



(Formerly Lysander Minerals Corporation)

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended DECEMBER 31, 2010



Independent Auditor's Report

To the Shareholders of EastCoal Inc.

We have audited the accompanying consolidated financial statements of EastCoal Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of loss, comprehensive loss and deficit and the consolidated statements of cash flows for the years then ended, and the related notes including the significant accounting policies.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

May 2, 2011
Vancouver, British Columbia



(Formerly Lysander Minerals Corporation)

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2010 AND 2009

	December 31, 2010	December 31, 2009
ASSETS		
Current		
Cash and cash equivalents	\$ 812,361	\$ 1,536,509
Short term investments (Note 3)	8,100,000	-
Accounts receivable	47,057	66,812
Prepaid expenses	180,600	29,346
Total current assets	9,140,018	1,632,667
Verticalnaya Coal Mine (Note 5)	23,597,787	19,363,990
Mineral properties and deferred exploration costs (Note 5)	-	1,145,121
Equipment (Note 6)	2,031	2,849
Reclamation bond (Note 7)	9,500	9,500
TOTAL ASSETS	\$ 32,749,336	\$ 22,154,127
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 461,290	\$ 475,384
	461,290	475,384
Asset retirement obligations (Note 12)	136,235	-
Convertible debenture (Note 4)	2,124,508	1,730,663
Future income taxes (Note 13)	4,576,835	4,271,383
	7,298,868	6,477,430
Shareholders' equity		
Share capital (Note 8)	32,883,766	24,535,400
Contributed surplus (Note 8)	7,318,720	3,911,755
Deficit	(14,752,018)	(12,770,458)
Total shareholders' equity	25,450,468	15,676,697
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 32,749,336	\$ 22,154,127

Subsequent events (Note 15)

On behalf of the Board:

"John Byrne"

Director

"John Newton"

Director

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



(Formerly Lysander Minerals Corporation)

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

<i>For the year ended December 31</i>	2010	2009
EXPENSES		
Amortization	818	1,155
Consulting fees	152,796	63,000
Directors' fees	90,000	70,000
Shareholders' meetings, promotion and marketing	51,022	36,004
Office and miscellaneous	81,318	30,817
Foreign exchange (gain)/loss	(104,843)	702
Professional fees	183,262	102,326
Property investigation costs	1,589	-
Transfer agent and regulatory fees	43,289	42,025
Stock-based compensation (Note 8)	419,196	573,525
	(918,447)	(919,554)
OTHER INCOME (EXPENSE)		
Interest income	33,810	3,781
Write-down of mineral property costs (Note 5)	(1,096,923)	(100,299)
	(1,063,113)	(96,518)
Net loss and comprehensive loss for the year	(1,981,560)	(1,016,072)
Deficit, beginning of year	(12,770,458)	(11,754,386)
Deficit, end of year	\$ (14,752,018)	\$ (12,770,458)
Net loss per common share		
Basic	\$ (0.02)	\$ (0.03)
Diluted	\$ (0.02)	\$ (0.03)
Weighted average number of common shares outstanding	83,035,903	32,321,134

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



(Formerly Lysander Minerals Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Audited)

<i>For the year ended December 31</i>	2010	2009
OPERATING ACTIVITIES		
Loss for the year	\$ (1,981,560)	\$ (1,016,072)
Add items not affecting cash		
Amortization	818	1,155
Stock-based compensation	419,196	573,525
Write-down of mineral properties and deferred exploration costs	1,096,923	100,299
	(464,623)	(341,093)
Changes in non-cash working balances related to operations		
Accounts receivable	19,755	(34,301)
Prepaid expenses	(151,254)	(12,812)
Accounts payable and accrued liabilities	35,059	319,824
Cash used in operating activities	(561,063)	(68,382)
INVESTING ACTIVITIES		
Acquisition of Verticalnaya Coal Mine and deferred costs	(3,429,485)	(2,334,530)
Acquisition of mineral properties and deferred exploration recovery (costs)	48,197	(84,727)
Short term investment	(8,100,000)	560,000
Cash used in investing activities	(11,481,288)	(1,859,257)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	11,318,203	3,445,250
Cash and cash equivalents provided by financing activities	11,318,203	3,445,250
Net (decrease) increase in cash during the year	(724,148)	1,517,611
Cash and cash equivalents, beginning of year	1,536,509	18,898
Cash and cash equivalents, end of year	\$ 812,361	\$ 1,536,509
Supplemental cash flow information -		
Non-cash financing and investing activities:		
Acquisition of Ukraine Energy Ltd and East Coal Company	-	16,796,778
Stock-based compensation included in deferred exploration costs	17,932	8,966
Mine/deferred costs included in accounts payable	(49,153)	123,906
Deferred exploration costs included in accounts payable	-	(69,740)
Accretion expense on convertible debenture	12,385	-

