

Xinergy Ltd.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011
(Unaudited)

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(Unaudited)

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Xinergy Ltd.
Condensed Consolidated Interim Balance Sheets
(Expressed in U.S. Dollars)
(Unaudited)

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents (Note 3)	\$ 17,192,015	\$ 17,028,862	\$ 10,192,766
Restricted cash, current portion (Notes 4 and 11)	411,161	810,638	-
Coal supply agreement	9,308,039	12,641,728	-
Trade accounts receivable (Notes 3 and 10)	8,061,422	6,026,365	830,777
Inventories (Note 12)	5,334,842	9,660,330	1,772,871
Other current assets	1,026,565	1,274,488	467,201
Total current assets	41,334,044	47,442,411	13,263,615
Noncurrent assets			
Deferred income taxes, less current portion	10,150,517	7,679,198	8,084,733
Restricted cash, less current portion (Notes 4 and 11)	8,096,906	6,917,465	9,089,989
Recoupable royalties (Note 3)	742,792	1,221,400	1,598,180
Investments (Note 7)	7,750,000	7,750,000	1,884,792
Property, plant and equipment (Note 8)	52,731,386	46,114,216	22,278,683
Exploration and evaluation assets	3,771,578	2,983,000	1,730,727
Mineral properties (Note 9)	34,526,883	30,399,522	5,415,345
Deferred finance costs (Note 11)	2,487,422	2,605,815	-
Other noncurrent assets	564,901	120,550	412,840
Total assets	\$ 162,156,429	\$ 153,233,577	\$ 63,758,904

See accompanying Notes to Condensed Consolidated Interim Financial Statements, which form an integral part of these Condensed Consolidated Interim Financial Statements.

Xinergy Ltd.
Condensed Consolidated Interim Balance Sheets
(Expressed in U.S. Dollars)
(Unaudited)

	March 31, 2011	December 31, 2010	January 1, 2010
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	\$ 6,993,380	\$ 5,460,932	\$ 3,030,050
Accrued expenses	6,938,729	3,407,960	86,038
Accrued interest payable	2,824,161	1,256,147	-
Income taxes payable	-	-	61,000
Current portion of asset retirement obligation (Note 13)	428,357	428,357	428,357
Current portion of equipment and vehicle notes payable (Note 11)	8,738,480	7,736,702	2,128,959
Current portion of senior secured notes payable (Note 11)	-	5,000,000	-
Other current liabilities	2,351,050	500,000	-
Derivative financial liabilities (Notes 3 and 14)	10,172,053	4,868,764	5,563,043
Total current liabilities	38,446,210	28,658,862	11,297,447
Noncurrent liabilities			
Asset retirement obligations, less current portion (Note 13)	10,087,583	7,851,329	5,238,580
Equipment and vehicle notes payable, less current portion (Note 11)	7,929,580	5,481,799	1,175,436
Senior secured notes payable, less current portion (Note 11)	62,247,857	62,115,376	-
Other noncurrent liabilities	819,018	-	750,000
Total liabilities	119,530,248	104,107,366	18,461,463
Shareholders' equity			
Share capital	69,080,962	65,628,739	61,747,806
Contributed surplus	2,936	2,936	2,936
Share based payments (Note 16)	4,785,282	4,486,210	2,362,186
Warrants	-	-	105,681
Accumulated deficit	(31,242,999)	(20,991,674)	(18,921,168)
Net shareholders' equity	42,626,181	49,126,211	45,297,441
Total liabilities and shareholders' equity	\$ 162,156,429	\$ 153,233,577	\$ 63,758,904
Common shares			
Authorized	Unlimited	Unlimited	Unlimited
Issued and outstanding	57,477,897	56,593,366	53,752,070

See accompanying Notes to Condensed Consolidated Interim Financial Statements, which form an integral part of these Condensed Consolidated Interim Financial Statements.

(Signed) Jon Nix

Chairman of the Board

(Signed) Robert J. Metcalfe

Director

Xinergy Ltd.
Condensed Consolidated Interim Statements of Operations
(Expressed in U.S. Dollars)
(Unaudited)

For the three months ended March 31,

	2011	2010
Coal revenue	\$ 43,050,871	\$ 7,860,061
Cost of coal sales	35,067,396	7,615,643
Gross margin	7,983,475	244,418
General and administrative expenses	3,620,744	2,529,470
Amortization of above market coal supply agreement	3,333,689	-
Depreciation, depletion and amortization	6,158,644	2,645,668
Operating loss	(5,129,602)	(4,930,720)
Other income (expense):		
Unrealized loss on derivative financial instruments (Note 14)	(5,303,289)	(1,989,223)
Finance income (Note 3)	13,989	153,919
Finance cost (Note 3)	(2,362,989)	(10,416)
Other expense	(63,265)	(21,010)
Net other income (expense)	(7,715,554)	(1,866,730)
Loss before income taxes	(12,845,156)	(6,797,450)
Income tax benefit	2,593,831	1,725,126
Net loss	\$ (10,251,325)	\$ (5,072,324)
Weighted average number of basic and diluted shares outstanding	56,937,579	54,451,928
Net loss per ordinary share, basic and diluted	\$ (0.18)	\$ (0.09)

See accompanying Notes to Condensed Consolidated Interim Financial Statements, which form an integral part of these Condensed Consolidated Interim Financial Statements.

Xinergy Ltd
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Expressed in U.S. Dollars)
(Unaudited)

	Shares	Share capital	Contributed surplus	Share based payments	Warrants	Accumulated deficit	Total
Balance at January 1, 2010	53,752,070	\$ 61,747,806	\$ 2,936	\$ 2,362,186	\$ 105,681	\$ (18,921,168)	\$ 45,297,441
Net loss	-	-	-	-	-	(5,072,324)	(5,072,324)
Issued share capital for services	160,000	525,019	-	-	-	-	525,019
Share based payment transactions	-	-	-	408,477	-	-	408,477
Options exercised	292,226	397,320	-	(190,586)	-	-	206,734
Warrants exercised	1,975,925	2,002,569	-	-	(105,681)	-	1,896,888
Balance at March 31, 2010	56,180,221	\$ 64,672,714	\$ 2,936	\$ 2,580,077	\$ -	\$ (23,993,492)	\$ 43,262,235
Balance at January 1, 2011	56,593,366	\$ 65,628,739	\$ 2,936	\$ 4,486,210	\$ -	\$ (20,991,674)	\$ 49,126,211
Net loss	-	-	-	-	-	(10,251,325)	(10,251,325)
Share based payment transactions	-	-	-	365,077	-	-	365,077
Options exercised	115,567	167,875	-	(66,005)	-	-	101,870
Warrants exercised	768,964	3,284,348	-	-	-	-	3,284,348
Balance at March 31, 2011	57,477,897	\$ 69,080,962	\$ 2,936	\$ 4,785,282	\$ -	\$ (31,242,999)	\$ 42,626,181

See accompanying Notes to Condensed Consolidated Interim Financial Statements, which form an integral part of these Condensed Consolidated Interim Financial Statements.

