

Interim Consolidated Financial Statements

Xinergy Ltd.

*Three and nine months ended September 30, 2010 and 2009
(Unaudited)*

Xinergy Ltd.

Consolidated Financial Statements

Three and nine months ended September 30, 2010 and 2009
(Unaudited)

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Xinergy Ltd.

Consolidated Balance Sheets
(Expressed in U.S. Dollars)

	As at September 30 2010 (Unaudited)	As at December 31 2009 (Note 1)
Assets		
Current assets:		
Cash	\$26,318,311	\$10,192,766
Trade accounts receivable	9,449,844	830,777
Coal inventories	7,955,858	1,772,871
Other current assets	2,592,363	467,201
Total current assets	<u>46,316,376</u>	<u>13,263,615</u>
Future income taxes	7,248,542	8,366,660
Restricted cash	8,436,386	9,089,989
Recoupable royalties	631,120	1,598,180
Investment in entity (Note 2)	–	1,884,792
Property, plant and equipment, net (Note 3)	39,816,476	22,384,236
Mineral rights, net (Note 3)	30,228,284	4,526,662
Mine development costs, net (Note 3)	2,987,980	1,730,727
Coal supply agreement, net (Note 4)	15,036,243	–
Deferred financing costs, net (Note 6)	2,725,946	–
Other noncurrent assets	132,390	412,840
Total assets	<u>\$153,559,743</u>	<u>\$63,257,701</u>

Xinergy Ltd.

Consolidated Balance Sheets
(Expressed in U.S. Dollars)

	As at September 30 2010 (Unaudited)	As at December 31 2009 (Note 1)
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 10,885,291	\$ 3,116,088
Accrued interest payable (Note 6)	3,125,343	–
Income taxes payable	–	61,000
Current portion of asset retirement obligations (Note 5)	428,357	428,357
Current portion of equipment notes payable (Note 6)	4,135,505	2,128,959
Total current liabilities	<u>18,574,496</u>	<u>5,734,404</u>
Asset retirement obligations, less current portion (Note 5)	7,288,333	5,293,307
Senior secured notes payable, \$75,000,000 net of discount of \$3,014,549 as at September 30, 2010 (Note 6)	71,985,451	–
Equipment notes payable, less current portion (Note 6)	2,844,704	1,175,436
Deferred gain on sale and leaseback	750,000	750,000
Total liabilities	<u>101,442,984</u>	<u>12,953,147</u>
Shareholders' equity:		
Share capital	64,785,964	61,747,806
Contributed surplus	2,936	2,936
Warrants	5,236,614	4,365,380
Stock options	2,957,708	2,111,623
Accumulated deficit	(20,866,463)	(17,923,191)
Net shareholders' equity	<u>52,116,759</u>	<u>50,304,554</u>
Total liabilities and shareholders' equity	<u>\$ 153,559,743</u>	<u>\$63,257,701</u>

Commitments and contingencies (Note 13)

See accompanying Notes to Consolidated Financial Statements which form an integral part of these unaudited interim consolidated financial statements.

(Signed) Jon Nix
Chairman of the Board

(Signed) Robert J. Metcalfe
Director

Xinergy Ltd.

Consolidated Statements of Operations
(Expressed in U.S. Dollars)
(Unaudited)

	Nine months ended September 30		Three months ended September 30	
	2010	2009	2010	2009
Coal revenues	\$ 70,761,276	\$ 50,686,994	\$ 37,723,967	\$ 14,526,623
Cost of coal sales	49,673,354	39,354,695	23,478,501	11,988,937
Gross margin	21,087,922	11,332,299	14,245,466	2,537,686
General and administrative expenses	9,193,418	3,136,543	3,344,075	1,043,456
Depreciation, depletion and amortization	17,454,366	7,348,818	8,158,762	2,307,141
Operating (loss) income	(5,559,862)	846,938	2,742,629	(812,911)
Other income (expense):				
Interest income	187,735	138,167	–	25,321
Interest expense	(3,494,481)	(7,797,666)	(2,052,510)	(2,684,136)
Investment income	215,000	–	–	–
Gain on business acquisition (Note 2)	3,357,356	–	–	–
Gain on sale of mineral rights	–	655,472	–	–
Gain on sale of subsidiary (Note 9)	2,141,069	–	2,141,069	–
Gain on sale of equipment	125,693	441,580	24,444	607,353
Loss on advances to contract miners	–	(2,252,004)	–	–
Other (expense) income	(170,413)	(20,273)	(22,999)	(20,273)
Net other income (expense)	2,361,959	(8,834,724)	90,004	(2,071,735)
(Loss) income before income taxes	(3,197,903)	(7,987,786)	2,832,633	(2,884,646)
Provision for income tax benefit:				
Current	61,000	–	–	–
Future	193,631	2,616,649	(3,082,583)	1,046,237
Total provision for income tax benefit	254,631	2,616,649	(3,082,583)	1,046,237
Net loss	\$ (2,943,272)	\$ (5,371,137)	\$ (249,950)	\$ (1,838,409)
Weighted average number of basic common shares outstanding	55,616,517	32,911,343	56,198,214	33,003,022
Basic loss per common share	\$ (0.05)	\$ (0.16)	\$ 0.00	\$ (0.06)
Weighted average number of diluted common shares outstanding	55,616,517	32,911,343	56,198,214	33,003,022
Diluted loss per share	\$ (0.05)	\$ (0.16)	\$ 0.00	\$ (0.06)

