

Xinergy Ltd.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2011
(Unaudited)

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(Unaudited)

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

	September 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 94,440,510	\$ 17,028,862
Restricted cash, current portion (Note 16)	-	810,638
Coal supply agreement	3,825,358	12,641,728
Trade accounts receivable	10,871,795	6,026,365
Inventories (Note 8)	11,036,635	9,660,330
Other current assets	3,778,484	1,274,488
Total current assets	123,952,782	47,442,411
Noncurrent assets		
Deferred income taxes, less current portion	13,902,819	7,679,198
Restricted cash, less current portion (Note 16)	19,030,758	6,917,465
Recoupable royalties	814,226	1,221,400
Investments (Note 4)	-	7,750,000
Property, plant and equipment (Note 5)	66,481,348	46,114,216
Exploration and evaluation assets	4,407,178	2,983,000
Mineral properties (Note 6)	49,836,826	30,399,522
Deferred finance costs (Note 7)	6,529,198	2,605,815
Other noncurrent assets	567,456	120,550
Total assets	\$ 285,522,591	\$ 153,233,577

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)

	September 30, 2011	December 31, 2010
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 10,728,336	\$ 5,460,932
Accrued expenses	5,310,805	3,407,960
Accrued interest payable	7,450,685	1,256,147
Current portion of asset retirement obligation (Note 9)	428,357	428,357
Current portion of equipment, vehicle and other notes payable (Note 7)	7,308,846	7,736,702
Current portion of senior secured notes payable (Note 7)	-	5,000,000
Other current liabilities	4,099,855	500,000
Derivative financial liabilities (Note 10)	1,287,521	4,868,764
Total current liabilities	36,614,405	28,658,862
Noncurrent liabilities		
Asset retirement obligations, less current portion (Note 9)	12,558,656	7,851,329
Equipment, vehicle and other notes payable, less current portion (Note 7)	8,767,412	5,481,799
Senior secured notes payable, less current portion (Note 7)	198,000,000	62,115,376
Other noncurrent liabilities	819,019	-
Total liabilities	256,759,492	104,107,366
Shareholders' equity		
Share capital (Note 11)	51,922,580	65,628,739
Contributed surplus	70,668	2,936
Share based payments (Note 12)	5,421,311	4,486,210
Accumulated deficit	(28,651,460)	(20,991,674)
Net shareholders' equity	28,763,099	49,126,211
Total liabilities and shareholders' equity	\$ 285,522,591	\$ 153,233,577
Common shares		
Authorized	Unlimited	Unlimited
Issued and outstanding (Note 11)	54,235,075	56,593,366

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 Operations
(Expressed in U.S. Dollars)
(Unaudited)

	For the nine months ended		For the three months ended	
	September 30		September 30	
	2011	2010	2011	2010
Coal revenue	\$ 132,339,757	\$ 70,761,276	\$ 48,651,828	\$ 37,723,967
Cost of coal sales	97,548,007	49,673,354	32,526,806	23,478,501
Gross margin	34,791,750	21,087,922	16,125,022	14,245,466
General and administrative expenses	11,909,231	9,494,899	4,467,210	3,463,150
Amortization of above market coal supply agreement	8,816,370	5,753,757	2,397,581	3,353,493
Depreciation, depletion and amortization	20,064,983	11,632,921	7,440,036	4,769,090
Operating (loss) income	(5,998,834)	(5,793,655)	1,820,195	2,659,733
Other income (expense):				
Finance income	64,739	187,735	30,581	-
Finance cost (Note 7)	(23,067,391)	(3,494,481)	(5,264,997)	(2,052,510)
Unrealized gain on derivative financial instrument (Note 10)	3,581,243	3,658,674	6,962,325	2,061,112
Gain on business acquisition (Note 3)	1,164,648	4,669,105	1,164,648	-
Gain on sale of investment (Note 4)	11,025,505	-	-	-
Gain on sale of subsidiary	-	2,141,069	-	2,141,069
Other (expense) income	(286,227)	170,280	(94,814)	(22,999)
Net other (expense) income	(7,517,483)	7,332,382	2,797,743	2,126,672
(Loss) income before income taxes	(13,516,317)	1,538,727	4,617,938	4,786,405
Income tax benefit (expense)	5,856,531	(1,089,395)	790,997	(3,119,601)
Net (loss) income	\$ (7,659,786)	\$ 449,332	\$ 5,408,935	\$ 1,666,804
Weighted average number of basic shares outstanding	56,322,328	55,616,517	55,610,656	56,198,214
Net (loss) income per ordinary share, basic	\$ (0.14)	\$ 0.01	\$ 0.10	\$ 0.03
Weighted average number of diluted shares outstanding	56,322,328	57,895,070	57,050,325	58,465,235
Net (loss) income per ordinary share, diluted	\$ (0.14)	\$ 0.01	\$ 0.09	\$ 0.03

