



(Formerly Lysander Minerals Corporation)

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2011

(Unaudited)



(Formerly Lysander Minerals Corporation)
 CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
 (Unaudited)
 Canadian dollars

	September 30, 2011	December 31, 2010
ASSETS		
Current		
Cash and cash equivalents	1,526,973	\$ 812,361
Short term investments (Note 4)	10,515,000	8,100,000
Trade and other receivables	198,616	47,057
Prepaid expenses	52,340	180,600
Total current assets	12,292,929	9,140,018
Mineral properties, plant and equipment (Note 5)	34,198,096	22,415,797
Reclamation bond (Note 6)	9,500	9,500
TOTAL ASSETS	\$ 46,500,525	\$ 31,565,315
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Trade and other payables (Note 10)	\$ 1,276,806	\$ 461,290
	1,276,806	461,290
Asset retirement obligations (Note 7)	365,449	356,074
Convertible debenture (Note 8)	2,983,068	3,591,477
Deferred income taxes	4,401,941	4,402,149
	9,027,264	8,810,990
Shareholders' equity		
Share capital (Note 9)	50,385,161	32,883,766
Contributed surplus	3,972,774	6,014,223
Accumulated other comprehensive loss	(516,455)	(434,150)
Deficit	(16,368,219)	(15,709,514)
Total shareholders' equity	37,473,261	22,754,325
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 46,500,525	\$ 31,565,315

Corporate information (Note 1)

Subsequent events (Note 15)

On behalf of the Board:

"John Byrne"

Director

"Braam Jonker"

Director

The accompanying notes are an integral part of these financial statements.



(Formerly Lysander Minerals Corporation)
CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS)
(Unaudited)
Canadian dollars

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
EXPENSES				
Depreciation	\$ 164	\$ 204	\$ 454	\$ 613
Consulting fees	174,708	23,000	347,958	59,000
Directors' fees	30,248	20,000	86,370	60,000
Shareholders' meetings, promotion and marketing	3,144	2,127	33,959	39,813
Office and miscellaneous	30,032	8,455	85,246	49,628
Interest and accretion expense	3,125	153,174	238,828	391,116
Foreign exchange (gain) loss	18,679	1,941	(85,906)	2,176
Professional fees	48,623	54,309	148,378	140,674
Property investigation costs	-	-	14,452	-
Transfer agent and regulatory fees	6,703	31,613	29,414	47,352
Share-based compensation (Note 9)	392,682	128,431	944,228	211,623
	708,108	423,254	1,843,381	1,001,995
LOSS BEFORE OTHER INCOME (EXPENSE)	(708,108)	(423,254)	(1,843,381)	(1,001,995)
OTHER INCOME (EXPENSE)				
Gain (loss) on revaluation of derivative liability	2,107,400	(51,392)	1,085,500	913,008
Write-down of mineral property costs	-	(1,086,408)	-	(1,086,408)
Interest income	35,199	1,008	99,175	1,019
	2,142,599	(1,136,792)	1,184,675	(172,381)
Income (loss) for the period	\$ 1,434,491	\$ (1,560,046)	\$ (658,706)	\$ (1,174,376)
Net income (loss) per common share				
Basic	\$ 0.01	\$ (0.02)	\$ 0.00	\$ (0.02)
Diluted	\$ 0.01	\$ (0.02)	\$ 0.00	\$ (0.02)
Weighted average number of common shares outstanding				
Basic	167,283,274	70,202,601	161,012,394	70,175,167
Diluted	173,504,592	71,724,393	167,233,712	71,696,959

The accompanying notes are an integral part of these financial statements.



(Formerly Lysander Minerals Corporation)

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

Canadian dollars

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Income (loss) for the period	\$ 1,434,491	\$(1,560,046)	\$ (658,706)	\$ (1,174,376)
Other comprehensive (loss) income				
Cumulative translation adjustment	1,208,743	173,018	(82,305)	121,609
Other comprehensive (loss) income for the period	1,208,743	173,018	(82,305)	121,609
Comprehensive income (loss) for the period	\$ 2,643,234	\$(1,387,028)	\$ (741,011)	\$ (1,052,767)

The accompanying notes are an integral part of these financial statements.