See accompanying Notes to Consolidated Financial Statements which form an integral part of these unaudited interim consolidated financial statements.

Xinergy Ltd.

Consolidated Statements of Shareholders' Equity
(Expressed in U.S. Dollars)
(Unaudited)

	Share Capital (Note 7) Voting and Non-Voting		Contributed Surplus	Warrants	Stock Options	Accumulated Deficit	Receivable Key Employee	Total
	Shares	Amount						
Balance at January 1, 2009	15,573,475	\$ 7,318,708	\$1,580	\$ 224,114	\$ 443,521	\$ (5,575,270)	\$ –	\$ 2,412,653
Stock based compensation expense	–	–	–	–	300,041	–	–	300,041
Issuance for exercised stock options	250,000	459,155	–	–	(146,655)	–	(312,500)	–
Net loss for the nine months ended September 30, 2009	–	–	–	–	–	(5,371,137)	–	(5,371,137)
Balance at September 30, 2009	15,823,475	\$ 7,777,863	\$1,580	\$ 224,114	\$ 596,907	\$ (10,946,407)	\$ (312,500)	\$ (2,658,443)
Balance at January 1, 2010	53,752,070	\$61,747,806	\$2,936	\$4,365,380	\$2,111,623	\$(17,923,191)	\$ –	\$50,304,554
Issuance for exercised warrants	1,975,925	2,002,569	–	(105,681)	–	–	–	1,896,888
Issuance for exercised stock options	292,226	397,320	–	–	(190,586)	–	–	206,734
Issuance to CFO for services	100,000	333,295	–	–	–	–	–	333,295
Issuance to directors for services	60,000	191,724	–	–	–	–	–	191,724
Issuance for employee compensation	55,177	113,250	–	–	–	–	–	113,250
Issuance of warrant for senior secured notes payable (Note 6)	–	–	–	976,915	–	–	–	976,915
Stock based compensation expense	–	–	–	–	1,036,671	–	–	1,036,671
Net income for the nine months ended September 30, 2010	–	–	–	–	–	(2,943,272)	–	(2,943,272)
Balance at September 30, 2010	56,235,398	\$ 64,785,964	\$2,936	\$ 5,236,614	\$ 2,957,708	\$ (20,866,463)	\$ –	\$52,116,759

See accompanying Notes to Consolidated Financial Statement which form an integral part of these unaudited interim consolidated financial statements.

Xinergy Ltd.

Consolidated Statements of Cash Flows
(Expressed in U.S. Dollars)
(Unaudited)

	Nine months ended September 30		Three months ended September 30	
	2010	2009	2010	2009
Operating activities				
Net loss	\$ (2,943,272)	\$ (5,371,137)	\$ (249,950)	\$ (1,838,409)
Items not affecting cash:				
Depreciation, depletion and amortization	17,261,976	7,210,169	8,044,249	2,260,925
Gain on sale of subsidiary	(2,141,069)	–	(2,141,069)	–
Gain on sale of equipment	(125,693)	(441,580)	(24,444)	(607,353)
Gain on business acquisition	(3,357,356)	–	–	–
Gain on sale of mineral rights	–	(655,472)	–	–
Accretion of assets retirement obligations	298,792	307,571	129,846	93,813
Amortization of deferred financing costs	192,390	138,649	114,513	46,216
Amortization of discount on notes payable	212,366	29,609	151,894	9,870
Future income tax benefit	(193,631)	(2,616,649)	3,082,583	(1,046,237)
Loss on advances to contract miners	–	2,252,004	–	–
Stock based compensation expense	1,036,671	300,041	342,331	97,907
Issuance of common shares for services rendered	638,269	–	113,250	–
Changes in operating assets and liabilities:				
Trade accounts receivable	(6,942,667)	1,037,000	(3,800,585)	(16,944)
Advances to contract miners	–	(60,705)	–	(38,571)
Coal inventories	(915,280)	(89,142)	(479,554)	872,270
Other current assets	(1,869,676)	(45,332)	(1,757,366)	(33,709)
Recoupable royalties	188,060	(895,720)	(107,771)	(66,500)
Other noncurrent assets	131,199	(20,011)	(18,911)	–
Accounts payable and accrued expenses	4,780,812	(8,866)	1,479,452	1,164,012
Accrued interest payable	3,125,343	(16,140)	1,843,151	–
Other noncurrent liabilities	–	–	–	(60,703)
Assignment of overriding coal royalty interest payable	–	3,307,917	–	1,096,667
Income taxes payable	(61,000)	–	–	–
Asset retirement obligations settled	(102,192)	(284,207)	(11,761)	(192,577)
Net cash provided by operating activities	9,214,042	4,077,999	6,709,858	1,740,677

