

Consolidated Financial Statements

Xinergy Ltd.

*Years ended December 31, 2009 and 2008
with Report of Independent Auditors*

Xinergy Ltd.
Consolidated Financial Statements
Years ended December 31, 2009 and 2008

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Report of Independent Auditors

To the Shareholders of Xinergy Ltd.

We have audited the accompanying consolidated balance sheets of Xinergy Ltd. (the “Company”) as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders’ equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. 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 plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Xinergy Ltd. as at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

/s/ Coulter & Justus, P.C.

Knoxville, Tennessee
March 29, 2010

Xinergy Ltd.

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

As at December 31

	<u>2009</u>	<u>2008</u>
Assets		
Current assets:		
Cash	\$10,192,766	\$ 163,813
Trade accounts receivable (Note 1)	830,777	1,970,398
Advances to contract miners (Note 11)	–	2,958,776
Coal inventories	1,772,871	1,181,460
Deposit on equipment lease agreement (Note 7)	–	1,370,451
Other current assets	467,201	250,681
Total current assets	13,263,615	7,895,579
Deferred financing costs, net (Note 5)	–	415,947
Future income taxes (Note 8)	8,366,660	3,139,771
Restricted cash (Note 5)	400,000	1,835,337
Restricted certificates of deposit (Note 1)	8,689,989	7,149,879
Recoupable royalties (Note 1)	1,598,180	553,780
Investment in entity (Note 2)	1,884,792	–
Property, plant and equipment, net (Note 3)	22,384,236	27,378,834
Mineral rights, net of accumulated depletion of \$703,505 in 2009 and \$306,185 in 2008	4,526,662	5,268,511
Mine development costs, net of accumulated depletion of \$301,963 in 2009 and \$47,099 in 2008	1,730,727	1,234,837
Other noncurrent assets	412,840	255,544
Total assets	<u>\$63,257,701</u>	<u>\$55,128,019</u>

	<u>2009</u>	<u>2008</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,116,088	\$ 5,888,371
Income taxes payable	61,000	–
Current portion of asset retirement obligations (Note 4)	428,357	232,000
Current portion of equipment and vehicle notes payable (Note 5)	<u>2,128,959</u>	<u>2,779,916</u>
Total current liabilities	5,734,404	8,900,287
Asset retirement obligations, less current portion (Note 4)	5,293,307	4,762,135
Equipment and vehicle notes payable, less current portion (Note 5)	1,175,436	1,193,025
Notes payable to TCW, net (Note 5)	–	34,911,169
Deferred gain on sale and leaseback (Note 1)	750,000	–
Assignment of overriding coal royalty interest payable (Note 5)	–	<u>2,948,750</u>
Total liabilities	<u>12,953,147</u>	<u>52,715,366</u>
Shareholders' equity:		
Share capital	61,747,806	7,318,708
Contributed surplus	2,936	1,580
Warrants	4,365,380	224,114
Stock options	2,111,623	443,521
Accumulated deficit	<u>(17,923,191)</u>	<u>(5,575,270)</u>
Net shareholders' equity	50,304,554	2,412,653
Total liabilities and shareholders' equity	<u>\$63,257,701</u>	<u>\$55,128,019</u>

Commitments and contingencies (Note 12)

See accompanying Notes to 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)

Years ended December 31

	<u>2009</u>	<u>2008</u>
Revenues	\$ 59,448,264	\$57,581,374
Cost of coal sales	46,353,871	49,160,388
General and administrative expenses	7,159,052	4,886,768
Depreciation, depletion and amortization	9,648,593	5,180,783
Operating loss	<u>(3,713,252)</u>	<u>(1,646,565)</u>
Other income (expense):		
Interest income	196,123	182,486
Interest expense	(10,637,893)	(7,058,934)
Amortization of deferred financing costs	(184,865)	(136,025)
Gain on sale of mineral rights	655,472	–
Loss on sale of equipment	(33,662)	–
Loss on advances to contract miners	(2,602,147)	–
Write-off of deferred financing costs	(231,082)	–
Other expense	(64,435)	(27,978)
Net other expense	<u>(12,902,489)</u>	<u>(7,040,451)</u>
Loss before income taxes	(16,615,741)	(8,687,016)
Future income tax benefit (Note 8)	<u>(5,226,889)</u>	<u>(3,139,771)</u>
Net loss	<u><u>\$ (11,388,852)</u></u>	<u><u>\$ (5,547,245)</u></u>
Weighted average number of basic and diluted shares outstanding	<u>33,656,729</u>	<u>27,100,907</u>
Basic and diluted loss per share	<u>\$ (0.34)</u>	<u>\$ (0.20)</u>

See accompanying Notes to Consolidated Financial Statements.

Xinergy Ltd.

