LUBEL COAL COMPANY LIMITED

(Registered in British Virgin Islands – No.1056038)

Independent Auditors' Report

Consolidated Financial Statements
For the Year Ended 31 December 2009

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 2009

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 the financial position of the Group as at 31 December 2009, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

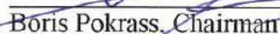
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient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

Management is also responsible for:

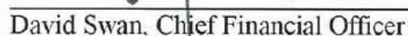
- Designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of 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 accompanying consolidated financial statements as at 31 December 2009 and for the year then ended were authorised for issue by Group's management on 4 June 2010.

On behalf of the management:



Boris Pokrass, Chairman



David Swan, Chief Financial Officer

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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 statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended 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.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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Deloitte.

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 2009 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

4 June 2010

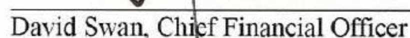
LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009
(in US Dollars)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Administrative expenses	6	(3,756,504)	(5,150,077)
Share based payments reversal/(charge)	17	10,431,644	(9,704,863)
OPERATING PROFIT/(LOSS)		6,675,140	(14,854,940)
Finance income		639,366	1,501,014
Foreign exchange loss		(36,032)	(964,577)
PROFIT/(LOSS) BEFORE INCOME TAX		7,278,474	(14,318,503)
INCOME TAX EXPENSE	7	-	-
NET PROFIT/(LOSS) FOR THE YEAR		7,278,474	(14,318,503)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translating foreign operations		53,293	(1,498,947)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		7,331,767	(15,817,450)
Profit/(Loss) per share:			
Basic (cents per share)	8	3.28	(6.46)
Diluted (cents per share)	8	3.28	(6.46)

On behalf of the management:

Boris Pokrass, Chairman



David Swan, Chief Financial Officer

The notes on pages 9 to 34 form an integral part of these consolidated financial statements.
The Independent Auditors' Report is on pages 2-3.

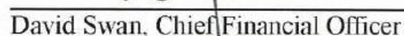
LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009
(in US Dollars)

	Notes	31 December 2009	31 December 2008
ASSETS			
NON-CURRENT ASSETS			
Intangible exploration and evaluation assets	9	-	4,414,339
Mining rights and development expenditures	10	7,738,065	-
Property, plant and equipment	11	335,070	323,023
Prepayments to suppliers for mining rights and development expenditures		85,994	236,196
Other non-current assets		266,007	156,441
Total non-current assets		8,425,136	5,129,999
CURRENT ASSETS			
Other receivables	12	166,316	141,782
Cash and cash equivalents	13	35,483,499	41,527,760
Total current assets		35,649,815	41,669,542
TOTAL ASSETS		44,074,951	46,799,541
EQUITY AND LIABILITIES			
EQUITY			
Issued capital	15	61,580,561	61,580,561
Reserves	16	872,551	10,565,302
Accumulated losses		(18,931,388)	(26,209,862)
TOTAL EQUITY		43,521,724	45,936,001
CURRENT LIABILITIES			
Trade and other payables	14	544,698	855,015
Tax liabilities		8,529	8,525
Total current liabilities		553,227	863,540
TOTAL LIABILITIES		553,227	863,540
TOTAL EQUITY AND LIABILITIES		44,074,951	46,799,541

On behalf of the management:

Boris Pokrass, Chairman



David Swan, Chief Financial Officer

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LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009
(in US dollars)

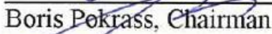
	Note	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(Loss) before income taxes		7,278,474	(14,318,503)
Adjustments for:			
Interest income		(639,366)	(1,501,014)
Depreciation of property, plant and equipment		127,048	102,666
Change in allowance for VAT recoverable		212,680	486,877
Share based payment (reversal)/charge		(10,431,644)	9,704,863
Foreign exchange loss relating to non-operating activities		(73,493)	527,267
Operating loss before changes in operating assets and liabilities		(3,526,301)	(4,997,844)
Increase in other receivables		(237,214)	(288,317)
Decrease in trade and other payables		(310,313)	(1,515,033)
Cash used in operating activities		(4,073,828)	(6,801,194)
Net cash used in operating activities		(4,073,828)	(6,801,194)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Exploration and evaluation expenditures		(784,611)	(3,239,995)
Mining rights and development expenditures		(1,759,676)	-
Purchase of property, plant and equipment		(88,953)	(409,074)
Interest received		639,366	1,501,014
Net cash used in investing activities		(1,993,874)	(2,148,055)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Private placement incremental costs		-	(1,169,708)
Repayment of loan		-	(121,842)
Net cash (used in)/generated by financing activities:		-	(1,291,550)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(6,067,702)	(10,240,799)
Effect of exchange rate changes		23,441	(1,056,647)

