

SINOCOKING COAL & COKE CHEMICAL INDUSTRIES, INC.
Form 424B3
May 19, 2011

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-166720

PROSPECTUS SUPPLEMENT NO. 4
(To Prospectus dated October 15, 2010)

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.

11,384,566 shares of Common Stock

This Prospectus Supplement No. 4, together with the Prospectus listed above and Prospectus Supplement No. 1 dated October 21, 2010, Prospectus Supplement No. 2 dated November 22, 2010, and Prospectus Supplement No. 3 dated February 18, 2011, are required to be delivered by certain holders of the above-referenced shares or by their transferees, pledges, donees or their successors in connection with the offer and sale of the above-referenced shares.

This Prospectus Supplement supplements the Prospectus dated October 15, 2010 of SinoCoking Coal and Coke Chemical Industries, Inc. (the "Company") with the following additions and changes:

- (1) Amend the Selling Security Holder information set forth in the Prospectus; and
- (2) Update, amend and supplement the Company's Prospectus dated October 15, 2010 with information in the Company's attached Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011 as filed with the Securities and Exchange Commission on May 16, 2011.

The attached information modifies and supersedes, in part, the information in the Prospectus, as previously supplemented. Any information that is modified or superseded in the Prospectus shall not be deemed to constitute a part of the Prospectus except as modified or superseded by this Prospectus Supplement No. 4. This Prospectus Supplement No. 4 should be read in conjunction with the Prospectus, as previously supplemented.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 6 OF THE PROSPECTUS, AS PREVIOUSLY SUPPLEMENTED, AND ANY OF OUR OTHER FILINGS INCORPORATED THEREIN BY REFERENCE.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus Supplement is May 19, 2011.

AMENDMENT TO SELLING SECURITY HOLDER INFORMATION

This Prospectus Supplement No.4 is being filed in connection with a change to the Selling Security Holder information as set forth in the Prospectus. Specifically, Cape Diem Partners LLC transferred its warrant for the purchase of up to 10,000 shares of the Company's common stock to its investment manager Carpe Diem Capital Management LLC.

As a result, this Prospectus Supplement No. 4 is being filed to amend the Selling Security Holders table in the Prospectus so that it reflects: (1) the change of numbers of securities owned by Carpe Diem Partners LLC resulting from the above-referenced warrant transfer; and (2) the addition of Carpe Diem Capital Management LLC as a new Selling Security Holder.

All other information in the Prospectus shall remain unchanged. Percentage of beneficial ownership was calculated based on 21,087,645 shares of SinoCoking common stock outstanding as of May 12, 2011. This Prospectus Supplement No. 4 reflects only the total number of Shares registered for resale by Carpe Diem Capital Management LLC, and we note that it does not reflect sales of Shares by Carpe Diem Partners LLC pursuant to the Prospectus that may have occurred prior to the date of this Prospectus Supplement No. 4.

Name (A)	Securities Beneficially Owned Prior to Offering (1) (B)	Securities Being Offered (C)	Securities Beneficially Owned After Offering (2) (D)	% Beneficial Ownership After Offering (4) (E)
Carpe Diem Partners LLC (43)	20,000(44)	20,000(44)	0	0%
Carpe Diem Capital Management LLC (331)	10,000(332)	10,000(332)	0	0%

(43) The address of this security holder is 3400 N. Lake Shore Drive, 2nd Floor, Chicago, IL 60657. John Ziegelman, as president and chief executive officer of Carpe Diem Capital Management, LLC, which is investment manager of this security holder, has dispositive and voting power over these securities and may be deemed to be the beneficial owner of these securities.

(44) Includes 20,000 shares of Common Stock issued to this selling security holder in the Financing, all of which we are registering for resale pursuant to the Securities Purchase Agreement.

(331) The address of this security holder is 3400 N. Lake Shore Drive, 2nd Floor, Chicago, IL 60657. John Ziegelman, as president and chief executive officer of this security holder, has dispositive and voting power over these securities and may be deemed to be the beneficial owner of these securities.

(332) Includes 10,000 shares of Common Stock underlying the Warrants owned by this selling security holder in connection with the Financing, all of which are registered for resale pursuant to the Securities Purchase Agreement.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2011

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission File Number 001-15931

SinoCoking Coal and Coke Chemical Industries, Inc.
(Exact name of issuer as specified in its charter)

Florida
(State or other jurisdiction of incorporation or
organization)

65-0420146
(I.R.S. employer identification number)

Kuanggong Road and Tiyu Road 10th Floor,
Chengshi Xin Yong She, Tiyu Road, Xinhua District,
Pingdingshan, Henan Province, China 467000
(Address of principal executive offices and zip code)

+86-3752882999
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$0.001 per share
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every, Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer
Non-accelerated filer

Accelerated Filer
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of May 12, 2011, the Registrant had 21,087,645 shares of common stock outstanding.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.
FORM 10-Q

TABLE OF CONTENTS

		Page Number
	SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	3
	PART I. FINANCIAL INFORMATION	4
Item 1.	Financial Statements	4
	Consolidated Balance Sheets as of March 31, 2011 (unaudited) and June 30, 2010	4
	Consolidated Statements of Income and Other Comprehensive Income (Loss) for the Three and Nine Months Ended March 31, 2011 and 2010 (unaudited)	5
	Consolidated Statement of Shareholders' Equity	6
	Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2011 and 2010 (unaudited)	7
	Notes to the Consolidated Financial Statements (unaudited)	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	49
Item 4.	Controls and Procedures	49
	PART II. OTHER INFORMATION	51
Item 1.	Legal Proceedings	51
Item 1A.	Risk Factors	51
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	51
Item 3.	Defaults Upon Senior Securities	51
Item 4.	Reserved	51
Item 5.	Other Information	51

Item 6.	Exhibits	51
SIGNATURES		55

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this report, other than statements of historical facts, that address future activities, events or developments, are forward-looking statements, including, but not limited to, statements containing the words “believe,” “anticipate,” “expect,” “project,” “may,” “might,” “will” and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Whether actual results will conform to the expectations and predictions of management, however, is subject to a number of risks and uncertainties that may cause actual results to differ materially. Such risks are in the section entitled “Risk Factors” beginning on page 21 of our Annual Report on Form 10-K for the year ended June 30, 2010 filed with the SEC on September 29, 2010.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations.

ITEM 1.

FINANCIAL STATEMENTS

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (Unaudited)	June 30, 2010
ASSETS		
CURRENT ASSETS		
Cash	\$5,122,863	\$17,403,008
Restricted cash	19,297,500	22,902,000
Loans receivable	2,075,125	2,513,308
Notes receivable	3,048,700	1,045,830
Accounts receivable, trade, net	15,836,081	5,304,684
Other receivables	3,307,921	479,121
Other receivables - related parties	-	477,052
Inventories	7,419,285	2,261,816
Advances to suppliers	5,136,004	4,995,703
Total current assets	61,243,479	57,382,522
PLANT AND EQUIPMENT, net	27,591,252	20,930,413
OTHER ASSETS		
Prepayments for land use rights	8,852,625	5,074,485
Prepayments for mine acquisitions	17,406,705	8,858,398
Prepayments for construction of new operating plant	7,919,053	17,303,883
Intangible - land use rights, net	1,909,286	1,892,292
Intangible - mineral rights, net	1,576,441	2,629,437
Long-term investment	1,220,000	-
Other assets	116,083	103,110
Total other assets	39,000,193	35,861,605
Total assets	\$127,834,924	\$114,174,540
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable, trade	\$433,107	\$291,750
Notes payable	-	2,946,000
Short term loans - bank	15,250,000	14,730,000
Short term loans - others	-	515,550
Other payables and accrued liabilities	591,180	1,433,121
Other payables - related party	380,622	51,381
Customer deposits	158,252	106,830
Taxes payable	1,646,746	1,229,019
Total current liabilities	18,459,907	21,303,651

OTHER LIABILITIES

Warrant derivative liability	15,041,496	30,436,087
Total other liabilities	15,041,496	30,436,087
Total liabilities	33,501,403	51,739,738

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY

Common shares, \$0.001 par value, 100,000,000 authorized, 21,090,948 and 20,871,192 issued and outstanding as of March 31, 2011 and June 30, 2010, respectively	21,091	20,871
Additional paid-in capital	3,442,083	67,269
Statutory reserves	2,049,654	1,837,395
Retained earnings	85,004,442	59,373,726
Accumulated other comprehensive income	3,816,251	1,135,541
Total shareholders' equity	94,333,521	62,434,802
Total liabilities and shareholders' equity	\$ 127,834,924	\$ 114,174,540

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the three months ended March 31,		For the nine months ended March 31,	
	2011	2010	2011	2010
REVENUE	\$19,872,461	\$15,247,494	\$49,626,255	\$48,140,913
COST OF REVENUE	12,636,751	9,605,889	30,635,815	27,411,765
GROSS PROFIT	7,235,710	5,641,605	18,990,440	20,729,148
OPERATING EXPENSES:				
Selling	75,894	96,549	231,808	400,544
General and administrative	870,284	1,369,063	2,541,924	1,823,661
Total operating expenses	946,178	1,465,612	2,773,732	2,224,205
INCOME FROM OPERATIONS	6,289,532	4,175,993	16,216,708	18,504,943
OTHER INCOME (EXPENSE), NET				
Finance expense, net	(119,311)	(8,666)	(689,367)	(124,629)
Other income (expense), net	(542)	109,980	(109,929)	109,791
Change in fair value of warrants	12,191,235	(39,869,662)	13,663,378	(39,869,662)
Total other income (expense), net	12,071,382	(39,768,348)	12,864,082	(39,884,500)
INCOME(LOSS) BEFORE INCOME TAXES	18,360,914	(35,592,355)	29,080,790	(21,379,557)
PROVISION FOR INCOME TAXES	1,222,473	1,283,907	3,450,074	4,213,029
NET INCOME (LOSS)	17,138,441	(36,876,262)	25,630,716	(25,592,586)
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment	2,680,710	29,304	2,680,710	81,976
COMPREHENSIVE INCOME (LOSS)	\$19,819,151	\$(36,846,958)	\$28,311,426	\$(25,510,610)
WEIGHTED AVERAGE NUMBER OF COMMON SHARE				
Basic	21,043,206	15,441,258	20,927,453	14,086,729
Diluted	21,057,332	15,441,258	20,941,252	14,086,729
EARNINGS (LOSS) PER SHARE				
Basic	\$0.81	\$(2.39)	\$1.22	\$(1.82)
Diluted	\$0.81	\$(2.39)	\$1.22	\$(1.82)

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Share Shares	Share Par Value	Additional paid-in capital	Retained earnings Statutory reserves	Unrestricted	Accumulated other comprehensive income	Total
BALANCE, June 30, 2009	13,117,952	\$ 13,118	\$ 3,531,959	\$ 1,127,710	\$ 29,754,451	\$ 779,804	\$ 35,207,042
Shares and warrants issued in reverse merger recapitalization	405,710	406	(406)				-
Shares and warrants sold for cash	7,344,935	7,345	44,062,265				44,069,610
Offering costs related to shares and warrants sold			(12,015,273)				(12,015,273)
Warrants issued reclassified to derivative liability			(35,578,543)		(8,491,067)		(44,069,610)
Cumulative effect of reclassification of existing warrants					(631,002)		(631,002)
Fractional shares due to the one-for-twenty reverse split	2,595	2	(2)				-
Net income					(25,592,586)		(25,592,586)
Adjustment of statutory reserve				594,731	(594,731)		-
Foreign currency translation adjustments						81,976	81,976
BALANCE, March 31, 2010 (Unaudited)	20,871,192	\$ 20,871	\$ -	\$ 1,722,441	\$ (5,554,935)	\$ 861,780	\$ (2,949,843)
Net income					64,527,083		64,527,083
Adjustment of statutory reserve				114,954	401,578		516,532
Imputed interests on loans from related parties			67,269				67,269

waived							
Foreign currency translation adjustments						273,761	273,761
BALANCE, June 30, 2010	20,871,192	\$ 20,871	\$ 67,269	\$ 1,837,395	\$ 59,373,726	\$ 1,135,541	\$ 62,434,802
Warrants exercised - cash proceeds	219,756	220	1,318,316				1,318,536
Warrants exercised - derivative value			2,056,498				2,056,498
Net income					25,630,716		25,630,716
Adjustment of statutory reserve				212,259			212,259
Foreign currency translation adjustments						2,680,710	2,680,710
BALANCE, March 31, 2011 (Unaudited)	21,090,948	\$ 21,091	\$ 3,442,083	\$ 2,049,654	\$ 85,004,442	\$ 3,816,251	\$ 94,333,521

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the nine months ended March 31, 2011	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$25,630,716	\$(25,592,586)
Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities:		
Depreciation	1,074,925	1,924,036
Amortization and depletion	1,175,244	2,086,470
Bad debt expense	31,479	-
Change in fair value of warrants	(13,663,378)	39,869,662
Warrants granted for service	325,285	-
Reservation of mine maintenance fee	212,259	-
Change in operating assets and liabilities		
Notes receivable	(1,932,432)	(2,268,574)
Accounts receivable, trade	(10,167,772)	(838,340)
Other receivables	(1,974,874)	(2,455,188)
Other receivables - related party	-	30,400
Inventories	(4,991,051)	(3,275,383)
Advances to suppliers	26,108	3,687,493
Accounts payable, trade	137,638	(82,926)
Other payables and accrued liabilities	(876,867)	91,788
Customer deposits	46,838	(1,956,041)
Taxes payable	367,959	(1,019,987)
Net cash (used in) provided by operating activities	(4,577,923)	10,200,824
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal of loans receivable	(2,056,795)	-
Repayment of loans receivable	2,513,308	-
Long-term investment	(1,199,200)	-
Payments on equipment and construction-in-progress	(2,022,663)	(3,157,908)
Prepayments on construction-in-progress	(515,607)	(15,883,831)
Refunds of construction prepayments	4,646,900	-
Prepayments on land use rights	(3,537,640)	-
Prepayments on mine acquisitions	(8,095,177)	-
Net cash used in investing activities	(10,266,874)	(19,041,739)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in restricted cash	3,747,500	-
Cash proceeds from sale of common stock and warrants	-	44,069,610
Cash proceeds from exercise of warrants	1,318,536	-
Cash offering cost related to common stock	-	(2,263,391)
Repayments of notes payables	(22,485,000)	-
Proceeds from notes payables	19,487,000	-

Repayments of short-term loans	(524,650)	(2,808,156)
Payments to related parties	-	(33,878)
Proceeds from related parties	800,780	-
Net cash provided by financing activities	2,344,166	38,964,185
EFFECT OF EXCHANGE RATE ON CASH	220,486	24,085
(DECREASE) INCREASE IN CASH	(12,280,145)	30,147,355
CASH, beginning of period	17,403,008	278,399
CASH, end of period	\$5,122,863	\$30,425,754
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income tax	\$3,033,071	\$4,425,065
Cash paid for interest expense, net of capitalized interest	\$393,933	\$106,789
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES		
Warrants issued for placement agent fee	\$-	\$9,751,882
Reclassification of derivative liability to equity related to exercise of warrants	\$2,056,498	\$-
Construction-in-progress acquired with prepayments made in prior period	\$4,873,249	\$2,455,508

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Note 1 – Nature of business and organization

SinoCoking Coal and Coke Chemical Industries, Inc. (“SinoCoking” or the “Company”) was organized on September 30, 1996, under the laws of the State of Florida as “J.B. Financial Services, Inc.” On July 19, 1999, the Company changed its name to “Ableauctions.com, Inc.” On February 5, 2010, in connection with a share exchange transaction as described below, the Company changed its name to “SinoCoking Coal and Coke Chemical Industries, Inc.”