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 income	-	-	-	-	-	449,332	449,332
Issued share capital for services	215,177	638,269	-	-	-	-	638,269
Share based payment transactions	-	-	-	1,338,153	-	-	1,338,153
Options activity	292,226	397,320	-	(190,586)	-	-	206,734
Warrants exercised	1,975,925	2,002,569	-	-	(105,681)	-	1,896,888
Balance at September 30, 2010	56,235,398	\$ 64,785,964	\$ 2,936	\$ 3,509,753	\$ -	\$ (18,471,836)	\$ 49,826,817
Balance at January 1, 2011	56,593,366	\$ 65,628,739	\$ 2,936	\$ 4,486,210	\$ -	\$ (20,991,674)	\$ 49,126,211
Net loss	-	-	-	-	-	(7,659,786)	(7,659,786)
Share based payment transactions	-	-	-	1,098,865	-	-	1,098,865
Purchases pursuant to normal course issuer bid	(3,297,572)	(17,229,745)	-	-	-	-	(17,229,745)
Options activity	170,317	239,238	67,732	(163,764)	-	-	143,206
Warrants exercised	768,964	3,284,348	-	-	-	-	3,284,348
Balance at September 30, 2011	54,235,075	\$ 51,922,580	\$ 70,668	\$ 5,421,311	\$ -	\$ (28,651,460)	\$ 28,763,099

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 nine months ended September 30	
	2011	2010
Operating activities		
Net (loss) income	\$ (7,659,786)	\$ 449,332
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	20,064,983	11,632,921
Gain on equipment sale	-	(125,693)
Amortization of above market coal supply agreement	8,816,370	5,753,757
Gain on sale of subsidiary	-	(2,141,069)
Share based payments	1,098,865	1,338,153
Issue of common shares for services rendered	-	638,269
Unrealized gain on derivative financial instrument	(3,581,243)	(3,658,674)
Gain on sale of investment	(11,025,505)	-
Write-off of financing costs	5,221,586	-
Gain on debt retirement	(360,000)	-
Gain on business acquisition	(1,164,648)	(4,669,105)
Early redemption penalties	6,500,000	-
Amortization of discount on notes payable	176,589	212,366
Amortization of deferred finance costs	335,910	192,390
Accretion of asset retirement obligations	330,644	117,077
Deferred income tax (benefit) expense	(5,856,557)	874,335
Changes in operating assets and liabilities:		
Trade accounts receivable	(4,845,430)	(6,942,667)
Inventories	(1,308,380)	(915,280)
Other current assets	(1,797,964)	(1,869,676)
Recoupable royalties	549,346	188,060
Other noncurrent assets	(421,934)	131,199
Accounts payable	3,627,404	3,820,839
Accrued expenses	1,902,844	1,062,165
Other current liabilities	(499,996)	-
Accrued interest payable	6,194,538	3,125,343
Net cash flows provided by operating activities	16,297,636	9,214,042