LUBEL COAL COMPANY LIMITED

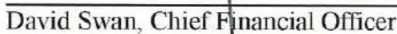
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)
(in US dollars)

	Note	Year ended 31 December 2009	Year ended 31 December 2008
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		41,527,760	52,825,206
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		35,483,499	41,527,760
CHANGE IN CASH AND CASH EQUIVALENTS		(6,044,261)	(11,297,446)

On behalf of the management.



Boris Pokrass, Chairman



David Swan, Chief Financial Officer

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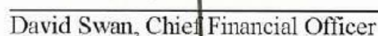
LUBEL COAL COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
(in US dollars)

	Share capital	Share premium reserve	Accumulated loss	Equity settled employee benefit reserve	Foreign currency translation reserve	Total
As at 1 January 2008	**4,527,142**	**57,053,419**	**(11,891,359)**	**2,362,588**	**(3,202)**	**52,048,588**
Share based payment charge (see note 17)	-	-	-	9,704,863	-	9,704,863
Net loss for the year	-	-	(14,318,503)	-	-	(14,318,503)
Other comprehensive income	-	-	-	-	(1,498,947)	(1,498,947)
Total comprehensive income for the year	-	-	(14,318,503)	-	(1,498,947)	(15,817,450)
As at 31 December 2008	**4,527,142**	**57,053,419**	**(26,209,862)**	**12,067,451**	**(1,502,149)**	**45,936,001**
Share based payment charge (see note 17)	-	-	-	1,984,049	-	1,984,049
Reversal of share based payment (see note 17)	-	-	-	(11,730,093)	-	(11,730,093)
Net profit for the year	-	-	7,278,474	-	-	7,278,474
Other comprehensive income	-	-	-	-	53,293	53,293
Total comprehensive income for the year	-	-	7,278,474	-	53,293	7,331,767
As at 31 December 2009	**4,527,142**	**57,053,419**	**(18,931,388)**	**2,321,407**	**(1,448,856)**	**43,521,724**

On behalf of the management

Boris Pokrass, Chairman



David Swan, Chief Financial Officer

The notes on pages 9 to 34 form an integral part of these consolidated financial statements.
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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 the Group obtained a license for operation of minefield Lubelska # 1-2 of Lviv-Volin coalfield for 20 years. A feasibility study to bankable standard is finalised and the outstanding permits were received in June 2009, following which development of the mine commenced. The period over which the construction of the mine will be developed is dependent upon securing of appropriate financing and construction contracts.

As at 31 December 2009 and 2008 the Company, was owned by the following shareholders:

	2009	**2008**
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 2009**	**Percentage controlled as at 31 December 2008**	**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%	Holding Company	Full

In October 2009 Lubel Licensing Limited was liquidated by shareholders' decision.

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").

Adoption of new and revised International Financial Reporting Standards – The following new and revised Standards and Interpretations have been adopted in the current year:

- IAS 1 "Presentation of Financial Statements" (Revised 2007);
- IAS 23 "Borrowing Costs" (Revised 2007);
- IFRS 8 "Operating Segments";
- IFRIC 13 "Customer Loyalty Programmes ";
- IFRIC 15 "Agreements for the Construction of Real Estate";
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation";
- IFRIC 18 "Transfers of Assets from Customers";
- Amendment to IFRS 7 "Financial Instruments: Disclosures" (March 2009);
- Improvements to IFRS (2008).

IAS 1 "Presentation of Financial Statements" (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changed in the format and content of the financial statements.

IFRS 8 "Operating Segments requires operating segments to be identified on the basis on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel serving as the starting point for the identification of such segments. Although the Group is outside the scope of IFRS 8 "Operating Segments", the management choose to disclose some information about segments on a voluntary basis without triggering the need to comply fully with IFRS 8 "Operating Segments".