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

	Shares Capital (Note 6) Voting and Non-Voting		Contributed Surplus	Warrants	Stock Options	Accumulated Deficit	Receivable Key Employee	Total
	Shares	Amount						
Balance at January 1, 2008	9,750,000	\$ 97,500	\$ –	\$ –	\$ –	\$ (28,025)	\$ –	\$ 69,475
Issuance to investors	2,246,000	2,807,500	–	–	–	–	–	2,807,500
Issuance of warrants to TCW	–	–	–	118,433	–	–	–	118,433
Issuance of warrants to principal shareholder	–	–	–	47,545	–	–	–	47,545
Issuance for loan costs	96,000	120,000	–	–	–	–	–	120,000
Issuance for assets acquired	220,000	275,000	–	–	–	–	–	275,000
Issuance for conversion of note payable and accrued interest to principal shareholder	1,581,475	1,976,844	–	–	–	–	–	1,976,844
Issuance to entity controlled by principal shareholder	1,680,000	2,041,864	–	58,136	–	–	–	2,100,000
Stock-based compensation expense	–	–	–	–	445,101	–	–	445,101
Forfeiture of stock options	–	–	1,580	–	(1,580)	–	–	–
Net loss	–	–	–	–	–	(5,547,245)	–	(5,547,245)
Balance at December 31, 2008	15,573,475	7,318,708	1,580	224,114	443,521	(5,575,270)	–	2,412,653
Stock based compensation expense	–	–	–	–	407,711	–	–	407,711
Issuance for exercised stock options	250,000	459,155	–	–	(146,655)	–	(312,500)	–
Balance at December 21, 2009, pre-merger, pre-share issue, and prior to recording net loss for the year	15,823,475	7,777,863	1,580	224,114	704,577	(5,575,270)	(312,500)	2,820,364
Greenwich Global Capital, Inc. equity balances pre-reverse takeover	6,153,125	675,037	–	–	129,795	(229,723)	–	575,109
Greenwich Global Capital, Inc. shares consolidated on the basis of 1 share for every 19.92 outstanding	(5,844,237)	–	–	–	–	–	–	–
Xinergy Corp. shares consolidated on the basis of 2.0857 share for every 1 share outstanding	17,127,369	(161,119)	–	–	–	–	–	(161,119)

Xinergy Ltd.

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

	Shares Capital (Note 6)		Contributed Surplus	Warrants	Stock Options	Accumulated Deficit	Receivable Key Employee	Total
	Voting and Non-Voting Shares	Amount						
Reverse takeover adjustment	–	\$ (229,723)	\$ –	\$ –	\$ –	\$ 229,723	\$ –	–
Reverse takeover costs incurred	–	–	–	–	–	(959,069)	–	(959,069)
Acquisition from entity controlled by principal shareholder	(385,700)	(1,275,163)	–	–	–	–	–	(1,275,163)
Issuance to investors	18,985,700	56,514,869	–	–	–	–	–	56,514,869
Issuance to investors	42,572	149,000	–	–	–	–	–	149,000
Issuance of warrants to investors	–	(3,794,871)	–	3,794,871	–	–	–	–
Issuance of warrants to agents	–	(464,828)	–	464,828	–	–	–	–
Balance at December 21, 2009, prior to recording of net loss for the year	51,902,304	59,191,065	1,580	4,483,813	834,372	(6,534,339)	(312,500)	57,663,991
Issuance for exercised warrants	1,079,566	118,433	–	(118,433)	–	–	–	–
Stock based compensation expense	–	–	–	–	1,278,607	–	–	1,278,607
Issuance for professional services rendered	200	661	–	–	–	–	–	661
Issuance to employees for services	120,000	396,732	–	–	–	–	–	396,732
Issuance to directors for services	150,000	495,915	–	–	–	–	–	495,915
Proceeds from payment of key employee receivable	–	–	–	–	–	–	312,500	312,500
Issuance to sellers of acquired net assets	500,000	1,545,000	–	–	–	–	–	1,545,000
Forfeiture of stock options	–	–	1,356	–	(1,356)	–	–	–
Net loss	–	–	–	–	–	(11,388,852)	–	(11,388,852)
Balance at December 31, 2009	53,752,070	\$61,747,806	\$ 2,936	\$4,365,380	\$ 2,111,623	\$ (17,923,191)	\$ –	\$ 50,304,554

See accompanying Notes to Consolidated Financial Statements.

Xinergy Ltd.