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

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

	For the nine months ended September 30	
	2011	2010
Investing activities		
Purchases of property, plant, and equipment	(30,006,189)	(13,106,015)
Acquisition of Raven Crest	-	(42,477,878)
Acquisition of South Fork	(1,700,000)	-
Acquisition of True Energy	(16,800,000)	-
Deposit on equipment	-	(141,048)
Proceeds from sale of equipment	244,145	185,000
Proceeds from sale of subsidiary	-	3,124,500
Proceeds from sale of investment	17,702,410	-
Expenditures on exploration and evaluation assets	(2,204,200)	(207,112)
Change in restricted cash	(11,014,655)	1,831,556
Net cash used in investing activities	(43,778,489)	(50,790,997)
Financing activities		
Proceeds from exercise of options and warrants	3,427,554	2,103,622
Proceeds from issuance of equipment notes payable	11,898,240	6,539,451
Proceeds from issuance of senior secured notes payable	200,000,000	72,750,000
Payments for deferred financing costs	(6,772,844)	(2,918,336)
Repayments of senior secured notes payable	(70,000,000)	-
Payment for early redemption penalty	(6,500,000)	-
Repayment on Raven Crest notes payable	-	(17,908,600)
Purchases pursuant to normal course issuer bid	(17,229,745)	-
Repayments of equipment and vehicle notes payable	(9,930,704)	(2,863,637)
Net cash provided by financing activities	104,892,501	57,702,500
Net increase in cash	77,411,648	16,125,545
Cash and cash equivalents , beginning of period	17,028,862	10,192,766
Cash and cash equivalents , end of the period	\$ 94,440,510	\$ 26,318,311

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 and nine months ended September 30, 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, Virginia 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 and nine months ended September 30, 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 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. The same accounting policies and methods of computation are followed in these condensed consolidated interim financial statements as compared to the first quarter condensed interim consolidated financial statements for the three months ended March 31, 2011, where such policies were disclosed.

An explanation of how the transition to International Financial Reporting Standards ("IFRS") has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 17. This note includes reconciliations of shareholders' equity and net income (loss) for comparative periods under Canadian generally accepted accounting principles ("Canadian GAAP") to those reported for those periods under IFRS.

Certain amounts in the prior period condensed consolidated interim financial statements have been reclassified to conform to the current year presentation.

The condensed consolidated interim financial statements were authorized for issue by members of the Audit Committee on October 19, 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. Acquisitions

On July 26, 2011, the Company acquired 100% of the membership interest of True Energy, LLC an active high volatility metallurgical surface mining operation in southwestern Virginia, Strata Fuels, LLC, Wise Loading Services, LLC and High Maf, LLC. The aggregate purchase price was \$20,148,808 consisting of \$16,800,000 in cash, a \$1,600,000 note payable to the former members and an additional \$2,000,000 that will be due upon the issuance of a pending surface mining permit less the estimated working capital adjustment of \$251,192.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three and nine months ended September 30, 2011
(Unaudited)

3. Acquisitions (continued)

The following table summarizes the consideration paid and the estimated fair value of the assets acquired and liabilities assumed at the acquisition date:

Consideration:

Cash	\$ 16,800,000
Working capital adjustment	(251,192)
Note payable to former members assumed	1,600,000
Due upon issuance of pending permit	2,000,000
Fair value of total consideration	<u>\$ 20,148,808</u>

Recognized amounts of identifiable assets acquired and liabilities assumed:

Total current assets	\$ 67,925
Property, plant and equipment	7,037,628
Mineral properties	16,393,360
Restricted cash	288,000
Recoupable royalties	142,172
Asset retirement obligations	(2,615,629)
Total identifiable net assets assumed	<u>21,313,456</u>
Gain on acquisition	<u>\$ 1,164,648</u>

The fair value of the acquired mineral properties for True Energy, LLC were determined by applying the income approach. The mineral properties are to be depleted as they are extracted, which is estimated to be over a period of 11 years.

The Company recognized \$201,340 of acquisition related expenses that were expensed during the three month period ended September 30, 2011 and included in the condensed consolidated interim statement of operations in general and administrative expenses.

The acquisition increased revenues by \$2,171,713 during the three month ended period September 30, 2011. The acquisition is not material to the Company's results of operations, therefore, pro forma information has not been presented.

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 interim 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, including reclamation obligations of \$2,269,182. Mines under construction are not amortized until construction is completed.

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

3. Acquisitions (continued)

The Company previously purchased 100% of the membership interest in a company that owned a 5% interest in Raven Crest Mining, LLC (“Raven Crest”). On April 28, 2010, the Company completed the acquisition of the remaining 95% membership interest in Raven Crest. The operations of Raven Crest are included in the accompanying condensed consolidated interim financial statements beginning April 28, 2010.