(Formerly Lysander Minerals Corporation)
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
(Unaudited)
Canadian dollars

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total Equity
Balance – January 1, 2011	126,208,722	\$ 32,883,766	\$ 6,014,223	\$ (434,150)	\$ (15,709,514)	\$ 22,754,325
Net loss for the period	-	-	-	-	(658,706)	(658,706)
Other comprehensive loss	-	-	-	(82,305)	-	(82,305)
	-	-	-	(82,305)	(658,706)	(741,011)
Share issue costs	-	(1,596)	-	-	-	(1,596)
Employee share options:						
Value of options	-	-	1,275,988	-	-	1,275,988
Shares issued on exercise of options	981,500	592,044	(253,244)	-	-	338,800
Shares issued on exercise of broker warrants	955,500	659,352	(468,252)	-	-	191,100
Shares issued on exercise of warrants	38,102,784	16,251,595	(2,595,941)	-	-	13,655,654
Balance – September 30, 2011	166,248,506	\$ 50,385,161	\$ 3,972,774	\$ (516,455)	\$ (16,368,219)	\$ 37,473,261
Balance – January 1, 2010	70,123,797	\$ 24,535,400	\$ 2,643,566	\$ -	\$ (12,468,486)	\$ 14,710,480
Net loss for the period	-	-	-	-	(1,174,376)	(1,174,376)
Other comprehensive loss	-	-	-	121,609	-	121,609
	-	-	-	121,609	(1,174,376)	(1,052,767)
Advance share subscriptions received	-	1,234,575	-	-	-	1,234,575
Employee share options:						
Value of options	-	-	225,071	-	-	225,071
Shares issued on exercise of warrants	125,000	23,939	(5,189)	-	-	18,750
Balance – September 30, 2010	70,248,797	\$ 25,793,914	\$ 2,863,448	\$ 121,609	\$ (13,642,862)	\$ 15,136,109

The accompanying notes are an integral part of these financial statements.



(Formerly Lysander Minerals Corporation)
 CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
 (Unaudited)
 Canadian dollars

	Nine months ended	
	September 30, 2011	September 30, 2010
OPERATING ACTIVITIES		
Income (loss) for the period	\$ (658,706)	\$ (1,174,376)
Add items not affecting cash		
Depreciation	454	613
Share-based compensation	944,228	211,623
(Gain) loss on revaluation of derivative liability	(1,085,500)	(913,008)
Accretion expense – convertible debt	163,494	329,513
Unrealized foreign exchange (gains) losses	-	6,595
Write-down of mineral property costs	-	1,086,408
	(636,030)	(452,632)
Changes in non-cash working balances related to operations		
Accounts receivable	(151,559)	17,669
Prepaid expenses	128,260	10,378
Accounts payable and accrued liabilities	(82,267)	88,368
Cash (used in) generated by operating activities	(741,596)	(336,217)
INVESTING ACTIVITIES		
Mineral properties, plant and equipment	(10,311,210)	(2,112,007)
Short term investments	(2,415,000)	-
Cash used in investing activities	(12,727,750)	(2,112,007)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	14,183,958	18,750
Advance share subscriptions received	-	1,234,575
Cash generated by financing activities	14,183,958	1,253,325
Net increase (decrease) in cash for the period	714,612	(1,194,899)
Cash and cash equivalents, beginning of period	812,361	1,536,509
Cash and cash equivalents, end of period	\$ 1,526,973	\$ 341,610

Supplemental cash flow information – Note 12

The accompanying notes are an integral part of these financial statements.



(Formerly Lysander Minerals Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2011 and 2010

Canadian dollars

1 Corporate information

EastCoal Inc. (the “Company”), formerly Lysander Minerals Corporation, was incorporated on December 15, 1986 under the laws of the Province of British Columbia. Its principal business activity is the acquisition and development of mineral properties.

The Company is focused on the Verticalnaya Mine, an advanced coal project in the construction phase located in the Donbass Region of Ukraine. Recovery of the carrying value of the Verticalnaya Mine depends on the ability of the Company to obtain financing necessary for its development and the attainment of profitable production, or its profitable disposition.

At September 30, 2011, the Company has no source of operating cash flows, has not yet achieved profitable operations, and has accumulated losses since its inception. At September 30, 2011 the Company has cash and short term investments of \$12.0 million; however, these funds are not expected to be sufficient to fully fund expenditures required to bring the Verticalnaya Coal Mine into production (Note 5.1).

