.

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

In US dollars

Management and the Board review and approve the budget quarterly. In January 2018, the recent Board decision was taken on cost cutting of management salaries and Board members' remuneration – these measures will allow keeping the Group's operational activity at least till end of 2018. In 2018 the Group is also taking efforts to sell a non-core drilling equipment with the carrying amount of USD 239 thousand that was used for exploration works on a field #3. In the second half of 2018, the management is going to suggest to shareholders to reserve the funds sufficient for the finalization of fund raising process.

The Company continues negotiations with Chinese banks for obtaining a long-term construction loan. Taking into account that the process of long-term construction loan application and consideration by the banks usually takes substantial period of time, management considers that fund-raising efforts (both – on equity part and loan) will result in binding decisions not earlier than in a spring of 2019.

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

5. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS.

Basis of preparation

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the 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 financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

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

LUBEL COAL COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

In US dollars

Basis of consolidation

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

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

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

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

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

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

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

Foreign currencies

The separate financial statements of each Group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). The presentation 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 monthly average exchange rates for the years presented, except for significant transactions that are translated at rates on the dates of such transactions.
- Resulting exchange differences are recognized directly in other comprehensive income as foreign currency translation reserve and accumulated in equity.
- 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.

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

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

The relevant exchange rates are as follows:

	As at 31 December 2017	Average for the year ended 31 December 2017	As at 31 December 2016	Average for the year ended 31 December 2016
UAH/USD	0.035	0.037	0.036	0.039
EUR/USD	1.198	1,129	1.052	1.106
GBP/USD	1.349	1.288	1.234	1.355

Employee leave benefits

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

Financial instruments

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

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

Effective interest rate method

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

Financial assets

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

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

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

AFS financial assets

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

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

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

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

Loans and receivables

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

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

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

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

Classification as debt or equity

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

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Equity instruments

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

Financial liabilities

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Exploration and evaluation assets

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

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

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

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

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

Development assets

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

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

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Property, plant and equipment

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

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

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

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

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

	<u>Years</u>
Buildings and equipment	5-50
Other fixed assets	3-25

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

Impairment of non-current assets

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

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

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

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

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

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

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

Operating leases

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

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

Prepayments to suppliers

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

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

Provisions

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

Retirement benefit costs

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

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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 or through reverse of capitalization.

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

Taxation

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

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

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

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

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

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6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Recoverability of Value Added Tax ("VAT")

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

Deferred tax for unused tax losses

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

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

Impairment of exploration and evaluation assets, development assets and property, plant and equipment

As of 31 December 2017 the Group performed assessment of external and internal indicators which potentially could indicate that the recoverable amount of the Group's development assets and property, plant and equipment might have declined below its carrying value. The management inter alia assessed the impact of such indicators as: expected future coal price, estimates of reserves, discount rate, foreign currency exchange rate and projected future production costs.

Based on the results of its assessment, the Group determined that, in aggregate, the impact of these external and internal indicators did not provide the evidence that the Group's development assets and property, plant and equipment might have been impaired as of 31 December 2017 and, accordingly, did not proceed with the impairment review using the discounted cash flows.

The Group also performed assessment of indicators which potentially could indicate that the recoverable amount of the Group's exploration and evaluation assets might have declined below its carrying value. The management assessed the impact of such indicators as: availability of pre-emptive right to buy special permit for subsoil use for Lubel #3 deposit, estimates of coal resources, estimated expenditure on further exploration, evaluation and development and future coal prices.

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Based on the assessment results as at 31 December 2017 the Group determined that the recoverable amount of the relevant assets exceeded their carrying amounts, i.e. the underlying assets were not impaired. If conditions change and the Group determines that the assets' value has decreased below their carrying value, the impairment will be recognized.

7. ADMINISTRATIVE EXPENSES

Administrative expenses for the years ended 31 December 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Employment costs	852,865	856,815
Professional and consulting costs	226,364	247,195
Rent expenses and other office costs	120,072	138,037
Change in allowance for irrecoverable VAT	37,948	(62,157)
Other expenses	71,797	184,766
Total	<u>1,309,046</u>	<u>1,364,656</u>

During the year ended 31 December 2017 the Group did not obtain the reimbursement of VAT (in 2016 – UAH 39,970, approximately USD 1,519). Change in the allowance for irrecoverable VAT is a result of final court decision (Note 18).