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

	Year ended December 31	
	2009	2008
Operating activities		
Net loss	\$(11,388,852)	\$(5,547,245)
Items not affecting cash:	–	
Depreciation, depletion and amortization	9,648,593	5,180,783
Loss on sale of equipment	33,662	–
Gain on sale of mineral rights	(655,472)	–
Accretion of assets retirement obligations	361,544	165,099
Amortization of deferred financing costs	184,865	136,025
Write-off of deferred financing costs	231,082	–
Amortization of discount on notes payable	88,831	77,147
Future income tax benefit	(5,226,889)	(3,139,771)
Loss on advances to contract miners	2,602,147	–
Stock-based compensation expense	1,686,318	445,101
Issuance of common shares for services rendered	893,308	–
Changes in operating assets and liabilities:		
Trade accounts receivable	1,139,621	(1,970,398)
Advances to contract miners	356,629	(2,955,576)
Coal inventories	(591,411)	(890,886)
Deposit on equipment lease agreement	1,370,451	(1,370,451)
Other current assets	23,680	(250,681)
Recoupable royalties	(1,044,400)	(154,976)
Other noncurrent assets	(157,296)	(255,544)
Accounts payable and accrued expenses	(2,783,134)	5,965,215
Assignment of overriding coal royalty interest payable	(2,948,750)	2,948,750
Asset retirement obligations settled	(337,961)	(185,987)
Net cash used in operating activities	<u>(6,513,434)</u>	<u>(1,803,395)</u>
Investing activities		
Acquisition of business	–	(10,572,574)
Net cash acquired in merger, prior to public offering	566,760	–
Acquisition of Shenendoah net assets	(499,792)	–
Purchases of property, plant and equipment	(4,631,126)	(22,352,910)
Purchases of mine development costs	(750,754)	(1,281,936)
Proceeds from sale of equipment	1,299,600	–
Proceeds from sale of mineral rights	1,750,000	–
Change in restricted certificates of deposit	(1,540,110)	(7,149,879)
Change in restricted cash	1,435,337	(1,835,337)
Net cash used in investing activities	<u>(2,370,085)</u>	<u>(43,192,636)</u>

Xinergy Ltd.

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

	Year ended December 31	
	2009	2008
Financing activities		
Proceeds from issuance of common shares, net	\$ 56,663,869	\$ 4,907,500
Payment for acquisition of common shares from entity controlled by principal shareholder	(1,275,163)	–
Proceeds from issuance of notes payable to TCW	–	35,000,000
Proceeds from issuance of note payable to related party	–	1,900,000
Proceeds from issuance of equipment and vehicle notes payable	3,016,417	7,809,798
Repayment on notes payable to TCW	(35,000,000)	–
Repayments on advances from principal shareholder	–	(155,700)
Repayments on equipment and vehicle notes payable	(3,684,963)	(3,890,032)
Payments for deferred financing costs	–	(431,972)
Payments for dissenting common shares	(161,119)	–
Proceeds from exercise of options	312,500	–
Reverse takeover costs incurred	(959,069)	–
Net cash provided by financing activities	<u>18,912,472</u>	<u>45,139,594</u>
Net change in cash	<u>10,028,953</u>	<u>143,563</u>
Cash at beginning of year	<u>163,813</u>	<u>20,250</u>
Cash at end of year	<u>\$ 10,192,766</u>	<u>\$ 163,813</u>
Supplemental disclosure of noncash activities		
Issuance of common shares warrants to TCW	\$ –	\$ 118,433
Issuance of common shares warrants to principal shareholder	–	47,545
Issuance of common shares for loan costs	–	120,000
Issuance of common shares for assets acquired	1,545,000	275,000
Issuance of common shares for debt and accrued interest	–	1,976,844
Supplemental disclosure of cash flow information		
Interest paid	\$ 13,615,810	\$ 4,003,870

See accompanying Notes to Consolidated Financial Statements.

Xinergy Ltd.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Xinergy Corp. 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 had no significant operations prior to the acquisition in March 2008, as discussed in Note 2. Subsequent to this acquisition, the Company began operations by utilizing contract miners for its existing mineral leases, while also purchasing and remarketing coal from third-parties. The business activities of the Company are presently located in eastern Kentucky.

On December 21, 2009, Xinergy Corp. (“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 (“CPC”) 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. Where context requires, in respect to transactions prior to the RTO, the “Company” also refers to Xinergy.

Principles of Consolidation

Pursuant to the RTO transaction, these consolidated financial statements for the years ended December 31, 2009 and 2008, reflect the assets, liabilities, and results of operations of Xinergy prior to the RTO and the consolidated assets, liabilities, and results of operations of the Company and Xinergy subsequent to the RTO. The consolidated financial statements are issued under the name of the legal parent (the “Company”), but are deemed to be a continuation of the legal subsidiary (“Xinergy”). The consolidated financial statements include Xinergy Ltd. and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). 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”.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

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

Reverse Takeover Accounting

The RTO was completed on December 21, 2009. Prior to the completion of the RTO, GGC affected a reverse split of its outstanding common shares on the basis of 1 new share for each 19.92 shares outstanding and Xinergy Corp. affected a split of its outstanding common shares on the basis of 2.0857 new shares for each 1 share outstanding (net of 25,000 dissenting shares which were paid out in the amount of \$161,119). In addition, warrants and options to purchase Xinergy 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 shares and exercise prices.

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.