On February 5, 2010, the Company completed a share exchange transaction with Top Favour Limited (“Top Favour (BVI)”), and Top Favour (BVI) became a wholly-owned subsidiary of the Company. In connection with the closing of the share exchange transaction, all of the assets and liabilities of Ableauction.com, Inc.’s former business had been transferred to a liquidating trust, including the capital stock of its former subsidiaries. After the share exchange transaction, Top Favour (BVI)’s shareholders owned approximately 97% of the issued and outstanding shares. The management members of Top Favour (BVI) became the directors and officers of the Company. The share exchange transaction was accounted for as a reverse acquisition and recapitalization and as a result, the consolidated financial statements of the Company (the legal acquirer) is, in substance, those of Top Favour (BVI) (the accounting acquirer), with the assets and liabilities, and revenues and expenses, of the Company being included effective from the date of the share exchange transaction. As the share exchange transaction was accounted for as a reverse acquisition and recapitalization, there was no gain or loss recognized on the transaction. The historical financial statements for periods prior to February 5, 2010 are those of Top Favour (BVI) except that the equity section and earnings per share have been retroactively restated to reflect the reverse acquisition (Note 3).

Top Favour (BVI) was incorporated in the British Virgin Islands on July 2, 2008. Top Favour (BVI) owns 100% of Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. (“Hongyuan”), which was formed on March 18, 2009, with registered capital of \$3,000,000 under the laws of the People’s Republic of China (“PRC” or “China”). Through contractual arrangements (Note 2), Hongyuan controls Henan Pingdingshan Hongli Coal & Coking Co., Ltd., (“Hongli”), a PRC company formed on June 5, 1996 with registered capital of \$1,055,248 or 8,080,000 Renminbi (“RMB”). As of March 31, 2011, Hongli had a branch, Baofeng Coking Factory (“Baofeng Coking”), as well as two subsidiaries and a company under its control as follows:

- Baofeng Hongchang Coal, Ltd. (“Hongchang Coal”), a PRC company formed on July 19, 2007 with registered capital of \$396,000 (RMB 3,000,000) and wholly-owned by Hongli;
 - Baofeng Hongguang Power Co., Ltd. (“Hongguang Power”), a PRC company formed on August 1, 2006 with registered capital of \$2,756,600 (RMB 22,000,000) and wholly-owned by Hongli; and
- Zhonghong Energy Investment Company (“Zhonghong”), a PRC company formed on December 30, 2010 with registered capital of \$1,500,000 (RMB 10,010,000), of which \$455,100 (RMB 3,000,000) has been paid and the remaining due by December 20, 2015. The equity interests of Zhonghong are held by three nominees on behalf of Hongli pursuant to share entrustment agreements.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

The Company's business operations consist of producing and selling coke products, coking by-products, coal products, and coal gas-generated electricity in the PRC. Presently, coking related activities are carried out by Baofeng Coking, coal related activities by Hongchang Coal, and electricity generation by Hongguang Power. However, it is the Company's intention to transfer all coal related activities to a joint-venture between Zhonghong and Henan Province Coal Seam Gas Development and Utilization Co., Ltd., (Note 27). As of March 31, 2011, the transfer of the Company's coal related activities to the joint-venture had not been carried out.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

Management has included all adjustments, consisting only of normal recurring adjustments, considered necessary to give a fair presentation of operating results for the periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the 2010 annual report on Form 10-K for the fiscal year ended June 30, 2010.

Principles of consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries – Top Favour (BVI) and Hongyuan, and its variable interest entities (“VIEs”) – Hongli and its subsidiaries, and Zhonghong. All significant inter-company transactions and balances between the Company, its subsidiaries and VIEs are eliminated upon consolidation.

In accordance with the Financial Accounting Standards Board's (“FASB”) accounting standard for consolidation of variable interest entities, VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes. As a result of the contractual arrangements described below, the Company, through Hongyuan, is obligated to absorb a majority of the risk of loss from Hongli's activities and the Company is enabled to receive a majority of Hongli's expected residual returns. The Company accounts for Hongli as a VIE and is the primary beneficiary. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

ASC 810 addresses whether certain types of entities referred to as VIEs, should be consolidated in a company's consolidated financial statements. The contractual arrangements entered into between Hongyuan and Hongli are comprised of the following series of agreements:

- (1) a Consulting Services Agreement, through which Hongyuan has the right to advise, consult, manage and operate Hongli and its subsidiaries (the “Operating Companies”), collect, and own all of the respective net profits of the Operating Companies;
- (2) an Operating Agreement, through which Hongyuan has the right to recommend director candidates and appoint the senior executives of the Operating Companies, approve any transactions that may materially affect the assets,

liabilities, rights or operations of the Operating Companies, and guarantee the contractual performance by the Operating Companies of any agreements with third parties, in exchange for a pledge by the Operating Companies of their respective accounts receivable and assets;

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

- (3) a Proxy Agreement, under which the shareholders of the Operating Companies have vested their voting control over the Operating Companies to Hongyuan and will only transfer their equity interests in the Operating Companies to Hongyuan or its designee(s);
- (4) an Option Agreement, under which the shareholders of the Operating Companies have granted Hongyuan the irrevocable right and option to acquire all of its equity interests in the Operating Companies, or, alternatively, all of the assets of the Operating Companies; and
- (5) an Equity Pledge Agreement, under which the shareholders of the Operating Companies have pledged all of their rights, title and interest in the Operating Companies to Hongyuan to guarantee the Operating Companies' performance of their respective obligations under the Consulting Services Agreement.

Since Top Favour (BVI), Hongyuan and Hongli are under common control, the above corporate structure including the above contractual arrangements have been accounted for as a reorganization of entities and the consolidation of Top Favour (BVI), Hongyuan and Hongli has been accounted for at historical cost and prepared on the basis as if the contractual arrangements had become effective as of the beginning of the first period presented in the accompanying consolidated financial statements.

Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of management estimates and assumptions relate to coal reserves that are the basis for future cash flow estimates and units-of-production depletion calculations; asset impairments; valuation allowances for deferred income taxes; reserves for contingencies; and the fair value and accounting treatment of certain financial instruments. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates. In addition, different assumptions or conditions could reasonably be expected to yield different results.

Stock-based compensation

The Company records share-based compensation expense based upon the grant date fair value of share-based awards. The value of the award is principally recognized as expense ratably over the requisite service periods. The Company uses the Black-Scholes Merton ("BSM") option-pricing model, which incorporates various assumptions including volatility, expected life and interest rates to determine fair value. The Company's expected volatility assumption is based on the historical volatility of Company's stock. The expected life assumption is primarily based on the simplified method of the terms of the options. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock compensation expense is recognized based on awards expected to vest. GAAP requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, when actual forfeitures differ from those estimates. There were no estimated forfeitures as the Company has a short history of issuing options.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Revenue recognition

Coal and coke sales are recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. This generally occurs when coal and coke is loaded onto trains or trucks at one of the Company's loading facilities or at third party facilities.

Most, if not all, of the electricity generated by Hongguang Power is typically used internally by Baofeng Coking. Supply of surplus electricity generated by Hongguang Power to the national power grid is mandated by the local utilities board. The value of the surplus electricity supplied, if it exists, is calculated based on actual kilowatt-hours produced and transmitted and at a fixed rate determined under contract.

Coal and coke sales represent the invoiced value of goods, net of a value-added tax (VAT), sales discounts and actual returns at the time when product is sold to the customer.

Shipping and handling costs

Shipping and handling costs related to goods sold are included in selling expense. Total shipping and handling costs amounted to \$0 for the three and nine months ended March 31, 2011, and amounted to \$5,595 and \$20,921 for the three and nine months ended March 31, 2010, respectively.

Foreign currency translation and other comprehensive income

The reporting currency of the Company is the US dollar. The functional currency of the Company and Top Favour (BVI) is the US dollar, while the functional currency of the Company's subsidiary and VIEs in the PRC is the Chinese Renminbi (RMB). However, since the Company's primary operations are conducted by its subsidiary and VIEs in the PRC and the Company's primary assets are located in the PRC, the Company's functional currency is denominated in RMB.

For the subsidiary and VIEs whose functional currencies are other than the US dollar, all assets and liabilities accounts were translated at the exchange rate on the balance sheet date; shareholders' equity is translated at the historical rates and items in the statement of operations are translated at the average rate for the period. Items in the cash flow statement are also translated at average translation rates for the period, therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of shareholders' equity. The resulting transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. For the three and nine months ended March 31, 2011 and 2010, the transaction gains and losses were not significant.

The balance sheet amounts, with the exception of equity, at March 31, 2011 and June 30, 2010 were translated at RMB 6.56 to \$1 and RMB 6.79 to \$1, respectively. The average translation rates applied to income and cash flow statement amounts for the three months ended March 31, 2011 and 2010 were at RMB 6.58 to \$1 and RMB 6.82 to \$1, respectively, for the nine months ended March 31, 2011 and 2010 were at RMB 6.67 to \$1 and RMB 6.82 to \$1,

respectively

- 11 -

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Fair value of financial instruments

The Company uses the FASB's accounting standard regarding fair value of financial instruments and related fair value measurements. Those accounting standards established a three-level valuation hierarchy for disclosures of fair value measurement and enhance disclosures requirements for fair value measures. The carrying amounts reported in the accompanying consolidated balance sheets for receivables, payables and short term loans qualify as financial instruments are a reasonable estimate of fair value because of the short period of time between the origination of such instruments, their expected realization and, if applicable, the stated rate of interest is equivalent to rates currently available. The three levels of valuation hierarchy are defined as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value.

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2011:

	Carrying Value at March 31, 2011	Fair Value Measurement at March 31, 2011		
		Level 1	Level 2	Level 3
Warrant liability(unaudited)	\$ 15,041,496	\$ —	\$ —	\$ 15,041,496

The Company's warrants are not traded on an active securities market; therefore, the Company estimates the fair value of its warrants using the Cox-Ross-Rubinstein binomial model on March 31, 2011 and June 30, 2010.

	March 31, 2011 (Unaudited)	June 30, 2010
Number of shares exercisable	3,906,853	4,076,609
Exercise price	\$ 6.00-48.00	\$ 6.00-48.00
Stock price	\$ 8.21	\$ 12.30
Expected term(year)	3.85-6.03	4.61-6.78
Risk-free interest rate	1.73-2.57%	1.63-2.38%
Expected volatility	75%	80%

Due to the short trading history of the Company's stock, the expected volatility is based primarily on other similar public companies' historical volatilities, which are traded on United States stock markets. Historical volatility was computed using daily pricing observations for recent periods that correspond to the term of the warrants. The Company believes this method produces an estimate that is representative of the Company's expectations of future

volatility over the expected term of these warrants. The Company currently has no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the warrants.

- 12 -

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record assets and liabilities at fair value on a non-recurring basis. Generally, assets are recorded at fair value on a non-recurring basis as a result of impairment charges. For the three and nine months ended March 31, 2011 and 2010, there were no impairment charges.

The Company did not identify any other assets and liabilities that are required to be presented on the consolidated balance sheets at fair value.

Cash

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents for cash flow statement purposes. Cash includes cash on hand and demand deposits in accounts maintained with state owned banks within the PRC and with banks in Hong Kong and in the United States of America.

Restricted cash

Restricted cash represent amounts set aside by the Company in accordance with the Company's debt agreements with certain financial institutions in the PRC. These cash amounts are designated for the purpose of paying down the principal amounts owed to the financial institutions, and these amounts are held at the same financial institutions with which the Company has debt agreements. Due to the short-term nature of the Company's debt obligations to these banks, the corresponding restricted cash balances have been classified as current in the consolidated balance sheets.

Accounts receivables, trade, net

During the normal course of business, the Company extends unsecured credit to its customers. Management regularly reviews aging of receivables and changes in payment trends by its customers, and records a reserve when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off. The Company regularly reviews the credit worthiness of its customers and, based on the results of the credit review, determines whether extended payment terms can be granted to or, in some cases, partial prepayment is required from certain customers.

Other receivables

Other receivables mainly include advances to employees for general business purpose and other short term non-traded receivable from unrelated parties, primarily as unsecured demand loans, with no state interest rate or due date. Management regularly reviews aging of receivables and changes in payment trends and records a reserve when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
 (UNAUDITED)

Inventories

Inventories are stated at the lower of cost or market, using the weighted average cost method. Inventories consist of raw materials, supplies, work in process, and finished goods. Raw materials mainly consist of coal (mined and purchased), rail, steel, wood and additives used by the Company. The cost of finished goods includes (1) direct costs of raw materials, (2) direct labor, (3) indirect production costs, such as allocable utilities cost, and (4) indirect labor related to the production activities, such as assembling and packaging. Management compares the cost of inventories with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. On an ongoing basis, inventories are reviewed for potential write-down for estimated obsolescence or unmarketable inventories equal to the difference between the costs of inventories and the estimated net realizable value based upon forecasts for future demand and market conditions. When inventories are written-down to the lower of cost or market, it is not marked up subsequently based on changes in underlying facts and circumstances. As of March 31, 2011 and June 30, 2010, management believed that no allowance for inventory valuation was deemed necessary.

Advances to suppliers

The Company advances monies to certain suppliers for raw material purchases and in connection with construction contracts. These advances are interest-free and unsecured.

Plant and equipment, net

Plant and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; while additions, renewals and betterments that extend the useful life are capitalized. When items of plant and equipment are retired or otherwise disposed, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Mine development costs are capitalized and amortized by the units of production method over estimated total recoverable proven and probable reserves. Depreciation of plant and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

	Estimated Useful Life
Building and plant	20 years
Machinery and equipment	10-20 years
Other equipment	1-5 years
Transportation equipment	5-7 years

Construction-in-progress (“CIP”) includes direct costs of construction of mining tunnel improvements. Interest incurred during the period of construction, if material, is capitalized. For the three and nine months ended March 31, 2011, \$74,974 and \$215,094 in interest was capitalized into CIP, respectively. For the three and nine months ended March 31, 2010, no interest was capitalized into CIP. All other interest is expensed as incurred. CIP is not depreciated until such time the assets are completed and put into service. Maintenance, repairs and minor renewals are charged to expense as incurred. Major additions and betterment to property and equipment are capitalized.

Land use rights, net

Costs to obtain land use rights are recorded based on the fair value at acquisition and amortized over 36 years, the contractual period of the rights. Under the accounting standard regarding treatment of goodwill and other intangible assets, all goodwill and certain intangible assets determined to have indefinite lives are not amortized but tested for impairment at least annually. Intangible assets other than goodwill will be amortized over their useful lives and reviewed at least quarterly for impairment.

- 14 -

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Intangible - mineral rights, net

Mineral rights are capitalized at fair value when acquired, including amounts associated with any value beyond proven and probable reserves, and amortized to operations as depletion expense using the units-of-production method over the estimated proven and probable recoverable tones. The Company's coal reserves are controlled through direct ownership which generally lasts until the recoverable reserves are depleted.