Subsequent to the end of the quarter the Company raised \$5.9 million from the exercise of outstanding warrants and may issue additional share capital. It may also arrange loan finance with institutions and establish lines of credit with banks. There can be no assurance that it will be successful in its efforts to do so and that terms will be favourable to the Company. In such case, it may be necessary to defer or curtail certain development or other activities.

2 Basis of presentation

The interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and required publicly accountable enterprise to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed consolidated interim financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.



(Formerly Lysander Minerals Corporation)

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Canadian dollars

These interim consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain elections disclosed in Note 3, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 (“the transition date”) and throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Company’s reported financial results, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended December 31, 2010.

The policies applied in these interim consolidated statements are based on IFRS issued and outstanding as at November 24, 2011, the date the Board of Directors approved these financial statements. Any subsequent changes to IFRS, that are implemented in the Company’s annual consolidated financial statements for the year ended December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transitional adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010 and the Company’s interim consolidated financial statements for the three months ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

3 First time adoption of IFRS

The accounting policies set out in Note 3 of the Interim Consolidated Financial Statements for the three-month period ended March 31, 2011 have been applied in preparing the financial statements for the period ended September 30, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company’s date of transition).

3.1 Transition elections

IFRS 1 allows first time adopters to IFRS to take advantage of a number of voluntary exemptions from the general principal of retrospective restatement. The Company has taken the following exemptions:

3.1.1 IFRS 2 Share based payments

The Company has elected not to apply IFRS 2 to share based payments granted and fully vested before the Company’s date of transition to IFRS.



(Formerly Lysander Minerals Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2011 and 2010

Canadian dollars

3.1.2 **IFRS 3 Business combinations**

This standard has not been applied to acquisitions of subsidiaries that occurred before January 1, 2010, the Company's transition date to IFRS. As such, there is no retrospective change in accounting for business combinations.

3.1.3 **IAS 23 Borrowing costs**

Borrowing costs requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The Company has elected to account for such transactions on a go forward basis. As such there is no retrospective change in accounting for borrowing costs.

3.1.4 **Currency translation differences**

The Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the transition date to IFRS.



(Formerly Lysander Minerals Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Canadian dollars

3.2 Reconciliation of equity as previously reported under Canadian GAAP to IFRS (\$000's)

	Note	Dec 31, 2010			Sep 30, 2010		
		Cdn GAAP	Adj	IFRS	Cdn GAAP	Adj	IFRS
ASSETS							
Current							
Cash and cash equivalents		812	-	812	342	-	342
Short term investments		8,100	-	8,100	-	-	-
Trade and other receivables		47	-	47	49	-	49
Prepaid expenses		181	-	181	19	-	19
Total current assets		9,140	-	9,140	410	-	410
Mineral properties, plant and equipment	3.3.1/3.3.4/ 3.3.3	23,600	(1,184)	22,416	21,864	(520)	21,344
Reclamation bond		9	-	9	9	-	9
TOTAL ASSETS		32,749	(1,184)	31,565	22,283	(520)	21,763
LIABILITIES AND SHAREHOLDERS' EQUITY							
EQUITY							
Current							
Trade and other payables		461	-	461	506	-	506
		461	-	461	506	-	506
Asset retirement obligations	3.3.4	136	220	356	-	353	353
Convertible debenture	3.3.1	2,125	1,467	3,592	2,047	(273)	1,774
Deferred income taxes	3.3.3	4,577	(175)	4,402	4,271	(277)	3,994
		7,299	1,512	8,811	6,824	(197)	6,627
Shareholders' equity							
Share capital		32,883	-	32,883	24,559	-	24,559
Advance share subscriptions received		-	-	-	1,235	-	1,235
Contributed surplus	3.3.1 & 3.3.2	7,319	(1,305)	6,014	4,143	(1,280)	2,863
Other comprehensive (loss) income	3.3.3	-	(434)	(434)	-	122	122
Accumulated deficit		(14,752)	(957)	(15,709)	(14,478)	835	(13,643)
Total shareholders' equity		25,450	(2,696)	22,754	15,459	(323)	15,136
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		32,749	(1,184)	31,565	22,283	(520)	21,763



(Formerly Lysander Minerals Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2011 and 2010

Canadian dollars

3.3 Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS (\$000's)