Revenues

The Company recognizes revenue from coal sales when title or risk of loss passes to the carrier or customer, which generally occurs at the time of shipment. Sales contracts typically have a fixed and determinable price and collectability is reasonably assured. Shipping and handling costs are classified as a component of cost of sales.

The Company's three largest customers individually accounted for approximately 45%, 30% and 21% of the Company's sales during 2009. The Company's four largest customers individually accounted for approximately 33%, 27%, 15% and 15% of the Company's sales during 2008.

Trade Accounts Receivable

Trade accounts receivable consists primarily of contractual receivables from coal sales to its customers, which are nationally recognized public utilities and industrial companies, as is typical in the industry. Two customers accounted for approximately 54% and 43% of trade accounts receivable at December 31, 2009, while one customer accounted for approximately 79% of trade accounts receivable at December 31, 2008. It is the Company's policy not to require collateral on trade accounts receivable. Accounts are charged to bad debt expense as they are determined to be uncollectible based upon a review of aging and collections. Credit losses from coal sales, when realized, have been in the range of the Company's expectations and, historically, have not been significant.

Coal Inventories

Coal inventories are valued at the lower of cost or net realizable value using the weighted average method.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

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

Recoupable Royalties

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

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Additions and improvements that significantly add to productive capacity or extend the useful lives of assets are capitalized. Maintenance and repair costs are expensed as incurred. Depreciation is based on estimated useful lives of the assets, which range from 3 to 10 years for plant and improvements and 3 to 7 years for equipment and autos and trucks, and is computed by the straight-line method.

Mineral Rights and Mine Development Costs

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.

During March 2009, the Company sold certain mineral rights with a recorded cost of \$344,528 for \$1,750,000. The Company then leased back the associated mineral rights under an operating lease agreement and made prepaid royalty payments related to this lease of \$750,000, which have been recorded as recoupable royalties in the accompanying consolidated balance sheet. The Company deferred the portion of the gain associated with the prepaid royalty payments (\$750,000) until which time the Company determines to mine these properties. At the time mining commences, the gain will be recognized in relation to the tons mined. A gain of \$655,472 was recognized in the accompanying consolidated statement of operations during 2009.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company did not recognize any impairment charges during 2009 and 2008.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

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

Asset Retirement Obligations

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

The Company estimates the fair value of its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of future costs for third-party to perform the required work. Cost estimates are escalated for inflation, and then discounted at the credit-adjusted risk-free rate, which approximated 6.5% at December 31, 2009. Total estimated undiscounted future costs related to the ARO liabilities totaled approximately \$6,615,000 at December 31, 2009, with costs expected to be paid from 2010 to 2018. The Company records a capital asset retirement cost associated with the initial recorded liability. The capital asset retirement cost is amortized based on the units of production method over the estimated recoverable, proven and probable reserves at the related mine, and the ARO liability is accreted to the projected settlement date. Changes in estimates could occur in the near term due to revisions of mine plans, changes in estimated costs, and changes in timing of the performance of reclamation activities.

At December 31, 2009 and 2008, the Company had restricted certificates of deposit in the amount of \$8,689,989 and \$7,149,879, respectively, which are required by authoritative agencies for necessary permitting to allow mining and as collateral to ensure the completion of future reclamation.

Income Taxes

United States future income taxes are provided for temporary differences arising from differences between the financial statement and tax basis of assets and liabilities at each balance sheet date using substantially enacted tax rates expected to be in effect when the related taxes are expected to be paid or recovered.

There are no significant Canadian income taxes recorded through December 31, 2009.

Stock-based Compensation

The Company uses the fair value method of accounting for stock options and warrants granted. The fair value of stock options and warrants is determined using the Black-Scholes option pricing model with assumptions for risk-free interest rates, volatility factors of the expected market price of the Company's common shares and an expected life of the options and warrants. The fair value of the instruments granted is amortized over the vesting period.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

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

Stock-based Compensation (continued)

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

When warrants or stock options expire, or stock options are forfeited, the amount is transferred to contributed surplus. The Company has not incorporated an estimated forfeiture rate of stock options that will not vest; rather, the Company accounts for actual forfeitures as they occur.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimates include, but are not limited to, asset retirement obligations, stock-based compensation and provision for income taxes.

Financial Instruments

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.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

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 year ended December 31, 2009, 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 has not been completed.

2. Acquisitions

Effective March 28, 2008, the Company purchased certain assets and assumed certain asset retirement obligations of a separate company. Pursuant to the asset purchase agreement, the purchase price for the assets totaled \$10,772,574, which was paid in cash (of which \$200,000 was paid in 2007).