The following represents the pro forma consolidated statements of operations as if Raven Crest had been included in the consolidated results of the Company for the nine months ended September 30:

	<u>2010</u>
Revenue	\$88,043,395
Net loss	3,978,585

The pro forma amounts have been calculated after applying the Company’s accounting policies and adjusting the results of Raven Crest to reflect the fair value adjustments for (i) depreciation and amortization related to plant and equipment, (ii) the amortization of the coal supply agreement and mineral rights, (iii) the change in accretion expense, (iv) additional interest expense related to the financing, net of historical interest expense related to the assumed debt that was repaid at closing, (v) additional interest income from the net proceeds of the financing, (vi) elimination of the effect of a change in a Raven Crest accounting principle in 2010 that will not have a continuing effect on the results of operations, (vii) elimination of the non-recurring transaction expenses included in the Company’s historical financial statements and (viii) income tax adjustments. These adjustments assume that this acquisition and the related financing occurred on January 1 of the period presented.

4. 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 did not have control of the entity. During June 2011, the Company sold its 1,852,367 membership units and received \$17,922,410 in proceeds and incurred \$220,000 in fees. In addition, \$1,073,095 was set aside in escrow to cover indemnification claims and related fees and expenses which, if not exhausted, will result in additional gross proceeds which have been accrued in other current assets at September 30, 2011. As a result, the Company recognized a gain on the sale of the investment of \$11,025,505 in its condensed consolidated interim statements of operations for the nine months ended September 30, 2011.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three and nine months ended September 30, 2011
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5. Property, Plant and Equipment

	Land and Land Improvements	Plant and Improvements	Mining Equipment	Autos and Trucks	Other Equipment	Total
Cost						
Balance as at December 31, 2010	3,754,052	6,373,657	61,860,751	2,121,482	568,908	74,678,850
Additions	5,050,223	197,610	28,699,468	950,737	4,300,419	39,198,457
Disposals	(87,000)	(9,871)	(2,377,232)	(73,113)	-	(2,547,216)
Balance as at September 30, 2011	\$ 8,717,275	\$ 6,561,396	\$ 88,182,987	\$ 2,999,106	\$ 4,869,327	\$ 111,330,091
Accumulated depreciation						
Balance as at December 31, 2010	1,746,141	2,000,765	23,735,200	947,525	135,002	28,564,633
Depreciation	728,270	594,982	16,141,253	479,126	33,203	17,976,834
Disposals	-	-	(1,666,188)	(26,536)	-	(1,692,724)
Balance as at September 30, 2011	\$ 2,474,411	\$ 2,595,747	\$ 38,210,265	\$ 1,400,115	\$ 168,205	\$ 44,848,743
Carrying amounts						
As at December 31, 2010	\$ 2,007,911	\$ 4,372,892	\$ 38,125,550	\$ 1,173,957	\$ 433,906	\$ 46,114,216
As at September 30, 2011	\$ 6,242,864	\$ 3,965,649	\$ 49,972,721	\$ 1,598,991	\$ 4,701,122	\$ 66,481,348

6. Mineral Properties

	Mines under construction	Producing mines	Total
Cost			
Balance as at December 31, 2010	\$ -	\$ 33,250,026	\$ 33,250,026
Additions	21,763,424	-	21,763,424
Balance as at September 30, 2011	\$ 21,763,424	\$ 33,250,026	\$ 55,013,450
Accumulated depletion			
Balance as at December 31, 2010	\$ -	\$ 2,850,504	\$ 2,850,504
Depletion	-	2,326,120	2,326,120
Balance as at September 30, 2011	\$ -	\$ 5,176,624	\$ 5,176,624
Carrying amounts			
At December 31, 2010	\$ -	\$ 30,399,522	\$ 30,399,522
At September 30, 2011	\$ 21,763,424	\$ 28,073,402	\$ 49,836,826

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
For the three and nine months ended September 30, 2011
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7. Notes Payable

	September 30, 2011	December 31, 2010
Senior secured notes payable, net	\$ 198,000,000	\$ 67,115,376
Equipment, vehicles and other notes payable	16,076,258	13,218,501
	214,076,258	80,333,877
Less current portion of notes payable	7,308,846	12,736,702
Non-current portion of notes payable	\$ 206,767,412	\$ 67,597,175

Senior Secured Notes Payable

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 in 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 previous 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 (i) the construction of a preparation plant, the purchase of underground mining equipment along with support equipment as well as necessary infrastructure development at Brier Creek underground mining property in West Virginia, (ii) the construction of a rail siding and loading facility and surface mining equipment at the recently acquired Greenbrier County West Virginia metallurgical property (iii) the acquisition of True Energy, LLC and (iv) general corporate purposes.

