

Interim Consolidated Financial Statements

Xinergy Ltd.

*Three months ended March 31, 2010  
(Unaudited)*

Xinergy Ltd.  
Consolidated Financial Statements  
Three months ended March 31, 2010  
*(Unaudited)*

**Contents**

Consolidated Financial Statements

Consolidated Balance Sheets .....	1
Consolidated Statements of Operations .....	3
Consolidated Statements of Shareholders' Equity .....	4
Consolidated Statements of Cash Flows .....	5
Notes to Consolidated Financial Statements .....	7

Xinergy Ltd.

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

	<b>As at March 31 2010</b>	<b>As at December 31 2009</b>
	<b>(Unaudited)</b>	<b>(Note 1)</b>
<b>Assets</b>		
Current assets:		
Cash	<b>\$ 8,584,572</b>	\$10,192,766
Trade accounts receivable	<b>591,813</b>	830,777
Coal inventories	<b>4,002,300</b>	1,772,871
Other current assets	<b>628,406</b>	467,201
Total current assets	<b>13,807,091</b>	13,263,615
Future income taxes	<b>10,021,122</b>	8,366,660
Restricted certificates of deposit	<b>8,305,576</b>	9,089,989
Recoupable royalties	<b>1,192,000</b>	1,598,180
Investment in entity (Note 2)	<b>1,884,792</b>	1,884,792
Property, plant and equipment, net (Note 3)	<b>23,446,441</b>	22,384,236
Mineral rights, net of accumulated depletion of \$794,122 as at March 31, 2010 and \$703,505 as at December 31, 2009	<b>4,436,045</b>	4,526,662
Mine development costs, net of accumulated depletion of \$372,008 as at March 31, 2010 and \$301,963 as at December 31, 2009	<b>1,731,166</b>	1,730,727
Deposits on acquisition of Raven Crest	<b>1,250,000</b>	-
Other noncurrent assets	<b>288,931</b>	412,840
Total assets	<b><u>\$66,363,164</u></b>	<b><u>\$63,257,701</u></b>

	<b>As at March 31 2010 (Unaudited)</b>	<b>As at December 31 2009 (Note 1)</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	<b>\$5,210,007</b>	\$ 3,116,088
Income taxes payable	–	61,000
Current portion of asset retirement obligations (Note 5)	<b>428,357</b>	428,357
Current portion of equipment and vehicle notes payable (Note 6)	<b>2,081,872</b>	2,128,959
Total current liabilities	<b>7,720,236</b>	5,734,404
Asset retirement obligations, less current portion (Note 5)	<b>5,293,953</b>	5,293,307
Equipment and vehicle notes payable, less current portion (Note 6)	<b>2,430,931</b>	1,175,436
Deferred gain on sale and leaseback (Note 4)	<b>750,000</b>	750,000
Total liabilities	<b>16,195,120</b>	12,953,147
Shareholders' equity:		
Share capital	<b>64,672,714</b>	61,747,806
Contributed surplus	<b>2,936</b>	2,936
Warrants	<b>4,259,699</b>	4,365,380
Stock options	<b>2,266,182</b>	2,111,623
Accumulated deficit	<b>(21,033,487)</b>	(17,923,191)
Net shareholders' equity	<b>50,168,044</b>	50,304,554
Total liabilities and shareholders' equity	<b>\$66,363,164</b>	\$63,257,701
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)*  
*(Unaudited)*