The following table summarizes the allocation of the purchase price to the assets acquired and the liabilities assumed using the purchase method:

Coal inventories	\$ 290,574
Recoupable royalties	398,804
Land	133,421
Plant and improvements	5,704,536
Transportation and other equipment	1,922,043
Capitalized asset retirement costs	1,090,454
Mineral rights	5,574,696
Total assets acquired	<u>15,114,528</u>
Asset retirement obligations assumed	4,341,954
Net assets acquired	<u>\$10,772,574</u>

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

2. Acquisitions (continued)

Effective in December 2009, the Company purchased 100% of the membership interest in Shenendoah Energy, LLC (“Shenendoah”) from an individual, who became a member of management in 2010, and his wife. Pursuant to the purchase agreement, the total purchase price was \$2,044,792, which included \$499,792 in cash and 500,000 common shares of the Company valued at \$1,545,000. 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 is considered acquiring a group of assets and not a business combination. The accompanying consolidated balance sheet as at December 31, 2009, includes the \$160,000 accounts receivable and an investment in Raven Crest of \$1,884,792, which is accounted for on the cost basis.

The Company executed a definitive membership interest purchase agreement effective March 11, 2010 to purchase the remaining 95% of the membership interests in Raven Crest. Terms of the purchase agreement provided for a non-refundable good faith payment of \$500,000 that was made by the Company during 2010 and recorded as a deposit related to the pending acquisition, as well as an additional \$39,500,000 in cash that will be payable at closing. Additional terms of the purchase agreement include certain working capital adjustments that could modify the final purchase price. The agreement also contains a provision that requires the Company to pay a break-up fee of \$750,000 if the closing does not occur by April 30, 2010, absent certain conditions.

To fund the Raven Crest acquisition, the Company has received a financing commitment for \$75,000,000. The non-binding term sheet provides for the issuance of \$75,000,000 in notes payable, collateralized by substantially all assets of the Company, for total proceeds of \$72,750,000. In consideration for the closing of the financing, the Company would issue 3,000,000 common stock purchase warrants, subject to TSX approval, with an exercise price of Cdn\$4.20 and expiration in December 2012. Additionally, a commission of 3.5% of the gross proceeds of the sale of the notes would be paid to the agent upon closing. Interest on the notes would be at 9.75%, payable semi-annually in arrears in equal instalments. Should the Company choose to terminate the commitment or not complete this financing by May 31, 2010, the Company is subject to a break fee in the amount of \$750,000. The notes would mature on the date that is five years and one day from the closing date. The company would have 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 would be required to offer to redeem the outstanding notes for a redemption price equal to 109.75% of the outstanding principal balance on the notes.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

3. Property, Plant and Equipment

Property, plant and equipment consists of the following at 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
	\$35,357,199	\$ 12,972,963	\$22,384,236

	2008		
	Cost	Accumulated Depreciation and Depletion	Net
Land	\$ 133,421	\$ –	\$ 133,421
Plant and improvements	5,858,054	(460,298)	5,397,756
Mining equipment	23,365,227	(4,039,148)	19,326,079
Autos and trucks	955,844	(165,130)	790,714
Other equipment	176,270	(33,313)	142,957
Capitalized asset retirement costs	1,763,523	(175,616)	1,587,907
	\$32,252,339	\$(4,873,505)	\$27,378,834

4. Asset Retirement Obligations

Changes in the Company's asset retirement obligations are summarized as follows for the year ended December 31:

	2009	2008
Asset retirement obligations, beginning of year	\$4,994,135	\$ –
Asset retirement obligations assumed in acquisition	–	4,341,954
Liabilities incurred	703,946	673,069
Accretion expense	361,544	165,099
Revisions in estimated cash flows	17,028	–
Liabilities settled	(354,989)	(185,987)
Asset retirement obligations, end of year	\$5,721,664	\$4,994,135

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

5. Notes Payable

Notes payable consist of the following at December 31:

	2009	2008
Notes payable to TCW Asset Management Company (“TCW”), net of unamortized discount of \$88,831 at December 31, 2008	\$ –	\$34,911,169
Other equipment and vehicle notes payable	3,304,395	3,972,941
Total notes payable, net of unamortized discount	3,304,395	38,884,110
Less current portion of notes payable, net of unamortized discount	2,128,959	2,779,916
Long-term portion of notes payable, net of unamortized discount	\$1,175,436	\$36,104,194

Notes Payable to TCW

In March 2008, the Company issued a \$24,000,000 note payable to TCW under a note purchase agreement. In June 2008, the Company was advanced an additional \$11,000,000 note payable to TCW under the existing note purchase agreement. During December 2009, the notes payable were paid in full.

In connection with this financing, the Company entered into an assignment of overriding coal royalty interest with TCW, whereby the Company was to pay (including quarterly interest payments at 15%) a total of 1.8 times the loan amount. As the maturity date was originally March 2011, the outstanding balance was classified as long-term at December 31, 2008. The Company had accrued \$2,948,750 at December 31, 2008, related to this assignment of overriding coal royalty interest, which is included as a component of interest expense in the accompanying consolidated statement of operations. During December 2009, the assignment of overriding coal royalty interest were paid in full. Total interest expense related to the TCW note payable and assignment of royalty interest amounted to \$9,056,917 in 2009 and \$6,601,353 in 2008.