8. TAXATION

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

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

During the years ended 31 December 2017 and 2016, the parent company which is incorporated in the British Virgin Islands was tax exempt. The subsidiaries incorporated in the Republic of Cyprus and Ukraine are subject to 12.5% and 18% tax rates, respectively (2016: 12.5% and 18%).

As at 31 December 2017 and 2016, the Ukrainian subsidiary had tax losses carried forward of USD 32,132,256 and USD 31,267,142 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. Unrecognized temporary differences as at 31 December 2017 and 2016 were 5,764 and 5,570 thousands USD respectively. 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 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
(Loss)/profit before income tax	(1,208,392)	(1,067,320)
Theoretical income tax expense 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	(318,806)	(1,028,073)
Effect of expenses that are not deductible in determining tax loss	2,189	2
Deferred tax asset not recognized	316,617	1,028,071
Income tax expense	<u>-</u>	<u>-</u>

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9. EXPLORATION AND EVALUATION ASSETS

The following table presents the movement in exploration and evaluation assets for the years ended 31 December 2017 and 2016:

	<u>2017</u>	<u>2016</u>
At cost		
At the beginning of the year	1,890,669	1,957,231
Additions	78,063	187,462
Transfers from property, plant and equipment	546	-
Exchange differences on translating foreign operations	<u>(57,573)</u>	<u>(254,024)</u>
At the end of the year	<u>1,911,705</u>	<u>1,890,669</u>

During 2017 and 2016, additions to exploration and evaluation assets related to the Lubel #3 deposit. The special permit for geological exploration for the Lubel #3 deposit has expired in September 2016. The Group finished all works needed according to this special permit. On 16 February 2017, the Mineral resources Committee of Ukraine approved the completion of the works and conditions according to expired special permit.

The Group has prepared the Geological report on Lubel #3 deposit and submitted for approval the quantity of reserves and recourses on Lubel #3 deposit to the Mineral resources Committee of Ukraine. On 16 February 2017, the Group received positive decision. After this approval, during the 3 years the Group has pre-emptive right to buy special permit for subsoil use for this deposit.

10. DEVELOPMENT ASSETS

The following table presents the movements in development assets for the years ended 31 December 2017 and 2016:

	<u>2017</u>	<u>2016</u>
At cost		
At the beginning of the year	13,020,775	12,936,720
Additions	401,198	701,299
Exchange differences on translating foreign operations	<u>(143,181)</u>	<u>(617,244)</u>
At the end of the year	<u>13,278,792</u>	<u>13,020,775</u>

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

During the year ended 31 December 2016, after the inspection of regulatory authorities the special permit for Lubel #1-2 deposits was temporary revoked due to certain departure from the construction program. The Group amended the construction program respectively and in August 2016 regulatory authorities approved these amendments and returned the special permit back to the Group. In 2017 no inspections from regulatory authorities took place.

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11. PROPERTY, PLANT AND EQUIPMENT

The following table presents the movement in property, plant and equipment for the years ended 31 December 2017 and 2016:

	Buildings and production equipment	Other fixed assets	Construction in progress's	Total
Cost				
Balance at 31 December 2015	616,745	123,510	112,349	852,604
Additions and transfers	481	4,442	(74)	4,849
Disposals	(218)	(957)	(460)	(1,635)
Exchange differences on translating foreign operations	(75,223)	(15,218)	(13,735)	(104,176)
Balance at 31 December 2016	541,785	111,777	98,080	751,642
Additions and transfers	917	47,377	(528)	47,766
Disposals	(35,757)	(40,853)	-	(76,610)
Exchange differences on translating foreign operations	(13,513)	(4,630)	(2,626)	(20,769)
Balance at 31 December 2017	493,432	113,671	94,926	702,029
Accumulated depreciation				
Balance at 31 December 2015	108,870	112,630	-	221,500
Charge for the year	38,794	6,552	-	45,346
Eliminated on disposals	(218)	(957)	-	(1,175)
Exchange differences on translating foreign operations	(16,003)	(14,062)	-	(30,065)
Balance at 31 December 2016	131,443	104,163	-	235,606
Charge for the year	27,393	6,515	-	33,908
Eliminated on disposals	(15,108)	(38,008)	-	(53,116)
Exchange differences on translating foreign operations	(5,351)	(543)	-	(5,894)
Balance at 31 December 2017	138,377	72,127	-	210,504
Net book value				
31 December 2016	410,342	7,614	98,080	516,036
31 December 2017	355,055	41,544	94,926	491,525