Impairment of long - lived assets

The Company evaluates long lived tangible and intangible assets for impairment, at least annually, but more often whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows, in accordance with the accounting guidance regarding "Disposal of Long-Lived Assets." Recoverability is measured by comparing the asset's net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. Based on its review, the Company believes that, as of March 31, 2011 and June 30, 2010, there was no impairment of long lived assets.

Long-term investment

Investments in equity securities of privately-held companies in which the Company holds less than 20% voting interest and to which the Company does not have the ability to exercise significant influence are accounted for under the cost method.

In February 2011, the Company invested approximately \$1.2 million (RMB 8,000,000) in Pingdingshan Xinhua District Rural Credit Union ("Xinhua District Credit Union"), which operates in the banking industry. This investment represents an approximately 2.86% interest in Xinhua District Credit Union, and is accounted for under the cost method.

The Company evaluates potential impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. For investments carried at cost, the Company recognizes impairment in the event that the carrying value of the investment exceeds the Company's proportionate share of the net book value of the investee. As of March 31, 2011, management believes no impairment charge is necessary.

Asset retirement cost and obligations

The Company adopted the accounting standard to account for the asset retirement cost and obligations to retire tangible long-lived assets. This standard generally requires that the Company's legal obligations associated with the retirement of long-lived assets are recognized at fair value at the time the obligations are incurred. Obligations are incurred at the time development of a mine commences for underground mines or construction begins for support facilities, refuse areas and slurry ponds. If an entity has a conditional asset retirement obligation, a liability should be recognized when the fair value of the obligations can be reasonably estimated.

The obligation's fair value is determined using discounted cash flow techniques and is accreted over time to its expected settlement value. Upon initial recognition of a liability, a corresponding amount is capitalized as part of the carrying amount of the related long-lived asset. Amortization of the related asset is calculated on a unit-of-production method by amortizing the total estimated cost over the salable reserves as determined under Securities and Exchange Commission (SEC) Industry Guide 7, multiplied by the production during the period.

Asset retirement costs generally include the cost of reclamation (the process of bringing the land back to its natural state after completion of exploration activities) and environmental remediation (the physical activity of taking steps to remediate, or remedy, any environmental damage caused).

In May 2009, Henan Bureau of Finance and Bureau of Land and Resource issued regulations for mine environment control and recovery (the "Mine Recovery Regulations") which require mining companies to file an evaluation report regarding the environmental impacts of mining (the "Evaluation Report") before December 31, 2010. The corresponding authorities will determine whether to approve the Evaluation Report after performing on-site investigation, and the asset retirement obligation will be determined by the authorities based on the approved filing. Such requirement was extended along with the extension of the provincial mine consolidation schedule. However, such extension date has not been finalized by the related provincial authorities.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

The Company did not record such asset retirement obligation as of March 31, 2011 and June 30, 2010 because the Company did not have sufficient information to reasonably estimate the fair value of such obligation. The range of time over which the Company may settle the obligation is unknown and cannot be reasonably estimated. In addition, the settlement method for the obligation cannot be reasonably determined. The amount of the obligation to be determined by the government authorities is affected by several factors, such as the extend of remediation required in and around the mining area, the methods to be used to remediate the mining site, and any government grants which may or may not be credited to the mining companies.

The Company will recognize the liability in the period in which sufficient information is available to reasonably estimate its fair value.

Income taxes

Income taxes provided on the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probably that taxable profit will be available against which deductible temporary differences can be utilized. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. No significant penalties or interest relating to income taxes have been incurred during the three and nine months ended March 31, 2011 and 2010. GAAP also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

Chinese income taxes

The Company’s subsidiary and VIEs that operate in the PRC are governed by the income tax laws of the PRC and various local income tax laws (the “Income Tax Laws”), and are generally subject to an income tax at a statutory rate of 25% of taxable income, which is based on the net income reported in the statutory financial statements after appropriate tax adjustment.

Value added tax (“VAT”)

Sales revenue represents the invoiced value of goods, net of a value-added tax (VAT). All of the Company’s coal and coke are sold in the PRC and are subject to a Chinese value-added tax at a rate of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing finished products. The Company records VAT payable and VAT receivable net of payments in the consolidated financial statements. The VAT tax return is filed to offset the payables against the receivables.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Warrant derivative liability

A contract is designated as an asset or a liability and is carried at fair value on a company's balance sheet, with any changes in fair value recorded in a company's results of operations. The Company then determines which options, warrants and embedded features require liability accounting and records the fair value as a derivative liability. The changes in the values of these instruments are shown in the accompanying consolidated statements of income and other comprehensive income as "change in fair value of warrants".

Due to the reverse merger on February 5, 2010 (Note 3), the Company adopted the provisions of an accounting standard regarding instruments that are indexed to an entity's own stock. This accounting standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. It provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the scope exception within the standards. As a result of the adoption of this accounting standard, all warrants issued after the February 5, 2010 reverse acquisition are recorded as derivative liability because the strike price of such warrants is denominated in US dollar, a currency other than the Company's functional currency which is denominated in RMB.

All warrants issued before February 5, 2010, which were treated as equity pursuant to the derivative treatment exemption prior to February 5, 2010, are also no longer afforded equity treatment because the strike price of such warrants is denominated in US dollar, a currency other than the Company's functional currency which is denominated in RMB. Therefore, such warrants are not considered indexed to the Company's own stock, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings until such time as such warrants are exercised or expire. The Company has reclassified the fair value of such warrants of \$631,002 from equity to liability status as if these warrants were treated as a derivative liability at February 5, 2010.

Earnings per share

The Company reports earnings per share in accordance with the provisions of FASB's related accounting standard. This standard requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. Dilution is computed by applying the treasury stock method. Under this method, option and warrants were assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Comprehensive income

FASB's accounting standard regarding comprehensive income establishes requirements for the reporting and display of comprehensive income, its components and accumulated balances in a full set of general purpose financial statements. This accounting standard defines comprehensive income to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, it also requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in financial statement that is presented with the same prominence as other financial statements. The Company's only current component of comprehensive income is the foreign currency translation adjustments.

Related parties

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of such principal owners and management, and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Recently issued accounting pronouncements

In July 2010, the FASB issued Accounting Standards Update 2010-20 which amends "Receivables" (Topic 310). ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. As a result of the adoption of this ASU, the Company expanded its disclosures related to its receivables.

In December 2010, the FASB issued Accounting Standards Update 2010-28 which amend "Intangibles- Goodwill and Other" (Topic 350). The ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting entities, they are required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance in Topic 350, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances changes that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 is effective for fiscal years, and interim periods within those years beginning after December 15, 2010. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-29 which address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations (Topic

805). This ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of this ASU and expected the adoption of this ASU will have an impact on its future business combinations.

- 18 -

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications have no effect on net income or cash flows.

Note 3 - Business reorganization

On February 5, 2010, the Company (formerly known as Ableacutions.com, Inc.) completed a share exchange transaction with Top Favour (BVI), and Top Favour (BVI) became a wholly-owned subsidiary of the Company. In connection with the closing of the share exchange transaction, all of the assets and liabilities of Ableaution.com, Inc.'s former business had been transferred to a liquidating trust, including the capital stock of its former subsidiaries. On the closing date, the Company issued 13,117,952 of its common shares to Top Favour (BVI)'s shareholders in exchange for 100% of the capital stock of Top Favour (BVI). Prior to the share exchange transaction, the Company had 405,710 shares of common stock issued and outstanding. After the share exchange transaction, the Company had 13,523,662 shares of common stock outstanding, and Top Favour (BVI)'s shareholders owned approximately 97% of the issued and outstanding shares. The management members of Top Favour (BVI) became the directors and officers of the Company. The share exchange transaction was accounted for as a reverse acquisition and recapitalization and as a result, the consolidated financial statements of the Company (the legal acquirer) is, in substance, those of Top Favour (BVI) (the accounting acquirer), with the assets and liabilities, and revenues and expenses, of the Company being included effective from the date of the share exchange transaction. As the share exchange transaction was accounted for as a reverse acquisition and recapitalization, there was no gain or loss recognized on the transaction. Acquisition-related costs incurred to effect the business combination, including finder's fee, advisory, legal, accounting, valuation, and other professional and consulting fees, were \$1,127,612 and accounted for as expense as of June 30, 2010.

Note 4 – Enterprise-wide reporting

Based on qualitative and quantitative criteria established by the FASB accounting standard regarding disclosures about segments of an enterprise and related information, the Company considers itself, including coal mining, coking and the sales of all products as a result of these business activities, to be operating within one reportable segment. All of the Company's products are sold within the PRC. Major products and respective revenues for the three and nine months ended March 31, 2011 and 2010 are as summarized as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Coke	\$ 7,807,796	\$ 8,315,510	\$ 25,259,342	\$ 22,268,692
Coal Tar	1,098,429	358,820	2,320,468	950,348
Raw coal	4,961,427	6,573,164	10,473,771	17,729,428
Washed coal	6,004,809	-	11,572,674	7,192,445
Total	\$ 19,872,461	\$ 15,247,494	\$ 49,626,255	\$ 48,140,913

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Note 5 – Concentration and credit risk

The Company's operations are all carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Financial instruments, which subject the Company to concentration of credit risk, consist of cash. The Company maintains balances at financial institutions located in the PRC and Hong Kong. Balances at financial institutions or state owned banks within the PRC are not covered by insurance. Balances at financial institutions in Hong Kong may, from time to time, exceed Hong Kong Deposit Protection Board's insured limits. As of March 31, 2011 and June 30, 2010, the Company had \$24,228,937 and \$39,791,148 of cash deposits, including restricted cash, which were not covered by insurance, respectively. The Company has not experienced any losses in such accounts.

For the three and nine months ended March 31, 2011 and 2010, all of the Company's sales were generated in the PRC, as well as account receivables.

For the three months ended March 31, 2011, 78.1% of the Company's total revenues were from three major customers who accounted individually for 39.8%, 22.6%, and 15.7% of total revenues, respectively. For the nine months ended March 31, 2011, 85.9% of the Company's total revenues were from the same three major customers who accounted individually for 46.1%, 21.5%, and 18.3% of total revenues, respectively. Account receivables of these three customers were 32.9%, 22.6%, and 15.2% of the total account receivable balance at March 31, 2011, respectively.

For the three months ended March 31, 2010, 66.1% of the Company's total revenues were from three major customers who accounted individually for 39.2%, 18.5%, and 8.4% of total revenues, respectively. For the nine months ended March 31, 2010, 93.5% of the Company's total revenues were from the same three major customers who accounted individually for 51.2%, 30.2%, and 12.1% of total revenues, respectively. Accounts receivable balances of these three customers accounted for 48.8%, 46.9%, and 0% of the total accounts receivable as of March 31, 2011, respectively.

For the three and nine months ended March 31, 2011 and 2010, all of the Company's raw material purchases as well as accounts payable were generated in the PRC.

For the three months ended March 31, 2011, five major suppliers provided 40.9% of total raw material purchases, including 10% from one supplier. For the nine months ended March 31, 2011, five major suppliers provided 45.5% of total raw material purchases, including 10% from one supplier. As of March 31, 2011, accounts payable balances with these five suppliers accounted for 34.6% of the total accounts payables as of March 31, 2011.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

For the three months ended March 31, 2010, three major suppliers provided 96.4% of the raw material purchases or 60.9%, 20.6% and 14.8% individually, respectively. For the nine months ended March 31, 2010, two major suppliers provided 56.1% of the Company's raw material purchases or 33.6% and 22.5% individually, respectively. As of March 31, 2010, there were no accounts payable balances associated with those suppliers.

Note 6 – Loans receivable

On August 1, 2010, the Company entered into a loan agreement for \$1,000,000 with a third-party. This loan is due on demand, unsecured, and with an annual interest rate of 3%.

On September 27, 2010, the Company loaned \$1,075,125 (RMB 7,050,000) to an unrelated party. This loan was due on March 26, 2011, unsecured, and with an annual interest rate of 5%. This loan was repaid on April 28, 2011.

As of March 31, 2011 and June 30, 2010, loans receivables amounted to \$2,075,125 and \$2,513,308, respectively.

Note 7 – Notes receivable

Notes receivable represent trade accounts receivable due from various customers where the customers' banks have guaranteed payment of the receivable. This amount is non-interest bearing and is normally paid within three to nine months. The Company is allowed to submit its request for payment to the customer's bank earlier than the scheduled payment date. However, early request will incur an interest charge and a processing fee. Notes receivable amounted to \$3,048,700 and \$1,045,830 as of March 31, 2011 and June 30, 2010, respectively.

Note 8 - Accounts receivable, trade, net

Accounts receivable consisted of the following:

	March 31, 2010 (Unaudited)	June 30, 2010
Accounts receivable	\$ 15,836,081	\$ 5,304,900
Allowance for bad debt	-	216
Accounts receivable, trade, net	\$ 15,836,081	\$ 5,304,684

For the three and nine months ended March 31, 2011 and 2010, the Company did not write off any uncollectible accounts receivables. As of March 31, 2011 and June 30, 2010, management recorded a reserve for allowance for doubtful accounts of \$0 and \$216, respectively.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Note 9 – Other receivables

Other receivables consisted of the following:

	March 31, 2011 (Unaudited)	June 30, 2010
Receivables related to notes payable	\$ 2,287,500	\$ -
Prepayment to be refunded due to cancellation of contracts	834,969	209,166
Receivables from an unrelated company	15,773	154,381
Advances to employees	169,679	115,574
Other receivables	\$ 3,307,921	\$ 479,121

The Company paid \$2,287,500 (RMB 15 million) to an unrelated party in December 2010 as collateral for such party to apply for RMB 30 million of bank notes for the Company. As of March 31, 2011, no bank notes were issued.

The Company cancelled purchase agreements with three suppliers during the nine months ended March 31, 2011. Prepayments made to two suppliers were refunded to the Company during the same period. As of March 31, 2011 and June 30, 2010, prepayments to be refunded due to cancellation of contracts amounted to \$834,969 and \$209,166, respectively.

For the nine months ended March 31, 2011 and 2010, the Company wrote off \$31,479 and \$0 in uncollectible other receivables. Management believes all other receivables were collectible as of March 31, 2011 and June 30, 2010.

Note 10 – Inventories

Inventories as of March 31, 2011 and June 30, 2010 consisted of the following:

	March 31, 2011 (Unaudited)	June 30, 2010
Raw materials	\$ 694,875	\$ 157,717
Work in process	3,128,791	587,886
Supplies	69,237	21,744
Finished goods	3,526,382	1,494,469
Total	\$ 7,419,285	\$ 2,261,816

Note 11 – Advances to suppliers

Advances to suppliers are monies deposited or advanced to unrelated vendors for future inventory purchases, which consist mainly of raw coal purchases. Most of the Company's vendors require a certain amount of money to be deposited with them as a guarantee that the Company will receive its purchases on a timely basis and with favorable pricing.

The Company temporarily halted its monthly purchase order with Zhengzhou Coal Industry Group in January 2011, due to its inability to supply sufficient coal commodities to the Company. Zhengzhou Coal Industry Group refunded a portion of the Company's advance in the amount of \$1,689,320 (RMB 11,077,505) in January 2011.