	Note	Nine months ended Sep 30, 2010		
		Cdn GAAP	Adj	IFRS
EXPENSES				
Depreciation		1	-	1
Consulting fees		59	-	59
Directors' fees		60	-	60
Shareholders' meetings, promotion and marketing		40	-	40
Office and miscellaneous		50	-	50
Interest and accretion expense	3.3.1	-	391	391
Foreign exchange (gain)/loss		2	-	2
Professional fees		141	-	141
Property investigation costs		-	-	-
Transfer agent and regulatory fees		47	-	47
Share-based compensation	3.3.2	223	(11)	212
		623	380	1,003
LOSS BEFORE THE FOLLOWING		(623)	(380)	(1,003)
OTHER INCOME (EXPENSE)				
Interest income		1	-	1
(Loss)/gain on revaluation of derivative liability	3.3.1	-	913	913
Write-down of mineral property costs		(1,086)	-	(1,086)
		(1,085)	913	(172)
(Loss) gain for the period		(1,708)	533	(1,175)
Other comprehensive (loss) income				
Cumulative translation adjustment		-	122	122
Comprehensive (loss) income for the period		(1,708)	655	(1,053)



(Formerly Lysander Minerals Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2011 and 2010

Canadian dollars

3.3.1 Borrowing costs/Convertible debt

The convertible debt entitles the holder to acquire a fixed number of common shares for a fixed US dollar price per share. In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of operations as they arise. The Company has recorded these changes in other gains and losses. Under Canadian GAAP, the equity portion of the convertible debt was classified as equity and changes in fair value were not recognized. This change in accounting decreased liabilities by \$273,035 at September 30, 2010, and increased interest and accretion expense by \$155,174 and \$391,116 for the three and nine months ended September 30, 2010, respectively, and increased loss on revaluation of derivative liability by \$51,392 for the three months ended September 30, 2010, and increased the gain on revaluation of derivative liability by \$913,008 for the nine months ended September 30, 2010, and increased the loss revaluation of derivative liability by \$847,300 for the year ended December 31, 2010.

3.3.2 Share-based payments

Under IFRS, the Company accrues the cost of employee stock options over the vesting period using the graded method of amortization rather than the straight-line method, which was the Company's policy under Canadian GAAP. This increased contributed surplus and deficit at the date of transition and decreased share-based compensation expenses by \$16,018 and \$11,524 for the three and nine months ended September 30, 2010, respectively.

3.3.3 Currency translation reserve

In accordance with IFRS transitional provisions, the Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the date of transition to IFRS. Along with the change in the way the Company translates the results of its foreign operations, the adjustment to deficit and contributed surplus was zero.

3.3.4 Asset retirement obligation

Under IFRS, the discount rate chosen to calculate the net present value of the asset retirement obligation is a risk-free rate because the estimated cash flows were risk adjusted. The resulting obligation was increased by \$219,839 at December 31, 2010.



(Formerly Lysander Minerals Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2011 and 2010

Canadian dollars

The following is a summary of transition adjustments to the Company's retained earnings from Canadian GAAP to IFRS:

	At Dec 31, 2010	At Sep 30, 2010
Deficit as reported under Canadian GAAP	\$ (14,752,018)	(14,478,250)
IFRS adjustments increase (decrease):		
Translation adjustment	(401,180)	(401,180)
Revaluation of derivative instrument and change in convertible debt	(37,373)	1,758,000
Amortization of employee stock options	(70,467)	(95,252)
Interest and accretion expense	(448,476)	(426,180)
	<u>(957,496)</u>	<u>835,388</u>
Retained earnings as reported under IFRS	\$ (15,709,514)	\$ (13,642,862)

3.4 Changes in Accounting Policy and Disclosures

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, Financial Instruments - Classification and Measurement (IFRS 9), IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates (IAS 28). Also in June 2011, the IASB amended IAS 19, Employee Benefits (IAS 19) and IAS 1, Presentation of Financial Statements (IAS 1), which has not yet been adopted by the Company. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its condensed consolidated financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

3.4.1 IAS 1 - Presentation of Financial Statements

This standard requires companies preparing financial statements under IFRS to group items within Other Comprehensive Income (OCI) that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 set out in Presentation of Items of OCI and are effective for fiscal years beginning on or after July 1, 2012.

