SINOCOKING COAL & COKE CHEMICAL INDUSTRIES, INC.
Form 10-Q
May 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **March 31, 2015**

or

¨ 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 registrant as specified in its charter)

Florida	**98-0695811**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Kuanggong Road and Tiyu Road 10th Floor

Chengshi Xin Yong She, Tiyu Road, Xinhua District

Pingdingshan, Henan Province

People's Republic of China	**467000**
(Address of principal executive offices)	(Zip Code)

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

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 þ 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 (Sec.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 þ 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	¨	Accelerated Filer	¨
Non-accelerated filer	¨	Smaller reporting company	þ

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

As of May 7, 2015, the registrant had 23,960,217 shares of common stock outstanding.

TABLE OF CONTENTS

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," the negative forms thereof, 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. 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. Such risks and uncertainties are described in greater details in the "Risk Factors" section beginning on page 22 of the registrant's annual report on Form 10-K for the year ended June 30, 2014 filed with the Securities and Exchange Commission (the "SEC") on September 29, 2014 (the "Annual Report").

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 the registrant's business operations. The registrant is not undertaking to update or revise any forward-looking statement, whether as a result of new information, future events or circumstances or otherwise.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2015 (Unaudited)	June 30, 2014
ASSETS		
CURRENT ASSETS		
Cash	$103,831	$191,992
Accounts receivable, net	16,476,915	8,946,435
Other receivables and deposits	4,973,125	5,787,232
Loans receivable	-	8,032,037
Inventories	1,987,291	7,419,821
Advances to suppliers	9,302,744	8,700,022
Prepaid expenses	41,669	-
Total current assets	32,885,575	39,077,539
PLANT AND EQUIPMENT, net	21,476,310	14,426,319
CONSTRUCTION IN PROGRESS	47,159,165	40,389,961
OTHER ASSETS		
Refundable deposits	4,901,480	4,873,928
Prepayments	62,165,079	61,815,632
Intangible assets, net	32,434,960	32,305,697
Long-term investments	2,914,617	2,898,233
Other assets	114,368	113,725
Total other assets	102,530,504	102,007,215
Total assets	$204,051,554	$195,901,034
LIABILITIES AND EQUITY		

CURRENT LIABILITIES		
Current portion of long term loans	$45,111,059	$20,795,425
Accounts payable, trade	45,403	2,978,326
Other payables and accrued liabilities	2,951,444	2,460,113
Other payables - related party	1,893,226	526,699
Acquisition payable	4,738,098	4,711,463
Customer deposits	80,151	79,701
Taxes payable	1,637,330	765,421
Current portion of warrants liability	289,481	-
Total current liabilities	56,746,192	32,317,148
LONG TERM LIABILITIES		
Long term loans	-	29,243,566
Warrants liability	4,442,823	16
Total long term liabilities	4,442,823	29,243,582
Total liabilities	61,189,015	61,560,730
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, $0.001 par value, 100,000,000 shares authorized, 23,960,217 shares and 21,121,372 shares issued and outstanding as of March 31, 2015 and June 30, 2014, respectively	23,960	21,121
Additional paid-in capital	6,846,397	3,592,053
Statutory reserves	3,689,941	3,689,941
Retained earnings	116,713,859	112,295,407
Accumulated other comprehensive income	11,256,782	10,410,182
Total SinoCoking Coal and Coke Chemicals Industries, Inc's equity	138,530,939	130,008,704
NONCONTROLLING INTERESTS	4,331,600	4,331,600
Total equity	142,862,539	134,340,304
Total liabilities and equity	$204,051,554	$195,901,034

The accompanying notes are an integral part of the condensed consolidated financial statements