The Company paid \$6,772,844 of fees in connection with the financing, which were capitalized as deferred financing costs. In addition, the Company incurred \$6,500,000 in prepayment penalties on its senior secured notes due 2015 and incurred costs of \$2,447,448 to write off deferred financing costs and \$2,708,035 to write-off the unamortized original issuance discount associated with its senior secured notes due 2015.

During September 2011, the Company acquired and retired \$2,000,000 of its senior secured notes payable, and as a result, recognized a gain of \$360,000 on the retirement of its debt which was offset by \$66,103 to write off deferred financing costs.

Equipment, Vehicle and Other Notes Payable

As of September 30, 2011 and December 31, 2010 the Company had numerous equipment, vehicle and other notes totaling \$16,076,258 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 July 2016. All of the equipment and vehicle notes are collateralized by the related equipment and vehicle purchased.

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

8. Inventories

	September 30, 2011	December 31, 2010
Coal	\$ 10,917,201	\$ 9,522,476
Materials and supplies	119,434	137,854
Total inventories	\$ 11,036,635	\$ 9,660,330

9. Provisions

	Asset Retirement Obligations	
As at December 31, 2010	\$	8,279,686
Acquired liabilities		4,884,811
Liabilities settled		(508,128)
Accretion expense		330,644
As at September 30, 2011	\$	12,987,013

10. Derivative Financial Liabilities

In December 2009 the Company issued 10,653,278 common share purchase warrants at a price of Cdn\$4.20 per share, exercisable until December 2011. The fair value of the warrants, measured using the Black-Scholes valuation model at September 30, 2011 was \$0.08 per warrant and at December 31, 2010 was \$0.30 per warrant. In April 2010 the Company issued 3,000,000 common share purchase warrants for financing purposes at a price of Cdn\$4.20 per share, exercisable until December 2012. The fair value of the warrants, measured using the Black-Scholes valuation model at September 30, 2011 was \$0.20 per warrant and at December 31, 2010 was \$0.54 per warrant. During July 2011, pursuant to the Company's normal course issuer bid, the Company purchased and cancelled 945,516 warrants that were exercisable until December 2011 for Cdn\$929,896.

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 common shares are treated as a financial liability and the fair value movement during the period is recognized in the condensed consolidated interim statement of operations.

11. Share Capital

a) Common Shares

An unlimited number of common shares at no par value are authorized. The Company has issued and outstanding fully paid 39,767,534 and 37,125,825 common shares as of September 30, 2011 and December 31, 2010 respectively. In May 2011, 5,000,000 common non-voting shares were converted to voting common shares.

The holders of common 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.

Xinergy Ltd.
Notes to the Condensed Consolidated Interim Financial Statements (continued)
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11. Share Capital (continued)

On June 24, 2011, the Board of Directors authorized the Company to purchase up to \$17,600,000 of its securities in the open market pursuant to a normal course issuer bid, which has been completed. All common shares and warrants purchased under this bid will be cancelled. During July 2011, the Company purchased and cancelled 3,297,572 common shares for Cdn\$15,799,919 and purchased and cancelled 945,516 of the warrants that were exercisable until December 10, 2011 for Cdn\$929,896.

b) Non-Voting Common Shares

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

The Company has issued and outstanding 14,467,541 common non-voting shares as of September 30, 2011 with an allocated share capital amount of \$13,888,839. The common non-voting shares are divided into Series A, Series B and Series C common non-voting shares. The common non-voting shares are convertible into common shares on the basis of one common share for one common non-voting share at the option of the holder without the payment of additional consideration. In May 2011, 5,000,000 common non-voting shares were converted to common shares. On June 21, 2011 all common non-voting shares became available to convert to common shares.