3.4.2 **IAS 19 - Post-Employment Benefits**

In June 2011, the IASB issued an amended version of IAS 19, Employee Benefits (“IAS 19”). The amendments to IAS 19 are meant to improve the quality, transparency and comparability of information presented for postemployment benefits. For defined benefit plans, the amendments eliminate the option to defer actuarial gains and losses on the balance sheet through the “corridor method”. The amendments also require any remeasurement gains or losses, including actuarial gains and losses, to be recognized immediately and presented in other comprehensive income, eliminating the option to recognize and present these through the income statement. Additional disclosures will also be required to present better information about the characteristics, amounts recognized, and risks related to defined benefit plans. The amendments to IAS 19 are effective for financial years beginning on or after January 1, 2013 with earlier adoption permitted. The Company does not have post-employment benefits thus this policy will not have an impact on the Company’s financial statements.

3.4.3 **IFRS 9 – Financial Instruments - Classification and Measurement**

This is the first part of a new standard on classification, measurement and derecognition of financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity investments are measured at fair value. A debt investment is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent principal and interest. Otherwise the debt investment is recorded at fair value through profit or loss.

There will be no impact on the Company’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from IAS 39, “Financial instruments: Recognition and measurement”, and have not been changed.

3.4.4 **IFRS 10 – Consolidation**

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

3.4.5 **IFRS 11 - Joint Arrangements**

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint

ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

3.4.6 IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

3.4.7 IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that 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. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

3.4.8 IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement. This standard does not have an impact on the Company’s condensed consolidated financial statements as it is currently in development stage.

3.4.9 Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

4 Short term investments

At September 30, 2011, the Company’s short term investments consist of two one-year guaranteed investment certificates, which are redeemable, in whole or in part, at anytime, as detailed in the table below.

Expiry Date	Interest rate	At Sep 30, 2011	At Dec 31, 2010
October 6, 2011	Prime rate less 1.85%	\$ 2,515,000	\$ 8,100,000
March 30, 2012	Prime rate less 1.80%	8,000,000	-
		\$ 10,515,000	\$ 8,100,000



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The Prime rate above refers to the prime lending rate for Canadian dollar loans to borrowers in Canada offered by the Company's Canadian bank.

5 Mineral properties, plant and equipment

5.1 Verticalnaya Coal Mine, Ukraine

Detailed costs to date:

	September 30, 2011	December 31, 2010
Verticalnaya Coal Mine, Ukraine		
Mineral property and wash plant		
Balance, beginning of period	16,054,820	\$ 16,796,778
Wash plant	751,843	-
Change due to exchange rate fluctuations	465,979	(741,958)
Balance, end of period	17,272,642	16,054,820
Advances to contractors	797,800	-
Deferred costs		
Balance, beginning of period	6,358,946	2,209,009
Lease and operating costs	8,753,059	3,454,037
Consulting	215,133	137,911
Professional fees	-	-
Miscellaneous	398,605	107,525
Report preparation	86,574	52,824
Travel	303,166	122,276
Asset retirement obligation	-	344,000
Accretion Expense on asset retirement obligation	6,593	-
Interest and accretion expense on convertible debt	314,988	-
Future income tax liability	-	295,849
Change due to exchange rate fluctuations	(312,528)	(364,485)
Balance, end of period	16,124,537	6,358,946
Verticalnaya Coal Mine, Ukraine – Balance, end of period	\$ 34,194,979	\$ 22,413,766



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5.2 Plant and equipment

	September 30, 2011		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	7,469	4,603	2,866
Furniture	641	390	251
	\$ 8,110	\$ 4,993	\$ 3,117

	December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 5,929	\$ 4,193	\$ 1,736
Furniture	641	346	295
	\$ 6,570	\$ 4,539	\$ 2,031

6 Reclamation bond

The Company has hypothecated a term deposit of \$9,500 (December 31, 2010 - \$9,500) to the order of the Ministry of Energy, Mines and Petroleum Resources of British Columbia as a reclamation bond in connection with its mineral exploration permit.