Adoption of other Standards and Interpretations did not have any significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions and arrangements.

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:

Standard / Interpretation	**Effective for annual accounting period beginning on or after:**
IFRS 1 "First-time Adoption of International Financial Reporting Standards" (Revised November 2008)	1 July 2009
IFRS 3 "Business Combinations" (Revised January 2008)	1 July 2009
IFRS 9 "Financial Instruments: Classification and Measurement"	1 January 2013
IFRIC 17 "Distributions of Non-cash Assets to Owners"	1 July 2009
IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"	1 July 2010
Amendments to IAS 27 "Consolidated and Separate Financial Statements" (January 2008)	1 July 2009
Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items (July 2008)	1 July 2009
Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement"	30 June 2009
Amendments to IAS 24 "Related Party Disclosures" (2009)	1 January 2011
Improvements to IFRS (2009)	1 January 2010

The management is considering effect of the adoption of these Standards and Interpretations in future periods on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements for the year ended 31 December 2009 (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 comprehensive income 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 non-controlling interest is adjusted (which represents the non-controlling interests' 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.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(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 statement of financial position 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 comprehensive income 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.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group 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.

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

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

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

(g) Foreign currencies

The individual financial statements of each Group entity are 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 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 recognised in the consolidated statement of comprehensive income 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 comprehensive income 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 reporting 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.

The relevant exchange rates are as follows:

	As of 31 December 2009	Average for the year ended 31 December 2009	As of 31 December 2008	Average for the year ended 31 December 2008
UAH/USD	0.126	0.126	0.126	0.198
EUR/USD	1.430	1.390	1.410	1.470
GBP/USD	1.590	1.570	1.450	1.860

(h) Intangible assets – exploration and evaluation assets

The costs related to 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.

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 Tangible Assets – Mining rights and Development Costs.

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.

(i) Tangible assets – mining rights and development costs

Once a development decision has been taken all costs related to the relevant area of interest are capitalized and accumulated as Development Expenditures for each area of interest in which economically recoverable resources have been identified. Such expenditure includes all costs directly attributable to the construction of a mine and the related infrastructure.

Mining Rights and Development Expenditure costs are reclassified as Mining Assets at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. No depreciation is recognised in respect of Development Expenditure costs until they are reclassified as Mining Assets. Mining Assets are amortised on a units of production basis from the end of the commissioning phase.

(j) 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. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

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 comprehensive income 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 comprehensive income.

(k) Impairment of tangible and intangible assets

At each reporting 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. 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 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.

(l) Interest income and interest expense recognition

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

(m) Issued capital

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

(n) Operating leases

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

Rentals payable under operating leases are charged to statement of comprehensive income on a straight-line basis over the term of the relevant lease.

(o) Other income and other expenses recognition

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

(p) Prepayments to suppliers

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

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

(q) 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 consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(r) Retirement benefit costs

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

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

(s) 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. 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 statement of comprehensive income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

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.

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

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.

(t) Taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the 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 reporting date. Deferred tax is charged or credited in the consolidated statement of comprehensive income, 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 reporting 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 2009 and 2008 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 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.

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 comprehensive income, 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 comprehensive income.

(u) Geographical information

Geographical information is presented on the basis of management's perspective and relates to the parts of the Group that are identified based on the principal geographical areas.

Based on the current management structure, the Group has identified exploration and development activities of the mining site in Ukraine as being the only reportable geographical unit.

4. CRITICAL ACCOUNTING JUDGMENTS AND 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 Value Added Tax ("VAT")

Significant input VAT was incurred by the Subsidiary during exploration for, evaluation and development 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 not practicable to assess more precisely the extent of the possible effects of key assumptions or other sources of uncertainty on the consolidated statement of financial position at the reporting dates.

(b) 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 2009 and 2008 are shown in note 17.