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



(Formerly Lysander Minerals Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

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

The Company is focused on the Verticalnaya Mine, an advanced coal project located in the Donbass Region of Ukraine. Recovery of the carrying value of the Verticalnaya Mine depends on the ability of the Company to obtain financing necessary for its development and the attainment of profitable production, or its profitable disposition. Recovery of the carrying value of the investment in exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration and development and the attainment of future profitable production or the disposition of these assets for proceeds in excess of their carrying values.

As at December 31, 2010, the Company has no source of operating cash flows, has not yet achieved profitable operations and has accumulated losses since its inception. At December 31, 2010 the Company has cash and short term investments of \$8,912,361 and subsequent to year-end raised additional cash of \$10,703,235 through the exercise of warrants and options (Note 15). However, these funds are not expected to be sufficient to fully fund expenditures required to bring the Verticalnaya Coal Mine into production (Note 5).

The Company intends to raise additional funds through the exercise of outstanding warrants (Note 8) and/or through additional financings which may include establishing lines of credit with banks or potential customers, introducing joint-venture partners or issuing new share capital. However, there can be no assurance that it will be successful in these efforts on terms that will be favorable to the Company. In such case, it may be necessary to defer or curtail certain development or other operating activities.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the following significant accounting policies:

Basis of Presentation

These consolidated financial statements have been prepared according to Canadian generally accepted accounting principles (“GAAP”) as issued by the Canadian Institute of Chartered Accountants (“CICA”). All financial figures are presented in Canadian dollars unless otherwise stated.

Principles of Consolidation

The consolidated financial statements at December 31, 2010 include the accounts of the Company and its subsidiaries Ukraine Energy Ltd. and East Coal Company Limited, incorporated in Ukraine. All intercompany accounts and transactions and balances have been eliminated on consolidation.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd...)

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amount of revenues and expenses reported during the period. Significant areas requiring the use of management estimates relate to determination of net recoverable value of long-lived investments, particularly as it relates to mineral interests, determination of stock-based compensation and the variables applied in the Black-Scholes model, asset retirement obligations and future income taxes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and have an initial maturity of less than 90 days, and are subject to an insignificant risk of change in value.

Short term investments

Short term investments, which consist of investments in Guaranteed Investment Contracts ("GIC's") are investments with maturities of more than three months and less than one year when purchased.

Mine, mineral properties and deferred exploration costs

The Company records its interests in its mine, mineral properties and areas of geological interest at cost less option payments received and other recoveries. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be an impairment. These costs will be amortized over the proven reserves available on the related property following commencement of commercial production. The amounts shown for mineral properties represent costs incurred to date and are not intended to reflect present or future values. All expenses, including interest arising from the Company's mine project are capitalized.

Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in material future write-downs of capitalized property carrying values.

In March 2009, the CICA issued EIC Abstract 174 – Mining Exploration Costs ("EIC-174") which supersedes EIC Abstract 126 – Accounting by Mining Enterprises for Exploration Costs ("EIC-126"), to provide additional guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs is required. Adoption of this standard has not significantly impacted the Company's financial statements.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd...)

Equipment

Equipment is recorded at cost less accumulated amortization and is amortized over the estimated useful life of the related assets at the following rates:

Computer equipment	30% per annum, declining balance
Office furniture	20% per annum, declining balance

Other income

Interest from cash and cash equivalents is recorded on an accrual basis, when collection is reasonably assured.

Loss per share

The calculation of the loss per share is based on net loss divided by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share reflects the assumed conversion of all dilutive securities using the treasury stock method. For the periods presented, the calculation of loss per share on a fully diluted basis excluded all potential common shares because the effect was anti-dilutive.