7 Asset retirement obligations

The Company's asset retirement obligations ("ARO") are based on management's estimates of costs to abandon and reclaim mineral properties and facilities, as well as an estimate of the future timing of costs to be incurred.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the ARO associated with the retirement of the Company's exploration properties:

	At Sep 30, 2011	At Dec 31, 2010
Balance, beginning of period/year	\$ 356,074	\$ -
Additions	-	344,000
Accretion for asset retirement	9,375	12,074
Balance, end of period/year	\$ 365,449	\$ 356,074

The Company has estimated its total asset retirement obligations incurred in respect to the Verticalnaya Mine to be \$365,449 at September 30, 2011 based on a total future liability of approximately \$581,000, which has been



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adjusted using an annual inflation rate of 9%, and a risk-free rate of 3.51%. Reclamation is expected to occur in the year 2027. The Company's estimate of its asset retirement obligation may change due to amendments to laws and regulations and changes in cost estimates.

8 Convertible debenture

On November 26, 2009, the Company acquired a 49% interest in East Coal Company from Surrey Dynamics Limited ("Surrey Dynamics") of the United Kingdom. Consideration paid was 5,000,000 common shares and an unsecured, three year, convertible US\$3,000,000 debenture. The debenture may be converted at any time during the term into 8.0 million common shares of the Company at a conversion price of US\$0.375. The principal amount bears interest at the rate of 2% over the three month USD Libor rate per annum, payable quarterly.

As the debenture is considered to be a compound financial instrument, the principal amount has been allocated between liability and equity components. The equity component has been determined to be a derivative liability as the loan is denominated in a currency other than the Company's functional currency. The fair value of the equity component was valued at issuance at \$2,476,000 using the Black-Scholes option pricing model assuming a risk free rate of 1.88%, expected life of 3 years, volatility of 183.66% and share price of US\$0.35. The debt component was valued at \$702,500 and will accrete up to the principal balance over the term of the debenture using the effective interest method. As at January 1, 2010, December 31, 2010 and September 30, 2011, the Company re-valued the derivative liability at fair value of \$1,576,000, \$2,423,300 and \$1,337,800 respectively and the gain and losses were charged to the statement of loss.

Convertible debenture	Debt component	Derivative liability	Total
Balance at January 1, 2010	\$ 719,700	\$ 1,576,000	\$ 2,295,700
Interest accreted	468,267	-	468,267
Loss on re-valuation	-	847,300	847,300
Foreign exchange change upon conversion of USD	(19,790)	-	(19,790)
Balance at December 31, 2010	\$ 1,168,177	\$ 2,423,300	\$ 3,591,477
Interest accreted	524,156	-	524,156
Loss on re-valuation	-	(1,085,500)	(1,085,500)
Foreign exchange change upon conversion of USD	(47,065)	-	(47,065)
Balance at September 30, 2011	\$ 1,645,268	\$ 1,337,800	\$ 2,983,068



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Under the terms of the convertible debenture, the Company may elect to prepay it prior to its maturity upon provision of 90 days written notice to the holder. Should the Company choose to issue prepayment of the debenture, Surrey Dynamics has the right to elect to (a) receive payment in cash of the principal amount and all unpaid accrued interest or (b) convert the principal and all unpaid accrued interest into common shares of the Company at a conversion price of US\$0.375 per share.

9 Share capital

Authorized: Unlimited number of common shares, without par value

The following is a description of the issued share capital:

	Number of shares	Amount
Issued:		
Balance at January 1, 2010	70,123,797	\$ 24,535,400
Private placement	54,797,425	8,427,559
Option exercises	250,000	96,705
Warrant exercises	1,037,500	280,858
Share issue costs	-	(456,756)
Balance at December 31, 2010	126,208,722	\$ 32,883,766
Option exercises	981,500	912,596
Broker warrant exercises	955,500	338,800
Warrant exercises	38,102,784	16,251,595
Share issue costs	-	(1,596)
Balance at September 30, 2011	166,248,506	\$ 50,385,161

9.1 Escrow

At September 30, 2011, a total of 9,900,000 (December 31, 2010 – 13,322,250) common shares are subject to an escrow agreement and are released at a rate of 3.3 million shares every six months. All common shares currently held in escrow will be released by September 30, 2012.