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12. OTHER RECEIVABLES

Other receivables as at 31 December 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Value added tax ("VAT")	869,591	930,380
Other receivables	36,400	32,844
	<u>905,991</u>	<u>963,224</u>
Less: Allowance for irrecoverable VAT	<u>(869,591)</u>	<u>(930,380)</u>
Total	<u>36,400</u>	<u>32,844</u>

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

13. CASH AND BANK DEPOSITS

Cash and bank deposits as at 31 December 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Cash with banks	761,679	1,224,417
Short-term bank deposits (with initial maturities not exceeding three months)	-	595,310
Total cash and cash equivalents for the purpose of the statement of cash flows	<u>761,679</u>	<u>1,819,727</u>
Short-term bank deposits (with initial maturities exceeding three months)	-	504,554
Total cash and bank deposits	<u>761,679</u>	<u>2,324,281</u>

As at 31 December 2017 cash and cash equivalents of the Group included only cash placed in Ukrainian banks and Bank of Cyprus. During 2017 Company withdrawn short term bank deposits not exceeding three months (with average interest rates 3.5%). As at 31 December 2016, cash and cash equivalents included cash in banks placed with Ukrainian banks and the bank in Cyprus and short-term bank deposits with initial maturities not exceeding three months (within average interest rates interval of 5.5-7.5% for deposits in Ukrainian banks).

14. OTHER PAYABLES

As at 31 December 2017 and 2016, other payables of the Group were as follows:

	<u>2017</u>	<u>2016</u>
Other taxes and social security	103,001	72,984
Other creditors	27,777	29,458
Total	<u>130,778</u>	<u>102,442</u>

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

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15. ISSUED CAPITAL

	<u>Share Capital</u>		<u>Share Premium Reserve</u>		<u>Total</u>	<u>Total</u>
	<u>2017 No.</u>	<u>2016 No.</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Authorized: 300,000,000 ordinary shares 1p each	300,000,000	300,000,000	-	-	-	-
Issued and fully paid: 221,810,000 ordinary shares 1p each	221,810,000	221,810,000	-	-	-	-
At the beginning of the year	<u>4,527,142</u>	<u>4,527,142</u>	<u>57,053,419</u>	<u>57,053,419</u>	<u>61,580,561</u>	<u>61,580,561</u>
At the end of the year	<u>4,527,142</u>	<u>4,527,142</u>	<u>57,053,419</u>	<u>57,053,419</u>	<u>61,580,561</u>	<u>61,580,561</u>

Basic and diluted loss per share

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

	<u>2017</u>	<u>2016</u>
Loss for the year	<u>(1,208,392)</u>	<u>(1,067,320)</u>
Loss used in the calculation of basic loss per share	<u>(1,208,392)</u>	<u>(1,067,320)</u>
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>221,810,000</u>	<u>221,810,000</u>
Basic loss per share, cents per share	<u>(0.54)</u>	<u>(0.48)</u>

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

	<u>2017</u>	<u>2016</u>
Loss used in the calculation of basic loss per share	<u>(1,208,392)</u>	<u>(1,067,320)</u>
Loss used in the calculation of diluted loss per share	<u>(1,208,392)</u>	<u>(1,067,320)</u>

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

Weighted average number of ordinary shares used in the calculation of basic profit per share	221,810,000	221,810,000
Shares deemed to be issued for no consideration in respect of employee options (Note 17)	<u>2,218,100</u>	<u>2,218,100</u>
Weighted average number of ordinary shares used in the calculation of diluted profit per share	<u>224,028,100</u>	<u>224,028,100</u>
Diluted loss per share, cents per share	<u>(0.54)</u>	<u>(0.48)</u>

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16. RESERVES

As at 31 December 2017 and 2016 the Group's reserves were as follows:

	<u>2017</u>	<u>2016</u>
Equity-settled employee benefit reserve	3,671,864	3,606,143
Foreign currency translation reserve	(21,588,668)	(21,372,763)
Investments revaluation reserve	(309,070)	(312,845)
	<u>(18,225,874)</u>	<u>(18,079,465)</u>
Equity-settled employee benefit reserve		
At the beginning of the year	3,606,143	3,536,853
Share based payment charge (Note 17)	65,721	69,290
At the end of the year	<u>3,671,864</u>	<u>3,606,143</u>
	<u>2017</u>	<u>2016</u>
Foreign currency translation reserve		
At the beginning of the year	(21,372,763)	(20,213,986)
Exchange differences on translating foreign operations	(215,905)	(1,158,777)
At the end of the year	<u>(21,588,668)</u>	<u>(21,372,763)</u>
	<u>2017</u>	<u>2016</u>
Investments revaluation reserve		
At the beginning of the year	(312,845)	(305,031)
Loss on revaluation of investments to fair value	3,775	(7,814)
At the end of the year	<u>(309,070)</u>	<u>(312,845)</u>