Income taxes

Income taxes are accounted for using the asset and liability method of tax allocation. Under this method, future tax assets and liabilities are determined based on the temporary differences between the financial reporting bases and the income tax bases of assets and liabilities are recorded using substantively enacted tax rates anticipated to be in effect when the corresponding taxes will be paid or refunded. A valuation allowance is provided to the extent that it is more likely than not that future tax assets will not be realized.

Stock-based compensation

Compensatory stock based transactions with directors, officers, employees and consultants are recorded at estimated fair value. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at measurement date. Transactions are charged to operations, with an offsetting credit to contributed surplus. Under the fair value method, compensation cost is measured at fair value at the date of grant using the Black-Scholes option pricing model with assumptions described in Note 8. The compensation cost is expensed over the vesting period with a corresponding credit to contributed surplus. Consideration paid on the exercise of stock options plus the amount of previously recognized expense is credited to share capital when the options are exercised.

Translation of Foreign Currencies

The operations of the Company's subsidiaries are determined to be of an integrated nature. Foreign functional currency transactions and balances are translated into the Canadian dollar reporting currency using the temporal method as follows:

- a) Monetary items are translated at the rates prevailing at the balance sheet date;
- b) Non-monetary items are translated at historical rates;
- c) Revenues and expenses are translated at the average rates in effect during applicable accounting periods, except amortization, which is translated at historical rates;
- d) Gains and losses on foreign currency translation are reflected in the consolidated statements of loss and deficit.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd...)

Financial instruments

Financial instruments include cash and cash equivalents, short term investments, accounts receivable, reclamation bond, accounts payable and accrued liabilities, amounts due to related parties and convertible debentures. Unless otherwise stated, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. Unless otherwise stated, the book value of the Company's financial assets and liabilities approximates their fair value.

Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading, financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

The Company designates its cash and short term investments as held-for-trading, which are measured at fair value. Accounts payable and accrued liabilities, due to related parties and convertible debentures are classified as other financial liabilities.

The Company had no "other comprehensive income or loss" transactions during the year ended December 31, 2010 and no opening or closing balances for accumulated other comprehensive income or loss.

Capital Disclosures

Section 1535 of the CICA Handbook specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Long-Lived Assets

The Company follows the recommendations in CICA Handbook Section 3063 – "*Impairment of Long-Lived Assets*" and the CICA's Emerging Issues Committee ("EIC") emerging extract EIC-126 – "*Accounting by Mining Enterprises for Exploration Costs*". Section 3063 requires that the Company review long-lived assets, including mineral properties, for impairment. Long-lived assets are assessed for impairment when events and circumstances warrant an assessment. EIC-126 consensus is that a mining enterprise in the development stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the mining enterprise. Mineral properties in the exploration stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist.

However, a mining enterprise is required to consider the conditions in Section 3063 for impairment write-down. The conditions include significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition, management's development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired, capitalized costs are written down to the estimated recoverable amount.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd...)

Financial Instruments – Disclosure and Presentation

The Company follows the recommendations in CICA Handbook Section 3862, “*Financial Instruments – Disclosure*” and Section 3863 “*Financial Instruments – Presentation*”. The financial statement disclosure requirements of Section 3862 are to enable users to evaluate the significance of financial instruments on the Company’s financial position and performance, the nature and extent of risks arising from financial instruments the Company is exposed to during the reporting period and as at the balance sheet date, and how the Company is managing those risks. Under Section 3863, the presentation requirements enhance user’s understanding of the significance of financial instruments to the Company’s financial position, performance and cash flows. Adoption of this standard has not significantly impacted the Company’s financial statements.

Capital Leases

Assets under capital leases are capitalized as part of plant, property and equipment. The assets are amortized using the unit of production method.

Asset Retirement Obligations

The Company is required to recognize a liability for an asset retirement obligation on long-lived assets when a legal liability exists and the amount of the liability is reasonably determinable. Asset retirement obligations are calculated on discounted future payment estimates and the liability is accreted over the expected term of the obligation. Subsequent adjustments are made when there are changes to the underlying assumptions. Corresponding amounts and adjustments are added to the carrying value of the related long-lived asset and charged to operations in accordance with the accounting policy for mineral properties.