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9.2 Warrants

At September 30, 2011 and December 31, 2010 the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	At Sep 30, 2011	At Dec 31, 2010
June 24, 2011	\$0.15	-	3,377,667
September 17, 2011	\$0.30	-	7,625,000
October 7, 2011	\$0.30	21,710,273	57,513,891
		21,710,273	68,516,558

9.3 Stock options

The Company has established a stock option plan (the “Plan”) to provide incentives to employees, directors, officers, and consultants to carry out the business of the Company. The Board of Directors may grant up to a total of 25,009,244 options, not to exceed 20% of the issued and outstanding capital stock to employees, directors, officers, and consultants. The maximum term of any option is ten years. The exercise price of an option is fixed at the time of grant and is not less than the closing price on the TSX-V on the last trading day preceding the grant date, less any discounts permitted by the TSX-V.

At September 30, 2011, a total of 7,225,000 options had been granted to directors, officers, employees and consultants under the Plan, and were outstanding as summarized below:

	September 30, 2011		December 31, 2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Opening balance	5,656,500	0.37	4,556,500	\$ 0.37
Granted	2,550,000	0.71	1,450,000	0.30
Exercised	(981,500)	0.35	(250,000)	0.20
Expired	-	-	(100,000)	0.50
Ending balance	7,225,000	\$ 0.48	5,656,500	\$ 0.36
Options exercisable	7,225,000	\$ 0.48	5,106,500	\$ 0.37



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All stock options have exercise prices that are higher or equal to market prices at the date of grant.

Expiry Date	Number Outstanding	Number Exercisable
February 1, 2012	300,000	300,000
June 24, 2013	1,500,000	1,500,000
September 15, 2014	1,975,000	1,975,000
July 27, 2015	1,200,000	1,200,000
February 4, 2016	750,000	750,000
March 14, 2016	750,000	750,000
July 6, 2016	750,000	750,000
	7,225,000	7,225,000

9.4 Share-based compensation

For the nine month period ended September 30, 2011, the Company recognized share-based compensation expense of \$1,275,988 (2010 - \$225,072), of which \$331,760 (2010 - \$13,449) was capitalized as mineral properties expenditures and \$944,228 (2010 - \$211,623) was expensed to operations.

The fair values of the options granted were estimated using the Black-Scholes option pricing model with the following assumptions:

	2011	2010
Risk-free interest rate	1.74% - 2.20%	1.77%
Expected volatility	101.31% - 168.83%	164.6%
Dividend yield	Nil	Nil
Expected life	3 years	3 years

10 Related party transactions

During the period ended September 30, 2011, the Company paid or accrued \$21,150 (2010 - \$13,500) for shared office costs, of which \$ 13,500 (2010 - \$13,500) was paid to a company with a director in common and \$7,650 (2010 - \$Nil) was paid to a director.

Consulting fees totalling \$221,505 (2010 - \$85,693) to directors and officers of the Company, of which \$154,297 was capitalized to the Verticalnaya mine project (2010 - \$85,693) and \$67,208 (2010 - \$Nil) was expensed.



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Included in accounts payable and accrued liabilities is a total of \$47,720 (December 31, 2010 - \$48,554) due to related parties for shared office costs, consulting fees and expenses. The amounts due to related parties are unsecured, non-interest bearing and have no specific terms of repayment.

These transactions were in the normal course of operations and were measured at the amount of consideration established and agreed to by the related parties.

11 Financial risk factors

The Company's financial instruments are exposed to certain financial risks. The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

11.1 Credit and Interest rate risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash and accounts receivable. As at September 30, 2011, the carrying amount of amounts receivable and payable equals fair market value.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has an outstanding interest-bearing convertible debenture (Note 8) which will be subject to changes in interest rates.

11.2 Fair value

The Company's financial assets and liabilities consist of cash and cash equivalents, short term investments, amounts receivable, convertible debentures, accounts payable and accrued liabilities and amounts due to related parties. The estimated fair values of cash, amounts receivable, accounts payable and accrued liabilities and due to related parties approximate their respective carrying values due to the short period to maturity. The Company classifies its fair value measurements within a fair value hierarchy. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.



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The following table illustrates the classification of the Company's financial instruments recorded at fair value within the fair value hierarchy as at September 30, 2011:

Financial assets at fair value				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Short term investments	-	10,515,000	-	10,515,000
Financial liabilities at fair value				
Convertible debenture	-	-	1,337,800	1,337,800

There were no transfers between levels during the six month period ended September 30, 2011.