For the three months ended March 31

	<u>2010</u>	<u>2009</u>
Revenues	\$ 7,860,061	\$23,247,857
Cost of coal sales	7,615,643	14,883,043
General and administrative expenses	1,595,974	1,031,122
Depreciation, depletion and amortization	2,726,531	2,468,020
Operating (loss) income	<u>(4,078,087)</u>	4,865,672
Other income (expense):		
Interest income	153,919	58,103
Interest expense	(10,416)	(2,534,907)
Gain on sale of mineral rights (Note 4)	–	655,472
Stock based compensation	(870,164)	(94,853)
Other income (expense)	(21,010)	18,072
Net other income (expense)	<u>(747,671)</u>	<u>(1,898,113)</u>
(Loss) income before income taxes	(4,825,758)	2,967,559
Provision for income tax (benefit) expense:		
Current	(61,000)	–
Future	(1,654,462)	1,037,952
Total provision for income tax (benefit) expense	<u>(1,715,462)</u>	<u>1,037,952</u>
Net (loss) income	<u>\$ (3,110,296)</u>	<u>\$ 1,929,607</u>
Weighted average number of basic shares outstanding	<u>54,451,928</u>	<u>32,724,928</u>
Basic (loss) income per share	<u>\$ (0.06)</u>	<u>\$ 0.06</u>
Weighted average number of diluted shares outstanding	<u>54,451,928</u>	<u>37,069,577</u>
Diluted (loss) income per share	<u>\$ (0.06)</u>	<u>\$ 0.05</u>

*See accompanying Notes to 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	–	–	–	–	94,853	–	–	94,853
Issuance for exercised stock options	250,000	459,155	–	–	(146,655)	–	(312,500)	–
Net income for the three months ended March 31, 2009	–	–	–	–	–	1,929,607	–	1,929,607
Balance at March 31, 2009	15,823,475	\$ 7,777,863	\$1,580	\$ 224,114	\$ 391,719	\$ (3,645,663)	\$ (312,500)	\$ 4,437,113
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
Stock based compensation expense	–	–	–	–	345,145	–	–	345,145
Net loss for the three months ended March 31, 2010	–	–	–	–	–	(3,110,296)	–	(3,110,296)
Balance at March 31, 2010	56,180,221	\$64,672,714	\$2,936	\$4,259,699	\$2,266,182	\$(21,033,487)	\$ –	\$50,168,044

See accompanying Notes to Consolidated Financial Statements.

Xinergy Ltd.

Consolidated Statements of Cash Flows

(Expressed in U.S. Dollars)

(Unaudited)

For the three months ended March 31

	<u>2010</u>	<u>2009</u>
<b>Operating activities</b>		
Net (loss) income	\$ (3,110,296)	\$1,929,607
Items not affecting cash:		
Depreciation, depletion and amortization	2,726,531	2,468,020
Gain on sale of mineral rights	–	(655,472)
Accretion of assets retirement obligations	59,928	111,949
Amortization of deferred financing costs	–	46,216
Amortization of discount on notes payable	–	9,870
Future income tax (benefit) expense	(1,654,462)	1,037,952
Stock based compensation expense	345,145	94,853
Issuance of common shares for services rendered	525,019	–
Changes in operating assets and liabilities:		
Trade accounts receivable	238,964	(3,012,052)
Advances to contract miners	–	222,945
Coal inventories	(2,229,429)	(1,199,712)
Other current assets	(161,205)	(70,784)
Recoupable royalties	406,180	(776,600)
Other noncurrent assets	123,909	(33,058)
Accounts payable and accrued expenses	2,093,919	1,740,821
Assignment of overriding coal royalty interest payable	–	1,100,417
Income taxes payable	(61,000)	–
Asset retirement obligations settled	(59,282)	(22,686)
Net cash (used in) provided by operating activities	<u>(756,079)</u>	<u>2,992,286</u>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(3,628,074)	(388,462)
Purchases of mine development costs	(70,484)	(422,250)
Proceeds from sale of mineral rights	–	1,750,000
Change in restricted certificates of deposit	784,413	(529,132)
Deposit on acquisition of Raven Crest	(1,250,000)	–
Net cash (used in) provided by investing activities	<u>(4,164,145)</u>	<u>410,156</u>

Xinergy Ltd.