Xinergy Ltd.

Consolidated Statements of Cash Flows (continued)
(Expressed in U.S. Dollars)
(Unaudited)

	Nine months ended September 30		Three months ended September 30	
	2010	2009	2010	2009
Investing activities				
Proceeds on sale of equipment	\$ 185,000	\$ 1,383,000	\$ 55,000	\$ 926,000
Proceeds from sale of subsidiary	3,124,500	–	3,124,500	–
Acquisition of Raven Crest, net of cash acquired	(42,477,878)	–	–	–
Purchases of property, plant and equipment	(13,106,015)	(2,138,953)	(2,774,299)	(426,190)
Purchases of mine development costs	(207,112)	–	(60,086)	–
Proceeds from sale of mineral rights	–	1,750,000	–	–
Deposits for future equipment acquisitions	(141,048)	–	–	–
Change in restricted cash	1,831,556	496,506	3,776,688	475,364
Net cash (used in) provided by investing activities	(50,790,997)	1,490,553	4,121,803	975,174
Financing activities				
Proceeds from issuance of equipment notes payable	6,539,451	448,184	709,625	55,114
Proceeds from issuance of senior secured notes payable	72,750,000	–	–	–
Repayments on notes payable to TCW	–	(1,800,000)	–	(800,000)
Payments for deferred financing costs	(2,918,336)	–	(3,000)	–
Repayment on Raven Crest notes payable	(17,908,600)	–	–	–
Repayments on equipment notes payable	(2,863,637)	(2,728,155)	(912,181)	(772,740)
Proceeds from exercise of options	206,734	–	–	–
Proceeds from exercise of warrants	1,896,888	–	–	–
Net cash provided by (used in) financing activities	57,702,500	(4,079,971)	(205,556)	(1,517,626)
Net change in cash	16,125,545	1,488,581	10,626,105	1,198,225
Cash at beginning of period	10,192,766	163,813	15,692,206	454,169
Cash at end of period	\$ 26,318,311	\$ 1,652,394	\$ 26,318,311	\$ 1,652,394

Xinergy Ltd.

Consolidated Statements of Cash Flows (continued)
(Expressed in U.S. Dollars)
(Unaudited)

	Nine months ended September 30		Three months ended September 30	
	2010	2009	2010	2009
Supplemental disclosure of noncash activities				
Issuance of common stock in exchange for note receivable – key employee for stock options exercised	\$ –	\$ 312,500	\$ –	\$ –
<p>In connection with the Raven Crest acquisition, the Company acquired assets with a fair value of \$71,736,192 and assumed liabilities with a fair value of \$24,016,166. These amounts were inclusive of the 5% investment in Raven Crest the Company previously had with a carrying value of \$1,884,792.</p> <p>In connection with the sale of its subsidiary, the Company sold assets with a carrying value of \$992,431 and liabilities with a carrying value of \$9,000.</p>				
Supplemental disclosure of cash flow information				
Interest paid	\$369,138	\$4,505,889	\$209,359	\$1,587,469

See accompanying Notes to Consolidated Financial Statements which form an integral part of these unaudited interim consolidated financial statements.

Xinergy Ltd.

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2010

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Xinergy Corp. (“Xinergy”) was incorporated on October 2, 2007 and was formed to extract and market coal produced from internal operations and broker coal purchased from third-parties. The Company utilizes its own employees for the majority of its mining operations, while also purchasing and remarketing coal from third-parties. The business activities of the Company are presently located in Kentucky and West Virginia.