11.3 Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company manages liquidity risk by ensuring that it has sufficient cash and other financial resources available to meet its short term obligations. The Company forecasts cash flows for a period of twelve months to identify financial requirements. These requirements are met through a combination of cash flows from operations, dispositions of assets and accessing financing through private placements. The exposure of the Company to liquidity risk is considered to be minimal (refer Note 1).

11.4 Commodity price risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of commodities for which it is exploring. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.

11.5 Foreign currency risk

The functional currency of the parent company, EastCoal Inc., is the Canadian dollar; and the functional currency of each of the Company's subsidiaries is the Ukrainian Hryvnia. The presentation currency of the Company is the Canadian dollar. The Company is exposed to the currency risk related to the fluctuation of foreign exchange rates. A significant change in the currency exchange rates relative to Ukrainian Hryvnia ("UAH") could have an effect on the Company's financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

11.6 Sensitivity analysis

At September 30, 2011, the carrying amount of amounts receivable and payable equals fair market value.



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Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period:

- The Company holds balances in foreign currencies which give rise to exposure to foreign exchange risk. However, the balances tend to be moderate and therefore the exposure to foreign exchange risk is low. For the period ended September 30, 2011, with other variables remaining constant, a 10% increase (decrease) in the Ukrainian Hryvnia to Canadian dollar exchange rate would have increased (decreased) the Company's deficit by approximately \$43,315. There would be no significant effect on other comprehensive income.
- The Company has issued a convertible debenture (Note 8) denominated in US dollars which gives rise to exposure to foreign exchange risk. For the period ended September 30, 2011, with other variables remaining constant, a 10% increase (decrease) in the US dollar to Canadian dollar exchange rate would have increased (decreased) the Company's deficit by approximately \$298,307. Additionally, the convertible note bears interest at a rate of 2% over the three month USD Libor rate. A 10% increase (decrease) in this rate, assuming all other variables remain constant, would have increased (decreased) the Company's mineral properties by approximately \$6,982 for the quarter.

12 Supplemental cash flow information

	Nine months	
	September 30, 2011	September 30, 2010
Cash paid during the period for:		
Interest	-	-
Non-cash financing and investing activities:		
Share-based compensation included in deferred exploration costs	897,784	13,449
Mine/deferred costs included in accounts payable	(65,816)	(2,461)



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13 Segmented information

The Company operates in the single business segment of mine exploration and development. The Company's identifiable capital assets are located primarily in Ukraine. Geographic information is as follows:

	September 30, 2011	December 31, 2010
Capital assets		
Ukraine	\$ 34,194,979	\$ 22,413,766
Canada	3,117	2,031
	\$ 34,198,096	\$ 22,415,797

14 Menzhinsky mine

On September 28, 2011 the Company announced it had entered into an agreement with Aponet Enterprises Ltd. ("Aponet") under which EastCoal acquired an option to purchase a 100% interest in the Menzhinsky Mine located in Ukraine (the "Menzhinsky Mine").

The Menzhinsky Mine is currently in operation, producing mainly coking coal.

To acquire a 100% interest in the Menzhinsky Mine, the Company will pay to Aponet:

- i) \$250,000 upon signing of the agreement; and
- ii) \$250,000 per month for six consecutive months commencing October 31, 2011 or until earlier execution of a formal acquisition agreement ("Formal Agreement").

In addition, upon closing of the Formal Agreement and transfer of a 100% interest in the Menzhinsky Mine, subject to regulatory approval, the Company will:

- iii) Pay to Aponet \$2,000,000;
- iv) Issue to Aponet 4,000,000 common shares of EastCoal and warrants to acquire an additional 4,000,000 common shares of the Company at a price of \$0.70 per share for a period of two years;
- v) Issue a four-year \$4,000,000 convertible note, redeemable after a period of one year, which may be converted into EastCoal shares at a price of \$0.65 per common share; and
- vi) Assume and pay a debt obligation of US\$7,000,000, on a quarterly basis, over a three-year period (US\$583,333 per quarter).



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Work on a NI 43-101 compliant technical report has commenced. Until completion of that report, it will not be possible to define the resource tonnage. Presently, the dimensions of the strike are 5 kilometres and 9 kilometres down dip. If the results of the report are favourable, further development phases will be planned.

15 Subsequent events

Since the end of the quarter 19,734,083 common shares have been issued as a result of warrant exercises. Funds raised from these exercises total \$5.9 million.