Xinergy Ltd.
Condensed Consolidated Interim Statements of Cash Flows
(Expressed in U.S. Dollars)
(Unaudited)

For the three months ended March 31,

	2011	2010
Operating activities		
Net loss	\$ (10,251,325)	\$ (5,072,324)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, depletion, and amortization	6,158,644	2,645,668
Amortization of above market coal supply agreement	3,333,689	-
Share based payments	365,077	408,477
Issue of common shares for services rendered	-	525,019
Unrealized loss on derivative financial instrument	5,303,289	1,989,223
Amortization of discount on notes payable	132,481	-
Amortization of deferred finance costs	118,393	-
Accretion of asset retirement obligations	60,073	33,227
Deferred income tax benefit	(2,593,831)	(1,725,126)
Changes in operating assets and liabilities:		
Trade accounts receivable	(2,035,057)	238,964
Inventories	4,325,488	(2,229,429)
Other current assets	370,435	(161,205)
Recoupable royalties	478,608	406,180
Other noncurrent assets	(444,351)	123,909
Accounts payable	1,532,448	1,539,143
Accrued expenses	3,530,769	522,195
Accrued interest payable	1,568,014	-
Other current liabilities	(499,996)	-
Net cash flows provided by (used in) operating activities	11,452,848	(756,079)
Investing activities		
Purchases of property, plant, and equipment	(9,759,100)	(3,628,074)
Deposit on acquisition of Raven Crest	-	(1,250,000)
Acquisition of South Fork	(1,700,000)	-
Expenditures on exploration and evaluation assets	(886,408)	(70,484)
Change in restricted cash	(779,964)	784,413
Net cash used in investing activities	(13,125,472)	(4,164,145)
Financing activities		
Proceeds from exercise of options and warrants	3,386,218	2,103,622
Proceeds from issuance of notes payable	6,179,997	2,472,314
Repayments of senior secured notes payable	(5,000,000)	-
Repayments of equipment and vehicle notes payable	(2,730,438)	(1,263,906)
Net cash provided by financing activities	1,835,777	3,312,030
Net increase (decrease) in cash	163,153	(1,608,194)
Cash and cash equivalents, beginning of period	17,028,862	10,192,766
Cash and cash equivalents, end of the period	\$ 17,192,015	\$ 8,584,572

See accompanying Notes to Condensed Consolidated Interim Financial Statements, which form an integral part of these Condensed Consolidated Interim Financial Statement.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2011
(Unaudited)

1. Corporate Information

Xinergy Ltd., through its wholly owned subsidiary, Xinergy Corp., which was incorporated on October 2, 2007, is engaged in coal mining in eastern Kentucky and West Virginia. Currently, Xinergy Corp. sells high quality coal to electric utilities and industrial companies through the southeastern United States.

The address of the Company's (as defined below) corporate office is 8351 East Walker Springs Lane, Suite 400, Knoxville, Tennessee, 37923, USA. The Company is listed on the Toronto Stock Exchange under the symbol "XRG".

2. Basis of Preparation

Statement of Compliance

These condensed consolidated interim financial statements for the three months ended March 31, 2011 of Xinergy Ltd. and all its subsidiaries (the "Company") have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board ("IASB"). These are the Company's first International Financial Reporting Standards ("IFRS") condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual financial statements as at December 31, 2010.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 22. This note includes reconciliations of shareholders' equity and net loss for comparative periods and of shareholders' equity at the date of transition reported under generally accepted accounting principles ("Canadian GAAP") to those reported for those periods and at the date of transition under IFRS.

The condensed consolidated interim financial statements were authorized for issue by members of the Audit Committee on May 24, 2011.

Basis of Measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated interim financial statements are presented in United States dollars (US\$), except occasional references to Canadian dollar amounts where the dollar amount is preceded by "Cdn".

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated. The accounting policies have been applied consistently by all entities.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three months ended March 31, 2011
(Unaudited)

3. Summary of Significant Accounting Policies (continued)

Basis of Consolidation

i) Business Combinations

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010 (the “transition date”), the Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquire, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Company elects, on a transaction by transaction basis, whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to January 1, 2010

As part of its transition to IFRSs, the Company elected to restate only those business combinations that occurred on or after January 1, 2010 (the “transition date”).

ii) Subsidiaries

Subsidiaries are wholly owned entities controlled by Xinergy Ltd. (the “Parent”). The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Parent.

iii) Transactions Eliminated on Consolidation

Intercompany balances, transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the condensed consolidated interim financial statements.

a) Foreign Currency

Functional and Presentation Currency

The consolidated financial statements are presented in United States dollars which is the parent company’s functional currency and the Company’s presentation currency.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three months ended March 31, 2011
(Unaudited)

3. Summary of Significant Accounting Policies (continued)

Foreign Currency Transactions

Transactions entered into by the Company's entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss shall be recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss.

b) Financial Assets

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held to maturity investments ("HTM"), or available for sale financial assets ("AFS"), as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of financial assets not at FVTPL, directly attributable transaction costs.

Financial Assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition as FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instrument. Financial assets FVTPL are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of operations.

The Company did not designate any financial assets as financial assets at FVTPL.

Loans and Receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provisions for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of operations when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three months ended March 31, 2011
(Unaudited)

3. Summary of Significant Accounting Policies (continued)

AFS Financial Assets

Non-derivative financial assets not included in the above categories are classified as AFS and comprise principally of the Company's strategic investments in entities not qualifying as subsidiaries or associates. They are carried at fair value with changes in fair value generally recognized in other comprehensive income and accumulated in the AFS reserve. Where there is a significant or prolonged decline in the fair value of an AFS financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in profit or loss. Purchases and sales of AFS financial assets are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in the AFS reserve. On sale, the cumulative gain or loss recognized in other comprehensive income is reclassified from the AFS reserve to profit or loss.

AFS financial assets include investments in entities which do not result in significant influence.

Fair Value Hierarchy

Measurement of the fair value of financial instruments is made under a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

- Level 1: Valuations based on quoted prices, unadjusted, in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The fair value of our available for sale investment is within level 3 classification, see Note 7, and the fair value of our derivative financial liabilities are within level 2 classification, see Note 14.

Impairment of Financial Assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

c) Cash and Cash Equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand and deposits held with financial institutions.

d) Restricted Cash and Restricted Certificates of Deposit

Cash and certificates of deposit which are subject to contractual restrictions on use are classified separately as restricted cash. Restricted cash and restricted certificates of deposit are classified as loans and receivables.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three months ended March 31, 2011
(Unaudited)

3. Summary of Significant Accounting Policies (continued)

e) Trade Accounts Receivable

Trade accounts receivable consists primarily of contractual receivables from coal sales to its customers, which are nationally recognized public utilities and industrial companies, as is typical in the industry. It is the Company's policy not to require collateral on trade accounts receivable. Accounts are charged to bad debt expense as they are determined to be uncollectible based upon a review of aging and collections. Credit losses from coal sales, when realized, have been in the range of the Company's expectations and, historically, have not been significant.

f) Financial Liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL, or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value.