Reverse Takeover

On December 21, 2009, Xinergy completed a reverse takeover (“RTO”) of Xinergy Ltd. (the “Company”), formerly Greenwich Global Capital, Inc. (“GGC”), which was previously listed on the NEX Board of the TSX Venture Exchange. GGC was incorporated under the *Business Corporations Act* Ontario on February 11, 2005, and was classified as a capital pool company as defined in the TSX Venture Exchange Policy 2.4 and, accordingly, had no significant assets other than cash and no commercial operations. GGC changed its name to Xinergy Ltd. on December 21, 2009. Pursuant to the RTO transaction, these interim consolidated financial statements reflect the results of operations of Xinergy prior to the RTO and the consolidated results of operations of the Company and Xinergy subsequent to the RTO. These interim consolidated financial statements are issued under the name of the legal parent, which is Xinergy Ltd., but are deemed to be a continuation of the legal subsidiary Xinergy Corp. The acquisition of the shares of Xinergy has been accounted for as an RTO transaction as GGC did not qualify as a business for accounting purposes; accordingly, the transaction has been accounted for as a capital transaction of Xinergy. Where context requires, in respect to transactions prior to the RTO, the “Company” also refers to Xinergy.

Warrants and options to purchase Xinergy Common Shares outstanding immediately prior to the RTO were replaced with warrants and options to purchase an equivalent number of common shares of the Company, on economically equivalent terms and conditions. Stock warrants and options disclosed in these consolidated financial statements reflect the converted number of Common Shares and exercise prices.

Principles of Consolidation

The consolidated financial statements include the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued) (Unaudited)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Basis of Presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements. Accordingly, they do not include all the information and footnotes required by GAAP for complete annual financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. Operating results for the nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. These interim consolidated financial statements follow the same accounting policies and methods of their application as the audited consolidated financial statements of the Company for the year ended December 31, 2009. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company’s 2009 annual audited consolidated financial statements and notes thereto. All monetary references expressed in these notes are references to United States dollars, except occasional references to Canadian dollar amounts, where the dollar amount is preceded by “Cdn”.

The balance sheet at December 31, 2009, herein, has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements.

Certain prior year’s amounts have been reclassified to conform to the presentation adopted in the current fiscal year.

Income Taxes

The effective tax rate calculated in the provision for income tax expense in the consolidated statements of operations differs from the blended statutory rates due mainly to permanent differences and changes in certain deductions previously estimated. For the nine months ended September 30, 2010, the provision reflects increases of approximately \$500,000 related to permanent differences and approximately \$400,000 related to changes in certain deductions previously estimated as of December 31, 2009. For the three months ended September 30, 2010, the provision reflects increases of approximately \$200,000 related to permanent differences, approximately \$400,000 related to changes in certain deductions previously estimated as of December 31, 2009, and approximately \$1,400,000 related to changes in certain deductions previously estimated as of June 30, 2010.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued) (Unaudited)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants announced that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition date of January 1, 2011, will require the restatement for comparative purposes, amounts reported by the Company for the nine months ended September 30, 2010, for which the current and comparative information will be prepared under IFRS. A detailed assessment of the impact of adopting IFRS on the Company’s consolidated financial statements is in the process of being completed.

2. Business Acquisition

Effective in December 2009, the Company purchased 100% of the membership interest in Shenendoah Energy, LLC (“Shenendoah”). Shenendoah’s assets consist of a 5% ownership interest in Raven Crest Mining, LLC (“Raven Crest”) and \$160,000 in accounts receivable from Raven Crest. Pursuant to the purchase agreement, all liabilities of Shenendoah were retained by the seller. Management has evaluated this transaction and has determined that Shenendoah does not meet the definition of a business under GAAP; accordingly, this transaction was considered acquiring a group of assets and not a business combination.

On March 11, 2010, the Company executed a definitive membership interest purchase agreement with JMP Coal Holdings, LLC (“JMP”) and Raven Crest to acquire the remaining 95% membership interest from JMP in Raven Crest that the Company did not own. Raven Crest is a West Virginia coal producer. A description of the Raven Crest projects is set forth in a technical report entitled “An Independent National Instrument 43-101 Report Summarizing Mineral Exploration, Development and Production Activities of Raven Crest Mining Reserves, Boone County, West Virginia” dated April 6, 2010. This technical report can be found under the Company’s profile on SEDAR at www.sedar.com.