Advances to suppliers as of March 31, 2011 and June 30, 2010 amounted to \$5,136,004 and \$4,995,703, respectively.

- 22 -

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Note 12 – Prepayments

Prepayments for land use right

Prepayments for land use right are monies advanced in connection with acquiring land use rights to expand the site of the Company's new coking factory still under construction. As of March 31, 2011 and June 30, 2010, prepayments for land use right amounted to \$8,852,625 and \$5,074,485, respectively. Such prepayments were paid to the former occupants of the land underlying the land use rights, and are not refundable. The Company expects to acquire the land use rights by June 2011, at an estimated total cost of \$10,682,625 (RMB70,050,000).

Prepayments for mine acquisitions

The Company has been in the process of acquiring coal mines with annual production capacity of 150,000 to 300,000 metric tons. As of March 31, 2011, the Company had prepaid \$12,831,705 (RMB 84,142,325) in the aggregate to six potential acquisition targets but had not completed any acquisition.

In December, the Company deposited \$4,575,000 (RMB 30,000,000) with Henan Province Coal Seam Gas Development and Utilization Co., Ltd., a state owned enterprise and qualified provincial-level mine consolidator, to form a joint-venture with Zhonghong for the purpose of acquiring coal mines within Henan Province (Note 27).

As of March 31, 2011 and June 30, 2010, prepayments for mine acquisitions amounted to \$17,406,705 and \$8,858,398, respectively.

Prepayments for construction

Prepayments for construction are mainly monies advanced to contractors and equipment suppliers in connection with the new coking factory, as well as for tunnel improvement at the Company's Hongchang Mine.

As of March 31, 2011, the company made prepayments of approximately \$6.7 million toward construction of the new coking factory.

In addition, the Company made prepayment of approximately \$1.2 million (RMB 8 million) during the year ended June 30, 2010 to improve the existing mining tunnel of its Hongchang Mine. As of March 31, 2011, this project had not commenced.

The total contract price of construction amounted to approximately \$36.9 million. Prepayments for construction, as of March 31, 2011 and June 30, 2010, amounted to \$7,919,053 and \$17,303,883, respectively.

Note 13 –Plant and equipment, net

Plant and equipment as of March 31, 2011 and June 30, 2010 consisted of the following:

March 31, 2011 (unaudited)	June 30,2010
-------------------------------	--------------

Buildings and improvements	\$ 11,466,027	\$ 10,074,777
Mine development cost	11,019,699	10,643,945
Machinery and equipment	5,878,729	5,678,274
Other Equipment	540,588	482,716
Total	28,905,043	26,879,712
Less accumulated depreciation	(11,217,891)	(9,779,099)
Construction-in-progress	9,904,100	3,829,800
Total plant and equipment, net	\$ 27,591,252	\$ 20,930,413

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2011
 (UNAUDITED)

Depreciation expense for the three months ended March 31, 2011 and 2010 amounted to \$357,697 and \$598,573, respectively, and amounted to \$1,074,925 and \$1,924,036 for the nine months ended March 31, 2011 and 2010, respectively.

CIP at March 31, 2011 related to the new coking factory. No depreciation is provided for CIP until such time the assets are completed and placed into service.

Project	Total in CIP as of 03/31/2011	Estimate cost to complete	Estimated total cost	Estimated completion date
New coking factory	\$ 9,904,100	\$ 39,536,900	\$ 49,441,000	June 2011

Note 14 – Intangible – land use rights, net

Land use rights, net, consisted of the following as of March 31, 2011 and June 30, 2010:

	March 31, 2011 (Unaudited)	June 30, 2010
Land use rights	\$ 2,390,758	\$ 2,309,237
Accumulated amortization	(481,472)	(416,945)
Total land use rights, net	\$ 1,909,286	\$ 1,892,292

Amortization expense for the three and nine months ended March 31, 2011 amounted to \$16,480 and \$48,958, respectively. Amortization expense for the three and nine months ended March 31, 2010 amounted to \$32,455 and \$48,392, respectively.

Amortization expense for the next five years and thereafter is as follows:

Year ended June 30,	Amortization Expense
2011	\$ 16,319
2012	65,278
2013	65,278
2014	65,278
2015	65,278
thereafter	1,631,855
Total	\$ 1,909,286

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Note 15 – Intangible - mineral rights, net

Mineral rights, net, consisted of the followings as of March 31, 2011 and June 30, 2010.

	March 31, 2011 (unaudited)	June 30, 2010
Mineral rights	\$ 13,638,425	\$ 13,173,377
Accumulated depletion	(12,061,984)	(10,543,940)
Total, net	\$ 1,576,441	\$ 2,629,437

Depletion expense for the three and nine months ended March 31, 2011 amounted to \$379,136 and \$1,126,286, respectively. Depletion expense for the three and nine months ended March 31, 2010 amounted to \$489,909 and \$666,942, respectively. Depletion expenses were charged to cost of revenue in the period incurred using unit-of-production method.

Note 16 – Notes payable

Notes payable represents arrangements with certain banks to allow the issuance of notes in connection with purchases. When making a purchase, a short-term note can be issued to the vendor pursuant to such arrangements. Such short-term note is guaranteed by the bank under which arrangement it is issued from for its complete face value through a letter of credit and matures within three to six months of issuance.

Under the Company's arrangement with Shanghai Pudong Development Bank ("SPDB"), the Company is required to deposit 50% of the notes payable balance at SPDB as a guarantee deposit, which is classified on the balance sheet as restricted cash. In addition, the notes payables are guaranteed either by the Company's Chief Executive Officer ("CEO"), Hongli or an unrelated party. SPDB subjects the Company to a diligence review for each note issued, and also charges a processing fee based on 0.05% of the face value of the note.

Under the Company's arrangement with Pingdingshan Rural Cooperative Bank ("Pingdingshan Cooperative"), the Company has a line of credit of \$30.3 million. While Pingdingshan Cooperative also requires a guarantee deposit and a guarantee, and charges a processing fee, the Company is not subject to diligence review for each note issued so long as the aggregated amount of notes issued are within the credit limit.

As of March 31, 2011, the Company paid off all short-term notes payable issued through SPDB and Pingdingshan Cooperative due to their maturity, in the aggregate amount of \$19,825,000 (RMB 130,000,000), and these banks released deposits in the aggregate amount of \$10,675,000 (RMB 70,000,000) in connection with such payments.

On January 31, 2011, the Company deposited \$2,287,500 (RMB 15,000,000) with Pingdingshan City Rural Credit Union as guarantee deposit to enable Hongguang Power to issue notes payable. As of March 31, 2011, no agreement had been entered into with the bank, and no notes payable issued in connection therewith.

As of March 31, 2011 and June 30, 2010, notes payable amounted to \$0 and \$2,946,000, respectively, and the related restricted cash were \$2,287,500 and \$5,892,000, respectively.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Note 17 – Short-term loans

Short-term loans represent amounts due to various banks and are normally due within one year. These loans generally can be renewed with the banks.

The Company had short-term bank loans of \$15,250,000 and \$14,730,000 at March 31, 2011 and June 30, 2010, respectively.

On May 30, 2010, Hongyuan entered a one-year loan agreement with a local bank to borrow \$15,250,000 (RMB100 million) with per annum interest rate of 4.301%, or 90% of the interest rate of the same-term bank loan announced by the People's Bank of China, which was 4.779% at the time of signing the loan agreement and 5.454% as of March 31, 2011. This bank loan matures on May 30, 2011, and the collateral was pledged by Top Favour (BVI) through a bank deposit with the same bank of \$17,010,000 with an annual interest rate of 1.3%. The loan is also guaranteed by the Company's CEO.

In connection with this one-year bank loan, on May 15, 2010, the Company entered into a forward currency exchange contract with a local bank. Pursuant to the contract, at the Company's option, the Company was able to exchange \$20,000,000 into RMB with the exchange rate at \$1 to RMB 6.7 on October 31, 2010. The Company did not execute such option.

Weighted average interest rate was 5.22% and 6.70% for the three months ended March 31, 2011 and 2010, respectively. Total interest expense on short term loans for the three months ended March 31, 2011 and 2010 amounted to \$197,721 and \$6,599, of which \$74,974 and \$0 was capitalized into CIP, respectively.

Weighted average interest rate was 5.36% and 8.89% for the nine months ended March 31, 2011 and 2010, respectively. Total interest expense on short term loans for the nine months ended March 31, 2011 and 2010 amounted to \$609,027 and \$85,634, of which \$215,094 and \$0 was capitalized into CIP, respectively.

Note 18 – Other payables and accrued liabilities

Other payables mainly consisted of customer deposits to be returned, and accrued liabilities mainly consisted of salary, utility, professional service, and other general and administrative expenses incurred.

Other payables and accrued liabilities consisted of the following as of March 31, 2011 and June 30, 2010:

	March 31, 2011 (unaudited)	June 30, 2010
Customer deposits to be returned	\$ -	\$ 823,241
Accrued liabilities	591,180	609,880
Total	\$ 591,180	\$ 1,433,121

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Note 19 – Taxes

Income Tax

The PRC does not allow consolidation or group filing for corporate income tax purposes. Income and losses from members of the same consolidated group (for financial reporting purposes) are not allowed to offset one another. Therefore, total taxable income (loss) subject to actual PRC corporate tax within the consolidated group does not necessarily equal to the consolidated net income before income tax of the consolidated group. The PRC tax administration system does not necessarily retroactively recognize or allow accounting adjustments that are discovered and posted after the income tax returns are filed as additional taxable income or deductions for the tax year to which such post-filing accounting adjustments relate. The Company considers any US GAAP adjustments to its financial statements made after the statutory tax returns are filed to be permanent differences for the purpose of reconciling differences of income tax provision and actual PRC income tax liabilities.

SinoCoking is subject to the United States federal income tax provisions. Top Favour (BVI) is a tax-exempt company incorporated in the British Virgin Islands. All of the Company's businesses are conducted by its PRC subsidiary and VIEs, namely Hongyuan, Hongli, Baofeng Coking, Hongchang Coal, Hongguang Power and Zhonghong.

Hongyuan, Hongli, Baofeng Coking, Hongguang Power and Zhonghong are subject to 25% enterprise income tax rate in China.

As approved by the local tax bureau, Hongchang Coal's total income tax obligation for the 12-months ended December 31, 2011 and 2010 is approximately \$384,000 (RMB 2,520,000) each such calendar year, regardless of its actual taxable income during such period.

The estimated tax savings due to the foregoing reduced tax rate amounted to \$506,070 and \$487,615 for the three months ended March 31, 2011 and 2010, respectively. If the statutory income tax had been applied, the Company would have decreased basic and diluted earnings per share from \$0.81 to \$0.79 for the three months ended March 31, 2011, respectively, and decreased basic and diluted earnings per share from \$(2.39) to \$(2.42) for the three months ended March 31, 2010.

The estimated tax savings due to the foregoing reduced tax rate amounted to \$1,068,736 and \$793,182 for the nine months ended March 31, 2011 and 2010, respectively. If the statutory income tax had been applied, the Company would have decreased basic and diluted earnings per share from \$1.22 and \$1.17 for the nine months ended March 31, 2011, respectively, and decreased basic and diluted earnings per share from \$(1.82) to \$(1.87) for the nine months ended March 31, 2010.

The provision for income taxes consisted of the following for the three and nine months ended March 31, 2011 and 2010:

	For the three months ended March 31,		For the nine months ended March 31,	
	2011	2010	2011	2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
US current income tax expense	\$ -	\$ -	\$ -	\$ -

BVI current income tax expense	-	-	-	-
PRC current income tax expense	1,222,473	1,283,907	3,450,074	4,213,029
Total provision for income taxes	\$ 1,222,473	\$ 1,283,907	\$ 3,450,074	\$ 4,213,029

- 27 -

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

The following table reconciles the statutory rates to the Company's effective tax rate for the three and nine months ended March 31, 2011 and 2010:

	Three months ended March 31,		Nine months ended March 31,					
	2011	2010	2011	2010				
	(unaudited)		(unaudited)					
U.S. Statutory rate	34.0	%	34.0	%	34.0	%	34.0	%
Foreign income not recognized in U.S.A	(34.0)	)%	(34.0)	)%	(34.0)	)%	(34.0))%
BVI income tax	0.0	%	0.0	%	0.0	%	0.0	%
PRC income tax	25.0	%	25.0	%	25.0	%	25.0	%
China income tax exemption	(2.8)	)%	(1.4)	)%	(3.7)	)%	(3.7))%
Other item (1)	(15.5)	)%	(27.2)	)%	(9.4)	)%	(41.0))%
Effective rate	6.7	%	(3.6)	)%	11.9	%	(19.7))%

(1)The (15.5)% for the three months ended March 31, 2011 mainly represents gain on change in fair value of warrants of \$12,191,235 incurred by SinoCoking, which did not bring tax expense to the Company. The (9.4)% for the nine months ended March 31, 2011 mainly represents gain on change in fair value of warrants of \$13,663,378 incurred by SinoCoking, which was not subject to income tax, and partially offset by the operating losses incurred by Hongguang and Hongchang. The (27.2)% and (41.0)% for the three and nine months ended March 31, 2010, respectively, represents change in fair value of warrants of \$39,869,662 incurred by SinoCoking related to equity financing on February 5, 2010 and March 11, 2010, which did not bring tax benefit to the Company.

SinoCoking is incorporated in the U.S. and has incurred a net operating loss for income tax purposes for 2011. As of March 31, 2011, the estimated net operating loss carryforwards for U.S. income tax purposes was approximately \$1,051,215, which may be available to reduce future years' taxable income. These carryforwards have begun expiring in 2010 and will continue through 2030 if not utilized. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's limited operating history and continuing losses for U.S. income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at March 31, 2011. The valuation allowance at March 31, 2011 was approximately \$357,413. The Company's management reviews this valuation allowance periodically and makes adjustments as necessary.

The Company has cumulative undistributed earnings of foreign subsidiaries of approximately \$29.3 million as of March 31, 2011, which was included in consolidated retained earnings and will continue to be reinvested in its operations in China. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings, nor is it practicable to estimate the amount of income taxes that would have to be provided if we concluded that such earnings will be remitted in the future.

Value Added Tax

The Company incurred VAT on sales and VAT on purchases in the PRC amounting to \$4,038,852 and \$3,389,965 for the three months ended March 31, 2011, and \$3,069,769 and \$2,043,176 for the three months ended March 31, 2010, respectively.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

The Company incurred VAT on sales and VAT on purchases in the PRC amounting to \$10,017,148 and \$6,691,421 for the nine months ended March 31, 2011, and \$9,675,944 and \$5,252,104 for the nine months ended March 31, 2010, respectively.

Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government. VAT taxes are not impacted by the income tax holiday.

Taxes Payable

Taxes payable as of March 31, 2011 and June 30, 2010 consisted of the following:

	March 31, 2010 (unaudited)	June 30, 2010
VAT	\$ 122,019	\$ 59,848
Income tax	1,213,569	723,966
Others	311,158	445,205
Total taxes payable	\$ 1,646,746	\$ 1,229,019

Note 20 – Private placement equity financing

On February 5, 2010, simultaneously with the reverse acquisition and immediately following a 1-for-20 reverse stock split (Note 21), the Company executed a private placement financing in which it sold and issued 1,180,892 units for the aggregated proceeds of \$7,085,352, at a purchase price of \$6.00 per unit, to 34 non-U.S. investors. Each unit consists of one share of common stock and a warrant (“Investor warrants”) for the purchase of 0.5 shares of common stock with an exercise price of \$12.00 per whole share. The Investor warrants are exercisable for a period of five years from the date of issuance.