5. GEOGRAPHICAL INFORMATION

The Group decided to present financial information on its Ukrainian-based subsidiary being involved in exploration and development of the mining site in western 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 Ukrainian subsidiary for the years ended 31 December 2009 and 2008:

	2009			2008		
	Ukraine	**Other**	**Consolidated**	**Ukraine**	**Other**	**Consolidated**
Result	(3,790,803)	10,465,943	6,675,140	(443,106)	(14,411,834)	(14,854,940)
Net finance (expenses)/income	(767,973)	1,407,339	639,366	(593,561)	2,094,575	1,501,014
Foreign exchange gain/(loss)	93,738	(129,770)	(36,032)	(342,952)	(621,625)	(964,577)
Taxation	-	-	-	-	-	-
Profit/(loss) for the year	**(4,465,038)**	**11,743,512**	**7,278,474**	**(1,379,619)**	**(12,938,884)**	**(14,318,503)**
Assets and liabilities						
Assets	7,028,671	37,046,280	44,074,951	3,325,790	43,473,751	46,799,541
Liabilities	**93,995**	**459,232**	**553,227**	**42,100**	**821,440**	**863,540**
Capital expenditure:						
Property, plant and equipment	27,590	95,414	123,004	129,893	279,181	409,074
Intangible assets and development expenditure	2,647,148	685,600	3,332,748	2,043,801	1,097,389	3,141,190
Depreciation	35,634	91,414	127,048	46,807	55,859	102,666

6. ADMINSTRATIVE EXPENSES

Administrative expenses for the years ended 31 December 2009 and 2008 were as follows:

	2009	2008
Employment costs	1,201,544	1,653,359
Professional and consulting costs	969,798	1,375,679
Non-executive directors' fee	508,000	539,064
Rent expenses	367,553	424,323
Change in allowance for irrecoverable VAT	212,680	486,877
Business trip expenses	160,788	203,082
Depreciation on property, plant and equipment	127,048	102,666
Other expenses	209,093	365,027
Total	**3,756,504**	**5,150,077**

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 expenses 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. The companies within the Group show net losses for the years ended 31 December 2009 and 2008 in their statutory tax books. No current income tax liabilities were accrued for the years ended 31 December 2009 and 2008.

During the years ended 31 December 2009 and 2008 the corporate income tax for Ukrainian companies was established at the rate of 25%. The holding company incorporated in British Virgin Islands is tax exempt, the subsidiaries incorporated in the Republic of Cyprus, USA and UK were subject to 10 %, 35% and 28.5% tax rates, respectively. The entities incorporated in other than Ukrainian jurisdictions had profit of USD 8,196,826 for the year ended 31 December 2009 due to reversal of the share based payments (2008: loss of USD 8,033,366). As at 31 December 2009 the entities incorporated in other than Ukrainian jurisdictions did not recognize deferred tax assets arising from tax losses carried forward of USD 3,206,420, as it has not yet become 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 2009 and 2008 were as follows:

	2009	2008
Deductible temporary differences:		
Mining rights and development expenditures	1,177,317	-
Trade and other payables	62,771	-
Intangible exploration and evaluation assets	-	1,717,724
Total	**1,240,088**	**1,717,724**
Taxable temporary differences:		
Property, plant and equipment	73,487	19,668
Other assets	-	26,118
Total	**73,487**	**45,786**
Net deductible temporary differences	**1,166,601**	**1,671,938**
Deferred tax assets at the statutory rate at 25%	291,650	417,985
Less valuation allowance	(291,650)	(417,985)
Net deferred tax assets	**-**	**-**

A valuation allowance was provided for deferred tax assets as at 31 December 2009 and 2008 due to the uncertainty that sufficient taxable profits will be available in the future to allow the assets to be recovered.

As at 31 December 2009 Ukrainian subsidiaries had tax losses carried forward in the amount of USD 4,417,000. 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 2009 and 2008 was as follows:

	2009	2008
Profit/(loss) before income tax	**7,278,474**	**(14,318,503)**
Less: (profit)/loss of companies operating in other jurisdictions	(11,743,512)	8,033,366
	(4,465,038)	(6,285,137)
Theoretical income tax benefit at tax rate of 25%	(1,116,260)	(1,571,284)
Tax effect of:		
Non-deductible expenses	730,789	729,586
Effect of unused tax losses not recognised as deferred tax assets	511,806	592,496
Change in deferred tax assets valuation allowance	(126,335)	249,202
Income tax expense/(benefit)	**-**	**-**

8. PROFIT/LOSS PER SHARE

The profit per share of cents 3.28 (2008: loss 6.46) has been based on a weighted average number of shares in issue of 221,810,000 (2008: 221,810,000). Basic and dilutive EPS are the same.