On April 28, 2010, the Company completed the acquisition of the remaining 95% membership interest in Raven Crest that it did not own (“the Acquisition”). The operations of Raven Crest are included in the accompanying interim consolidated financial statements beginning April 28, 2010. Total fair value consideration for the Acquisition was \$43,990,000 in cash, consisting of a purchase price of \$40,000,000, plus a payment of \$3,990,000 for a working capital adjustment settlement. During the first quarter of 2010, the Company made cash deposits for the Acquisition totaling \$1,250,000 that were funded from its cash balances. The Company paid \$37,270,667 (net of \$1,479,333 of cash acquired from Raven Crest) on April 28, 2010 and paid the working capital adjustment of \$3,990,000 in June 2010.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)
(Unaudited)

2. Business Acquisition (continued)

Prior to acquiring the remaining 95% membership interest in Raven Crest, the Company accounted for its 5% membership interest in Raven Crest using the cost method. The Company recognized a loss of \$32,789 as a result of re-measuring its prior investment in Raven Crest to fair value as of the date of the Acquisition. The re-measured fair value of the previous membership interest in Raven Crest was \$1,852,003 and was determined based on the fair value paid for the 95% interest in Raven Crest less a 20% discount to exclude the control and deal size premium inherent in the purchase price of the Acquisition. In connection with the Acquisition, Shenendoah wrote-off the \$160,000 in accounts receivable from Raven Crest.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the Acquisition date. The Company obtained independent third-party valuations of the mining machinery and equipment, coal supply agreement and other intangible assets and the asset retirement obligations. The Company used a widely accepted valuation model to determine the fair value of the mineral rights. The fair value of the assets acquired and liabilities assumed as of the Acquisition date (April 28, 2010) are as follows:

Trade accounts receivable	\$ 1,676,400
Coal inventory	5,267,707
Other current assets	114,438
Property, plant and equipment	14,401,682
Mine development costs and mineral rights	28,249,472
Coal supply contract	20,790,000
Restricted cash	1,209,003
Other assets	27,490
Total identifiable assets acquired	<u>71,736,192</u>
Accounts payable and accrued expenses	2,997,391
Notes payable	17,908,600
Asset retirement obligations	1,798,426
Future income taxes	1,311,749
Total liabilities assumed	<u>24,016,166</u>
Net identifiable assets acquired	47,720,026
Fair value of consideration transferred for 100% of the membership interest	<u>44,362,670</u>
Gain	<u>\$ 3,357,356</u>

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued) (Unaudited)

2. Business Acquisition (continued)

As further discussed in Note 6, the Company issued \$75,000,000 of senior secured notes payable and received \$72,750,000 in net proceeds, after a 3% discount, to finance the purchase price and working capital adjustment payment, repay approximately \$17,900,000 of long-term debt acquired in the Acquisition, fund reclamation bond collateral payments of approximately \$2,800,000, financing costs and transaction expenses of approximately \$3,900,000 and the remaining proceeds of approximately \$6,900,000, inclusive of approximately \$1,500,000 of cash acquired, will be used for general corporate purposes.

The Company recognized \$994,250 of acquisition related expenses that were expensed in the second quarter of 2010. These expenses are included in the interim consolidated statement of operations in general and administrative expenses.

In connection with the Acquisition, certain deferred tax items were created to reflect the tax effects of temporary differences between the carrying amounts of certain assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the \$1,311,749 in net deferred tax liabilities related to transaction costs, which resulted in a deferred tax asset of \$347,990, and the gain on the Acquisition, which resulted in a deferred tax liability of \$1,659,739.

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 entire nine months ended June 30:

	<u>2010</u>	<u>2009</u>
Revenue	\$88,043,395	\$98,913,901
Net loss	3,978,585	2,129,245

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 the Acquisition and the related financing occurred on January 1st of each period presented.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)
(Unaudited)

3. Property, Plant and Equipment

Property, plant and equipment consist of the following at:

	September 30, 2010		
	Cost	Accumulated Depreciation and Depletion	Net
Land	\$ 283,421	\$ —	\$ 283,421
Plant and improvements	6,348,657	1,806,331	4,542,326
Mining equipment	51,633,234	19,259,149	32,374,085
Autos and trucks	1,659,556	808,128	851,428
Other equipment	213,344	119,903	93,441
Capitalized asset retirement costs	2,467,468	795,693	1,671,775
	<u>\$62,605,680</u>	<u>\$ 22,789,204</u>	<u>\$39,816,476</u>
	December 31, 2009		
	Cost	Accumulated Depreciation and Depletion	Net
Land	\$ 133,421	\$ —	\$ 133,421
Plant and improvements	6,183,419	1,250,544	4,932,875
Mining equipment	25,267,491	10,681,792	14,585,699
Autos and trucks	1,109,075	481,885	627,190
Other equipment	184,567	78,227	106,340
Capitalized asset retirement costs	2,479,226	480,515	1,998,711
	<u>\$35,357,199</u>	<u>\$12,972,963</u>	<u>\$22,384,236</u>