The Company's financial liabilities include share purchase warrants, accounts payable and accrued expenses and notes payable. Subsequent to initial recognition, accounts payable and accrued expenses and notes payable are measured at amortized cost using the effective interest method.

Financial Liabilities at FVTPL

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Gains or losses on liabilities held for trading are recognized in the statement of operations.

Certain share purchase warrants are classified as financial liabilities at FVTPL. These are carried in the consolidated balance sheet at fair value with changes in fair value recognized in the consolidated statement of operations.

g) Derivative Financial Instruments

The Company has derivative financial instruments in the form of warrants issued in Canadian dollars. Such derivative financial instruments are initially recognized at fair value at the date at which the derivatives are issued and are subsequently re-measured at fair value. These derivatives do not qualify for hedge accounting and changes in fair value are recognized immediately in profit and loss.

Other than share purchase warrants, the Company does not have any further derivative instruments.

h) Share Capital

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's ordinary shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three months ended March 31, 2011
(Unaudited)

3. Summary of Significant Accounting Policies (continued)

Financial Liabilities at FVTPL (continued)

i) Earnings / Loss Per Share

Basic earnings / loss per share is computed by dividing the net income or loss applicable to common shares by the weighted average number of common shares outstanding for the relevant period.

Diluted income / loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments (outstanding stock options and warrants) were converted.

j) Property, Plant and Equipment

Recognition and Measurement

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company.

Property, plant and equipment are subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Major Maintenance and Repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of operations during the financial period in which they are incurred.

Gains and Losses

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three months ended March 31, 2011
(Unaudited)

3. Summary of Significant Accounting Policies (continued)

Depreciation

Plant and improvements	straight line over 3 to 10 Years
Mining equipment	straight line over 2.5 to 5 Years
Autos and trucks	straight line over 3 to 7 Years
Other equipment	straight line over 3 to 7 Years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

k) Accounts Payable and Accrued Expenses

These amounts represent liabilities for goods and services provided to the Company prior to the end of the reporting period which are unpaid. Trade payable amounts are unsecured and are usually paid within 30 days of recognition.

l) Mineral Exploration and Evaluation and Development Expenditures

Exploration and Evaluation Expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant & equipment during the exploration phase. Cost not directly attributable to exploration and evaluation activities, including general administrative overhead cost, are expensed in the period in which they occur.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, development costs are recognized and capitalized as 'mines under construction'.

Exploration and evaluation assets acquired in a business combination are initially recognized at fair value. They are subsequently stated at cost less accumulated impairment.

Development Expenditures / Mines Under Construction

When mineral reserves are determined and development is sanctioned, capitalized exploration and evaluation expenditure is reclassified as 'mines under construction' and is disclosed as a component of mineral properties. Upon transfer of 'exploration and evaluation costs' into 'mines under construction', all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalized within 'mines under construction.' As the asset is not available for use, it is not depreciated. On completion of development, any capitalized exploration and evaluation expenditure, together with the subsequent development expenditure, is classified as 'producing mines'.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three months ended March 31, 2011
(Unaudited)

3. Summary of Significant Accounting Policies (continued)

m) Mineral Properties

Mineral properties acquired are recognized at fair value at the acquisition date. Mineral properties are tested annually for impairment on the same basis that property, plant and equipment are when there is an indication of impairment. Mineral properties will be amortized on a units of production basis over estimated recoverable tons, which results in an expense proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable mineral reserves plus, where appropriate, a portion of measured mineral resources).

When further development expenditure, including waste development, is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mineral property only when substantial future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Should the carrying value of the expenditure not yet amortized exceed its estimated recoverable amount in any year, the excess is written off to the statement of operations.

n) Impairment of Non-Financial Assets

Values of mineral properties, including mines under construction, and property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or the Company's assets. If this is the case, the individual assets are grouped together into cash generating units ("CGU") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of operations so as to reduce the carrying amount to its recoverable amount (i.e., the higher of fair value less cost to sell and value in use). Impairment losses related to continuing operations are recognized in the statement of operations in those expense categories consistent with the function of the impaired asset. In this case, the impairment is also recognized in equity up to the amount of any previous revaluation.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three months ended March 31, 2011
(Unaudited)

3. Summary of Significant Accounting Policies (continued)

o) Income Taxes

Current Income Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute current income tax assets and liabilities are measured at future anticipated tax rates, which have been enacted or substantively enacted at the reporting date.

Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit and loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

Deferred Income Taxes

Deferred taxation is provided on all qualifying temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

p) Leased Assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the statement of operations on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three months ended March 31, 2011
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3. Summary of Significant Accounting Policies (continued)

q) Finance Income and Finance Costs

Finance income comprises of interest income on funds invested (cash and certificates of deposit). Interest income is recognized as it accrues in profit or loss, using the effective interest method on a time proportion basis using the effective interest rate method.

Finance cost comprises of impairment losses recognized on financial assets, interest payable, amortization of deferred finance costs, early redemption penalties and accretion of the asset retirement obligations.

r) Share based Payments

The Company uses the fair value method of accounting for share-based payments and warrants granted. The fair value of share-based payments and warrants is determined using the Black-Scholes option pricing model with assumptions for risk-free interest rates, volatility factors of the expected market price of the Company's common shares and an expected life of the options and warrants. The fair value of the instruments granted is amortized on a straight line basis over the vesting period based on the Company's estimate of shares that will eventually vest.

Contribution expense attributable to share-based payments granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to share-based payments, a component of shareholders' equity. Upon exercise of the options or warrants, consideration received together with the amount previously recognized is recorded as an increase to share capital.

When warrants or options expire, or options are forfeited, the amount is transferred to contributed surplus.

s) Inventories

Coal and materials and supplies are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable overhead expenditure. Costs are assigned to individual items of inventory on the basis of weighted average costs.

t) Coal Revenue

The Company recognizes revenue from coal sales when title or risk of loss passes to the carrier or customer, which generally occurs at the time of shipment, and selling prices are known or can be reasonably estimated. Shipping and handling costs are classified as a component of cost of sales.

The Company's three largest customers individually accounted for approximately 42%, 16% and 14% of the Company's revenues during the three months ended March 31, 2011 and 55%, 35% and 10% of the Company's revenues during the three months ended March 31, 2010.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three months ended March 31, 2011
(Unaudited)

3. Summary of Significant Accounting Policies (continued)

u) Provisions

i) General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

ii) Asset Retirement Obligations

The Company's asset retirement obligation ("ARO") liabilities primarily consist of estimated costs related to reclaiming surface land and support facilities at its mines in accordance with federal and state reclamation laws as defined by each mining permit.