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(UNAUDITED)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2015	2014	2015	2014
REVENUE	$ 10,860,134	$ 10,993,882	$ 37,111,289	$ 41,678,105
COST OF REVENUE	6,846,870	8,545,142	28,128,833	34,076,508
GROSS PROFIT	4,013,264	2,448,740	8,982,456	7,601,597
OPERATING EXPENSES:				
Selling	34,585	37,723	103,840	118,351
General and administrative	894,165	342,598	3,911,414	1,421,425
Total operating expenses	928,750	380,321	4,015,254	1,539,776
INCOME FROM OPERATIONS	3,084,514	2,068,419	4,967,202	6,061,821
OTHER INCOME (EXPENSE)				
Interest income	190	58,895	165,297	426,235
Interest expense	(1,264,104)	(872,615)	(4,263,658)	(2,963,194)
Other finance expense	(563)	(27,689)	(52,462)	(177,949)
Change in fair value of warrants	1,889,365	-	5,315,068	12
Total other income (expense), net	624,888	(841,409)	1,164,245	(2,714,896)
INCOME BEFORE INCOME TAXES	3,709,402	1,227,010	6,131,447	3,346,925
PROVISION FOR INCOME TAXES	719,551	445,945	1,712,995	1,511,634
NET INCOME	2,989,851	781,065	4,418,452	1,835,291
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment	676,095	(1,236,437)	846,600	365,320
COMPREHENSIVE INCOME (LOSS)	$ 3,665,946	$ (455,372)	$ 5,265,052	$ 2,200,611
WEIGHTED AVERAGE NUMBER OF COMMON SHARES				
Basic and diluted	23,960,217	21,121,372	23,076,987	21,121,372

EARNINGS PER SHARE				
Basic and diluted	$0.12	$0.04	$0.19	$0.09

The accompanying notes are an integral part of the condensed consolidated financial statements

2

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Nine Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,418,452	$ 1,835,291
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation	1,052,240	640,309
Amortization and depletion	53,126	53,250
Bad debt expense	1,645,659	89,298
Change in fair value of warrants	(5,315,068)	(12)
Amortization of prepaid expenses	58,331	-
Change in operating assets and liabilities		
Accounts receivable, trade	(8,428,248)	(38,624)
Other receivables	841,985	(1,406,410)
Inventories	5,450,252	(2,219,390)
Advances to suppliers	(1,215,314)	(1,957,529)
Prepaid expenses	-	-
Accounts payable, trade	(2,936,709)	1,666,570
Other payables and accrued liabilities	(807,441)	754,872
Customer deposits	-	(81,519)
Taxes payable	863,744	(87,979)
Net cash used in operating activities	(4,318,991)	(751,873)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of principal of loans receivable	8,232,037	-
Loan out pricipal of loans receivable	(200,000)	-
Payments of construction in progress	(6,511,939)	-
Purchase of equipment	(7,040,567)	-
Net cash used in investing activities	(5,520,469)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in restricted cash	-	9,782,343
Payments of note payable	-	(9,782,343)
Repayment of short-term loans - Bairui Trust	(8,132,990)	-
Preceeds from short-term loans - CPL	2,958,329	-
Proceeds from short-term loans - others	-	162,700

Repayment of short-term loans - others	-	(162,700)
Proceeds from issuance of common shares	13,204,539	-
Proceeds from (payment to) related parties	1,380,735	176,962
Net cash provided by financing activities	9,410,613	176,962
EFFECT OF EXCHANGE RATE ON CASH	340,686	(2,766)
DECREASE IN CASH	(88,161)	(577,677)
CASH, beginning of period	191,992	782,018
CASH, end of period	$ 103,831	$ 204,341
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income tax	$ 1,330,554	$ 1,292,053
Cash paid for interest expense	$ 4,893,353	$ 1,910,285
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES		
Recalsification of salary payable to related parties to other payable to related parties	$ -	$ 190,000
Common share issued for the payment of a service fee	$ 100,000	$ -
Issuance of warrants related to the sale of common stock	$ 10,047,356	$ -
Transfer of construction in progress into plant and equipment	$ 7,040,567	$ -

The accompanying notes are an integral part of the condensed consolidated financial statements

3

Note 1 – Nature of business and organization

SinoCoking Coal and Coke Chemical Industries, Inc. ("SinoCoking" or the "Company") was organized on December 31, 1996, under the laws of the State of Florida.

The Company is a vertically-integrated coal and coke producer based in the People's Republic of China ("PRC" or "China"). The Company's products currently include washed coal, "medium" or mid-coal and coal slurries, coke, coke powder, coal tar and crude benzol. The Company generates synthetic gas ("Syngas") which is converted from coke using the coke gasification facility since October 2014. The Company also generates electricity from gas emitted during the coking process, which is used primarily to power the Company's operations.