c) Activity in Share Capital

	Number of Shares Voting and Non-Voting	Share Capital Amount
Balance at December 31, 2010	56,593,366	\$ 65,628,739
Issuance of shares for exercise of warrants	768,964	3,284,348
Issuance of shares for exercise of options	170,317	239,238
Purchases pursuant to normal course issuer bid	(3,297,572)	(17,229,745)
Balance at September 30, 2011	<u>54,235,075</u>	<u>\$ 51,922,580</u>

Share Purchase Warrants

As at September 30, 2011, the Company had outstanding common share purchase warrants to purchase 8,938,798 common shares of the Company at a price of Cdn\$4.20 per share until December 10, 2011, and common share purchase 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 share 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		
Purchased pursuant to normal course issuer bid	(945,516)	Cdn\$4.20	December 2011
Exercised during 2011	<u>(768,964)</u>	Cdn\$4.20	December 2011
Balance at September 30, 2011	<u>11,938,798</u>		

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11. Share Capital (continued)

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.

12. Share Based Payments

a) Incentive Plan Details

The Company has a 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.

b) Options Issued During the Period

During 2010, the Company issued stock options pursuant to the Stock Incentive Plan (and pre-existing plans) as follows: in January 2010, options were granted to purchase 400,000 common 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 per share; in May 2010, options were granted to purchase 115,000 common shares with an exercise price of \$2.71 per share; in September 2010, options were granted to purchase 200,000 common shares with an exercise price of \$1.65 per share; in November 2010, options were granted to the three independent directors to purchase 150,000 common shares with an exercise price of \$2.39 per share, to the other officers to purchase 540,000 common shares with an exercise price of \$2.39 per share and to employees to purchase 194,500 common shares with an exercise price of \$2.39 per share; in December 2010, options were granted to purchase 32,500 common shares with an exercise price of \$2.56 per share. The weighted average grant-date fair value of options granted during 2010 was \$2.58 per share.

During June 2011, the Company issued 100,000 stock options to the Company's Vice-Chairman in connection with entering into an employment agreement and 50,000 stock options to the Vice President of Mining Operations, South pursuant to its Stock Incentive Plan with an exercise price of \$4.21 per share. The grant-date fair value of options granted during June 2011 was \$2.32 per share.

During August 2011, the Company issued 40,000 stock options to its newly appointed independent director with an exercise price of \$3.63 per share. The grant-date fair value of options granted during August 2011 was \$1.97 per share.

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12. Share-Based Payments (continued)

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
Granted	190,000	4.09
Forfeited	(123,481)	1.81
Exercised	<u>(170,317)</u>	0.84
Outstanding at September 30, 2011	<u>5,729,898</u>	\$1.76

Of the stock options outstanding at September 30, 2011, 2,316,865 options expire in 2018, 1,555,408 options expire in 2019, 1,667,625 options expire in 2020 and 190,000 options expire in 2021. Details of the stock options exercisable at September 30, 2011 are as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
	3,797,129	\$1.79
	4,518	Cdn1.99
	<u>3,801,647</u>	<u>\$1.79</u>

c) Fair Value of Options Issued During the Period

In order to determine the valuation of its common share purchase warrants and common share 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	0.32%	–	3.82%
Expected / weighted-average volatility	40.49%	–	65.93%

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 and nine months ended September 30, 2011 was \$392,988 and \$1,098,865, respectively, and for the three and nine months ended September 30, 2010 was \$461,406 and on \$1,338,153, respectively.

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13. 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 and nine months ended September 30, 2011 and 2010.

Equity instrument disclosures related to key management personnel

a) Option Plan Details

Note 12, Share-Based Payments, outlines the details of the Company's Stock Incentive Plan related to key management personnel.

b) Options Holdings

The number of options over common shares in the Company held during the financial period by all directors and key management personnel of the Company outstanding as of September 30, 2011 were 5,019,980. The options expire and vest at various times throughout 2018 and 2020.

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 common shares became exercisable in December 2010 and 50,000 common shares are exercisable in December 2011. These common 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 common shares were valued at the trading price at the date of issuance.