On March 11, 2010, the Company conducted a subsequent closing of its private placement financing in which it sold and issued 6,164,043 of its units at a purchase price of \$6.00 per unit, to both U.S. and non-U.S. investors. The gross proceeds from this subsequent closing of the private placement was approximately \$37 million, each unit consists of one share of common stock and a warrant (“Callable investor warrants”) for the purchase of 0.5 shares of common stock with an exercise price of \$12.00 per share. The Callable investor warrants are exercisable for a period of five years from the date of issuance, and are callable at the Company’s election six months after the date of issuance if the Company’s common stock trades at a price equal to at least 150% of the exercise price (or \$18.00 per share) with an average trading volume of at least 150,000 shares of Common Stock (as adjusted for any stock splits, stock dividends, combination and the like) per trading date for at least 10 consecutive trading days and the underlying shares of common stock are registered.

In connection with the foregoing, the Company entered into a registration rights agreement with the U.S. investors under which the Company agreed to file a registration statement to register both the shares of common stock, and the common stock underlying the warrants, that were issued to the U.S. investors in the financing, within 60 days after the closing date of March 11, 2010. The Company agreed to use its best efforts to have this registration statement declared effective by the Commission within 120 days, subject to certain exceptions. The Company also agreed to undertake

commercially reasonable efforts to register the shares of common stock and warrants issued to the non-U.S. investors in the initial closing on February 5, 2010, was well as the securities issued to non-U.S. investors on March 11, 2010. The registration statement was filed with SEC on May 11, 2010 and was declared effective by the SEC on September 13, 2010.

- 29 -

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Madison Williams & Company, LLC and Rodman & Renshaw, LLC, acted as joint placement agents in connection with the March 11, 2010 equity financing. Under an agreement with the placement agents, the Company agreed to pay the placement agents a cash fee equal to 7% of the aggregate gross proceeds from the sales of securities to the U.S. accredited investors, plus reimbursement of fees and expenses, and reasonable fees and expenses of placement agent legal counsel. In addition, the Company agreed to issue warrants (“Callable agent warrants”) for the purchase of up to 250,000 shares of common stock, with an exercise price of \$6.00 per share. In addition, the Company issued \$117,163 callable warrants to Madison Williams & Company on March 18, 2010, with an exercise price of \$12.00 per share, in connection with the second closing of the financing on March 11, 2010. Warrants issued to placement agents contain terms and provisions otherwise similar to the terms provided under the Callable investor warrants described above. The Company used the Cox-Ross-Rubinstein binomial model to value the warrants issued, which amounted to \$9,751,886. In addition, the placement agents received cash payment of \$2,188,391. \$3,524,206 of total payments made to the placement agents was capitalized, and \$8,491,067 was charged to retained earnings.

The following table summarizes the securities issued and expenses incurred in connection with this equity financing.

	# of shares of underlying common stock	Value
Investor warrants@\$12.00 per share	590,446	\$ 11,898,728
Callable investor warrants@\$12.00 per share	3,082,027	72,324,038
Total warrants to investors	3,672,473	84,222,766
Gross cash proceeds from equity financing \$44,069,610		
Gross cash proceeds allocated to warrants		(44,069,610)
Exceeded amount charged to current period expense		\$ 40,153,156
Common stock issued to investors	7,344,935	\$ -
Callable agent warrants @\$6.00 per share	250,000	\$ 6,791,519
Callable agent warrants @\$12.00 per share	117,163	2,960,363
7% cash fee paid to placement agents		2,188,391
Legal fee in connection with Equity financing		75,000
Total issuance costs		12,015,273
Less beginning balance in paid in capital		(3,524,206)
Remaining amount of issuance costs charged to retained earnings		\$ 8,491,067

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Note 21 – Capital transactions

Stock split

On February 5, 2010, the Company affected a 1-for-20 reverse split of its outstanding common shares. All references to share and per-share data for all periods presented in the consolidated financial statements have been adjusted to give effect to this stock split.

Issuance of capital stock

Immediately before the closing reverse acquisition disclosed in Note 3, the Company had 405,710 shares of outstanding common stock on February 5, 2010.

In connection with the reverse acquisition, on February 5, 2010, the Company issued 13,117,952 shares of the Company's common stock.

In connection with the private placement equity financing disclosed in Note 20, the Company issued 1,180,892 and 6,164,043 shares of the Company's common stock to investors at the first closing date February 5, 2010, and the second closing date of March, 11, 2010, respectively.

The Company issued 2,593 round-up shares of common stock in connection with the reverse acquisition and private placement equity financing.

Options

2002 Stock Option Plan for Directors

In 2002, the Board of Directors adopted a 2002 Stock Option Plan for Directors (the "Directors Plan"). The purpose of the Directors Plan is to attract and retain the services of experienced and knowledgeable individuals to serve as its directors. On the date the Directors Plan was adopted, the total number of shares of common stock subject to it was 11,057. This number of shares may be increased on the first day of January of each year so that the common stock available for awards will equal 5% of the common stock outstanding on that date, provided, however, that the number of shares included in the Directors Plan may not exceed more than 10% of all shares of common stock outstanding. The Directors Plan is administered by the Board of Directors, or any Committee that may be authorized by the Board of Directors. The grant of an option under the Directors Plan is discretionary. The exercise price of an option must be the fair market value of the common stock on the date of grant. An option grant may be subject to vesting conditions. Options may be exercised in cash, or with shares of the common stock of the registrant already owned by the person. The term of an option granted pursuant to the Directors Plan may not be more than 10 years.

2002 Consultant Stock Plan

In 2002 the Board of Directors adopted a 2002 Consultant Stock Plan (the "Consultants Plan"). The purpose of the Consultants Plan is to be able to offer consultants and others who provide services to the registrant the opportunity to participate in the registrant's growth by paying for such services with equity awards. The Consultants Plan is

administered by the Board of Directors, or any Committee that may be authorized by the Board of Directors. Persons eligible for awards under the Consultants Plan may receive options to purchase common stock, stock awards or stock restricted by vesting conditions. The exercise price of an option must be no less than 85% of the fair market value of the common stock on the date of grant. An option grant may be subject to vesting conditions. Options may be exercised in cash, or with shares of the common stock of the registrant already owned by the person or with a fully recourse promissory note, subject to applicable law. The term of an option granted pursuant to the Consultants Plan may not be more than 10 years.

- 31 -

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

1999 Stock Option Plan

In 1999 the Board of Directors adopted a 1999 Stock Option Plan (the "Option Plan"). The purpose of the Option Plan is to enable the Company retain the services of employees and consultants and others who are valuable to the registrant and to offer incentives to such persons to achieve the objectives of the registrant's shareholders. The total number of shares of common stock subject to the Option Plan is 45,417. The Option Plan is administered by the Board of Directors, or any Committee that may be authorized by the Board of Directors. Employees eligible for awards under the Option Plan may receive incentive options to purchase common stock. If a recipient does not receive an incentive option, he or she will receive a non-qualified stock option. The exercise price of an option must be no less than the fair market value of the common stock on the date of grant, unless the recipient of an award owns 10% or more of the registrant's common stock, in which case the exercise price of an incentive stock option must not be less than 110% of the fair market value. An option grant may be subject to vesting conditions. Options may be exercised in cash, or with shares of the common stock of the registrant already owned by the recipient of the award. The term of an option granted pursuant to the Option Plan may not be more than five years if the option is an incentive option granted to a recipient who owns 10% or more of the registrant's common stock, or 10 years for all other recipients and for recipients of non-qualified stock options.

On February 5, 2010, the completion date of the reverse acquisition disclosed in Note 3, there were options exercisable for 11,124 shares of the Company's common stock outstanding.

Under the Directors Plan, there were outstanding options exercisable to 4,792 shares of the Company's common stock. Options exercisable for 1,666 shares of the Company's common stock were granted on October 11, 2002, with exercise price of \$36.00 per share and an expiration date of October 15, 2012. Options exercisable for 3,126 shares of the Company's common stock were granted on November 16, 2004, with exercise price of \$96.00 per share and an expiration date of November 16, 2014.

Under the Option Plan, there were outstanding options exercisable to 6,332 shares of the Company's common stock. Options exercisable for 6,059 shares of the Company's common stock were granted on November 14, 2004, with exercise price of \$96.00 per share and an expiration date of November 14, 2014. Options exercisable for 273 shares of the Company's common stock were granted on May 2, 2003, with an exercise price of \$60.00 per share and an expiration date of May 2, 2010.

These outstanding options were fully vested before the completion of the reverse acquisition on February 5, 2010, and through March 31, 2011 no additional options had been granted.

The following consisted of the outstanding and exercisable options at March 31, 2011

Number Of Options	Outstanding Options		Number of Options	Exercisable Options	
	Average Remaining Contract Life	Average Exercise Price		Average Remaining Contractual Life	Average Exercise Price
10,851	3.36 years	\$ 86.79	10,851	3.36 years	\$ 86.79

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

A summary of changes in options activity is presented as follows:

	Options
Outstanding, June 30, 2009	-
Granted	11,124
Forfeited	273
Exercised	-
Outstanding, June 30, 2010	10,851
Granted	-
Forfeited	-
Exercised	-
Outstanding, March 31, 2011 (unaudited)	10,851

Warrants

In connection with the equity financing disclosed in Note 20, the Company issued warrants exercisable into 3,906,643 shares of the Company's common stock. In addition, the Company had existing warrants exercisable into 36,973 shares of the Company's common stock ("Existing warrants") outstanding on February 5, 2010.

On July 1, 2010, the Company granted callable warrants underlying 50,000 shares of the Company's common stock to exchange for consulting service. These warrants expire on July 1, 2015 with exercise price of \$20.00, and such exercise price was changed to \$15.00 in March 2011. The fair value of these warrants was \$325,285, and was charged to general and administrative expense for the nine months ended March 31, 2011.

On November 12, 2010, warrants underlying 1,000 shares of the Company's common stock were exercised at \$6.00 per share. The fair value of these warrants on the exercise date was \$6,438. In the quarter ended March 31, 2011, 218,756 warrants underlying 218,756 shares of the Company's common stock were exercised at \$6.00 per share. The fair value of these warrants on the exercise date was \$2,050,060.

The Company adopted the provisions of an accounting standard regarding instrument that are Indexed to an Entity's Own Stock. This accounting standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. It provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the scope exception within the standards.

As a result, the Existing warrants, which were previously treated as equity pursuant to the derivative treatment exemption, are no longer afforded equity treatment because the strike price of such warrants is denominated in US dollar, a currency other than the Company's functional currency RMB. Therefore such warrants are not considered indexed to the Company's own stock, and as such, all future changes in the fair value of such warrants will be recognized currently in earnings until such time as such warrants are exercised or expire. The Company reclassified the fair value of such warrants of \$631,002 from equity to liability status as if such warrants were treated as a derivative liability at February 5, 2010.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

As of March 31, 2011 and June 30, 2010, warrants that were exercisable into 3,906,853 and 4,076,609 shares of the Company's common stock were recorded as derivative instruments. The value of warrant liabilities was \$15,041,496 and \$30,436,087 at March 31, 2011 and June 30, 2010, respectively. The decrease of fair value of warrants was \$13,663,378 and it was recorded as gain on change in fair value of warrants. Fair value of \$2,056,498 in relation to the warrants exercised during the nine months ended March 31, 2011 was recorded to the additional paid in capital. \$325,285 was the fair value of the 50,000 warrants at the issuance date of July 1, 2010, which was charged to the general and administrative expense.

A summary of changes in warrant activity is presented as follows:

	Existing warrants @\$48.00 (1)	Investor warrants @12.00 (2)	Callable warrants @\$12.00 (3)(6)	Callable warrants @6.00 (4)(6)	Callable warrants @15.00 (5)(6)	Total
Outstanding, June 30, 2009	-	-	-	-	-	-
Granted	36,973	590,446	3,199,190	250,000	-	4,076,609
Forfeited	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding, June 30, 2010	36,973	590,446	3,199,190	250,000	-	4,076,609
Granted	-	-	-	-	50,000	50,000
Forfeited	-	-	-	-	-	-
Exercised	-	-	-	219,756	-	219,756
Outstanding, March 31, 2011 (unaudited)	36,973	590,446	3,199,190	30,244	50,000	3,906,853

(1)The warrants underlying 36,973 shares of the Company's common stock are exercisable at any time until April 9, 2017, with remaining contractual term of 6.03 years as of March 31, 2011.

(2)The warrants underlying 590,446 shares of the Company's common stock are exercisable at any time until February 5, 2015, with remaining contractual term of 3.85 years as of March 31, 2011.

(3)The warrants underlying 3,082,027 and 117,163 shares of the Company's common stock are exercisable at any time until March 11, 2015 and March 18, 2015, respectively, with remaining contractual term of 3.95 and 3.97 years as of March 31, 2011, respectively.

(4)The warrants underlying 30,244 shares of the Company's common stock are exercisable until March 11, 2015, with remaining contractual term of 3.95 years as of March 31, 2011.

(5)The warrants underlying 50,000 shares of the Company's common stock are exercisable until July 1, 2015, with remaining contractual terms of 4.25 years as of March 31, 2011.

(6)The Callable warrants are exercisable for a period of five years from the date of issuance, and are callable at the Company's election six months after the date of issuance if the Company's common stock trades at a price equal to

at least 150% of the exercise price with an average trading volume of at least 150,000 shares of common stock (as adjusted for any stock splits, stock dividends, combination and the like) per trading date for at least 10 consecutive trading days, and the underlying shares of common stock are registered.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Note 22 – Earnings per Share

The following is a reconciliation of the basic and diluted earnings per share computation for the three and nine months ended March 31, 2011 and 2010:

	For the three months ended		For the nine months ended	
	March 31, 2011 (Unaudited)	2010	2011 (Unaudited)	March 31, 2010 (Unaudited)
Net income (loss) for earnings per share	\$ 17,138,441	\$(36,876,262)	\$ 25,630,716	\$(25,592,586)
Weighted average shares used in basic computation	21,043,206	15,441,258	20,927,453	14,086,729
Diluted effect of warrants	14,126	-	13,799	
Weighted average shares used in diluted computation	21,057,332	15,441,258	20,941,252	14,086,729
Earnings per share - Basic	\$0.81	\$(2.39)	\$1.22	\$(1.82)
Earnings per share – Diluted	\$0.81	\$(2.39)	\$1.22	\$(1.82)

As of March 31, 2011, the Company had warrants and option exercisable for 3,917,704 shares of the Company's common stock in aggregate. For the three and nine months ended March 31, 2011, 3,887,460 of outstanding options were excluded from the diluted earnings per share calculation due to the anti-dilution feature while warrants underlying 30,244 shares of the Company's common stock were included in the diluted earnings per share calculation using treasury method.

As of March 31, 2010, the Company had warrants and options exercisable for 4,082,458 shares of the Company's common stock in aggregate. For the three and nine months ended March, 31, 2010, all outstanding warrants and options were excluded from the diluted earnings per share calculation as the Company had net losses.