Mineral rights and mine development costs are recorded at cost. The Company's mine development costs and mineral rights are controlled through leasing arrangements and non-cancellable royalty lease agreements, under which future mining lease payments are due, and generally last until the recoverable reserves are depleted. Depletion of reserves and amortization of mine development costs are computed using the units of production method over estimated total recoverable tons. Accumulated depletion of mineral rights was \$1,931,287 and \$703,505 as at September 30, 2010 and December 31, 2009, respectively. Accumulated depletion of mine development costs was \$566,251 and \$301,963 as at September 30, 2010 and December 31, 2009, respectively.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued) (Unaudited)

4. Long-term Coal Supply Agreement

In order to hedge against the risk of falling coal prices, the Company periodically enters into long-term sales contracts. As at September 30, 2010, the Company has various existing sales contracts which provide for the Company to deliver a specified amount of coal. Company management has evaluated and concluded that the Company has the capacity to fulfill these obligations without purchasing coal from a third-party and does not anticipate sustaining any losses from the inability to fulfill these sales commitments.

The application of purchase accounting related to the acquisition of Raven Crest (Note 2) resulted in the recognition of an asset in the amount of \$20,790,000 for an above market priced coal supply agreement in relation to the market prices at the date of acquisition. The amortization of the asset for this agreement was \$5,753,757 during 2010. As shipments on this agreement are completed, the asset balance, of which the carrying amount is \$15,036,243 at September 30, 2010, will diminish through 2011 when this coal supply agreement is estimated to be complete.

5. Asset Retirement Obligations

The Company estimates the fair value of its asset retirement obligation (“ARO”) liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of future costs for third-party to perform the required work. Cost estimates are escalated for inflation, and then discounted at the credit-adjusted risk-free rate, which approximated a weighted average rate of 7.48% at September 30, 2010. Total estimated undiscounted future costs related to the ARO liabilities totaled approximately \$9,100,000 at September 30, 2010, with costs expected to be paid from 2010 to 2019.

Changes in the Company’s asset retirement obligations are summarized as follows:

	<u>Nine months ended</u> <u>September 30, 2010</u>	<u>Year ended</u> <u>December 31, 2009</u>
Asset retirement obligations, beginning of period	\$5,721,664	\$4,994,135
Liabilities assumed in acquisition	1,798,426	–
Liabilities incurred	–	703,946
Accretion expense	298,792	361,544
Revisions in estimated cash flows	–	17,028
Liabilities settled	(102,192)	(354,989)
Asset retirement obligations, end of period	<u>\$7,716,690</u>	<u>\$5,721,664</u>

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued) (Unaudited)

6. Notes Payable

In 2008, the Company issued notes payable totaling \$35,000,000, which were paid in full during December 2009.

In conjunction with the Acquisition discussed in Note 2, during April 2010 the Company issued \$75,000,000 of senior secured notes payable to Marret Asset Management, Inc. ("Marret") and received \$72,750,000 in net proceeds, after a 3% discount. These senior secured notes are collateralized by substantially all assets of the Company and bear interest at an annual rate of 9.75%, payable in semi-annual payments of \$3,656,250 (\$3,125,343 accrued as at September 30, 2010). These senior secured notes mature in April 2015. The Company is required to maintain certain debt covenants, including certain restrictions on dividends, and has limitations on additional indebtedness.

The Company has certain early redemption options, in whole or in part, which would result in percentages ranging from 110% to 102% of the principal amount of the notes, based on the dates of the early redemption. If a change in control occurs, the Company will be required to offer to redeem the outstanding notes for a redemption price equal to 109.75% of the outstanding principal balance of the notes.

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

Additionally, the Company has numerous equipment notes. These notes bear interest at fixed rates ranging from non-interest bearing to 9.5% and are due in various monthly payments through March 2013. All these loans are collateralized by the related equipment purchased.

Aggregate annual future maturities of the Company's notes payable are as follows at September 30, 2010:

October 1, 2010 to September 30, 2011	\$ 4,135,505
October 1, 2011 to September 30, 2012	2,525,316
October 1, 2012 to September 30, 2013	319,388
October 1, 2013 to September 30, 2014	—
October 1, 2014 to September 30, 2015	75,000,000
Total notes payable	<u>\$ 81,980,209</u>

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued) (Unaudited)

7. Shareholders' Equity

Share Capital

The authorized share capital of the Company consists of an unlimited number of common shares without par value and an unlimited number of common non-voting shares. As at September 30, 2010, there were 36,767,857 common shares issued and outstanding and 19,467,541 common non-voting shares issued and outstanding. The common non-voting shares were created in connection with the RTO in December 2009, resulting in the issuance of 19,467,541 shares with an allocated share capital amount of \$4,500,015.