In September 2010, in connection with the Chief Executive Officer's compensation arrangement, the Company issued 30,177 restricted common shares, all of which were immediately exercisable. These common shares were valued at the average of the five day trading price immediately preceding the date of issuance.

14. Segment Information

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. This 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.

The Company's three largest customers individually accounted for approximately 40%, 23% and 12% of the Company's revenues during the nine months ended September 30, 2011, and approximately 58%, 20%, and 10% of the Company's revenues during the nine months ended September 30, 2010.

Two customers accounted for approximately 40% and 23% of trade accounts receivable at September 30, 2011 and two customers accounted for approximately 49% and 15% of trade accounts receivable at December 31, 2010.

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15. Income Taxes

For tax purposes as of September 30, 2011, the Company has net operating loss (“NOL”) carryovers available to offset future taxable income. These NOL carryovers expire as follows:

Year Generated	Federal		State	
	Year of Expiration	Amount	Year of Expiration	Amount
2008	2028	\$ 14,846,707	2023	\$ 4,126,834
2009	2029	12,521,861	2024	13,183,098
2010	2030	2,071,415	2025	7,368,761
2011	2031	5,850,995	2026	5,850,995
		\$35,290,978		\$ 30,529,688

16. Restricted Cash

The Company is required in connection with certain equipment and vehicle notes payable to maintain restricted cash and by surety agencies as collateral in order to issue necessary reclamation bonds as required by authoritative agencies for various permitting to allow mining and to ensure the completion of future reclamation. As of September 30, 2011 and December 31, 2010, the Company had restricted cash deposits in the amount of \$19,030,758 and \$7,728,103 respectively, of which \$12,000,000 was required collateral on a coal supply agreement entered into during August 2011.

17. 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.

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17. First Time Adoption of International Financial Reporting Standards (continued)

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.

Shareholders' Equity	Explanation	September 30, 2010	
As reported under Canadian GAAP		\$ 52,116,759	
Adjustments:			
Change in discount rate on the ARO	(i) and (v)	441,004	
Warrants reclassified as financial liabilities	(iii)	(2,881,284)	
Change in depreciation	(iv) and (v)	150,338	
As reported under IFRS		\$ 49,826,817	

Net income (loss)	Explanation	For the nine months ended September 30, 2010	For the three months ended September 30, 2010
As reported under Canadian GAAP		\$ (2,943,272)	\$ (249,950)
Adjustments:			
Share-based payments	(ii)	(301,482)	(119,075)
Change in discount rate on the ARO	(i) and (v)	(114,926)	(61,459)
Change in fair value of derivative financial instruments	(iii)	3,658,674	2,061,112
Change in depreciation	(iv) and (v)	150,338	36,176
As reported under IFRS		\$ 449,332	\$ 1,666,804

Explanation for the adjustments

(i) Asset retirement obligations

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.

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17. First Time Adoption of International Financial Reporting Standards (continued)

As a result of this transition, the impact will increase shareholders' equity, net of tax, at September 30, 2010 by \$441,004. The corresponding impact from accretion of the liability and depletion of the asset for the three and nine months ended September 30, 2010 was \$61,459 and \$114,926, respectively.

(ii) Share based payments

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

- New grants of share-based payments subsequent to January 1, 2010;
- Equity-settled share-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 share-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 to be 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 for the three and nine months ended September 30, 2010 by \$119,075 and \$301,482, respectively, with a corresponding decrease in accumulated deficit.

(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 decreased at September 30, 2010 by \$5,236,614 and derivative financial liabilities increased at September 30, 2010 by \$2,881,284. The corresponding unrealized gain for the three and nine months ended September 30, 2010 was \$2,061,112 and \$3,658,674, respectively.

(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 determined there are material differences between IFRS and the depreciation policy under Canadian GAAP. As a result, the depreciation expense, net of tax, has decreased under IFRS for the three and six months ended September 30, 2010 by \$36,176 and \$150,338, respectively.

(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) and there has not been a corresponding change to the tax basis of these assets and liabilities. As a result there was a decrease of \$314,204 to deferred taxes at September 30, 2010 with corresponding adjustment retained earnings.