Also in connection with this financing, the Company issued 1,564,275 common stock purchase warrants at an exercise price of \$0.96 per share (exercised on a cashless basis in December 2009). The value of these common stock purchase warrants was estimated at the date of the issuance to be \$118,433 and was recorded as a discount on the notes payable. The unamortized discount was \$88,831 at December 31, 2008.

In connection with this financing, the Company paid certain financing costs through the issuance of 96,000 common shares, valued at \$120,000. The value of the common shares was estimated based on private offering prices of the Company’s common shares around the same time period.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

5. Notes Payable (continued)

Notes Payable to TCW (continued)

In connection with the original \$24,000,000 in borrowings under this note payable, the Company was required to maintain a debt service reserve account equal to six months of interest on the outstanding principal amount. At December 31, 2008, the Company had \$1,835,337 of restricted cash set aside for this purpose.

Total deferred financing costs of \$551,972 (including \$120,000 in common shares issued) were capitalized as part of this financing and the accumulated amortization totaled \$136,025 at December 31, 2008. During 2009, in connection with the notes payable being paid in full, the remaining unamortized deferred financing costs were written-off.

Equipment and Vehicle Notes Payable

The Company has numerous equipment and vehicle notes totaling \$3,304,395 and \$3,972,941 at December 31, 2009 and 2008, respectively. These notes bear interest at fixed rates ranging from non-interest bearing to 9.68% and are due in various monthly payments through October 2011. All these loans are collateralized by the related equipment and vehicle purchased, along with personal guarantees of a principal shareholder for certain of these notes.

In connection with a certain equipment note payable, the Company is required to maintain restricted cash of \$400,000 as additional collateral.

Scheduled Maturities of Notes Payable

Aggregate annual future maturities of notes payable at December 31, 2009, are as follows:

2010	\$2,128,959
2011	1,175,436
Total notes payable, net of discount	<u>\$3,304,395</u>

6. Shareholders' Equity

Share Capital

The authorized share capital consists of an unlimited number of no par voting and non-voting shares. The 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. All remaining share capital transaction amounts affect voting shares.

Between January and March of 2008, in separate private placement transactions, the Company issued 2,466,000 common shares, at \$1.25 per share, for cash consideration of \$2,807,500 and \$275,000 of assets.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

6. Shareholders' Equity (continued)

Share Capital (continued)

In March 2008, the Company issued a \$1,900,000 subordinated convertible note payable to its principal shareholder. In connection with this financing, the Company issued 938,565 common stock purchase warrants at an exercise price of \$0.96 per share, expiring in March 2010. The value of these common stock purchase warrants was estimated to be \$47,545 upon issuance and was recorded as a discount on the notes payable. As the note was not repaid in full at maturity in September 2008, the principal, as well as accrued interest of \$76,844 was mandatorily converted into 1,581,475 common shares at a conversion price of \$1.25 per share pursuant to the agreement.

In July 2008, the Company issued to an entity controlled by its principal shareholder 1,680,000 common shares at \$1.25 per share and 1,037,360 common stock purchase warrants, for cash in the amount of \$2,100,000. The common stock purchase warrants, which were valued at \$58,136 at the date of issuance, have an exercise price of \$0.96 per share and expire in July 2011.

In connection with the RTO during December 2009, the Company acquired 385,700 common shares for \$1,275,163 from an entity controlled by its principal shareholder and issued 18,985,700 common shares at Cdn\$3.50 per share and 9,492,850 common stock purchase warrants valued at \$3,786,325 for net cash proceeds of \$56,514,869. The Company also issued to the placement agents an aggregate of 1,139,142 common stock purchase warrants valued at \$464,828, which has been recorded as a reduction to share capital. Additionally, the company issued 42,572 common shares at \$3.50 per share and 21,286 common stock purchase warrants valued at \$8,546 for total cash proceeds of \$149,000. All these common stock purchase warrants have an exercise price of Cdn\$4.20 and expire in December 2011. In connection with this offering, the Company incurred offering costs totaling \$6,253,754 which has been recorded as a reduction to share capital.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

6. Shareholders' Equity (continued)

Share Capital (continued)

Common share activity of GGC during 2009, up to and including the RTO closing date, is as follows:

	Number of Shares Voting and Non-Voting	Share Capital Amount
Balance at December 31, 2008	6,153,125	\$ 675,037
Consolidated on the basis of 1 share for every 19.92 shares outstanding (Note 1)	(5,844,237)	—
Balance after consolidation	308,888	675,037
Share capital arising from RTO transaction on December 21, 2009 (Note 1)	32,950,844	7,616,744
Acquisition from entity controlled by principal shareholder	(385,700)	(1,275,163)
Issued to investors	19,028,272	56,663,869
RTO adjustment	—	(229,723)
Value of warrants issued to investors	—	(3,794,871)
Value of warrants issued to agents	—	(464,828)
Balance at December 21, 2009	51,902,304	\$59,191,065

In addition to the offering costs, the Company incurred \$959,069 in costs related to the RTO which have been treated as a capital transaction and charged to accumulated deficit.