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

In September 2010, in connection with the Vice President of Surface Mining's employment agreement, the Company issued 25,000 restricted common shares, all of which are exercisable in September 2011. These common shares were valued at the trading price at the date of issuance.

Also in September 2010, in connection with the Chief Executive Officer's compensation agreement, the Company issued 30,177 common shares which were immediately exercisable. These common shares were valued at the average of the five day trading price immediately preceding the date of grant. This issuance was pursuant to an amendment to the Chief Executive Officer's employment agreement to provide for the payment to him of equity and cash in lieu of just cash as his base salary on a quarterly basis. In accordance with this amendment on July 1, 2010, Mr. Nix received certain restricted stock unites granted in accordance with the Company's 2010 Stock Incentive Plan that resulted in the issuance of the 30,177 common shares

During January 2010, the Company issued stock options as follows: options were granted to purchase 400,000 common shares with an exercise price of \$3.10 per common share and options were granted to purchase 120,000 common shares with an exercise price of \$3.62 per common share. During May 2010, the Company granted to certain employees the option to purchase an aggregate 115,000 common shares with an exercise price of \$2.71 per common share. During September 2010, the Company granted options to purchase 200,000 common shares with an exercise price of \$1.65 per common share.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)
(Unaudited)

7. Shareholder's Equity (continued)

Stock Options (continued)

Details of the stock options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2009	3,806,403	\$0.60
Granted	1,626,283	2.16
Options acquired as a result of RTO	27,108	Cdn1.99
Forfeited	(552,711)	0.60
Exercised	(521,425)	0.60
Outstanding at December 31, 2009	<u>4,385,658</u>	1.19
Granted	835,000	2.77
Forfeited	(11,736)	0.60
Exercised	(292,226)	0.71
Outstanding at September 30, 2010	<u>4,916,696</u>	\$1.48

Of the stock options outstanding at September 30, 2010, 2,482,185 options expire in 2018, 1,599,511 options expire in 2019 and 835,000 options expire in 2020.

Details of the stock options exercisable at September 30, 2010 are as follows:

	Number of Options	Weighted Average Exercise Price
	2,077,292	\$0.60
	4,518	Cdn1.99
	500,000	3.62
	<u>2,581,810</u>	<u>\$1.19</u>

During February 2009, 250,000 options were exercised in exchange for a \$312,500 nonrecourse note receivable from a key employee with interest at 4% and a maturity of December 31, 2009. The note receivable was repaid during December 2009.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued) (Unaudited)

7. Shareholder's Equity (continued)

Warrants

Summarized information about warrants, after reflection of the converted number of warrants and exercise prices, from inception to September 30, 2010, is as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2009	3,540,200	\$0.96
Issued to investors in December 2009	9,514,136	Cdn\$4.20
Issued to agents in December 2009	1,139,142	Cdn\$4.20
Exercised in December 2009	(1,564,275)	0.96
Outstanding at December 31, 2009	12,629,203	\$3.52
Exercised in March 2010	(1,975,925)	0.96
Issued for Marret note payable	3,000,000	Cdn\$4.20
Outstanding at September 30, 2010	13,653,278	Cdn\$4.20

Of the warrants outstanding at September 30, 2010, 10,653,278 expire in December 2011 and 3,000,000 expire December 2012.

8. Net Earnings (Loss) per Share

The Company computes basic earnings (loss) per share by dividing net income (loss) attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share are computed by dividing net income (loss) attributable to shareholders by diluted weighted average shares outstanding. Potentially dilutive shares include the assumed exercise of stock options and warrants and the assumed vesting of stock option grants (using the treasury stock method), if dilutive.

Basic and diluted earnings (loss) per share disclosed in these financial statements reflect the converted weighted average number of shares outstanding after the RTO.

9. Sale of Alabama Subsidiary

Effective July 27, 2010, the Company entered into a non-binding letter of intent to sell all its interests in Xinergy of Alabama, Inc., a wholly owned subsidiary of the Company with no significant operations, for net cash proceeds of \$3,124,500. On September 7, 2010, the Company executed the definitive stock purchase agreement with Cedar Lake Mining, Inc. for all the outstanding shares of Xinergy of Alabama, Inc. This resulted in a gain of \$2,141,069.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued) (Unaudited)

10. Capital Management

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy, fund mine development and undertake selective acquisitions, while also managing financial risk. At September 30, 2010, the Company defines capital as cash and shareholders' equity.