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

For the three months ended March 31

	<u>2010</u>	<u>2009</u>
<b>Financing activities</b>		
Proceeds from issuance of equipment and vehicle notes payable	\$ 2,472,314	\$ –
Repayment on notes payable to TCW	–	(1,000,000)
Repayments on equipment and vehicle notes payable	(1,263,906)	(963,656)
Proceeds from exercise of options	206,734	–
Proceeds from exercise of warrants	1,896,888	–
Net cash provided by (used in) financing activities	<u>3,312,030</u>	<u>(1,963,656)</u>
Net change in cash	(1,608,194)	1,438,786
Cash at beginning of year	10,192,766	163,813
Cash at end of year	<u>\$ 8,584,572</u>	<u>\$ 1,602,599</u>
<b>Supplemental disclosure of noncash activities</b>		
Issuance of common stock in exchange for note receivable – key employee for stock options exercised	\$ –	\$ 312,500
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	\$ 10,416	\$ 1,396,858

*See accompanying Notes to Consolidated Financial Statements.*

Xinergy Ltd.  
Notes to Consolidated Financial Statements  
(Unaudited)  
March 31, 2010

**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 utilizes 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.

**Reverse Takeover**

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. 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 (the “Company”), but are deemed to be a continuation of the legal subsidiary (“Xinergy”). 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 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.

**Principles of Consolidation**

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.

## 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 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 three months ended March 31, 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 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.

##### **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 three months ended March 31, 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 has not been completed.

## Xinergy Ltd.

### Notes to Consolidated Financial Statements (continued) (Unaudited)

#### **2. Acquisitions**

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 is considered acquiring a group of assets and not a business combination.

Effective April 28, 2010, the Company purchased the remaining 95% of the membership interests in Raven Crest. The business activities of Raven Crest consist of extracting and marketing coal that is produced from controlled properties under employee and contract miners and broker coal from third-parties. Pursuant to the membership interest purchase agreement, the purchase price totaled \$40,000,000 in cash (of which an aggregate \$1,250,000 was paid in February and March 2010) and the assumption of approximately \$18,000,000 in debt, which was paid at closing. Terms of the membership interest purchase agreement also include a working capital adjustment, where the Company will pay approximately \$5,000,000 additionally, which must be finalized within 30 days of the effective date of the transaction. The purchase price allocation has not yet been finalized.

In April 2010, the Company issued an aggregate of \$75,000,000 senior secured notes payable to Marret Asset Management Inc., on behalf of various funds for net proceeds of \$72,750,000 after a 3% discount. These notes, which are collateralized by substantially all assets of the Company, bear interest at a rate of 9.75%, payable semi-annually in arrears in equal installments, and are due in April 2015. The Company is required to maintain certain debt covenants, including certain restrictions on dividends and limitations on additional indebtedness.

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.

In consideration for the closing of the financing, the Company issued 3,000,000 common stock purchase warrants to the note holders, subject to TSX approval, with an exercise price of Cdn\$4.20 and expiration in December 2012. The value of these common stock purchase warrants was estimated at the date of the issuance to be \$976,915 and was recorded as a discount on the notes payable. Additionally, certain fees totaling \$3,291,404 were paid to the agents.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

**3. Property, Plant and Equipment**

Property, plant and equipment consists of the following at:

	<b>March 31, 2010</b>		
	<b>Cost</b>	<b>Accumulated Depreciation and Depletion</b>	<b>Net</b>
Land	\$ 133,421	\$ —	\$ 133,421
Plant and improvements	6,303,977	1,441,433	4,862,544
Mining equipment	28,702,143	12,865,610	15,836,533
Autos and trucks	1,181,940	577,274	604,666
Other equipment	184,567	91,876	92,691
Capitalized asset retirement costs	2,479,226	562,640	1,916,586
	<b>\$38,985,274</b>	<b>\$15,538,833</b>	<b>\$23,446,441</b>

	<b>December 31, 2009</b>		
	<b>Cost</b>	<b>Accumulated Depreciation and Depletion</b>	<b>Net</b>
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
	<b>\$35,357,199</b>	<b>\$ 12,972,963</b>	<b>\$22,384,236</b>

**4. Mineral Rights Transaction**

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 March 2009.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

**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 6.5% at March 31, 2010. Total estimated undiscounted future costs related to the ARO liabilities totaled approximately \$6,600,000 at March 31, 2010, with costs expected to be paid from 2010 to 2018.