3. SHORT TERM INVESTMENTS

At December 31, 2010, the Company’s short term investment consisted of a one year guaranteed investment certificate in the amount of \$8,100,000 (2009 - \$Nil) invested at the bank prime less 1.85%, maturing on October 6, 2011, which is redeemable, in whole or in part, at anytime.

4. CONVERTIBLE DEBENTURE

On November 26, 2009, the Company acquired a 49% interest in East Coal Company (see Note 5) from Surrey Dynamics Limited (“Surrey Dynamics”) of the United Kingdom. Consideration paid was 5,000,000 common shares and an unsecured, three year, convertible US\$3,000,000 debenture. The debenture may be converted at any time into 8,000,000 common shares of the Company at a conversion price of US\$0.375, subject to adjustment in certain circumstances. The principal amount bears interest at the rate of 2% over the three month USD Libor rate per annum, payable quarterly. At December 31, 2009, the Company had issued a US\$100,000 advance payment of interest to Surrey Dynamics.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

4. CONVERTIBLE DEBENTURE (Cont'd...)

As the debenture is considered to be a compound financial instrument, the principal amount has been allocated between liability and equity components. The fair value of the equity component was valued using the Black-Scholes option pricing model assuming a risk free rate of 2.25%, expected life of 3 years, volatility of 180.68% and share price of \$0.35. As at December 31, 2009, the Company classified \$1,730,663 as the debt component and \$1,374,965 as the equity component. The debt component will accrete up to the principal balance over the term of the debenture using the effective interest method.

Convertible debenture – debt component	
Balance at December 31, 2009	\$ 1,730,663
Interest accrued	72,574
Interest accreted	382,145
Foreign exchange change upon conversion of USD	(60,874)
Balance at December 31, 2010	\$ 2,124,508

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

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

Verticalnaya Coal Mine, Ukraine

On June 26, 2008, the Company signed a Letter Agreement with Ukraine Coal PLC (“Ukraine Coal”) of London, England. Under the terms of the agreement, the Company had the right to enter into an option agreement (the “UEL Agreement”) to purchase all of the issued and outstanding shares of Ukraine Energy Limited (“Ukraine Energy”), a Ukraine incorporated wholly-owned subsidiary of Ukraine Coal, which owned 51% of the issued and outstanding shares of East Coal Company Limited (“East Coal”) and held the right to acquire the remaining 49% of East Coal. East Coal is a Ukraine incorporated company that holds the mining license of Verticalnaya Coal Mine. On March 16, 2009, by a new agreement the option terms were amended and extended.

On May 25, 2009, the Company entered into an option agreement to acquire the remaining 49% interest in East Coal, representing the Non-controlling interests (the “Non-controlling Interests Agreement”). The Non-controlling interests was held by Surrey Dynamics Limited (“Surrey Dynamics”) of the United Kingdom.

On November 26, 2009, the Company exercised its options under the UEL Agreement and Non-controlling Interests Agreement to acquire control of all of the charter capital of East Coal. Final approval of the acquisitions was received from the TSX Venture Exchange (“TSX-V”) on December 4, 2009.

To acquire Ukraine Energy the Company issued 22 million common shares to Ukraine Coal at a price of \$0.345 per common share. A royalty of US\$1 per tonne sold will be payable by Ukraine Energy from its share of future distributions of profit by East Coal.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Cont'd...)

To acquire the remaining 49% of East Coal, the Company issued 5,000,000 common shares at a price of \$0.345 per common share and an unsecured three year, convertible US\$3,000,000 debenture to Surrey Dynamics. The debenture may be converted by the holder into 8,000,000 common shares of the Company at any time and bears interest at 2% over the published three month LIBOR rate, payable quarterly. A US\$100,000 advance payment of interest was made to the Surrey Dynamics.

The consideration paid was as follows:

	\$
UEL Acquisition	
22,000,000 common shares of the Company @ \$0.345	7,590,000
Acquisition costs	644,404
	<u>8,234,404</u>
Non-controlling Interests Acquisition	
5,000,000 common shares of the Company @ \$0.345	1,725,000
US\$3,000,000 unsecured convertible debenture	3,178,500
	<u>13,137,904</u>

As required under Canadian GAAP, the actual measurement date for determining the value of the Company's common shares issued as consideration for the acquisitions was calculated based on the closing price of the Company's common shares on the TSX-V as at November 26, 2009, the date of issuance of the shares.