The construction of the coke gasification facility for the conversion of carbon dioxide into a clean-burning synthetic gas ("syngas") was completed at the end of September 2014 and commenced its production in middle of October 2014 ("Stage I facility"), which made the Company extend out operation into the clean-burning synthetic gas field. The Stage I facility was designed with an annual capacity of 219,000,000 cubic meters of syngas or 25,000 cubic meters of syngas per hour. The Company commenced a further investment plan of approximately $8.0 million or RMB 49 million to build the Stage II coke gasification facility in November 2014 ("Stage II facility"). The Stage II facility construction will have the same designed size and capacity as the Stage I facility. As of March 31, 2015, the Company had invested $6,511,939 in construction of the Stage II facility. The Stage II facility is expected to be completed in May 2015.

On August 28, 2014, the Company also entered into a cooperative agreement with North China Institute of Science and Technology regarding the current underground coal gasification ("UCG") development to refine and implement a technology to convert the Company's coal mines into syngas. At the first phase of this cooperation, the Company will invest $18 million in building an underground coal gasification facility with an annual production capacity of 525,600,000 cubic meters of syngas or 60,000 cubic meters of syngas per hour. We started the feasibility study of UCG in October 2014. We have not commenced the substantial construction by the date of this report due to lack of funds.

With the coke and coal gasification implementation plans, we plan to transition from being a producer of coal and coke products to a multifunctional energy company engaged in providing coal, coke, and clean-burning syngas.

All of the Company's business operations are conducted by a variable interest entity ("VIE"), Henan Pingdingshan Hongli Coal & Coking Co., Ltd., ("Hongli"), which is controlled by Top Favour's wholly-owned subsidiary, Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. ("Hongyuan"), through a series of contractual arrangements.

Due to the continuing provincial-wide consolidation program in Henan, all small to mid-scale mines are required to be consolidated and undergo mandatory safety checks and inspections by relevant authorities before receiving clearance to resume coal mining operations. This requirement applies to all SinoCoking mines. The Company is in the processing of seeking other ways to restructure or resume the coal mine operations. Underground gasification project, which started construction August 2014, is one of the effective ways that the Company can resume the coal mine operations.

The accompanying consolidated financial statements reflect the activities of the Company and each of the following entities:

Name	Background	Ownership
Top Favour	· A British Virgin Islands company · Incorporated on July 2, 2008	100%
Hongyuan	· A PRC limited liability company and deemed a wholly foreign owned enterprise (“WFOE”) · Incorporated on March 18, 2009 · Initial registered capital of $3 million, further increased to 12.5 million at November 2014, fully funded	100%
Hongli	· A PRC limited liability company · Incorporated on June 5, 1996 · Initial registered capital of $1,055,248 or 8,808,000 Renminbi (“RMB”), further increased to $4,001,248 (RMB 28,080,000) on August 26, 2010, fully funded · 85.40% of equity interests held by Jianhua Lv, the Company’s Chief Executive Officer (“CEO”) and Chairman of the Board of Directors · Operates a branch, Baofeng Coking Factory (“Baofeng Coking”)	VIE by contractual arrangements

4

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Baofeng Hongchang Coal Co., Ltd. ("Hongchang Coal")	· A PRC limited liability company · Incorporated on July 19, 2007 · Registered capital of $396,000 (RMB 3,000,000) fully funded	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli
Baofeng Shunli Coal Co., Ltd.("Shunli Coal")	· A PRC limited liability company · Incorporated on August 13, 2009 · Registered capital of $461,700 (RMB 3,000,000) fully funded · Acquired by Hongchang Coal on May 20, 2011 · Dissolved on July 4, 2012 and the mining right transferred to Hongchang.	VIE by contractual arrangements as an indirect wholly-owned subsidiary of Hongli
Baofeng Hongguang Power Co., Ltd. ("Hongguang Power")	· A PRC limited liability company · Incorporated on August 1, 2006 · Registered capital of $2,756,600 (RMB 22,000,000) fully funded	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli
Baofeng Xingsheng Coal Co., Ltd. ("Xingsheng Coal")	· A PRC limited liability company · Incorporated on December 6, 2007 · Registered capital of $559,400 (RMB 3,634,600) fully funded · 60% of equity ownership acquired by Hongli on May 20, 2011	VIE by contractual arrangements as a 60% owned subsidiary of Hongli
	· A PRC limited liability company	