The Company estimates the fair value of its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of future costs for third-party to perform the required work. Cost estimates are escalated for inflation, and then discounted at the credit-adjusted risk-free rate. The Company used a discounted risk-free rate of 4.0% at March 31, 2011. Total estimated undiscounted future costs related to the ARO liabilities totaled \$12,108,982 at March 31, 2011, with costs expected to be paid from 2011 to 2019. The Company records a capital asset retirement cost associated with the initial recorded liability. The capital asset retirement cost is amortized based on the UOP method over the estimated recoverable, proven and probable reserves at the related mine, and the ARO liability is accreted to the projected settlement date. Changes in estimates could occur in the near term due to revisions of mine plans, changes in estimated costs, and changes in timing of the performance of reclamation activities. The Company restricted certificates of deposit are required by authoritative agencies for necessary permitting to allow mining and as collateral to ensure the completion of future reclamation.

v) Recoupable Royalties

The Company has various arrangements to pay royalties, related to properties with coal reserves, based on coal production. For certain of these arrangements, the Company makes royalty prepayments, which are then recouped by the Company as coal production progresses. The recoupable royalties recorded under these arrangements are routinely evaluated by management to ensure all amounts recorded are expected to be recouped.

w) Capital and Financial Risk Management

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy, fund mine development and undertake selective acquisitions, while also managing financial risk. As of March 31, 2011, the Company defines capital as cash and cash equivalents, available for sale investment, see Note 7, and shareholders' equity.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

3. Summary of Significant Accounting Policies (continued)

w) Capital and Financial Risk Management (continued)

The Company's primary uses of capital are to finance ongoing operations, capital expenditures and increases in noncash working capital. The Company currently funds these requirements from internally generated cash flows and cash raised through equity issuances, as well as long-term debt as required. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity so it can provide its products to its customers and returns to its shareholders.

The Company continuously monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize flexibility to finance the Company's ongoing growth, the Company does not currently pay a dividend to its shareholders.

The Company is exposed to credit risk, liquidity risk and market risk associated with its financial instruments.

i) Credit Risk

Credit risk arises from the potential that a customer or counterparty will fail to perform its obligations. The Company's exposure to credit risk exists primarily related to its trade accounts receivable. While economic factors can affect credit risk, the Company manages risk by providing credit terms on a case by case basis. The Company's customers are primarily investment grade companies and quasi-governmental agencies. The Company's cash and certificates of deposit are on deposit with quality financial institutions and such deposits are subject to insurance by the Federal Deposit Insurance Corporation, an independent agency of the United States of America, and the Canada Deposit Insurance Corporation, a federal Crown corporation created by Canadian Parliament. The Company's maximum credit risk exposure is equal to the carrying amount of all cash and cash equivalents, restricted cash and trade accounts receivable as listed on the accompanying condensed consolidated balance sheet.

ii) Market Risk

Market risk includes interest rate risk and pricing risk. The Company's interest rate risk primarily relates to our interest bearing debt. As the Company's debt has fixed interest rates, they have minimized our exposure to cash flow interest rate risk.

The Company's price risk primarily relates to significant fluctuations in coal sales prices which are caused by many factors outside of our control. The Company minimizes its price risk by entering into long-term sales contracts with customers which fix the price of coal sold.

iii) Liquidity Risk

Liquidity risk is the risk that the Company will have difficulty meeting its obligations associated with financial liabilities. To manage this risk, the Company ensures, to the extent possible, that it will have sufficient liquidity to meet its obligations when due by continually monitoring our cash balances and our cash flow projections.

The Company has sustained losses since operations commenced in 2008 and have financed these losses mainly through a combination of equity and debt offerings.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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4. Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, management evaluates its estimates, including those related to computing depreciation, depletion, amortization, accretion, reclamation liability, asset impairment, valuation of non-cash transactions, and recovery of receivables. Estimates are then based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the most critical accounting policies include revenue recognition, the corresponding accounts receivable and the methods of estimating depletion and reclamation expense of actual mining operations in relation to estimated total mineable tonnage on our properties. We believe the following accounting policies affect our more significant judgments and estimates used in preparation of our consolidated financial statements.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

i) Reserves

The Company amortizes its mineral rights, mine development costs, and capitalized asset retirement costs using the units of production method and estimates of proven and probable mineral reserves. Management reviews these estimates on a regular basis and adjusts them to reflect current mining plans. The rate at which we record depletion also depends on the estimates of mineral reserves. If the estimates of proven and probable mineral reserves decline, the rate at which depletion is recorded increases. Such a decline in reserves may result from geological conditions, coal quality, effects of governmental, environmental and tax regulations, and assumptions about future prices and future operating costs.

ii) Share-Based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 16.

iii) Asset Retirement Obligations

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities relate to reclaiming surface land and support facilities at its mines in accordance with federal and state reclamation laws as defined by each mining permit. The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three months ended March 31, 2011
(Unaudited)

4. Use of Estimates and Judgments (continued)

iii) Asset Retirement Obligations (continued)

When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development / construction of the mine. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. Changes in estimates could occur in the near term due to revision of mine plans, changes in its estimated costs, and changes in the timing of the performance of reclamation activities. For closed sites, changes to estimated costs are recognized immediately in profit or loss.

At March 31, 2011 and December 31, 2010, the Company had restricted certificates of deposit which are required by authoritative agencies for necessary permitting to allow mining and as collateral to ensure the completion of future reclamation.

iv) Impairment

Assets, specifically mines under construction and mineral properties, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the carrying amount often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, future capital requirements and future operating performance.

v) Income Taxes

The Company is subject to income taxes in the United States of America. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

In addition, the Company has recognized deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

vi) Inventories

Net realizable value tests are performed at least annually and represent the estimated future sales price of the product based on prevailing spot coal prices at the reporting date, less estimated costs to complete production and bring the product to sale.

Stockpiles are measured by estimating the number of tons added and removed from the stockpile, the number of contained coal tons based on underlying data, and the estimated recovery percentage based on the expected processing method.

Stockpile tonnages are verified by quarterly surveys.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

4. Use of Estimates and Judgments (continued)

vii) Units of Production Method of Depreciation

The Company applies the units of production method for amortization of its mine assets based on tons mined. These calculations require the use of estimates and assumptions. Significant judgment is required in assessing the available reserves, resources and the production capacity of the plants to be amortized under this method. Factors that are considered in determining mineral reserves, resources and production capacity are the Company's history of converting mineral resources to mineral reserves and the relevant timeframes, the complexity of coal, markets and future developments. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying value of assets.