Note 23- Coal mine acquisitions

On August 10, 2010, Hongli entered two equity purchase agreements to acquire 60% of equity interests of Baofeng Shuangrui Coal Co., Ltd., which operates Shuangrui Coal Mine, and Baofeng Xingsheng Coal Co., Ltd., which operates Xingsheng Coal Mine, for total consideration of approximately \$12.8 million (RMB 84 million). The coal mines, located in Baofeng County, Henan Province, are similar in size, each with 2 million metric tons of estimated coal reserves. Each mining company's annual coal production is currently 150,000 metric tons.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Pursuant to the foregoing agreements, Hongli will pay the owners of each mining company an aggregate purchase price of \$6.4 million (RMB 42million) in cash.

The purchase shall be made under the following schedule for each mining company:

- 1) \$1.5 million (RMB 10 million) of refundable deposit paid prior to signing the agreement to examine the mining company's books and records, which amount was applied to the purchase price after signing the agreement.
- 2) \$1.83 million (RMB 12 million) within 30 business days from August 10, 2010;
- 3) \$0.76 million (RMB 5million) within 20 business days from the completion of the transfer of equity interests to Hongli;
- 4) \$0.76 million (RMB 5million) within six months from the completion of the transfer of equity interests to Hongli;
- 5) The remaining balance within one year from the completion of the transfer of equity interests to Hongli;
- 6) If total annual output is less than 150,000 metric tons, Hongli is entitled to an additional 10% of equity interests; and
- 7) If coal reserves are less than 2 million metric tons, Hongli is entitled to an additional 10% of equity interests.

As of March 31, 2011, the Company had prepaid refundable deposit of \$6.1 million (RMB 40 million) pursuant to the above schedule. As of March 31, 2011, these two acquisitions had not been completed.

Additionally, during the year ended June 30, 2010, the Company prepaid \$6,121,118 (RMB 40,138,476) in the aggregate to four potential acquisition targets, and on March 14, 2011, the Company prepaid an additional \$610,587 (RMB 4,003,849) to one of the four targets. Such prepayments were made in order to access and review their books and records. As of March 31, 2011, prepayments to these four companies amounted to \$6,731,705 in the aggregate, although no acquisition was completed.

Note 24 – Commitments and contingencies

Lease agreement:

The Company entered into a lease agreement to lease three office units in Beijing from June 15, 2010 to June 14, 2013 with monthly lease payment of \$21,815 (RMB 145,529) and monthly management fee of \$3,850 (RMB 25,681).

The Company is also leasing an office place in Pingdingshan from October 1, 2010 to September 30, 2011 with monthly lease payment of \$2,027 (RMB 13,520).

For the three and nine months ended March 31, 2011, lease expenses were \$83,863 (RMB 554,190) and \$243,139 (RMB 1,622,010), respectively. For the three and nine months ended March 31, 2010, lease expenses were \$5,965 and \$17,816, respectively.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

As of March 31, 2011, total future minimum lease payments for the unpaid portion under an operating lease were as follows:

Year ended June 30,	Amount
2011	\$ 83,073
2012	314,052
2013	307,973
Total	\$ 705,098

Purchase commitment

The Company entered into several contracts with contractors and suppliers for the construction of the new coking facility and for equipment purchases. As of March 31, 2011, the total contract amount was approximately \$29,236,000. The Company had made payments of approximately \$17,823,000, and the remaining \$11,413,000 will be paid based on construction progress.

Discounting of bank notes

On November 28, 2010, Hongli entered into an agreement with an un-related party, Pingdingshan Yong-Xin-Kang Trading Ltd. ("YXK"). Pursuant to the agreement, YXK agrees to assist Hongli with discounting notes of \$4.5million (RMB 30 million) based on discount rate of 5%. If YXK cannot collect money when such notes mature, YXK is eligible to exercise recourse rights and Hongli is responsible for the full amount of the face value of such notes, plus 1% penalty interest.

Application of notes payable

As disclosed in Note 9, on December 29, 2010, Hongli entered into an agreement with an un-related party, Baofeng County Honghao Coking Ltd ("Honghao"). Pursuant to the agreement, Hongli agrees to deposit approximately \$2.3 million (RMB 15 million) into Honghao's bank account as collateral, and Honghao agrees to obtain bank notes for approximately \$4.6 million (RMB 30 million) from the bank for Hongli. Honghao will charge Hongli 0.5% of the face value of such bank notes as processing fees, and is entitled to exercise recourse rights against Hongli if Hongli is unable to repay the notes upon their maturity. As of March 31, 2011, \$2.3 million had been deposited into Honghao's bank account, and no bank notes had been issued. Such deposit was refunded to the Company in full in May 2011.

Registered capital of Zhonghong

As described in Note 1, the remaining unpaid registered capital of Zhonghong, approximately \$1,045,000 (RMB 7,010,000), has to be invested by December 20, 2015.

Increase of registered capital in Hongli

In order for Hongli to retain its coal trading license, the local government required Hongli to increase its registered capital. The shareholders of Hongli satisfied the required payments for Hongli's increased registered capital of \$3,050,000 (RMB 20,000,000) effectively on August 26, 2010. Hongli is in the process of registering the capital with

the appropriate government authority. Once such registration is completed, Hongyuan and the shareholders of Hongli will amend their contractual arrangements so that the Company can control the additional equity of Hongli as represented by the increased registered capital.

- 37 -

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Note 25 – Statutory reserves

The laws and regulations of the PRC require that before foreign invested enterprise can legally distribute profits, it must first satisfy all tax liabilities, provide for losses in previous years, and make allocations, in proportions determined at the discretion of the board of directors, after the statutory reserves. The statutory reserves include the statutory surplus reserve fund and the enterprise expansion fund.

The Company is required to transfer 10% of its net income, as determined in accordance with the PRC Company Law, to the statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital. The transfer must be made before distribution of any dividends to shareholders. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholdings or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

The enterprise fund may be used to acquire plant and equipment or to increase the working capital to expend on production and operation of the business. No minimum contribution is required

As of March 31, 2011, the statutory surplus reserves of both Hongli and Hongchang Coal had reached 50% of each entity's registered capital, Hongguang Power did not make any contribution to the statutory reserve due to its net operating loss. Zhonghong did not make any contribution to the statutory reserves as it had no operations as of March 31, 2011.

Hongchang Coal is required by the PRC government to reserve safety and maintenance expense to the cost of production based on the actual quantity of coal exploited. The amount of reserves is determined within the unit price range provided by Ministry of Finance of PRC. Currently, Hongchang Coal reserves at RMB 6 per metric ton for safety expense and RMB 8.5 per metric ton for maintenance expense.

The component of statutory reserves and the future contributions required pursuant to PRC Company Law are as follows as of March 31, 2011 and June 30, 2010:

	March 31, 2011 (unaudited)	June 30, 2010	50% of registered capital	Future contributions required as of March 31, 2011
Hongli	\$ 548,204	\$ 548,204	\$ 548,204	\$ -
Hongguang	-	-	1,514,590	1,514,590
Hongchang	218,361	218,361	218,361	-
Hongyuan	-	-	1,500,000	1,500,000
Zhonghong	-	-	759,259	759,259
Statutory surplus reserve	766,565	766,565	4,540,414	3,773,849
Mine reproduction reserve	1,283,089	1,070,830	-	-
Total statutory reserve	\$ 2,049,654	\$ 1,837,395	\$ 4,540,414	\$ 3,773,849

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011
(UNAUDITED)

Note 26 – Related party transactions

Other receivables from related parties at March 31, 2011 and June 30, 2010 amounted to \$0 and \$477,052, respectively. Balance at June 30, 2010 represented advanced funds of \$418,410 to Mr. Hui Zheng, a director and vice president of operation of Hongli, for him to perform business and acquisition development activities on behalf the Company, and over-repayment of \$58,642 to Mr. Liuchang Yang.

The Company also received funds from its CEO. Payables to the CEO amounted to \$380,622 and \$51,381 at March 31, 2011 and June 30, 2010, respectively. Such payables are interest free, due on demand and will be settled by cash payment.

Note 27 – Subsequent events

On April 2, 2011, Hongli entered into a loan agreement with Bairui Trust Co., Ltd. (“Bairui”), an unrelated party, pursuant to which Bairui agrees to loan Hongli the sum of RMB 360 million (approximately \$54.9 million), of which RMB 180 million (approximately \$27.5 million) is due on April 2, 2013, and RMB 180 million on April 2, 2014, with annual interest of 6.3%. Such loan was issued on April 3, 2011.

In December 2010, the Company deposited \$4,551,000 (RMB 30,000,000) with Henan Province Coal Seam Gas Development and Utilization Co., Ltd. (“Henan Coal Seam Gas”), a state owned enterprise and qualified provincial-level mine consolidator, in connection with a joint-venture between Zhonghong and Henan Coal Seam Gas for the purpose of acquiring mines within Henan province. The joint-venture, Henan Hongyuan Coal Seam Gas Engineering Technology Co., Ltd., obtained its business license on April 28, 2011.

ITEM 2.MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the results of our operations and financial condition for the three and nine months ended March 31, 2011 and 2010, should be read in conjunction with our financial statements, and the notes to those financial statements that are included elsewhere in this report. All monetary figures are presented in U.S. dollars, unless otherwise indicated.

Forward-Looking Statements

The statements in this discussion that are not historical facts are “forward-looking statements.” The words “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “estimate,” “continue”, the negative forms thereof, or similar expressions intended to identify forward-looking statements, although not all forward-looking statements are identified by those words or expressions. Forward-looking statements by their nature involve substantial risks and uncertainties, certain of which are beyond our control. Actual results, performance or achievements may differ materially from those expressed or implied by forward-looking statements depending on a variety of important factors, including, but not limited to, weather, local, regional, national and global coke and coal price fluctuations, levels of coal and coke production in the region, the demand for raw materials such as iron and steel which require coke to produce, availability of financing and interest rates, competition, changes in, or failure to comply with, government regulations, costs, uncertainties and other effects of legal and other administrative proceedings, and other risks and uncertainties. We are not undertaking to update or revise any forward-looking statement, whether as a result of new information, future events or circumstances or otherwise.

Overview

SinoCoking Coal and Coke Chemical Industries, Inc. (“SinoCoking” or the “Company”) is a vertically integrated coal and coke producer based in Henan Province, People’s Republic of China (“PRC” or “China”). We use coal from both of our own mines and that of third-party mines to produce basic and value-added coal products including raw (unprocessed) coal, thermal coal, washed metallurgical coal, medium coal and coal slurries (by-products of the coal-washing process), and coke products including chemical and metallurgical coke and coal tar (a by-product of the coke manufacturing process).

Our business operations are conducted through Henan Province Pingdingshan Hongli Coal & Coke Co., Ltd. (“Hongli”), a PRC company that we control by a series of contractual arrangements between Hongli and Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. (“Hongyuan”). Hongyuan is a PRC company wholly-owned by Top Favour Limited, a British Virgin Island company and our wholly-owned subsidiary.

Presently, our coke related activities are carried out by Hongli’s branch operation, Baofeng Coking Factory (“Baofeng Coking”), coal related activities by a Hongli subsidiary, Baofeng Hongchang Coal Co., Ltd. (“Hongchang Coal”), and electricity generation by another Hongli subsidiary, Baofeng Hongguang Environment Protection Electricity Generating Co., Ltd. (“Hongguang Power”). However, it is our intention to transfer all coal related activities from Hongchang Coal to the joint-venture established with Henan Province Coal Seam Gas Development and Utilization Co., Ltd. (“Henan Coal Seam Gas”), a state-owned enterprise and qualified provincial-level coal mine consolidator. The joint-venture, Henan Hongyuan Coal Seam Gas Engineering Technology Co., Ltd. (“Hongyuan CSG”), has been established, although our planned transfer of coal related activities to Hongyuan CSG has not been carried out as of the date of this report. As a participant in the provincial-wide coal mine consolidation efforts, we also intend to carry out our acquisition plans through Hongyuan CSG (including all previously announced acquisitions), although no acquisition has been completed as of the date of this report. Our interests in Hongyuan CSG are held by Henan Zhonghong Energy Investment Co., Ltd. (“Zhonghong”), a company established in December 2010 and which equity

interests are presently held on Hongli's behalf and for its benefits by three nominees pursuant to share entrustment agreements.

Critical Accounting Policies

Our management's discussion and analysis of our financial condition and results of operations are based on our financial statements that have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported net sales and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in Note 2 to our financial statements, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating this management discussion and analysis:

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The more significant areas requiring the use of management estimates and assumptions relate to coal reserves that are the basis for future cash flow estimates and units-of-production depletion calculations; asset impairments; valuation allowances for deferred income taxes; reserves for contingencies and litigation and the fair value and accounting treatment of certain financial instruments. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates. In addition, different assumptions or conditions could reasonably be expected to yield different results.

Estimate of recoverable coal reserves. We capitalize our mineral rights at fair value when acquired, including amounts associated with any value beyond proven and probable reserves, and amortized to operations as depletion expense using the units-of-production method over the estimated recoverable coal. The Hongchang Mine was acquired in 2005 for a book value of \$13,102,000 with estimated total recoverable coal of 1,215,000 metric tons (\$10.78 per metric ton). If the estimated recoverable coal reserves were to increase or decrease, future depletion expense would decrease or increase accordingly.

Estimate of asset impairment. We evaluate long lived tangible and intangible assets for impairment, at least annually, but more often whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows, in accordance with the Financial Accounting Standard Board's (FASB's) accounting guidance regarding "Disposal of Long-Lived Assets." Recoverability is measured by comparing the asset's net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, and market trends. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. Based on our review, we believe that, as of March 31, 2011, there was no impairment of long lived assets.

Estimate of valuation allowances for deferred income taxes. Effective January 1, 2007, we adopted FASB's accounting standard which indicates a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a greater than 50% likelihood of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. SinoCoking is incorporated in the United States and has incurred a net operating loss for as of March 31, 2011, which may be available to reduce future years' taxable income. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's limited operating history and continuing losses for U.S income tax purposes. Accordingly, we have provided a 100% valuation allowance at March 31, 2011 and June 30, 2010. Our management reviews this valuation allowance periodically and makes adjustments as necessary.

Estimate of reserves for contingencies and litigation. From time to time, we may be involved in legal matters arising in the ordinary course of business. Management currently is not aware of any legal matters or pending litigation that would have a significant effect on our consolidated financial statements as of March 31, 2011.

Estimate of the fair value and accounting treatment of certain financial instruments. We use the FASB's accounting standard regarding fair value of financial instruments and related fair value measurements. Those accounting standards established a three-level valuation hierarchy for disclosures of fair value measurement and enhance disclosures requirements for fair value measures. The carrying amounts reported in the accompanying consolidated balance sheets for receivables, payables and short term loans qualify as financial instruments are a reasonable estimate of fair value because of the short period of time between the origination of such instruments, their expected realization and, if applicable, the stated rate of interest is equivalent to rates currently available. The three levels of valuation hierarchy are defined as follows:

- Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value.

Our warrants are not traded on an active securities market; therefore, we estimate the fair value of our warrants using the Cox-Ross-Rubinstein binomial model on their issuance dates and on March 31, 2011 using the Level 3 valuation hierarchy.