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

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

11. Financial Instruments and Financial Risk Factors

All financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on how the financial instrument has been classified upon its inception. Financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value with changes in those fair values recognized in net income (loss). Available-for-sale financial instruments are measured at fair value, with changes in those fair values recognized in other comprehensive income (loss). Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Transaction costs for financial instruments, other than held-for-trading, are included in the value of the financial instrument. Income and expense related to financial instruments is included in the consolidated statement of operations as interest income or interest expense.

The Company's financial instruments include cash, restricted cash and certificates of deposit, trade accounts receivable, accounts payable and accrued expenses, and notes payable.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued) (Unaudited)

11. Financial Instruments and Financial Risk Factors (continued)

The estimated fair value of financial instruments has been determined by the Company using available market information. The carrying value of the Company's cash, restricted cash and certificates of deposit, trade accounts receivable, advances to contract miners and accounts payable and accrued expenses and approximates their fair value due to the short-term nature of these items or the terms of the financial instruments. The estimated fair value of the Company's notes payable also approximate their carrying values because the effective interest rates are not significantly different from current market rates.

The Company's financial instruments have been classified as follow:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	Held-for-trading
Restricted cash and certificates of deposit	Held-to-maturity
Trade accounts receivable	Loans and receivables
Advances to contract miners	Loans and receivables
Accounts payable and accrued expenses	Other financial liabilities
Notes payable	Other financial liabilities

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

Credit Risk

Credit risk arises from the potential that a customer or counterparty will fail to perform its obligations. The Company's exposure to credit risk exists primarily related to its trade accounts receivable. While economic factors can affect credit risk, the Company manages risk by providing credit terms on a case by case basis. Customers are primarily investment grade companies and quasi-governmental agencies. The Company's cash and certificates of deposit are on deposit with quality financial institutions and such deposits are subject to insurance by the Federal Deposit Insurance Corporation, an independent agency of the United States of America, and the Canada Deposit Insurance Corporation, a federal Crown corporation created by Canadian Parliament. The Company's maximum credit risk exposure at September 30, 2010, is approximately \$20,500,000 and is equal to the carrying amount of all uninsured cash, restricted certificates of deposit and trade accounts receivable as listed on the accompanying consolidated balance sheet.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)
(Unaudited)

11. Financial Instruments and Financial Risk Factors (continued)

Market Risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's interest rate risk primarily relates to its interest bearing debt on the accompanying consolidated balance sheet. As the Company's debt has fixed interest rates, the Company has minimized its exposure to cash flow interest rate risk.

The Company's price risk primarily relates to the ability for coal prices to fluctuate widely and is affected by many factors outside of the Company's control. The Company minimizes its price risk by entering into long-term sales contracts with customers which fix the price of coal sold.

Liquidity Risk

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

The Company has sustained losses since operations commenced in 2008 and has financed these losses mainly through a combination of equity and debt offerings. As a result of the RTO and equity issuance in December 2009, the Company significantly increased its cash balances, reduced its outstanding debt and increased its shareholders' equity. As a result of the financing for the business acquisition discussed in Note 2, the Company's debt and cash increased significantly during the second and third quarters of 2010. Management of the Company believes it has sufficient resources to meet all its obligations and also has the ability to fund the Company's operations in the upcoming year. The Company has contractual obligations with future minimum undiscounted amounts payable that are due as follows at September 30, 2010:

	Less than 1 Year	2-3 Years	Thereafter	Total
Accounts payable and accrued expenses	\$ 10,885,291	\$ -	\$ -	\$ 10,885,291
Accrued interest payable	3,125,343	-	-	3,125,343
Notes payable	4,135,505	2,844,704	75,000,000	81,980,209
	<u>\$ 18,146,139</u>	<u>\$ 2,844,704</u>	<u>\$ 75,000,000</u>	<u>\$ 95,990,843</u>

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued) (Unaudited)

12. Concentrations

The Company's three largest customers individually accounted for approximately 58%, 20% and 10% of the Company's revenues during the nine months ended September 30, 2010, and approximately 42%, 35%, and 21% of the Company's revenues during the nine months ended September 30, 2009.

Trade accounts receivable consists primarily of contractual receivables from coal sales to its customers, which are nationally recognized public utilities and industrial companies, as is typical in the industry. Two customers accounted for approximately 48% and 27% of trade account receivable at September 30, 2010. Two customers accounted for approximately 54% and 43% of trade accounts receivable at December 31, 2009.

13. Commitments and Contingencies

The Company is subject to various claims in the ordinary course of business but management believes their ultimate resolution will have no material adverse effect on its financial condition, results of operations or cash flows.