Each acquisition was accounted for as a purchase of assets under Canadian GAAP, as a discrete business definition criteria under EIC-124 was not met.

The purchase price allocation for the Ukraine Energy and Non-controlling interests acquisitions is summarized as follows:

	\$
As at November 26, 2009	
Allocation of purchase price to assets	
Current assets	95,976
Mining license and equipment	17,713,832
Other liabilities	(318,654)
Future income tax liabilities	(4,353,250)
	<u>13,137,904</u>

Until the commencement of development activities by the Company in October 2010, the Verticalnaya mine was on care and maintenance following cessation of operations in 1998, due to poor business conditions and insufficient sustaining capital investment in the years following the break-up of the former Soviet Union. The mining license, No. 4305, was awarded to East Coal following an open tender, on July 19, 2007 and is valid for 20 years from the date of issuance, expiring on July 19, 2027. A royalty is payable equivalent to US\$0.25 per tonne coal delivered to surface.

On May 12, 2009, East Coal was awarded, through an auction process a 20-year lease agreement on the assets and infrastructure of the Verticalnaya mine. East Coal assumed operational responsibility for the Verticalnaya mine as of that date. Monthly lease fees are approximately \$18,000.



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December 31, 2010 and 2009

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Cont'd...)

Verticalnaya Coal Mine, Ukraine (Cont'd...)

	December 31, 2010	December 31, 2009
Verticalnaya Coal Mine, Ukraine		
Mineral Property		
Balance, beginning of year	\$ 16,796,778	\$ 100,000
Acquisition costs including future income tax liability/deposit paid	-	16,696,778
Balance, end of year	16,796,778	16,796,778
Deferred costs		
Balance, beginning of year	2,567,212	104,577
Lease and operating costs	2,999,603	2,021,385
Consulting	151,597	168,848
Professional fees	62,162	-
Miscellaneous	9,349	6,944
Report preparation	60,146	90,805
Travel	115,409	102,465
Asset retirement obligations	123,850	-
Accretion expense on asset retirement obligations	12,385	-
Accretion expense on convertible debt	393,844	-
Future income tax liability	305,452	72,188
Balance, end of year	6,801,009	2,567,212
Verticalnaya Coal Mine, Ukraine – Balance, end of year	\$ 23,597,787	\$ 19,363,990

Pinchi Project, Canada

The Pinchi Project, located in the Omineca Mining Division, British Columbia, was relinquished during the fiscal year ended December 31, 2010 and exploration expenditures of \$277,928 were written-off.

CAT/Osilinka properties, Canada

The CAT/Osilinka properties, located in the Omineca Mining Division, British Columbia were dropped and exploration expenditures totalling \$818,995 were written-off as of December 31, 2010.



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5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Cont'd...)

Mineral properties and deferred exploration costs:

	December 31, 2010	December 31, 2009
Pinchi Project, British Columbia		
Mineral Property		
Balance, beginning of and end of year	\$ 12,350	\$ 17,880
Deferred Exploration Costs		
Balance, beginning of year	324,864	408,713
Project management and related exploration costs	-	10,920
Mineral exploration tax credit	(59,286)	-
	<u>277,928</u>	<u>419,633</u>
Write-down of mineral properties	(277,928)	(100,299)
Pinchi Project – Balance, end of year	<u>\$ -</u>	<u>\$ 337,214</u>
CAT/Osilinka properties, British Columbia		
Mineral Property		
Balance, beginning of and end of year	\$ 45,485	\$ 45,485
Deferred Exploration Costs		
Balance, beginning of year	762,422	758,356
Project management and related exploration costs	11,088	4,066
	<u>818,995</u>	<u>762,422</u>
Write-down of mineral properties	(818,995)	(100,299)
CAT/Osilinka properties – Balance, end of year	<u>\$ -</u>	<u>\$ 807,907</u>
Total Pinchi and CAT/Osilinka properties – Balance, end of year	<u>\$ -</u>	<u>\$ 1,145,121</u>

6. EQUIPMENT

	December 31, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 5,929	\$ 4,193	\$ 1,736	\$ 5,929	\$ 3,449	\$ 2,480
Furniture	641	346	295	641	272	369
	<u>\$ 6,570</u>	<u>\$ 4,539</u>	<u>\$ 2,031</u>	<u>\$ 6,570</u>	<u>\$ 3,721</u>	<u>\$ 2,849</u>

7. RECLAMATION BOND

The Company has hypothecated a term deposit of \$9,500 (2009 - \$9,500) to the order of the Ministry of Energy, Mines and Petroleum Resources of British Columbia as a reclamation bond in connection with its mineral exploration permit.