Due to the short trading history of our common stock, expected volatility is based primarily on other similar public companies' historical volatilities, which are traded on United States stock markets. Historical volatility was computed using daily pricing observations for recent periods that correspond to the term of the warrants. We believe this method produces an estimate that is representative of our expectations of future volatility over the expected term of these warrants. We currently have no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the warrants.

Revenue Recognition

We recognize revenue from the sale of coal and coke, our principal products, at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations on our part exist and collectability is reasonably assured. This generally occurs when coal or coke is loaded onto trains or trucks at one of our loading facilities or at third-party facilities. Accordingly, management is required to apply its own judgment regarding collectability based on its experience and knowledge of its current customers, and thus exercise a certain degree of discretion.

Hongguang Power generates electricity which is mostly used internally by Baofeng Coking. The accounting effect of this activity is that we include the cost of production of electricity in our overall operating costs. Any surplus electricity generated by Hongguang Power is required by local regulation to be supplied and sold to the national power grid. The value of the surplus electricity would be calculated based on actual kilowatt-hours produced and transmitted and at a fixed rate determined under contract.

Accounts Receivables

During the normal course of business, we extend short-term unsecured credit to our customers; however, collection normally occurs within 90 days. Management regularly reviews aging of receivables and changes in payment trends by its customers, and records a reserve when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off. We regularly review the creditworthiness of our customers and, based on the results of the credit review, determine whether extended payment terms can be granted to or, in some cases, partial prepayment is required from certain customers.

For the three and nine months ended March 31, 2011 and 2010, based on management's judgment regarding collectability, no reserve for uncollectible accounts has been made. If the composition and nature of our customer base were to significantly change, if we were to begin extending longer term credit to our customers, if conditions became apparent that prompt management to question the collectability of accounts receivable, or if any combination of these or other similar factors arise, then this could oblige management to establish a reserve for uncollectible accounts, which would have an adverse effect of the value of reported accounts receivable.

Intangible - Mineral Rights

Mining and mine assets are a significant portion of our business, and our use of the "units-of-production" method of amortization has important effects on how our mining activities and assets are reported. Under this method, the tonnage of actual coal extracted, as a percentage of estimated recoverable coal, is used to calculate depletion expense for a given period. The remainder of estimated recoverable coal in the ground is reported as an intangible asset on our balance sheet, also based on the percentage of estimated recoverable coal that remains in the ground. See also our discussion of estimates of recoverable coal above in "Use of Estimates."

For the three and nine months ended March 31, 2011, a total of 32,041 and 97,655 metric tons of coal were extracted from the Hongchang Mine, respectively, which represent 2.64 % and 8.04% of the mine's total estimated recoverable coal, respectively. We recorded a depletion expense of \$379,136 and \$1,126,286 for the three and nine months ended March 31, 2011, respectively.

Recently Issued Accounting Pronouncements

In July 2010, the FASB issued Accounting Standards Update 2010-20 which amends "Receivables" (Topic 310). ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. As a result of the adoption of this ASU, we expanded our disclosures related to our receivables.

In December 2010, the FASB issued Accounting Standards Update 2010-28 which amend “Intangibles- Goodwill and Other” (Topic 350). The ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting entities, they are required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance in Topic 350, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances changes that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 is effective for fiscal years, and interim periods within those years beginning after December 15, 2010. Early adoption is not permitted. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-29 which address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations (Topic 805). This ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. We are currently evaluating the impact of this ASU and expect the adoption of this ASU will have an impact on our future business combinations.

Results of Operations

Three and Nine Months Ended March 31, 2011 as Compared to Three and Nine Months Ended March 31, 2010

General. With coal production throughout Henan Province significantly affected by the ongoing consolidation initiative throughout the three and nine months ended March 31, 2011, coal supply remained tight during these periods. Since the shutdown of mining operations in late June 2010 in connection with an industry-wide safety inspection prompted by the consolidation initiative, some mines (including our Hongchang Mine) were allowed to resume operations in late 2010, albeit at only 50% capacity. Coupled with the seasonal spike in heating demand, however, such limited resumption of coal production did not alleviate the coal supply situation, which we believe will continue until consolidation ends and coal outputs can resume at pre-consolidation levels.

Based on currently available information from the provincial government, the consolidation initiative that began in late 2009 is expected to conclude by the end of 2011. Through Zhonghong, we have established Hongyuan CSG, a joint-venture with the state-owned Henan Coal Seam Gas, and intend to carry out and complete our previously announced acquisitions under the framework of this joint-venture in lieu of proceeding on our own. We also intend to transfer all coal related activities currently carried out by Hongchang Coal (including the Hongchang Mine) to, and to carry out such activities under, Hongyuan CSG, although such transfer has not yet been carried out as of the date of this report.

Revenue. Our revenue for the three months ended March 31, 2011 increased by \$4,624,967, or 30.33%, from the same period a year ago, due to increased selling prices for coal and coke products as well as increased coal tar and washed coal sales, although sales volumes of coke and raw coal decreased. 44.82% of the revenue for the three months ended March 31, 2011 period came from coke products and 55.18% from coal products, as compared to 56.89% from coke products and 43.11% from coal products for the same period a year ago. The percentage changes reflect the tight working capital situation of many in China's steel industry due to the country's inflationary control policies that remains in effect to date. Our coke sales accordingly reduced during the three months ended March 31, 2011 despite improved market demand as we reduced credits that we would otherwise extend to coke customers.

Our revenue for the nine months ended March 31, 2011, increased by \$1,485,342, or 3.09%, from the same period a year ago, primarily due to increased selling prices for coal and coke products as well as increased sales volumes for coke, coal tar, and washed coal, although raw coal sales decreased. 55.58% of the revenue for the nine months ended March 31, 2011 period came from coke products and 44.42% from coal products, as compared to 48.23% from coke products and 51.77% from coal products for the same period a year ago. The percentage changes reflect the overall improved market demand for coke for the nine months ended March 31, 2011 as compared to the same period in 2010, and our adjustments accordingly in the types of products sold.

Revenue from and quantity of products sold for the three months ended March 31, 2010 and 2011, categorized by product type (coke products and coal products), are as follows:

Revenue	Revenue		
	Coke Products	Coal Products	Total
Three Months Ended March 31, 2010	\$ 8,674,330	\$ 6,573,164	\$ 15,247,494
Three Months Ended March 31, 2011	8,906,225	10,966,236	19,872,461
Increase in US\$	\$ 231,895	\$ 4,393,072	\$ 4,624,967
% Increase in US\$	2.67%	66.83%	30.33%

Quantity Sold (metric tons)

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Three Months Ended March 31, 2010	39,585	97,934	137,519
Three Months Ended March 31, 2011	37,656	94,307	131,963
Decrease	(1,929)	(3,627)	(5,556)
% Decrease	(4.87)%	(3.70)%	(4.04)%

Revenue from and quantity of products sold for the nine months ended March 31, 2010 and 2011, categorized by product type (coke products and coal products), are as follows:

Revenue	Revenue		
	Coke Products	Coal Products	Total
Nine Months Ended March 31, 2010	\$ 23,219,040	\$ 24,921,873	\$ 48,140,913
Nine Months Ended March 31, 2011	27,579,810	22,046,445	49,626,255
Increase (decrease) in US\$	\$ 4,360,770	\$ (2,875,428)	\$ 1,485,342
% Increase (decrease) in US\$	18.78 %	(11.54)%	3.09 %
Quantity Sold (metric tons)			
Nine Months Ended March 31, 2010	112,204	343,006	455,210
Nine Months Ended March 31, 2011	117,998	210,115	328,113
Increase (decrease)	5,795	(132,891)	(127,097)
% Increase (decrease)	5.16 %	(38.74)%	(27.92)%

Coke products include finished coke, a key raw material for producing steel, and coal tar, a byproduct of the coke manufacturing process which can be used for various industrial applications. Coal products include washed and raw coal, which is used by customers primarily for electricity generation and heating applications. As used in this discussion and analysis, the “raw coal” category includes both thermal coal that is unwashed and relatively unprocessed, and coal washing byproducts such as coal slurry.

Generally, our selling prices are driven by a number of factors, including the particular composition and quality of the coal or coke we sell, their prevailing market prices locally and throughout China, as well as in the global marketplace, timing of sales, delivery terms, and our relationships with our customers and our negotiations of their purchase orders. For the three and nine months ended March 31, 2011, however, the coal supply situation was a key, if not the determinative, factor for our selling prices during these periods.

Average selling prices per metric ton for our four principal product categories during the three months ended March 31, 2010 and 2011 are as follows:

	Coke	Coal Tar	Raw Coal	Washed Coal
Average Selling Prices				
Three Months Ended March 31, 2010	\$ 219	\$ 220	\$ 67	\$ 0
Three Months Ended March 31, 2011	236	244	81	183
Increase in US\$	\$ 17	\$ 24	\$ 14	\$ 183
% Increase	7.76%	10.91%	20.90%	- %

Average selling prices per metric ton for our four principal product categories during the nine months ended March 31, 2010 and 2011 are as follows:

	Coke	Coal Tar	Raw Coal	Washed Coal
Average Selling Prices				
Nine Months Ended March 31, 2010	\$ 207	\$ 207	\$ 62	\$ 129
Nine Months Ended March 31, 2011	233	242	72	178
Increase in US\$	\$ 26	\$ 35	\$ 10	\$ 49
% Increase	12.56%	16.91%	16.13%	37.98%

While improved coke demand during the three and nine months ended March 31, 2011 partly explains the increase in coke selling prices for both 2011 periods, high coal material price from continuing tight coal supply in the market is the principal driver of the higher coke price.

The increase in coal tar selling prices reflects continuing improved market condition for the product during the three and nine months ended March 31, 2011. Coal tar pricing is affected by a variety of factors, as it can be used by different industries as raw material, including chemical, agricultural fertilizer and construction material industries

The average selling price of raw coal is calculated based on the weight of unprocessed coal, coal byproducts from coal washing process, and mixed thermal coal. In general, average selling prices for our coal products are heavily influenced by changes in the mixtures of coals (with different compositions and heat content) sold to customers. The coal supply situation during the three and nine months ended March 31, 2011, however, made coal products more expensive, irrespective of composition or heat content.

Revenue from coke products for the three months ended March 31, 2010 and 2011 are as follows:

	Coke Products		
	Coke	Coal Tar	Total
Revenue			
Three Months Ended March 31, 2010	\$8,315,510	\$358,820	\$8,674,330
Three Months Ended March 31, 2011	7,807,796	1,098,429	8,906,225
Increase (decrease) in US\$	\$(507,714)	\$739,609	\$231,895
% Increase (decrease)	(6.11)%	206.12%	2.67%

Quantity Sold (metric tons)			
Three Months Ended March 31, 2010	37,952	1,633	39,585
Three Months Ended March 31, 2011	33,153	4,503	37,656
Increase (decrease)	(4,799)	2,870	(1,929)
% Increase (decrease)	(12.64)%	175.75 %	(4.87)%

Revenue from coke products for the nine months ended March 31, 2010 and 2011 are as follows:

	Coke Products		
	Coke	Coal Tar	Total
Revenue			
Nine Months Ended March 31, 2010	\$ 22,268,692	\$ 950,348	\$ 23,219,040
Nine Months Ended March 31, 2011	25,259,342	2,320,468	27,579,810
Increase in US\$	\$ 2,990,650	\$ 1,370,120	\$ 4,360,770
% Increase	13.43 %	144.17 %	18.78 %

Quantity Sold (metric tons)			
Nine Months Ended March 31, 2010	107,622	4,582	112,204
Nine Months Ended March 31, 2011	108,407	9,591	117,998
Increase	785	5,009	5,795
% Increase	0.73 %	109.32 %	5.16 %

Coke revenue for the three months ended March 31, 2011 decreased 6.11%, from a year ago. As discussed earlier, we had to reduce credits extended to coke customers in response to the tight working capital situation for the Chinese steel industry in general, which resulted in lower coke sales for the three months ended March 31, 2011 despite higher selling price during the period from improved demand. On the other hand, coke revenue for the nine months ended March 31, 2011 increased by 13.43%, as coke demand improved overall in spite of a soft market during the three months ended December 31, 2010. Our coke revenue also benefited from higher selling price.

Coal tar revenue improved for both the three and nine months ended March 31, 2011 from a year ago from higher selling price and sales volume driven by improved market conditions for the industries that use this product.

Revenue from coal products for the three months ended March 31, 2010 and 2011 are as follows:

	Coal Products		
	Raw Coal	Washed Coal	Total
Revenue			
Three Months Ended March 31, 2010	\$6,573,164	\$ 0	\$6,573,164
Three Months Ended March 31, 2011	4,961,427	6,004,809	10,966,236
Increase (decrease) in US\$	\$(1,611,737)	6,004,809	4,393,072
% Increase (decrease) in US\$	(24.52)%	-	% 66.83 %

Quantity Sold (metric tons)			
Three Months Ended March 31, 2010	97,934	0	97,934
Three Months Ended March 31, 2011	61,437	32,870	94,307
Increase (decrease)	(36,497)	32,870	(3,627)
% Increase (decrease)	(37.27)%	-	% (3.70)%

Revenue from coal products for the nine months ended March 31, 2010 and 2011 are as follows:

	Coal Products		
	Raw Coal	Washed Coal	Total
Revenue			
Nine Months Ended March 31, 2010	\$17,729,428	\$ 7,192,445	\$24,921,873
Nine Months Ended March 31, 2011	10,473,711	11,572,674	22,046,445
Increase (decrease) in US\$	\$(7,255,657)	4,380,229	(2,875,428)
% Increase (decrease) in US\$	(40.92)%	60.90	% (11.54)%

Quantity Sold (metric tons)			
Nine Months Ended March 31, 2010	287,084	55,922	343,006
Nine Months Ended March 31, 2011	144,933	65,182	210,115
Increase (decrease)	(142,151)	9,260	(132,891)
% Increase (decrease)	(49.52)%	16.56	% (38.74)%

Our raw coal sales sharply decreased, both in terms of revenue and volume, for the three and nine months periods ended March 31, 2011, as compared to the same periods of 2010, as we had limited amount of coal available to sell, even with the limited resumption of operations at our Hongchang Mine in late 2010. In the past, we would engage in coal trading when prices are stable at seasonally high levels, or at levels that are considered above historical norms, such as during the three months ended September 30, 2009. However, because of the tight coal supply situation during the entire nine-month period ended March 31, 2011, we could not source enough raw coal to engage in coal trading at our previous levels.

On the other hand, we sold washed coal during the three and nine months periods ended March 31, 2011, as compared to the same periods a year ago when we were stockpiling our inventory in anticipation of increasing coke production and thus did not sell any after September 30, 2009. With the soft coke market during the previous (December) fiscal quarter and given the working capital situation of the Chinese steel industry during this (March) fiscal quarter, however, we shifted our washed coal inventory into the market to take advantage of high selling price created by the tight coal supply. Management however, does not anticipate doing so will impact our coking operations in the near term.

Cost of Revenue. Cost of revenue increased to \$12,636,751 for the three months ended March 31, 2011, from \$9,605,889 a year ago. The increase resulted from higher coal material costs as well as the sales of washed coal which we did not engage in a year ago. Cost of revenue increased to \$30,635,815 for the nine months ended March 31, 2011, from \$27,411,765 a year ago, also from higher coal material costs, but also from increased coke sales.