9. INTANGIBLE EXPLORATION AND EVALUATION ASSETS

The following table represents movement in intangible exploration and evaluation assets for the years ended 31 December 2009 and 2008:

	2009	**2008**
At cost		
At beginning of year	4,414,339	2,605,180
Additions	784,611	3,141,190
Transfer to mining rights and development expenditures	(5,194,700)	-
Differences arising on foreign exchange translation	(4,250)	(1,332,031)
At end of year	**-**	**4,414,339**

As at 30 June 2009 the technical feasibility and economic viability of the Lubel coal project was confirmed upon the completion of the Definitive Feasibility Study (DFS) and the Group transferred the relevant exploration and evaluation costs to mine development.

10. MINING RIGHTS AND DEVELOPMENT EXPENDITURES

The following table represents movement in mining rights and development expenditures for the years ended 31 December 2009 and 2008:

	2009	**2008**
At cost		
At beginning of year	-	-
Transfer from intangible exploration and evaluation assets	5,194,700	-
Additions since date of DFS	2,548,137	-
Differences arising on foreign exchange translation	(4,772)	-
At end of year	**7,738,065**	**-**

Additions to mining rights and development expenditures includes capitalized expenses in the amount of GBP 436,844 thousand (equivalent to USD 685,600) in respect of equity-settled share-based payment transactions (Note 17).

11. PROPERTY, PLANT AND EQUIPMENT

The following table represents movement in property, plant and equipment for the years ended 31 December 2009 and 2008:

	Leasehold improvements	Vehicles	Office equipment, furniture and fixtures	Total
At cost				
1 January 2008	-	164,094	35,872	199,966
Additions	148,969	104,883	155,222	409,074
Disposal	-	-	(957)	(957)
Differences arising on foreign exchange translation	(32,837)	(93,454)	(49,495)	(175,786)
31 December 2008	116,132	175,523	140,642	432,297
Additions	-	916	122,088	123,004
Disposal	-	-	(636)	(636)
Differences arising on foreign exchange translation	11,213	(144)	10,578	21,647
31 December 2009	127,345	176,295	272,672	576,312
Accumulated depreciation				
1 January 2008	-	41,485	12,513	53,998
Charge for the year	37,496	29,268	35,902	102,666
Eliminated on disposals	-	-	(957)	(957)
Differences arising on foreign exchange translation	(8,265)	(24,516)	(13,652)	(46,433)
31 December 2008	29,231	46,237	33,806	109,274
Charge for the year	41,914	21,932	63,202	127,048
Eliminated on disposals	-	-	(551)	(551)
Differences arising on foreign exchange translation	3,356	(38)	2,153	5,471
31 December 2009	74,501	68,131	98,610	241,242
Net book value				
31 December 2009	**52,844**	**108,164**	**174,062**	**335,070**
31 December 2008	**86,901**	**129,286**	**106,836**	**323,023**

12. OTHER RECEIVABLES

Other receivables as at 31 December 2009 and 2008 were as follows:

	2009	2008
Value added tax	782,380	548,850
Other receivables	144,066	140,382
	926,446	689,232
Less: Allowance for irrecoverable amounts	(760,130)	(547,450)
Total	**166,316**	**141,782**

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December 2009 and 2008 were as follows:

	2009	2008
Cash with banks	1,857,795	875,160
Short-term deposits with banks	33,625,704	40,652,600
Total	**35,483,499**	**41,527,760**

As at 31 December 2009 and 2008 short-term deposits with banks consisted of deposits with original maturity of less than three months. For the year ended 31 December 2009 deposits with banks in USD bore an annual weighted average interest rate of 1.53% (2008: 2.85%); deposits in GBP 1.36% (2008: 2.53%); deposits in EUR 1.09% (2008: nil).