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December 31, 2010 and 2009

8. SHARE CAPITAL

Authorized: Unlimited number of common shares, without par value

The following is a description of the issued share capital:

	Number of shares	Amount	Contributed Surplus
Issued:			
Balance at December 31, 2009	70,123,797	\$ 24,535,400	\$ 3,911,755
Private placement	54,797,425	8,427,559	3,079,900
Option exercises	250,000	96,705	(46,705)
Warrant exercises	1,037,500	280,858	(63,358)
Stock-based compensation	-	-	437,128
Share issue costs	-	(456,756)	-
Balance at December 31, 2010	126,208,722	\$ 32,883,766	\$ 7,318,720

Escrow

At December 31, 2010, a total of 13,322,250 (2009 – 20,166,750) common shares are subject to an escrow agreement, their release being subject to regulatory approval.

Private placements

2010

On October 7, 2010, the Company closed a private placement offering of 54,797,425 units priced at \$0.21 per unit for gross proceeds of approximately \$11,500,000. Each unit was comprised of one common share and one share purchase warrant entitling the holder thereof to purchase one additional common share at a price of \$0.30 for a period of one year. Salman Partners Inc. acted as agent for the Offering. Approximately \$4,350,000 of the Offering was non-brokered. Finder’s fees consisted of cash commissions totaling \$336,732 and 2,716,466 broker warrants. Each broker warrant permits the holder to acquire one common share at a price of \$0.30 for a period of one year. Costs related to the financing totaled \$120,024. The share purchase warrants were valued at \$2,934,400 and broker warrants were valued at \$145,500, with an aggregate amount of \$3,079,900 credited to contributed surplus. Fair value was determined using the Black Scholes valuation model, based on a risk free interest rate of 1.22%, an expected life of one year, an expected volatility of 87.51% and a dividend yield rate of nil.

2009

On June 24, 2009, the Company completed a non-brokered private placement issuing 4,002,667 units at a price of \$0.15 per unit for gross proceeds of \$600,400. Each unit was comprised of one common share and one share purchase warrant entitling the holder thereof to purchase one additional common share at a price of \$0.15 for a period of two years. The share purchase warrants were valued at \$166,114 and credited to contributed surplus. Fair value was determined using the Black Scholes valuation model, based on a risk free interest rate of 1.25%, an expected life of two years, an expected volatility of 82% and a dividend yield rate of nil.

On September 17, 2009, the Company completed a brokered private placement, with GMP Securities L.P. (“GMP”) as Agent, issuing 16,075,000 units at a price of \$0.20 per unit for gross proceeds of \$3,215,000. Each unit consists of one common share and one-half of one share purchase warrant. Each full share purchase warrant entitles the holder thereof to purchase one additional common share at a price of \$0.30 per share for period of two years. A cash commission of \$191,100 was paid to GMP, along with 955,500 compensation options. Each compensation



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8. SHARE CAPITAL (Cont'd...)

Private placements (Cont'd...)

option permits the holder to acquire one unit at the \$0.20 issue price for a period of two years, which will bear the same terms as the units issued under the offering. Costs related to the financing totaled \$367,303. The share purchase warrants and Agent's option were valued at, respectively, \$728,727 and \$468,292 and credited to contributed surplus. Fair value was determined using the Black Scholes valuation model, based on a risk free interest rate of 1.25%, an expected life of two years, an expected volatility of 82% and a dividend yield rate of nil.