In 2010, in connection with the Chief Financial Officer's employment agreement, the Company issued 100,000 restricted common shares, of which 50,000 shares are exercisable in December 2010 and 50,000 shares are exercisable in December 2011.

Additionally, in 2010 the Company issued an aggregate of 60,000 restricted common shares to its three independent Directors, which are exercisable in January 2011. These shares are subject to cancellation if not approved by the shareholders.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

6. Shareholders' Equity (continued)

Stock Options

During February 2008, the Company established a Stock Incentive Plan (the "Plan"), which authorizes up to 3,000,000 shares for grants of incentive awards to employees, consultants and directors who will contribute to the Company's long range success. Stock options issued under the Plan may have a term up to ten years and are subject to vesting periods determined by the Board of Directors. Stock options issued under the Plan prior to the RTO were converted into stock options to purchase an equivalent number of shares. This note reflects the converted number of stock options and exercise prices to reflect the effects of the RTO adjustment.

GGC previously had a stock option plan which authorized shares for grants of incentive awards to directors, officers, employees and consultants of GGC. The GGC plan remains in place and options issued prior to the RTO will continue to be governed by this plan; however, no further options will be issued pursuant to this plan.

As a result of the RTO, the Company established a revised Stock Option Plan to reflect the Company's current equity structure. This revised plan authorizes up to 7,000,000 shares, including options issued under the previous plans, for grants of incentive awards to employees, executive officers, directors and consultants to the Company. The Board of Directors will administer this plan and have the authority to determine the terms, limitations, restrictions and conditions, if any, applicable to the exercise of the stock options. The exercise price per share of options issued under this plan must not be less than the market price at the time the stock options are granted.

Total stock-based compensation expense was \$1,686,318 in 2009 and \$445,101 in 2008.

During 2008, the Company issued stock options pursuant to the Plan as follows: in April 2008, options were granted to purchase 3,337,120 shares; in May 2008, options were granted to purchase 271,141 shares; in July 2008, options were granted to purchase 417,140 shares; in August 2008, options were granted to purchase 83,428 shares; and in October 2008, options were granted to purchase 156,428 shares. All of these options have an exercise price of \$0.60 per share. The weighted average grant-date fair value of options granted during 2008 was \$0.60 per share.

During 2009, the Company issued stock options pursuant to the Plan as follows: in January 2009, options were granted to purchase 31,286 shares with an exercise price of \$0.60 per share; in September 2009, options were granted to purchase 93,858 shares with an exercise price of \$1.53; in October and November 2009, options were granted to purchase 1,001,139 shares with an exercise price of \$1.53; in December 2009, options were granted to purchase 500,000 shares with an exercise price of Cdn\$3.85. The weighted average grant-date fair value of options granted during 2009 was \$2.23 per share.

During 2009, stock options to purchase 521,425 shares were exercised at a price of \$0.60 per share.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

6. Shareholders' 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, 2008	–	\$ –
Granted	4,265,257	0.60
Forfeited	(458,854)	0.60
Outstanding at December 31, 2008	<u>3,806,403</u>	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

Of the stock options outstanding at December 31, 2009, 27,108 options expire in 2010, 1,668,560 options expire in 2013, 1,063,707 options expire in 2018, and 1,626,283 options expire in 2019.

Details of the stock options exercisable at December 31, 2009 are as follows:

	Number of Options	Weighted Average Exercise Price
	1,781,402	\$ 0.60
	27,108	Cdn1.99
	<u>1,808,510</u>	<u>\$ 0.62</u>

During January 2010, the Company issued stock options pursuant to the Plan as follows: options were granted to purchase 400,000 shares with an exercise price of \$3.10 per share and options were granted to purchase 120,000 shares with an exercise price of \$3.62 per share.

During 2010, 292,226 shares have been issued for exercised options, resulting in total proceeds received of \$205,147.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

6. Shareholders' Equity (continued)

Warrants

Summarized information about warrants, after reflection of the converted number of warrants and exercise prices, from inception to December 31, 2009, is as follows:

	Number of Warrants	Amount	Exercise Price	Expiry Date
Issued to TCW in March 2008 (Note 5)	1,564,275	\$ 118,433	\$0.96	March 2011
Issued to principal shareholder in March 2008	938,565	47,545	\$0.96	March 2010
Issued to entity controlled by principal shareholder in July 2008	1,037,360	58,136	\$0.96	July 2011
Balance outstanding at December 31, 2008	3,540,200	224,114		
Issued to investors in December 2009	9,514,136	3,794,871	Cdn\$4.20	December 2011
Issued to agents in December 2009	1,139,142	464,828	Cdn\$4.20	December 2011
Exercised in December 2009	(1,564,275)	(118,433)		
Balance outstanding at December 31, 2009	12,629,203	\$4,365,380		

During 2010, 1,975,925 shares have been issued for exercised warrants, resulting in total proceeds received of \$1,896,888.