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

	<b>Three months ended March 31, 2010</b>	<b>Year ended December 31, 2009</b>
Asset retirement obligations, beginning of period	<b>\$5,721,664</b>	\$4,994,135
Liabilities incurred	–	703,946
Accretion expense	<b>59,928</b>	361,544
Revisions in estimated cash flows	–	17,028
Liabilities settled	<b>(59,282)</b>	(354,989)
Asset retirement obligations, end of period	<b><u>\$5,722,310</u></b>	<b><u>\$5,721,664</u></b>

**6. Notes Payable**

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

The Company has numerous equipment and vehicle notes. These notes bear interest at fixed rates ranging from non-interest bearing to 9.68% and are due in various monthly payments through January 2013. 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.

Aggregate annual future maturities of notes payable at March 31, 2010 are as follows:

April 1, 2010 to March 31, 2011	<b>\$2,081,872</b>
April 1, 2011 to March 31, 2012	<b>1,708,711</b>
April 1, 2012 to March 31, 2013	<b>722,220</b>
Total notes payable	<b><u>\$4,512,803</u></b>

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

**7. 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.

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

Stock Options

During January 2010, the Company issued stock options 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.

Details of the stock options outstanding are as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
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	<b>520,000</b>	<b>3.22</b>
Exercised	<b>(292,226)</b>	<b>0.71</b>
Outstanding at March 31, 2010	<u><b>4,613,432</b></u>	<b>1.44</b>

Of the stock options outstanding at March 31, 2010, 4,518 options expire in 2010, 1,668,560 options expire in 2013, 813,625 options expire in 2018, 1,606,729 options expire in 2019 and 520,000 options expire in 2020.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

**7. Shareholders' Equity (continued)**

Stock Options (continued)

Details of the stock options exercisable at March 31, 2010 are as follows:

<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
<b>1,103,442</b>	<b>\$ 0.60</b>
<b>4,518</b>	<b>Cdn1.99</b>
<b>500,000</b>	<b>3.62</b>
<b>1,607,960</b>	<b>\$1.54</b>

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.

Warrants

Summarized information about warrants, after reflection of the converted number of warrants and exercise prices, from inception to March 31, 2010, is as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
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	<b>\$3.52</b>
Exercised in March 2010	<b>(1,975,925)</b>	<b>0.96</b>
Outstanding at March 31, 2010	<b>10,653,278</b>	<b>Cdn\$4.20</b>

All the warrants outstanding at March 31, 2010 expire in December 2011.

**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 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) (Unaudited)

#### **8. Net Earnings (Loss) per Share (continued)**

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. 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 March 31, 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.

#### **10. 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, advances to contract miners, accounts payable and accrued expenses, and notes payable.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

**10. 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 March 31, 2010, is approximately \$9,400,000 and is equal to the carrying amount of all cash, restricted cash and certificates of deposit and trade accounts receivable as listed on the accompanying consolidated balance sheet.

Xinergy Ltd.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

**10. 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 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 March 31, 2010:

	<b>Less than 1 Year</b>	<b>2-3 Years</b>	<b>Thereafter</b>	<b>Total</b>
Accounts payable and accrued expenses	\$5,210,007	\$ -	\$ -	\$5,210,007
Notes payable	2,081,872	2,430,931	-	4,512,803
Leases	53,562	44,635	-	98,197
	<u>\$7,345,441</u>	<u>\$2,475,566</u>	<u>\$ -</u>	<u>\$9,821,007</u>

**11. Concentrations**

The Company's three largest customers individually accounted for approximately 55%, 35% and 10% of the Company's revenues during the three months ended March 31, 2010, and 62%, 19%, and 18% of the Company's revenues during the three months ended March 31, 2009.

## Xinergy Ltd.

### Notes to Consolidated Financial Statements (continued) (Unaudited)

#### **11. Concentrations (continued)**

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. One customer accounted for approximately 79% of trade account receivable at March 31, 2010. Two customers accounted for approximately 54% and 43% of trade accounts receivable at December 31, 2009.

#### **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.