Gross Profit. Revenue from sales of washed coal and coal tar contributed to the \$7,235,710 in gross profit for the three months ended March 31, 2011, from \$5,641,605 a year ago, despite the lower coal and coke sales period over period. Gross profit for the nine months ended March 31, 2011, however, decreased to \$18,990,440, from \$20,729,148 a year ago, as higher coke, coal tar and washed coal sales could not make up for the significant decrease in coal sales and higher coal material costs overall as compared to a year ago.

Gross profit as a percentage of revenue, or gross margin, for all product categories decreased to 36.41% for the three months ended March 31, 2011, from 37% for the same period of 2010. Similarly, gross margin across all product categories for the nine month period ended March 31, 2011, decreased to 38.27% from 43.06% a year ago. Although our revenue increased by 30.33% and 3.09% for three and nine months ended March 31, 2011, respectively, as compared to the same periods a year ago, total cost of revenue for the three and nine months ended March 31, 2011 increased by 31.55%, and 11.76% from the same periods a year ago, respectively, due higher overall coal material costs. Such disproportionate increase in cost of revenue as compared to revenue resulted in lower gross margin for the three and nine months ended March 31, 2011 when compared to a year ago.

Operating Expenses. Operating expenses, which consist of selling expenses and general and administrative expenses, were \$946,178 and 2,773,732 for the three and nine month periods ended March 31, 2011, respectively, down by \$519,434 but up by \$549,527 from the same periods a year ago, respectively. During the three months ended March 31, 2010, in addition to legal and accounting fees associated with meeting our reporting obligations as a U.S. public company, we also incurred legal and accounting expenses in connection with our equity financing that completed in March 2010, which resulted in higher expenses when compared to the same period in 2011. However, higher salaries, rent and travel expenses attributed to higher operating expenses for the nine months ended March 31, 2011 as compared to the same period a year ago.

Other Income and Expense. Other income and expense includes finance expense, income and expense not directly related to our principal operations, and change in fair value of warrants.

Finance expense, which consists of interest and other bank charges, was \$119,311 for the three months ended March 31, 2011, as compared to \$8,666 a year ago, from interest on a \$15 million bank loan that we obtained in May 2010. Finance expense for the nine months ended March 31, 2011 was \$689,367, as compared to \$124,629 a year ago, for the same reason.

We had other expense of \$542 for the three months ended March 31, 2011, as compared to \$109,980 of other income a year ago as we recognized \$109,980 in other income resulting from recovery of bad debt that we previously wrote off for the three months ended March 31, 2010. We had other expense of \$109,929 for the nine months ended March 31, 2011, as compared to \$109,791 of other income a year ago. In December 2010, we paid \$52,465 in fine for not timely renewing the safety production license of our coking plant, which expired in December 2010. The license was renewed on March 29, 2011. In addition, we incurred currency translation loss of \$57,464 for the nine months ended March 31, 2011.

Change in fair value of warrants amounted to \$12,191,235 and \$13,663,378 in gain for the three and nine months ended March 31, 2011, respectively, as compared to \$39,869,662 and \$39,869,662 of loss for the three and nine months ended March 31, 2010. Because our functional currency is denominated in the Chinese Renminbi ("RMB"), our warrants cannot be considered indexed to our own common stock and, as such, we must record them as derivative instruments and recognize any change in their fair value in our earnings. The primary factor affecting the fair value of the warrants is the price of our common stock during the relevant period. Lower stock prices during the three and nine months ended March 31, 2011, as compared to higher stock prices during the same periods a year ago, resulted in the gains for the 2011 periods but the losses for the 2010 periods.

Provision for Income Taxes. Provision for income taxes decreased by \$61,434 for the three months ended March 31, 2011, as compared to the same period in 2010. During 2009, Hongchang Coal was taxed a fixed amount irrespective of its actual taxable income. As such arrangement expired on December 31, 2009, we accrued for income tax attributable to Hongchang Coal based on the statutory rate of 25%, which amount is higher than the fixed amount. We were subsequently notified by the local tax bureau that Hongchang Coal would continue to be taxed at the same fixed amount for 2010 and 2011, which resulted in lower income tax provision overall for the three months

ended March 31, 2011 as compared to the same period in 2010. Provision for income taxes decreased by \$762,955 for the nine months ended March 31, 2011 as compared to the same period in 2010 due to the decrease of operating income for the 2011 period as compared to the 2010 period, as well as the effect of the accrual for Hongchang Coal's income tax described earlier.

Net (loss) income. Including the change in fair value of warrants, we report net income of \$17,138,441 for the three months ended March 31, 2011, as compared to net loss of \$36,876,262 a year ago, an increase of \$54,014,703, and net income of \$25,630,716 and net loss of \$25,592,586 for the nine months ended March 31, 2011 and 2010, respectively, an increase of \$51,223,302. We use non-GAAP adjusted net (loss) income to measure the performance of our business internally by excluding non-cash charges and gains related to warrants, and believes that the non-GAAP adjusted financial measure allows us to focus on managing business operating performance because the measure reflects our essential operating activities and provides a consistent method of comparison to historical periods. We believe that providing this non-GAAP measure is useful to investors for a number of reasons. The non-GAAP measure provides a consistent basis for investors to understand our financial performance in comparison to historical periods without variation of non-recurring items and non-operating related charges. In addition, it allows investors to evaluate our performance using the same methodology and information as that used by our management. Non-GAAP measures are subject to inherent limitations because they do not include all of the expenses included under GAAP and because they involve the exercise of judgment regarding which charges and gains are excluded from the non-GAAP financial measure. However, we compensate for these limitations by providing the relevant disclosure of the items excluded.

The following table provides a non-GAAP financial measure and a reconciliation of that non-GAAP measure to the GAAP net (loss) income.

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Net (loss) income	\$ 17,138,441	\$ (36,876,262)	\$ 25,630,716	\$ (25,592,586)
Change in fair value of warrant liabilities	12,191,235	(39,869,662)	13,663,378	(39,869,662)
Adjusted net income	\$ 4,947,206	\$ 2,993,400	\$ 11,967,338	\$ 14,277,076
(Loss) earnings per share - basic	\$ 0.81	\$ (2.39)	\$ 1.22	\$ (1.82)
(Loss) earnings per share - diluted	\$ 0.81	\$ (2.39)	\$ 1.22	\$ (1.82)
Adjusted earnings per share - basic	\$ 0.24	\$ 0.19	\$ 0.57	\$ 1.01
Adjusted earnings per share - diluted	\$ 0.23	\$ 0.17	\$ 0.57	\$ 0.95
Weighted average number of common shares - basic	21,043,206	15,441,258	20,927,453	14,086,729
Weighted average number of common shares - diluted	21,057,332	15,441,258	20,941,252	14,086,729
Adjusted average number of common shares - basic	21,043,206	15,441,258	20,927,453	14,086,729
Adjusted average number of common shares - diluted	21,057,332	17,365,827	20,941,252	14,954,478

Excluding non-cash expenses, our adjusted net income for the three months ended March 31, 2011 and 2010 was \$4,947,206 and \$2,993,400, respectively, or \$0.24 and \$0.19 basic earnings per share for the three months ended March 31, 2011 and 2010, respectively and \$0.23 and \$0.17 diluted earnings per share for the three months ended March 31, 2011 and 2010, respectively. Adjusted net income for the nine months ended March 31, 2011 and 2010 was \$11,967,338 and \$14,277,076, respectively, and \$0.57 and \$1.01 basic earnings per share for the nine months ended March 31, 2011 and 2010, respectively, and \$0.57 and \$0.95 diluted earnings per share for the nine months ended March 31, 2011 and 2010, respectively.

Liquidity and Capital Resources

In summary, our cash flows are as follows:

	Nine months ended March 31	
	2011	2010
Net cash provided by (used in) operating activities	\$ (4,577,923)	\$ 10,200,824
Net cash used in investing activities	(10,266,874)	(19,041,739)
Net cash provided by financing activities	\$ 2,344,166	\$ 38,964,185

Net Cash Provided by (Used in) Operating Activities

Net cash used in operating activities for the nine months ended March 31, 2011 was \$4,577,923, as compared to net cash provided by operating activities of \$10,200,824 for the same period ended March 31, 2010.

During the nine months ended March 31, 2011, cash inflows mainly resulted from an increase of depreciation, amortization and tax payable, in the amount of \$1,074,925, \$1,175,244, and \$367,959, respectively. The cash inflows were offset by the following: (1) increase in accounts receivable of approximately \$10.2 million, (2) increase in other receivables of approximately \$2.0 million, (3) increase in inventories of approximately \$5.0 million, and (4)

increase in notes receivables of approximately \$1.9 million. The accounts receivable increase was caused by credit tightening measures taken by the government near the end of 2010 to control inflation, which impacted Chinese steel factories that rely heavily on their bank credit lines. The increase in other receivables is largely accounted for by the approximately \$2.3 million in receivables from an unrelated party to apply for RMB 30 million of bank notes on our behalf. We increased our inventories to maintain sufficient level of washed coal for trading.

Net Cash Used in Investing Activities

Net cash used in investing activities for the nine months ended March 31, 2011 decreased to \$10,266,874 from \$19,041,739 for the same period in 2010. Funds used for the 2011 period included approximately \$8.1 million of refundable deposits made in connection with coal mine acquisitions, approximately \$3.5 million for purchase of additional land use rights to expand the site of our new coking plant still under construction, prepayments and payments of approximately \$2.5 million to contractors and equipment vendors in connection with the new coking plant, and long-term investment of approximately \$1.2 million to Pingdingshan Xinhua District Rural Credit Union. We also loaned approximately \$4.6 million in the aggregate to two unrelated parties, of which approximately \$2.5 million was refunded. We also received approximately \$4.6 million in refund from contractors with whom we cancelled our contracts.

Net Cash Provided by Financing Activities

Net cash provided by financing activities for the nine month period ended March 31, 2011 was \$2,344,166, as compared to \$38,964,185 the same period in 2010.

During the nine months periods ended March 31, 2011, the cash inflows were from change in restricted cash, cash proceeds from exercise of warrants and cash proceeds from related parties. We paid off all bank notes issued under our arrangements with Shanghai Pudong Development Bank (“SPDB”) and Pingdingshan Rural Cooperative Bank (“Pingdingshan Cooperative”), and the two banks released the restricted cash securing such notes in the amount of approximately \$10.7 million (RMB 70 million) in total. We deposited approximately \$2.3 million (RMB 15 million) with Pingdingshan City Rural Credit Union (“Pingdingshan Credit Union”) to allow Hongguang Power to issue \$4,575,000 (RMB 30 million) of notes, resulting in change in restricted cash in the amount of \$3,747,500. We received cash proceeds of \$1,318,536 from exercise of 218,756 warrants at \$6.00 per share. Our chairman, Mr. Jianhua Lv, loaned us \$316,720 for working capital. One of our directors, Mr. Liuchang Yang, returned funds that we previously overpaid him in connection with a loan he made to us, and Mr. Hui Zheng, a director and vice president of operation of Hongli, paid us funds previously advanced to him to perform business and acquisition development activities on our behalf, in the aggregate amount of \$484,060.

The foregoing cash inflows were offset by our note repayments to SPDB and Pingdingshan Cooperative, in the aggregate amount of \$19,487,000 (RMB 130 million) based on \$16,489,000 (RMB 110 million) of notes issued during the nine months ended March 31, 2011, which resulted in change in notes payables of \$2,998,000. We also paid off \$524,650 in short-term loan obtained from an unrelated party.

Capital Resources

Funding for our business activities has historically been provided by cash flow from operations, short-term bank loan financing, and loans from individuals including from our major shareholders such as our chairman, Mr. Jianhua Lv, and Mr. Liuchang Yang, who sits on our board of directors.

We also have arrangements with certain banks pursuant to which we are able to issue short-term notes to pay our vendors, secured against our deposits with the banks of 50% of the face value of the notes as well as guarantee from Mr. Lv, Hongli or an unrelated third party. We currently have such arrangements with three banks. Under our arrangements with SPDB, we are subject to a diligence review for each note issued, and SPDB charges us a processing fee based on 0.05% of the face value of each note. Under our arrangement with Pingdingshan Cooperative, we have a line of credit of \$30.3 million. Although Pingdingshan Cooperative also charges the same processing fee as SPDB, we are not subject to a diligence review for each note so long as the aggregate amount of notes issued does not exceed our credit limit. As of March 31, 2011, we had paid off all of our obligations with respect to notes issued through these two banks, totaling approximately \$19.7 million in the aggregate, and the banks had released the approximately \$10.6 million that we had deposited with them as security. On January 31, 2011, \$2,287,500 (RMB 15,000,000) was deposited with Pingdingshan Credit Union to enable Hongguang Power to issue notes. As of March 31, 2011, however, no formal agreement was entered into with Pingdingshan Credit Union, and no note issued under this arrangement.

In addition, on December 29, 2010, we entered into an agreement with Baofeng County Honghao Coking Ltd (“Honghao”), an unrelated third-party, pursuant to which Honghao agrees to obtain bank notes of approximately \$4.5 million from a bank on our behalf. Under this agreement, we deposited approximately \$2.3 million into Honghao’s bank account as collateral. Such deposit was refunded to us in full in May 2011.

In January 2011, in connection with our temporary cancellation of purchase order with Zhengzhou Coal Industry Group (“Zhengzhou Coal”) in December 2010, we took back approximately \$1.7 million of our prepayments with the company in order to increase our working capital.

On April 2, 2011, Hongli entered into a loan agreement with Bairui Trust Co., Ltd. (“Bairui”), pursuant to which Bairui agreed to loan Hongli the sum of RMB 360 million (approximately \$54.9 million), of which RMB 180 million is due on April 2, 2013, and RMB 180 million on April 2, 2014, with annual interest of 6.3%. Bairui made the loan to Hongli on April 3, 2011.

Our business plan involves growing our business through: (1) expansion and modernization of our production facilities and achieving greater energy efficiency while also lessening any environmental impact; (2) recapturing more coking by-products for refinement into useful industrial chemicals, and production of more high value-added chemical products; (3) acquisition of other coal mines to source raw materials; and (4) strategic cooperation with Zhengzhou Coal to indirectly control coal resource, secure our internal material requirements (including for our new coking facility still under construction) and stable supply for coal trading, and increase our product offerings and profitability through purifying and selecting high-demand level 10 washed coal.

Of the foregoing, the two major initiatives that we have initiated and that are expected to require capital resources are:

1. **New Coking Facility.** On March 3, 2010, we announced that we began construction of our new coking facility to be located beside our current facilities in Pingdingshan City. Because the new facility will share the electricity, water and heating systems of our existing facilities, we are revising our previously estimated cost for the new facility from approximately \$70 million to approximately \$60 million, including the cost of acquiring additional land use rights to expand the site of the new facility, estimated at \$10.6 million. Construction is expected to be completed by the end of June 2011, and production immediately thereafter. On October 12, 2010, Pingdingshan Cooperative extended by one year its non-binding letter of intent to loan us up to RMB 300 million (approximately \$45 million) for construction of this facility. Loan would be subject to approval of our loan application, which had not been submitted as of March 31, 2011.