14. TRADE AND OTHER PAYABLES

As at 31 December 2009 and 2008 the trade and other payables of the Group were as follows:

	2009	2008
Trade and other creditors	473,145	824,499
Other taxes and social security	71,553	30,516
Total	**544,698**	**855,015**

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

15. ISSUED CAPITAL

	Share Capital		Share Premium	
	2009 No.	2008 No.	2009	2008
Authorised:				
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 the beginning of the year	4,527,142	4,527,142	57,053,419	57,053,419
At the end of the year	**4,527,142**	**4,527,142**	**57,053,419**	**57,053,419**

16. RESERVES

As at 31 December 2009 and 2008 the Group's reserves were as follows:

	2009	2008
Equity-settled employee benefit reserve	2,321,407	12,067,451
Foreign currency translation reserve	(1,448,856)	(1,502,149)
	872,551	**10,565,302**

	2009	2008
Equity-settled employee benefit reserve		
At beginning of year	12,067,451	2,362,588
Share based payment	1,984,049	9,704,863
Reversal of previously recognized share based payment as a result of forfeiture	(11,730,093)	-
At the end of the year	**2,321,407**	**12,067,451**

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.

	2009	2008
Foreign currency translation reserve		
At the beginning of the year	(1,502,149)	(3,202)
Foreign currency exchange for the year	53,293	(1,498,947)
At the end of the year	**(1,448,856)**	**(1,502,149)**

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 – In 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 were to vest on completion of an Initial Public Offering ("IPO") and certain of these options were to vest 6 months after the completion of an Initial Public Offering ("IPO"). 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. 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 was GBP 1.12. The contractual life of these options was 10 years and there were no cash settlement alternatives.

The Group also issued nil-cost options to one director in 2007. These options were to vest on a successful completion of an exit event. The fair value of these options was estimated as the share price at the grant date, being GBP 1.05. The exercise price of these options was nil. The contractual life of these options was 10 years and there were 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 was 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.

During the year 2009, 6,609,050 options were forfeited by the employees.

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

	2009		**2008**	
	Number of share options	**Weighted average exercise price GBP**	**Number of share options**	**Weighted average exercise price GBP**
Outstanding at beginning of year	8,827,150	0.13	6,500,000	0.26
Forfeited during the period	(6,609,050)	0.17	-	-
Granted during the year	-	-	2,218,100	-
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	**2,218,100**	**-**	**8,827,150**	**0.13**
Exercisable at the end of the year	-	-	-	-
Weighted average contractual life	**8.68 years**	**-**	**9.67 years**	**-**

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

Weighted average share price	GBP1.05
Weighted average exercise price	GBP1.12
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 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 2009 the Group recognised total expenses of GBP 1,263,726 (equivalent to USD 1,984,049) (2008: GBP 5,315,148 (equivalent to USD 9,704,863) in respect of equity-settled share-based payment transactions. Of this amount GBP 436,844 (equivalent to USD 685,600) were capitalized within mining rights and development expenditures (Note 10). The remainder was expensed through the consolidated statement of comprehensive income.

During the year ended 31 December 2009 two directors left the Company and thereby lost their right to exercise share-options granted. A reversal in the amount of GBP 6,278,560 (equivalent to USD 11,730,093) in respect of these forfeitures was recognised in the consolidated statement of comprehensive income.

18. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Operating environment – The principal business activities of the Group are within Ukraine. Although in recent years there has been a general improvement in economic conditions in Ukraine, Ukraine continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Ukraine continue to change rapidly. Tax, currency and customs legislation within Ukraine is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Ukraine. The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Ongoing Global Liquidity Crisis – The financial markets, both globally and in Ukraine, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

The global financial turmoil has significantly affected the Ukrainian economy. It has resulted in a decrease of Ukraine's GDP, significant declines in debt and equity prices and a substantial outflow of capital. Ukraine is also facing a relatively high level of inflation (according to government's statistical data consumer price inflation for the years ended 31 December 2009 and 2008 was 15.9% and 25.2%, respectively).

While many countries, including Ukraine, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Ukraine's economy, adversely affecting the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

While the Ukraine's government has introduced a range of stabilization measures aimed at providing liquidity to Ukraine's banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

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 – Starting from October 2009 the Group leases land on which the Group plans to locate its mining facilities through operating lease agreements, which expire in various years through 2025. The Group does not have an option to purchase the leased land at the expiry of the lease periods, but it has preferential right to renew the lease.

During the years 2009 and 2008 the Group also leased administrative offices through operating lease agreements, which expire in various years through 2012. The Group does not have an option to purchase the leased offices at the expiry of the lease periods, but it has preferential right to renew the lease.