Baofeng Shuangrui Coal Co., Ltd. (“Shuangrui Coal”)	· Incorporated on March 17, 2009 · Registered capital of $620,200 (RMB 4,029,960) fully funded · 60% of equity ownership acquired by Hongli on May 20, 2011 · 100% of equity ownership acquired by Hongchang on June 20, 2012	VIE by contractual arrangements as a 100% owned subsidiary of Hongchang
Zhonghong Energy Investment Company (“Zhonghong”)	· A PRC company · Incorporated on December 30, 2010 · Registered capital of $7,842,800 (RMB51,000,000) fully funded equity interests of 100% held by three nominees on behalf of Hongli pursuant to share entrustment agreements	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli
Baofeng Hongrun Coal Chemical Co., Ltd. (“Hongrun”)	· A PRC limited liability company · Incorporated on May 17, 2011 · Registered capital of $ 4,620,000 (RMB 30 million) fully funded	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli

5

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company believes that the equity owners of Hongli do not have the characteristics of a controlling financial interest, and that the Company is the primary beneficiary of the operations and residual returns of Hongli and, in the event of losses, would be required to absorb a majority of such losses. Accordingly, the Company consolidates Hongli's results, assets and liabilities in the accompanying financial statements.

Selected financial data of Hongli and its subsidiaries is set forth below:

	March 31, 2015	June 30, 2014
Total current assets	$18,973,532	$21,003,224
Total assets	$186,871,858	$174,577,433
Total current liabilities	$91,392,526	$50,305,119
Total liabilities	$91,392,526	$79,548,685

Presently, the Company's coking and coke gasification related operations are carried out by Baofeng Coking, Hongli engages in coke and coal trading activities, electricity generation is carried out by Hongguang Power. Our coal related operations were halted which should be carried out by Hongchang Coal, Shuangrui Coal and Xingsheng Coal, respectively. The Company originally planned to transfer all coal related operations to a joint-venture between Zhonghong and Henan Province Coal Seam Gas Development and Utilization Co., Ltd. ("Henan Coal Seam Gas") (see Note 12). However, due to the imposition of the provincial-wide mining moratorium since June 2010 in China, and the change of the Company's original plan from developing coal mining operations to producing syngas, the Company is now negotiating with Henan Coal Seam Gas in the hope of cooperating with each other in another manner. If no agreement is reached, the Company may cancel the registration of the joint-venture or terminate the cooperation relationship. As of March 31, 2015 and the date of this filing, the Company's coal related operations had not been transferred to the joint-venture, and Shuangrui Coal and Xingsheng Coal had had no operations since their acquisitions by the Company (see Note 20).

Note 2 – Summary of significant accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to make the financial statements not misleading have been included. Operating results for the nine month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2015. The information included in this Form 10-Q should be read in conjunction with the “Management’s Discussion and Analysis” section, and the financial statements and notes thereto, included in the Annual Report.

Principles of consolidation

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 are 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. Management makes ongoing assessments of whether Hongyuan is the primary beneficiary of Hongli and its subsidiaries.

Accounting Standards Codification ("ASC") 810 – "Consolidation" 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;

(3) a Proxy Agreement, under which the equity holders 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 equity holders 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 equity holders 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.

Use of estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP 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 unaudited condensed 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 the total amount of mineralized coal materials that are the basis for future cash flow estimates and units-of-production depletion calculations; asset impairments; allowance for doubtful accounts and loans receivable; valuation allowances for deferred income taxes; reserves for contingencies; stock-based compensation and the fair value and accounting treatment for warrants. 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.

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-based compensation expense is recognized based on awards expected to vest. U.S. GAAP require 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 UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

Substantially, 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. During the nine months ended March 31, 2015 and 2014, the Company did not sell surplus electricity to the national power grid.