17. SHARE BASED PAYMENT TRANSACTIONS

Equity settled share based payments

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

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

	<u>2017</u>	<u>2016</u>
	<u>Number of share options</u>	<u>Number of share options</u>
Outstanding at the beginning of year	2,218,100	2,218,100
Outstanding at the end of the year	<u>2,218,100</u>	<u>2,218,100</u>
Weighted average contractual life	<u>0.68 years</u>	<u>1.68 years</u>

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

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

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

Vesting period for the Group's share options was estimated as 30 September 2018 based on the evaluation of available cash sufficiency and the progress in negotiations with strategic investors. Vesting period was revised during the year ended 31 December 2014 (previously estimated as 30 September 2015). Share option will be vested when Company or its subsidiary will be sold.

For the year ended 31 December 2017, the Group recognised a total charge of GBP 50,947, equivalent to USD 65,721 (2016: GBP 50,947, equivalent to USD 69,290) in respect of equity settled share based payment which was capitalized to development assets.

Group has an intention to prolong the "Scheme". No formal decision was made yet.

18. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Taxation

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

Facing current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting the Law of Ukraine "On Amending the Tax Code of Ukraine and Certain Laws of Ukraine" which is effective from 1 January 2015, except for certain provisions which will take effect at a later date.

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

Transfer pricing

Starting from 1 September 2013 the Tax Code of Ukraine introduced new, based on the OECD transfer pricing guidelines, rules for determining and applying fair market prices which significantly changed transfer pricing regulations in Ukraine. Ukrainian-based subsidiary CCI Lubelia incurs interest expenses under the loan obtained from foreign subsidiaries of the Group. Transactions may potentially be in the scope of the new Ukrainian TP regulations. CCI Lubelia has submitted the controlled transaction report for the year ended 31 December 2017 within the required deadline. Management believes that it is in compliance with TP requirements

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Legal proceedings with tax authorities

As at 31 December 2016, the Group had a VAT recoverable balance (before impairment allowance) of USD 930,380 (2015: USD 994,162). The Ukrainian tax authorities have rejected the VAT refund claim for the amount of USD 813,691 (2015: USD 489,443) based on the argument that the Group was not entitled for VAT refund as it was accumulated on non-business transactions. In 2016 The Group disagreed with the tax authorities' decision and initiated several legal actions for a recovery of VAT. However, in 2017 final court decision was made for this case – unfavourable for the Group. Disputed amount was deducted from tax losses carried forward.

Licence compliance

The Group has special permit for subsoil use to operate on Lubel #1-2 deposits in the Lviv-Volyn coal field for 20 years (Note 1). As a part of the licence, there are special conditions with the obligatory compliance. Among these conditions there is the detailed schedule of construction project. In case if the Group operates beyond the agreed schedule, the Management performs regular negotiations with regulatory authorities.

Operating lease commitments

The Group leases land on which the Group plans to locate its mining facilities as well as administrative offices through operating lease agreements, which expire in various years through 2017-2061. The Group does not have an option to purchase the leased assets at the expiry of the lease periods, but it has preferential right to renew the lease.

As at 31 December 2017 and 2016 the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	<u>2017</u>	<u>2016</u>
Within one year	77,004	78,691
In the second to fifth year inclusive	308,014	314,764
After five years	986,506	1,086,816
Total	<u>1,371,524</u>	<u>1,480,271</u>

19. RELATED PARTY TRANSACTIONS

Related parties of the Group include shareholders and members of key management personnel.

The Group entered into the following transactions with related parties:

During the year ended 31 December 2017 the Group received professional and consulting services from its shareholders in the amount of USD 140,004 (2016: USD 140,004).