Warrants

At December 31, 2010 and 2009 the following share purchase warrants were outstanding:

	Expiry Date	Exercise Price	2010	2009
Private placement	June 24, 2011	\$0.15	3,377,667	4,002,667
Private placement	September 17, 2011	\$0.30	7,625,000	8,037,500
Private placement	October 7, 2011	\$0.30	57,513,891	-
			68,516,558	12,040,176

Stock options

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

At December 31, 2010, a total of 5,656,500 options had been granted to directors, officers, employees and consultants under the Plan, as summarized below:

	December 31, 2010		December 31, 2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Opening balance	4,556,500	\$ 0.37	3,056,500	\$ 0.44
Granted	1,450,000	0.30	2,200,000	0.30
Exercised	(250,000)	0.20	-	-
Expired	(100,000)	0.50	(700,000)	0.43
Ending balance	5,656,500	\$ 0.36	4,556,500	\$ 0.37
Options exercisable	5,106,500	\$ 0.37	2,906,500	\$ 0.37



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8. SHARE CAPITAL (Cont'd...)

Stock options (Cont'd...)

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

Weighted Average		Weighted Average		
Exercise Price	Expiry Date	Number Outstanding	Number Exercisable	Remaining Contractual Life
\$ 0.20	September 14, 2011	206,500	206,500	0.70 years
0.50	June 24, 2013	1,800,000	1,800,000	2.48 years
0.30	September 15, 2014	2,200,000	1,650,000	3.71 years
0.30	July 27, 2015	1,200,000	1,200,000	4.57 years
0.32	October 19, 2015	250,000	250,000	4.80 years
\$ 0.36		5,656,500	5,106,500	3.25 years

Stock-based compensation

The Company expenses compensation costs over the vesting period of the stock options, with a corresponding credit to contributed surplus. During fiscal 2010, the Company recognized stock-based compensation expense of \$437,128, of which \$17,932 (2009 - \$8,966) was capitalized as mineral properties expenditures and \$419,196 (2009 - \$573,525) was expensed to operations.

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

	2010	2009
Risk-free interest rate	1.77%	1.25%
Expected volatility	164.6%	82%
Dividend yield	Nil	Nil
Expected life	3 years	3 years

9. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company paid or accrued \$28,200 for shared office costs, of which \$18,000 (2009 - \$13,200) was paid to a company with a director in common for shared office costs and the balance of \$10,200 (2009 - \$Nil) was paid to a director.

Included in accounts payable and accrued liabilities is a total of \$48,554 (2009 - \$24,622) due to related parties for shared office costs, consulting fees and expenses. The amounts due to related parties are unsecured, non-interest bearing and have no specific terms of repayment.

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



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10. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- a) to safeguard its ability to continue as a going concern;
- b) continue the development and exploration of its mineral properties; and
- c) maintain a capital structure which optimizes the cost of capital at acceptable risk.

The management of capital includes cash and cash equivalents, short term investments and shareholders' equity comprised of share capital, contributed surplus and deficit. The capital structure at December 31, 2010 consists of common shares of \$32,883,766 (2009 - \$24,535,400). The Company had no bank indebtedness and an unsecured three-year, convertible US\$3,000,000 debenture (see Note 4) payable to Surrey Dynamics outstanding.

The Company is involved in the development of a mine in Ukraine and mineral exploration. These are high risk activities. The Company's principal source of funds is from the issuance of common shares; however, as development of the Ukraine mine proceeds the Company may also negotiate loan facilities.

Management reviews its capital management approach on an ongoing basis and believes this approach, given the relative size of the Company, is reasonable.

Additional information regarding capital management is disclosed in Note 1.

11. FINANCIAL RISK FACTORS

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

Credit and Interest rate risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash and accounts receivable. As at December 31, 2010, the carrying amount of amounts receivable and payable equals fair market value.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has an outstanding interest-bearing convertible debenture (Note 4) which will be subject to changes in interest rates.

Fair value

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

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



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December 31, 2010 and 2009

11. FINANCIAL RISK FACTORS (Cont'd...)

Fair value (Cont'd...)

The following table illustrates the classification of the Company's financial instruments recorded at fair value within the fair value hierarchy as at December 31, 2010:

Financial assets at fair value				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and cash equivalents	-	812,361	-	812,361
Short term investments	-	8,100,000	-	8,100,000
Financial liabilities at fair value				
Convertible debenture	-	-	2,124,508	2,124,508

There were no transfers between levels during the 2010 fiscal year.

Liquidity risk

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

Commodity price risk

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

Foreign currency risk

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



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December 31, 2010 and 2009

11. FINANCIAL RISK FACTORS (Cont'd...)

Sensitivity analysis

As of December 31, 2010, the carrying amount of amounts receivable and payable equals fair market value.