5. Subsidiaries

The principal subsidiaries of the Company, all of which have been included in these condensed consolidated interim financial statements, are as follows:

Name	Country of Incorporation	Class of Shares	Ownership Interest as at		
			March 31, 2011	December 31, 2010	January 1, 2010
Xinergy Finance Canada Ltd.	Canada	Common	100%	100%	100%
Xinergy Finance (US) Inc.	US	Common	100%	100%	100%
Xinergy Corp.	US	Common	100%	100%	100%
Pinnacle Insurance Group LLC	US	Common	100%	100%	0%
Xinergy Straight Creek Inc.	US	Common	100%	100%	100%
Xinergy Sales Inc.	US	Common	100%	100%	100%
Xinergy Land Inc.	US	Common	100%	100%	100%
Middle Fork Mining Inc.	US	Common	100%	100%	100%
Big Run Mining, Inc.	US	Common	100%	100%	100%
Shenendoah Energy LLC	US	Common	100%	100%	100%
Xinergy of West Virginia Inc.	US	Common	100%	100%	0%
South Fork Coal Company LLC	US	Common	100%	100%	0%
Brier Creek Coal Company LLC	US	Common	100%	100%	0%
Bull Creek Processing Company LLC	US	Common	100%	100%	0%
Raven Crest Mining LLC	US	Common	100%	100%	0%
Raven Crest Minerals LLC	US	Common	100%	100%	0%
Raven Crest Leasing LLC	US	Common	100%	100%	0%
Raven Crest Contracting LLC	US	Common	100%	100%	0%

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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6. Asset Purchase Agreement

In the first quarter 2011, the Company acquired certain real property and related interests (including leases, mineral rights, and mining rights) in Greenbrier County, West Virginia for \$1,700,000 in cash. Also, the provisions of the purchase agreement provide for a \$2,500,000 payment once certain permitting is obtained and an additional \$1,000,000 18 months after this permitting is obtained, which has been recorded as a liability in the accompanying condensed consolidated balance sheet. Terms of the agreement also include an overriding royalty paid at a rate ranging from \$1.50 to \$2.00 per ton, determined based gross sales price, with a possible reduction to \$0.40 per ton if certain quality measurements are not achieved. The acquired assets were recognized at fair value. Mines under construction are not amortized until construction is completed.

7. Investments

During November 2010, the Company acquired 1,852,367 membership units, representing a 17.5% minority interest, in an entity that is primarily engaged in leasing coal reserves to other parties. The entity does not have a quoted market price nor is it traded on an active market, and the Company does not have control of the entity. The investment is classified as available-for-sale and recorded at cost, which approximates fair value based on current available financial information.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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8. Property, Plant & Equipment

	Land and Land Improvements	Plant and Improvements	Mining Equipment	Autos and Trucks	Other Equipment	Total
Cost						
Balance at January 1, 2010	\$ 2,282,459	\$ 6,183,419	\$ 25,267,491	\$ 1,109,075	\$ 184,567	\$ 35,027,011
Additions	1,483,350	190,238	37,949,450	1,039,837	384,341	41,047,216
Disposals	(11,757)	-	(1,356,190)	(27,430)	-	(1,395,377)
Balance at December 31, 2010	<u>\$ 3,754,052</u>	<u>\$ 6,373,657</u>	<u>\$ 61,860,751</u>	<u>\$ 2,121,482</u>	<u>\$ 568,908</u>	<u>\$ 74,678,850</u>
Balance at January 1, 2011	3,754,052	6,373,657	61,860,751	2,121,482	568,908	74,678,850
Additions	2,810,546	105,493	8,104,691	417,360	968,545	12,406,635
Disposals	-	-	-	(16,800)	-	(16,800)
Balance at March 31, 2011	<u>\$ 6,564,598</u>	<u>\$ 6,479,150</u>	<u>\$ 69,965,442</u>	<u>\$ 2,522,042</u>	<u>\$ 1,537,453</u>	<u>\$ 87,068,685</u>
Accumulated depreciation						
Balance at January 1, 2010	255,879	1,250,545	10,681,792	481,885	78,227	12,748,328
Depreciation for the year	1,612,522	750,220	13,757,363	467,926	56,775	16,644,806
Disposals	(122,259)	-	(703,955)	(2,286)	-	(828,500)
Balance at December 31, 2010	<u>\$ 1,746,142</u>	<u>\$ 2,000,765</u>	<u>\$ 23,735,200</u>	<u>\$ 947,525</u>	<u>\$ 135,002</u>	<u>\$ 28,564,634</u>
Balance at January 1, 2011	1,746,142	2,000,765	23,735,201	947,525	135,002	28,564,635
Depreciation for the period	394,295	195,076	5,163,172	170,911	15,522	5,938,976
Disposals	-	-	(160,245)	(6,067)	-	(166,312)
Balance at March 31, 2011	<u>\$ 2,140,437</u>	<u>\$ 2,195,841</u>	<u>\$ 28,738,128</u>	<u>\$ 1,112,369</u>	<u>\$ 150,524</u>	<u>\$ 34,337,299</u>
Carrying amounts						
At January 1, 2010	<u>\$ 2,026,580</u>	<u>\$ 4,932,874</u>	<u>\$ 14,585,699</u>	<u>\$ 627,190</u>	<u>\$ 106,340</u>	<u>\$ 22,278,683</u>
At December 31, 2010	<u>\$ 2,007,910</u>	<u>\$ 4,372,892</u>	<u>\$ 38,125,551</u>	<u>\$ 1,173,957</u>	<u>\$ 433,906</u>	<u>\$ 46,114,216</u>
At March 31, 2011	<u>\$ 4,424,161</u>	<u>\$ 4,283,309</u>	<u>\$ 41,227,314</u>	<u>\$ 1,409,673</u>	<u>\$ 1,386,929</u>	<u>\$ 52,731,386</u>

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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9. Mineral Properties

	Mines under construction	Producing mines	Total
Cost			
Balance as at January 1, 2010	\$ -	\$ 6,320,621	\$ 6,320,621
Acquisition of subsidiary	-	26,929,404	26,929,404
Balance as at December 31, 2010	<u>\$ -</u>	<u>\$ 33,250,025</u>	<u>\$ 33,250,025</u>
Balance as at January 1, 2011	-	33,250,025	33,250,025
Acquisition of subsidiary	5,210,231	-	5,210,231
Balance as at March 31, 2011	<u>\$ 5,210,231</u>	<u>\$ 33,250,025</u>	<u>\$ 38,460,256</u>
Accumulated depletion			
Balance as at January 1, 2010	-	905,276	905,276
Depletion for the year	-	1,945,228	1,945,228
Balance as at December 31, 2010	<u>\$ -</u>	<u>\$ 2,850,504</u>	<u>\$ 2,850,504</u>
Balance as at January 1, 2011	-	2,850,504	2,850,504
Depletion for the period	-	1,082,871	1,082,871
Balance as at March 31, 2011	<u>\$ -</u>	<u>\$ 3,933,375</u>	<u>\$ 3,933,375</u>
Carrying amounts			
At January 1, 2010	\$ -	\$ 5,415,345	\$ 5,415,345
At December 31, 2010	<u>\$ -</u>	<u>\$ 30,399,521</u>	<u>\$ 30,399,521</u>
At March 31, 2011	<u>\$ 5,210,231</u>	<u>\$ 29,316,650</u>	<u>\$ 34,526,881</u>

10. Trade Accounts Receivable

As at March 31, 2011, the analysis of receivables that were past due but not impaired is as follows:

	Total	Amount Not Past Due	< 30 days	30 - 60 days	60 - 90 days	90 - 120 days	>120 days
March 31, 2011	\$ 8,061,422	\$ 7,841,158	\$ -	\$ 86,144	\$ -	\$ 134,120	\$ -
December 31, 2010	<u>\$ 6,026,365</u>	<u>\$ 6,026,365</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
January 1, 2010	<u>\$ 830,777</u>	<u>\$ 830,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Receivables are non-interest bearing and are generally on 3-25 day terms.