Remuneration of key management personnel

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

	<u>2017</u>	<u>2016</u>
Employment costs	800,000	800,000
Share-based payments charge (Note 17)	65,721	69,290
Total	<u>865,721</u>	<u>869,290</u>

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20. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group is a development stage company and its capital comprises contributions made by the equity holders. Capital risk management primarily relates to managing the capital on the level sufficient to undertake exploration and evaluation, and development activities on the planned level. Management has assessed that it has sufficient funds to continue its budgeted activities till the end of 2018. Based on the latest mine feasibility study, the Group requires USD 1.081bn over the period of 48 months from the commencement of construction preparation stage in order to complete a full construction of the mine and start operations. For this purpose, the Group is considering attracting loans and borrowings, however, the offers of equity stakes to strategic and portfolio investors are also being considered.

Major categories of financial instruments

	<u>2017</u>	<u>2016</u>
Financial assets		
Short-term bank deposits	-	504,554
Cash and cash equivalents	761,679	1,819,727
Investments available for sale	74,063	70,288
Other receivables	<u>36,400</u>	<u>32,844</u>
Total financial assets	<u>872,142</u>	<u>2,427,413</u>
Financial liabilities		
Other payables	<u>27,777</u>	<u>29,458</u>
Total financial liabilities	<u>27,777</u>	<u>29,458</u>

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

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The companies of the Group operate in British Virgin Islands, Cyprus and Ukraine with the primary operations conducted in the latter country. In 2017, the Ukrainian Hryvnia, the functional currency of CCI Lubelia, continued to devalue against major foreign currencies. Management carefully monitors the changes in foreign currencies and manages its exposure to losses from the currency risk primarily by maintaining its cash and cash equivalents, and short-term bank deposits in the USD.

The carrying amounts of the Group companies' monetary assets and liabilities denominated in foreign currency as at 31 December 2017 and 2016 were as follows:

2017	<u>USD</u>	<u>GBP</u>	<u>EUR</u>
Financial assets			
Cash and cash equivalents	<u>534,088</u>	<u>349</u>	<u>727</u>
Total financial assets	<u>534,088</u>	<u>349</u>	<u>727</u>
Financial liabilities			
Other payables	<u>-</u>	<u>-</u>	<u>-</u>
Total net position	<u>534,088</u>	<u>349</u>	<u>727</u>

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2016	USD	GBP	EUR
Financial assets			
Cash and cash equivalents	1,113,644	-	1,594
Total financial assets	1,113,644	-	1,594
Financial liabilities			
Other payables	-	-	-
Total net position	1,113,644	-	1,594

The table below details the Group's sensitivity to a 10% strengthening and 30% weakening of UAH against USD, GBP and EUR. The analysis was applied to monetary items at the reporting date denominated in respective currencies.

	USD impact	EUR impact	GBP impact
(Loss)/profit in 2017	(53,409)/160,266	(73)/218	(35)/105
(Loss)/profit in 2016	(111,364)/334,093	(159)/478	-/-

Credit risk

Credit risk is the risk that counterparty will default or not meet its obligations to the Group on a timely basis leading to financial losses to the Group. As at 31 December 2017 and 2016, the maximum exposure of credit risk was represented by the total carrying amounts of cash and cash equivalents and other receivables. The Group's cash and cash equivalents are placed primarily with state owned banks in Ukraine and on accounts opened outside of Ukraine. The Group manages its credit risk by selecting banks only with adequate credit ratings and by conducting consistent monitoring of their financial position and performance.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

As at 31 December 2017 and 2016, the fair values were estimated to be the same as the carrying values for cash and cash equivalents other receivables and other payables due to the short-term nature of these financial instruments.

Investments available for sale are measured at fair value at the end of the reporting period. As at 31 December 2017 the fair value was determined based on the market price of the underlying shares, i.e. Level 1 measurement categorization.

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22. EVENTS AFTER THE REPORTING PERIOD

In 2018 the Group submitted investment project of Lubel #1,2 mine construction for inspection of the Ministry of Energy and Coal industry of Ukraine according to Cabinet Ministers of Ukraine statement #701 from 9 June, 2011.

The Ministry of economic development and trade of Ukraine has approved updated investment project at 26 February, 2018 in terms of economic feasibility and sent it for further approval of the Ministry of Energy and Coal industry of Ukraine. As of the date of approval of this consolidated financial statements, project is under consideration.

Approval of project by Ministry of Energy and Coal industry of Ukraine is expected to provide possibility for obtaining of State guarantee from Ministry of Finance which is expected to allow to obtain investments from international financial institutions.

23. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board and Management and authorised for issue by Boris Pokrass, the Chairman, and Dmytro Bodnya, the Chief Financial Officer, on 13 August 2018.