As at 31 December 2009 and 2008 the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	2009	2008
Within one year	233,971	130,150
In the second to fifth year inclusive	654,043	130,150
After five years	1,000,290	-
Total	**1,888,304**	**260,300**

Capital Commitments – As at 31 December 2009 the Group had outstanding contracts with third party engineering companies for project development works for the total amount of USD 915,348 (2008: USD 659,161).

Other contractual commitments – On 2 December 2009 the Group entered into a contract with Bayerische Hypo- and Vereinsbank AG ("HVB") for structuring and arranging loan facilities to finance mine construction. As at 31 December 2009 the maximum outstanding fee under this contract comprised EUR 940,000 (equivalent to USD 1,344,200).

19. RELATED PARTY TRANSACTIONS

Related parties or transactions with related parties, as defined by IAS 24 "Related Party Disclosures", represent:

(a) Parties that directly, or indirectly through one or more intermediaries:
- Control, or are controlled by, or are under common control with, the Group;
- Have an interest in the Group that gives them significant influence over the Group;
- That have joint control over the Group;

(b) Associates – enterprises on which the Group has significant influence and which are neither subsidiaries nor joint ventures of the investor;

(c) Joint ventures in which the Group is a venturer;

(d) Members of key management personnel of the Group;

(e) Close members of the family of any individuals referred to in (a) or (d);

(f) Parties that are entities controlled, jointly controlled, or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Terms and conditions of business with related parties are determined based on arrangements specific to each contract or transaction.

The Group entered into the following transactions with related parties:

During the year ended 31 December 2009 and 2008 the Group received professional and consulting services from one of its shareholders in the amount of USD 80,004 and USD 20,001 respectively.

As of 31 December 2009 and 2008 a loan due from key management employee was outstanding in the amount of USD 70,914 and USD 64,670, respectively.

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:

	2009	**2008**
Short-term employee benefits	1,286,609	1,527,265
Share-based payments charge (see note 17)	1,984,049	9,704,863
Total	**3,270,658**	**11,232,128**

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. Contributions to State Pension Fund are recorded in the consolidated statement of comprehensive income on the accrual basis. Total expenses on contributions to the State Pension Fund of Ukraine reflected in the consolidated statement of comprehensive income for the years ended 31 December 2009 and 2008 amounted to USD 86,531 and UAH 54,730, respectively.

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 comprehensive income for the year ended 31 December 2009 of USD 69,353 (2008: USD 101,093) represents contributions to these plans at rates specified by these plans.

As at 31 December 2009 and 2008 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 50,406 (2008: USD 82,796).

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 and other payables. The Group financial assets are cash and cash equivalents, trade and other receivables and other non-current assets.

	2009	**2008**
Financial assets		
Cash and cash equivalents	35,483,499	41,527,760
Other non-current assets	266,007	105,466
Other receivables	89,262	140,382
Total financial assets	**35,838,768**	**41,733,608**

	2009	**2008**
Financial liabilities		
Trade and other payables	544,698	855,015
Total financial liabilities	**544,698**	**855,015**

The main risks arising from the Group's financial instruments are foreign currency risks since at 31 December 2009 and 2008 some of the cash balances and financial liabilities were denominated in GBP, EUR and UAH.

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.

The carrying amounts of the Group companies' monetary assets and liabilities denominated in foreign currency as at 31 December 2009 and 2008 were as follows:

2009	**USD**	**GBP**	**EUR**
Financial assets			
Cash and cash equivalents	100,892	381,815	5,726,202
Total financial assets	**100,892**	**899,868**	**5,727,202**
Trade and other payables	15,383	25,859	118,534
Total financial liabilities	**15,383**	**25,859**	**118,534**
Total net position	**85,509**	**874,009**	**5,608,668**

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)**

The table below details the sensitivity to strengthening of functional currency of Group companies against foreign currencies by 10% as at 31 December 2009. There would be an equal and opposite impact on the profit and the balances below would be opposite. The analysis was applied to monetary items at the reporting date denominated in respective currencies.

	USD impact	**GBP impact**	**EUR impact**
	2009/2008	**2009/2008**	**2009/2008**
Profit/(loss)	8,551 / 19,982	87,401 / 116,387	560,867 / (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.

At 31 December 2009 all trade payables were due within one month.

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**	**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 approximate their fair values.

23. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Group management and authorised for issue on 4 June 2010.