In determining the recoverability of a receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty. As at March 31, 2011, no receivables were impaired.

Two customers accounted for approximately 42% and 16% of trade accounts receivable at March 31, 2011, two customers accounted for approximately 49% and 15% of trade accounts receivable at December 31, 2010 and two customers accounted for approximately 54% and 43% of trade accounts receivable at January 1, 2010.

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Notes to the Condensed Consolidated Interim Financial Statements (continued)
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11. Notes Payable

	March 31, 2011	December 31, 2010	January 1, 2010
Senior secured notes payable, net	\$ 62,247,857	\$ 67,115,376	\$ -
Equipment and vehicle notes payable	16,668,060	13,218,501	3,304,395
	<u>78,915,917</u>	<u>80,333,877</u>	<u>3,304,395</u>
Less current portion of notes payable	8,738,480	12,736,702	2,128,959
Non-current portion of notes payable	<u>\$ 70,177,437</u>	<u>\$ 67,597,175</u>	<u>\$ 1,175,436</u>

Notes Payable to Marret Asset Management, Inc.

In conjunction with the acquisition of the remaining membership interest in Raven Crest during April 2010 the Company issued \$75,000,000 of senior secured notes payable to Marret Asset Management, Inc. ("Marret") and received \$72,750,000 in net proceeds, after a 3% discount. These senior secured notes are collateralized by substantially all assets of the Company and bear interest at an annual rate of 9.75%, payable in semi-annual payments. These senior secured notes mature in April 2015. The Company is required to maintain certain debt covenants, including certain restrictions on dividends, and has limitations on additional indebtedness.

The Company has certain early redemption options, in whole or in part, which would result in percentages ranging from 110% to 102% of the principal amount of the notes, based on the dates of the early redemption. If a change in control occurs, the Company will be required to offer to redeem the outstanding notes for a redemption price equal to 109.75% of the outstanding principal balance of the notes. In November 2010, in order to secure required consent of the note holders to acquire the membership units in a separate entity, the Company agreed to redeem \$10,000,000 of the principal amount of the notes outstanding pursuant to four separate redemptions in the amount of \$2,500,000 per month beginning in November 2010 at 110% of the principal amount, resulting in early redemption penalties totaling \$1,000,000. As at March 31, 2011, \$10,000,000 had been redeemed and \$1,000,000 in early redemption penalties were paid.

In consideration for the closing of the financing, the Company issued 3,000,000 common share purchase warrants to the note holders with an exercise price of Cdn\$4.20 expiring in December 2012. The value of these common share purchase warrants was estimated at the date of issuance to be \$976,915 and was recorded as a discount to the notes payable. Additionally, the Company paid \$2,915,336 of fees in connection with the financing, which have been capitalized as deferred financing costs.

On May 6, 2011 the \$75,000,000 of senior secured notes payable to Marret due in April 2015 were paid in full, see Note 21.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

11. Notes Payable (continued)

Equipment and Vehicle Notes Payable

As of March 31, 2011 and December 31, 2010 the Company had numerous equipment and vehicle notes totaling \$16,068,060 and \$13,218,501, respectively. These notes bear interest at fixed rates ranging from 4.16% to 9.60% and are due in various monthly payments through April 2014. All these notes are collateralized by the related equipment and vehicle purchased, and a certain note with an outstanding balance of \$863,437 at March 31, 2011 is personally guaranteed by a Company officer.

In accordance with the terms of the equipment and vehicle notes payable the Company is required to maintain restricted cash of \$400,000 as additional collateral.

12. Inventories

	March 31, 2011	December 31, 2010	January 1, 2010
Coal	\$ 5,230,040	\$ 9,522,476	\$ 1,772,871
Materials and supplies	104,802	137,854	-
Total inventories	<u>\$ 5,334,842</u>	<u>\$ 9,660,330</u>	<u>\$ 1,772,871</u>

13. Provisions

	<u>Asset Retirement Obligations</u>		<u>Asset Retirement Obligations</u>
At January 1, 2011	\$ 8,279,686	At January 1, 2010	\$ 5,666,937
Acquired liabilities	2,684,309	Acquired liabilities	-
Liabilities settled	(508,128)	Liabilities settled	(59,282)
Accretion Expense	60,073	Accretion Expense	33,227
At March 31, 2011	<u>\$ 10,515,940</u>	At March 31, 2010	<u>\$ 5,640,882</u>

14. Derivative Financial Liabilities

In December 2009 the Company issued 10,653,278 warrants at a price of Cdn\$4.20 per share, exercisable until December 10, 2011. The fair value of the warrants, measured using the Black-Scholes valuation model at March 31, 2011 was \$0.69 per warrant and at December 31, 2010 was \$0.30 per warrant. In April 2010 the Company issued 3,000,000 warrants for financing purposes at a price of Cdn\$4.20 per share, exercisable until December 31, 2012. The fair value of the warrants, measured using the Black-Scholes valuation model at March 31, 2011 was \$1.02 per warrant and at December 31, 2010 was \$0.54 per warrant.

As the warrants have an exercise price in Canadian dollars which is different to the functional currency of the Company (US dollars), the warrants issued with the TSX Shares are treated as a financial liability and the fair value movement during the period is recognized in the statement of operations.

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Notes to the Condensed Consolidated Interim Financial Statements (continued)
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15. Share Capital

a) Common Shares

An unlimited number of voting shares at no par value are authorized. As of March 31, 2011, that Company has issued and fully paid 38,010,356 voting common shares and as of December 31, 2010 37,125,825 voting common shares.

The holders of ordinary shares are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

b) Non-Voting Common Shares

An unlimited number of non-voting common shares at no par value are authorized.

The Company has 19,467,541 non-voting common shares with an allocated share capital amount of \$4,500,015. All remaining share capital transaction amount affect voting shares.

c) Activity in Ordinary Share Capital

	Number of Shares Voting and Non-Voting	Share Capital Amount
Balance at January 1, 2010	53,752,070	\$ 61,747,806
Issuances for services	573,145	1,481,044
Issuance of shares exercise of options	1,975,925	2,002,569
Issuance of shares exercise of warrants	292,226	397,320
Balance at December 31, 2010	<u>56,593,366</u>	<u>\$ 65,628,739</u>
Issuance of shares exercise of warrants	768,964	3,284,348
Issuance of shares exercise of options	115,567	167,875
Balance at March 31, 2011	<u><u>57,477,897</u></u>	<u><u>\$ 69,080,962</u></u>

Xinergy Ltd.
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15. Share Capital (continued)

Share Purchase Warrants

As at March 31, 2011, the Company had outstanding Warrants to purchase 9,884,314 common shares of the Company at a price of Cdn\$4.20 per share until December 10, 2011, and Warrants to purchase 3,000,000 common shares at a price of Cdn\$4.20 per share until December 31, 2012. In order to determine the valuation of its common stock purchase warrants, the Company used the Black-Scholes pricing model.