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

- The Company holds balances in foreign currencies which give rise to exposure to foreign exchange risk. However, the balances tend to be moderate and therefore the exposure to foreign exchange risk is low. For the year ended December 31, 2010, with other variables remaining constant, a 10% increase (decrease) in the Ukrainian Hryvnia to Canadian dollar exchange rate would have decreased (increased) the Company's deficit by approximately \$72,000. There would be no significant effect on other comprehensive income.
- The Company has issued a convertible debenture (Note 4) denominated in US dollars which gives rise to exposure to foreign exchange risk. For the year ended December 31, 2010, with other variables remaining constant, a 10% increase (decrease) in the US dollar to Canadian dollar exchange rate would have increased (decreased) the Company's deficit by approximately \$215,800. Additionally, the convertible note bears interest at a rate of 2% over the three month USD Libor rate. A 10% increase (decrease) in this rate, assuming all other variables remain constant, would have increased (decreased) the Company's investment in the Verticalnaya mine by approximately \$1,900.

12. ASSET RETIREMENT OBLIGATIONS

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

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

	2010	2009
Balance, beginning of year	\$ -	\$ -
Additions	123,850	-
Accretion for asset retirement	12,385	-
Balance, end of year	\$ 136,235	\$ -

The Company has estimated its total asset retirement obligations incurred in respect to the Verticalnaya Mine to be \$136,235 at December 31, 2010 based on a total future liability of approximately \$587,800, which has been adjusted using an annual inflation rate of 9%, and a credit adjusted risk-free rate of 10%. Reclamation is expected to occur in the year 2027. It is possible that the Company's estimate of its asset retirement obligation may change due to amendments to laws and regulations and changes in cost estimates.



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13. INCOME TAXES

A reconciliation of income taxes at the combined federal and provincial statutory rates as at December 31, 2010 of 28.5% (2009 – 30%) is as follows:

	2010	2009
Loss before taxes	\$ (1,981,560)	\$ (1,016,072)
Statutory rates	28.5%	30%
Recovery of income taxes computed at statutory rates	\$ (564,745)	\$ (304,822)
Permanent differences	120,579	172,485
Change in tax rates	24,434	(13,389)
Other costs	(84,404)	(92,537)
Change in valuation allowance	504,136	238,263
Tax expense (recovery)	-	-

The significant components of the Company's future income tax assets are as follows:

	2010	2009
Future income tax assets:		
Non-capital loss carryforwards	\$ 1,037,296	\$ 372,984
Cumulative exploration and development expenses	620,223	403,043
Fixed assets	306	102
Other	152,722	81,034
	1,810,547	857,163
Valuation allowance	(1,156,622)	(652,486)
Net future income tax assets, net of valuation allowance	653,925	204,677
Future income tax liabilities		
Mineral properties	(5,231,351)	(4,475,891)
Property and equipment	591	(169)
	(5,230,760)	(4,476,060)
Net future income tax assets (liabilities)	\$ (4,576,835)	\$ (4,271,383)

The Company has non-capital losses carried forward of \$1,533,484 that may be available for tax purposes. These losses expire as follows:

Expiry Date	Amount
2029	\$ 673,225
2030	860,259



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14. SEGMENTED INFORMATION

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

	2010	2009
Capital assets		
Ukraine	\$ 23,597,787	\$ 19,363,990
Canada	2,031	1,147,970
	<u>\$ 23,599,818</u>	<u>\$ 20,511,960</u>

15. SUBSEQUENT EVENTS

Subsequent to December 31, 2010, the Company:

- a) granted 1,500,000 stock options priced at \$0.70 per common share and exercisable for a term of 5 years to a directors and officers;
- b) hired Senergy Communications Inc. ("Senergy") to provide marketing, investor relations and communications services for an initial period of three months at \$5,000 per month and granted 300,000 stock options priced at \$0.75 for a term of one year which are subject to vesting provisions in accordance with the Company's Plan and TSX-V policies;
- c) received proceeds of \$10,431,935 from the exercise of 35,125,617 warrants;
- d) received proceeds of \$271,300 upon the exercise of 756,500 stock options; and
- e) changed the name of the Company from Lysander Minerals Corporation to EastCoal Inc. to reflect the Company's current vision and strategy, in accord with its focus on coal.