Black-Scholes Valuations

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

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

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

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

7. Operating Leases

The Company leases the building for their corporate office under an agreement classified as an operating lease. Annual rental payments under the terms of the agreement, which expires in October 2012, total \$53,562.

The Company also has various other equipment operating lease agreements under month-to-month operating leases. In connection with a certain equipment lease agreement, the Company was required to deposit \$1,370,451 as collateral. During 2009, the Company purchased the leased equipment and applied the deposit to the purchase price.

8. Income Taxes

For tax purposes at December 31, 2009, the Company has United States net operating loss (“NOL”) carryovers which are available to offset further taxable income. The Federal NOL carryovers are approximately \$27,200,000 and the state (Kentucky and Tennessee) NOL carryovers are approximately \$13,200,000. Collectively, the NOLs expire between 2023 and 2030. The future benefit of these NOLs may be limited on an annual basis and in total under Section 382 of the United States Internal Revenue Code as a result of ownership changes and depending on the extent of any future ownership changes.

Significant components of the provision for future income tax benefit are as follows for the year ended December 31:

	<u>2009</u>	<u>2008</u>
Federal	\$(4,918,591)	\$(2,764,170)
State	(308,298)	(375,601)
Total future income tax benefit	<u>\$(5,226,889)</u>	<u>\$(3,139,771)</u>

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

8. Income Taxes (continued)

Significant components of the Company's United States future tax assets and liabilities are as follows at December 31:

	<u>2009</u>	<u>2008</u>
Future tax assets:		
Asset retirement obligations	\$ 508,281	\$ 251,873
NOL carryovers	9,877,427	5,984,081
Deferred gain on sale and leaseback	279,750	-
Other	136,823	-
Total future tax assets	<u>10,802,281</u>	<u>6,235,954</u>
Future tax liabilities:		
Capitalized asset retirement costs	(334,395)	(192,116)
Mine development costs	(146,082)	(212,565)
Tax over book depreciation	(1,331,682)	(2,691,502)
Recoupable royalties	(623,462)	-
Total future tax liabilities	<u>(2,435,621)</u>	<u>(3,096,183)</u>
Net future tax assets	<u>\$ 8,366,660</u>	<u>\$ 3,139,771</u>

The reconciliation of income tax benefit computed at the U.S. federal statutory tax rates to the income tax benefit recorded is as follows for the year ended December 31:

	<u>2009</u>	<u>2008</u>
Federal income taxes at U.S. statutory rate of 34%	\$(5,649,352)	\$(2,973,751)
State income taxes	(308,298)	(361,763)
Permanent differences	739,665	215,155
Other	(8,904)	(19,412)
Income tax benefit	<u>\$(5,226,889)</u>	<u>\$(3,139,771)</u>

9. 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 is 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.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

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 December 31, 2009, the Company defines capital as cash and shareholders' equity. Prior to the Company's RTO of GGC (*Note 1*) and related equity issuance during December 2009, the Company also included certain of its debt as capital. This debt was repaid during December 2009.

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

The Company's financial instruments include cash, restricted cash and certificates of deposit, trade accounts receivable, advances to contract miners, accounts payable and accrued expenses, assignment of overriding coal royalty interest payable, and notes payable.

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, accounts payable and accrued expenses, and assignment of overriding coal royalty interest payable 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:

Financial Instrument	Classification
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
Assignment of royalty interest payable	Other financial liabilities
Notes payable	Other financial liabilities

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

11. Financial Instruments and Financial Risk Factors (continued)

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 previously made periodic advances to certain contract miners; however, this practice has since been terminated. During 2009, the Company ceased operations with certain contract miners with whom it had advanced monies and recognized credit losses of \$2,602,147. 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 December 31, 2009, is approximately \$8,632,000 and is equal to the carrying amount of all cash, restricted cash and certificates of deposit, trade accounts receivable and advances to contract miners, as listed on the accompanying consolidated balance sheet.

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.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)

11. Financial Instruments and Financial Risk Factors (continued)

Liquidity Risk (continued)

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 has significantly increased its cash balances, reduced its outstanding debt and increased its shareholders' equity. 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 December 31, 2009:

Description	2010	2011 to 2012	Thereafter	Total
Accounts payable and accrued expenses	\$3,116,088	\$ -	\$ -	\$3,116,088
Notes payable	2,128,959	1,175,436	-	3,304,395
Leases	53,562	98,197	-	151,759
	<u>\$5,298,609</u>	<u>\$1,273,633</u>	<u>\$ -</u>	<u>\$6,572,242</u>

12. 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.