	Number of Warrants	Exercise Price	Expiry Date
Balance at January 1, 2010	12,629,203		
Exercised during first quarter 2010	(1,975,925)	\$0.96	
Issued for Marret note payable	<u>3,000,000</u>	Cdn\$4.20	December 2012
Balance at December 31, 2010	13,653,278		
Exercised during first quarter 2011	<u>(768,964)</u>	Cdn\$4.20	December 2012
Balance at March 31, 2011	<u><u>12,884,314</u></u>		

d) Nature and Purpose of Equity

The reserves recorded in equity on the Company's balance sheet include 'Share Capital', 'Share-based Payments', 'Warrants', 'Contributed Surplus' and 'Accumulated Deficit'.

'Share Capital' is used to recognize the value of equity-settled share based transactions.

'Share-based payments' is used to record the issuance of options.

'Warrants' is used to record the issuance of warrants.

'Contributed Surplus' is used to record the expiration or forfeiture of warrants or stock options.

'Accumulated Deficit' is used to record the Company's change in deficit from period to period.

16. Share Based Payment

a) Incentive Plan Details

The Company has an incentive Stock Incentive Plan under which, among other things, non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or service providers of the Company or any of its subsidiaries. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria. In accordance with these programs, options are exercisable at the market price of the shares at the grant date.

Under this Stock Incentive Plan options may have a term of up to ten years and are subject to vesting periods determined by the Board of Directors.

Xinergy Ltd.
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16. Share Based Payment (continued)

b) Options Issued During the Period

During 2010, the Company issued stock options pursuant to the Incentive Plan and (preexisting plans) as follows: in January 2010, options were granted to purchase 400,000 shares with an exercise price of \$3.10 per share and options were granted to purchase 120,000 common shares with an exercise price of \$3.62; in May 2010, options were granted to purchase 115,000 shares with an exercise price of \$2.71; in September 2010, options were granted to purchase 200,000 shares with an exercise price of \$1.65; in November 2010, options were granted to the three independent directors to purchase 150,000 shares with an exercise price of \$2.39, to the other officers to purchase 540,000 shares with an exercise price of \$2.39 and to employees to purchase 194,500 shares with an exercise price of \$2.39; in December 2010, options were granted to purchase 32,500 shares with an exercise price of \$2.56. The weighted average grant-date fair value of options granted during 2010 was \$1.60 per share.

Details of the stock options outstanding are as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2010	4,385,658	\$1.19
Granted	1,752,000	2.58
Forfeited	(11,736)	0.60
Exercised	<u>(292,226)</u>	0.71
Outstanding at December 31, 2010	5,833,696	1.63
Exercised	<u>(115,567)</u>	0.88
Outstanding at March 31, 2011	<u><u>5,718,129</u></u>	\$1.64

Of the stock options outstanding at March 31, 2011, 2,401,596 options expire in 2018, 1,564,533 options expire in 2019, 1,752,000 options expire in 2020. Details of the stock options exercisable at March 31, 2011 are as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
	3,850,530	\$1.79
	4,518	Cdn1.99
	<u><u>3,855,048</u></u>	<u><u>\$1.79</u></u>

Xinergy Ltd.
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16. Share-Based Payment (continued)

c) Fair Value of Options Issued During the Period

In order to determine the valuation of its common stock purchase warrants and common stock options, the Company used the Black-Scholes pricing model with the following weighted average assumptions:

Expected term (years)	2.00	–	10.00
Risk-free interest rates	0.37%	–	3.82%
Expected / weighted-average volatility	40.49%	–	58.47%

The risk-free interest rate is based on the U.S. Treasury rate for the expected life at the time of grant, volatility is based on the average long-term implied volatilities of peer companies as the Company's trading history is limited, and the expected term is determined using the simplified method.

d) Expenses Arising from Share-Based Payment Transactions

Total share-based compensation expense for the three months ended March 31, 2011 and 2010 was \$365,077 and \$933,496, respectively.

17. Related Party Transactions

The Ultimate Parent

Xinergy Ltd. is the ultimate parent entity.

Related Party Entities

The Company had no related party transactions, other than those disclosed below, for the three months ended March 31, 2011 and 2010.

Equity instrument disclosures related to key management personnel

a) Option Plan Details

Note 16, Share-Based Payment outlines the details of the Company's Stock Incentive Plan related to key management personnel.

b) Options Holdings

The number of options over ordinary shares in the company held during the financial period by all directors and key management personnel of the Company outstanding as of March 31, 2011 were 4,829,980. The options expire and vest at various times throughout 2018 and 2020.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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17. Related Party Transactions (continued)

c) Share Holdings

In January 2010, in connection with the Chief Financial Officer's employment agreement, the Company issued 100,000 restricted common shares, of which 50,000 shares became exercisable in December 2010 and 50,000 shares are exercisable in December 2011. These shares were valued at the trading price at the date of issuance.

Additionally, in January 2010, the Company issued an aggregate of 60,000 restricted common shares to its three independent Directors, which are exercisable in January 2011. These shares were valued at the trading price at the date of issuance.

18. Lease Commitments

The Company leases office space for their corporate office under an agreement classified as an operating lease. Minimum rental payments under the terms of the agreement, which expires in October 2012, total \$135,630 for 2011 and \$126,371 for 2012.

The Company also has various other equipment operating lease agreements under month-to-month operating leases.

19. Segmented Reporting

For management purposes, the Company is organized into business units based on mineral properties and has one reportable operating segment being that of producing mines segment undertakes day-to-day activities of obtaining saleable product from the minerals reserve on a commercial scale. It includes extraction and any processing before sale.

20. Income Taxes

The following table reconciles income taxes calculated at statutory rates with the income tax benefit presented in these financial statements:

	For the three months ended March 31,	
	2011	2010
Federal income taxes at U.S. statutory rate of 36%	\$(4,624,256)	\$(2,447,082)
Permanent differences	2,030,425	721,956
Income tax benefit	<u>\$(2,593,831)</u>	<u>\$(1,725,126)</u>

For tax purposes at March 31, 2011, the Company has United States net operating loss carryovers which are available to offset future taxable income, which expire between 2023 and 2031.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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21. Events After the Reporting Date

In May 2011 the Company issued \$200,000,000 in senior secured notes at 9.25%, due May 15, 2019. Interest payments are required semi-annually beginning November 2011. The Company may redeem the notes, in whole or in part, at any time on or after May 15, 2015 at redemption prices ranging from 104.625% beginning May 15, 2015 to 100% beginning on May 15, 2018. The Company used the net proceeds from the offering to repay its existing 9.75% senior secured notes due 2015, including prepayment penalties of 10% of the principal amount being repaid. The remaining funds will be used for the construction of a preparation plant, the purchase of underground mining equipment along with support equipment as well as necessary infrastructure development at the recently acquired Brier Creek underground mining property in West Virginia and the construction of a rail siding and loading facility and surface mining equipment at the recently acquired Greenbrier County West Virginia metallurgical property.

In May 2011 the Company entered into a non-binding letter of intent to acquire a currently active, high volatility metallurgical surface mining operation in southwestern Virginia. The Company will pay \$18,000,000 for the purchase which will consist of a \$200,000 non-refundable deposit that was paid upon execution of the letter of intent and an additional \$13,800,000 at the closing date, in addition to \$4,000,000 upon execution of certain leases and once the Company receives certain mining permits the Company will pay the remaining closing payment adjusted for net working capital. The Company is currently conducting due diligence on this property and expects to enter into a purchase agreement no later than June 30, 2011.

22. First Time Adoption of International Financial Reporting Standards

IFRS 1, *First Time Adoption of International Financial Reporting Standards*, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS. Prior to transition to IFRS, the Company prepared its financial statement in accordance with Canadian GAAP.

In preparing the Company's opening IFRS balance sheet, the Company has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with previous Canadian GAAP. The IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS are as follows:

Optional Exemptions:

Share-based payment transactions

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and that vest before the transition date. As a result of applying this exemption, the Company will apply the provision of IFRS 2 to all outstanding equity instruments that are unvested prior to the date of transition to IFRS.

Business combinations

The Company elected not to retrospectively apply IFRS 3, *Business Combinations*, to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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22. First Time Adoption of International Financial Reporting Standards (continued)

Asset retirement obligations

The Company elected not to retrospectively account for changes to the decommissioning, restoration or similar liability prior to the transition date. Instead the Company included in the depreciated cost of the asset an amount calculated by discounting the liability at the date of transition to IFRSs back to, and depreciating it from, when the liability was first incurred.

Borrowing costs

The Company has elected not to retrospectively capitalize borrowing costs incurred before the date of transition.

Mandatory Exceptions:

Estimates

The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result, the Company has not used hindsight to revise estimates.

Reconciliation of the Company's shareholders' equity and statements of operations as previously reported under Canadian GAAP to IFRS

IFRS 1 requires reconciliation of shareholders' equity, statements of operations and the statements of cash flows for the impact on prior periods. The adjustments made to the consolidated balance sheets and statements of operations as shown below have resulted in reclassifications of various amounts on the statements of cash flows, however there have been no material adjustments to the net cash flows, and therefore, no reconciliation of the statement of cash flows has been prepared.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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22. First Time Adoption of International Financial Reporting Standards (continued)

Shareholders' Equity	Explanation	December 31, 2010	March 31, 2010	January 1, 2010
As reported under Canadian GAAP		\$ 53,845,008	\$ 50,168,044	\$ 50,304,554
Adjustments:				
Change in discount rate on the ARO	(i) and (v)	256,177	537,171	555,930
Warrants reclassified as financial liabilities	(iii)	(4,868,764)	(7,552,266)	(5,563,043)
Change in depreciation	(iv) and (v)	(106,210)	109,286	-
As reported under IFRS		\$ 49,126,211	\$ 43,262,235	\$ 45,297,441

Statements of Operations	Explanation	For the year ended December 31, 2010	For the three months ended March 31, 2010
As reported under Canadian GAAP		\$ (2,915,181)	\$ (3,110,296)
Adjustments:			
Share-based payments	(ii)	(420,556)	(63,332)
Change in discount rate on the ARO	(i) and (v)	(512,174)	(18,759)
Change in fair value of derivative financial instruments	(iii)	1,671,194	(1,989,223)
Change in depreciation	(iv) and (v)	106,210	109,286
As reported under IFRS		\$ (2,070,507)	\$ (5,072,324)

Explanation for the adjustments

(i) Asset retirement obligation

Under Canadian GAAP, asset retirement obligations were previously measured utilizing market assumptions and discount rates based on the entity's credit-adjusted risk-free rate. Adjustments are made to the asset retirement obligations for changes in the timing or amount of the cash flows and accretion of the liability.

However, changes in discount rates do not result in a re-measurement of the provision. Changes in estimates that decrease the liability are discounted using the discount rate applied upon initial recognition of the liability while changes that increase the liability are discounted using the current discount rate.

IFRS requires decommissioning provisions to be measured based on management's best estimate of the expenditures that will be made and adjustments to the provision are made in each period for changes in the timing or amount of cash flow, changes in the discount rate, and the accretion of the liability. Furthermore, the estimated future cash flows should be discounted using the current rates.

As a result of this transition, the impact will increase shareholders' equity at January 1, 2010 by \$555,930, at March 31, 2010 by \$537,171 and at December 31, 2010 by \$256,177. The corresponding impact from accretion of the liability and depletion of the asset was \$18,759 for the three months ended March 31, 2010 and \$512,174 for the year ended December 31, 2010.

Xinergy Ltd.
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22. First Time Adoption of International Financial Reporting Standards (continued)

(ii) Share based payments

IFRS 2 is effective for the Company as at January 1, 2010 and is applicable to:

- New grants of stock-based payments subsequent to January 1, 2010;
- Equity-settled stock-based compensation awards granted subsequent to November 7, 2002 and that vest after January 1, 2010; and
- Awards that are modified on or after January 1, 2010, even if the original grant of the award was not accounted for in accordance with IFRS 2

Previous Canadian GAAP allows the Company to calculate the fair value of the stock-based compensation on all awards granted and recognizes the expense from the date of grant over the vesting period using the graded vesting methodology. The Company determines the fair value of stock options granted using the Black-Scholes option pricing model.

IFRS 2 requires each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

As a result share based payments was increased at January 1, 2010 by \$250,563 and at December 31, 2010 by \$420,556 with a corresponding decrease in retained earnings.

(iii) Warrants denominated in Canadian Dollars

Previously under Canadian GAAP, warrants denominated in Canadian Dollars are classified as equity, initially measured at fair value and subsequently not remeasured. Under IFRS warrants denominated in foreign currencies are classified as derivative financial liabilities. The fair value movement during the period is recognized in the statement of operations.

As a result, warrants will decrease at January 1, 2010 and March 31, 2010 by \$4,259,699 and at December 31, 2010 by \$5,236,614 and derivative financial liabilities will increase at January 1, 2010 by \$5,563,043, at March 31, 2010 by \$7,552,266, and at December 31, 2010 by \$4,868,746. The corresponding unrealized gain for the three months ended March 31, 2010 of \$1,989,223 and unrealized loss for the year ended December 31, 2010 of \$1,671,194 will be recognized in retained earnings and the statements of operations.

(iv) Componentization of PP&E

IFRS requires that the Company identify the different components of its PP&E and record depreciation based on the useful lives of each component. The Company has carried out a review and found that there will be material differences between the IFRS and the depreciation policy under CGAAP. As a result the depreciation expense has decreased under IFRS for the three months ended March 31, 2010 to \$109,286 and for the year ended December 31, 2010 to \$106,210 with a corresponding increase in accumulated depreciation also recorded.

(v) Deferred income taxes

As a result of the transition to IFRS the carrying amounts of various assets and liabilities have been adjusted, see (i) to (iv) above, there has not been a corresponding change to the tax basis of these assets and liabilities. As a result there was a decrease of \$281,927 to deferred taxes at January 1, 2010 a decrease of \$272,263 at March 31, 2010 and an increase of and an increase of \$206,258 at December 31, 2010 with corresponding adjustment retained earnings.