The Company generally sells syngas under long-term agreements at fixed vending prices. In some cases, syngas may be sold with periodic price adjustments. Revenues are recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured.

Coal, coke and syngas 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.

Foreign currency translation and other comprehensive income

The reporting currency of the Company is the U.S. dollar. The functional currency of the Company, its subsidiaries and VIEs in the PRC is denominated in RMB.

For the subsidiaries and VIEs whose functional currencies are other than the U.S. 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 periods, 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 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.

The balance sheet amounts, with the exception of equity, at March 31, 2015 and June 30, 2014 were translated at RMB 6.12 to $1 and RMB 6.16 to $1, respectively. The average translation rates applied to income and cash flow statement amounts were at RMB 6.15 to $1 and RMB 6.13 to $1 for the nine months ended March 31, 2015 and 2014, respectively.

Fair value of financial instruments

The Company uses a three-level valuation hierarchy for disclosures of fair value measurement. 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.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company determined that the carrying value of its long-term loans approximated their fair value using level 2 inputs by comparing the stated loan interest rate to the rate charged by the Bairui Trust on similar loans (see Note 13).

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, 2015:

	Carrying value at March 31, 2015	Fair value measurement at March 31, 2015		
		Level 1	Level 2	Level 3
Warrants liability	$ 4,732,304	$ -	$ 4,732,304	$ -

The following is a reconciliation of the beginning and ending balances of warrants liability measured at fair value on a recurring basis using observable inputs as of March 31, 2015 and June 30, 2014:

	March 31, 2015	June 30, 2014
Beginning fair value	$16	$ 21
Realized gain recorded in earnings	(5,315,068)	(5)
Granted financial instrument	10,047,356	-
Ending fair value	$4,732,304	$ 16

	March 31, 2015	June 30, 2014
Number of shares exercisable	1,721,664	3,906,853
Range of exercise price	$ 6.08-48.00	$ 6.00-48.00
Stock price	$2.39	$1.22
Expected term (years)	0.25-3.49	0.60-2.78
Risk-free interest rate	0.03-1.26 %	0.15-0.91 %
Expected volatility	42-87 %	49-61 %

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record certain financial 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 nine months ended March 31, 2015 and 2014, the Company's two long term investments are not considered impaired.

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.

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, 2015 and June 30, 2014, the Company had $64,998 and $73,389 of cash deposits, which were not covered by insurance, respectively. The Company has not experienced any losses in such accounts.

Accounts receivable, net

During the normal course of business, the Company extends unsecured credit not exceeding three months to its customers. Management regularly reviews aging of receivables and changes in payment trends by its customers, and records an allowance when management believes collection of amounts due are at risk. Accounts receivables are considered past due after three months from the date credit was granted. Accounts considered uncollectible after exhaustive efforts to collect 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. As of March 31, 2015 and June 30, 2014, $1,126,748 and $140,158 allowance for doubtful accounts was provided, respectively.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Other receivables and deposit

Other receivables include security deposit made for auction of purchasing non-performing assets, interest receivable on loans, advances to employees for general business purposes and other short term non-traded receivables from unrelated parties, primarily as unsecured demand loans, with no stated 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 after exhaustive efforts at collection. As of March 31, 2015 and June 30, 2014, $0 and $29,396 allowance for doubtful accounts was provided, respectively.

Loans receivable

Loans receivable represents the amount the Company expects to collect from unrelated parties. The loans either are due on demand or mature within a year, and are either unsecured or secured by the properties of the borrowers or guaranteed by unrelated parties. All loans receivables are subject to interest charges. No allowance for doubtful accounts is considered necessary at the balance sheet dates.

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, they are not marked up subsequently based on changes in underlying facts and circumstances. As of March 31, 2015 and June 30, 2014, amount to $0 and $169,565 was provided for doubtful inventories impairment.

Advances to suppliers

The Company advances monies or may legally assign its notes receivable-trade (which are guaranteed by banks) to certain suppliers for raw material purchases. Such advances are interest-free and unsecured. Management regularly reviews aging of advances to suppliers and changes in materials receiving trends and records an allowance when management believes collection of materials due are at risk. Advances aged over one year and considered uncollectible are written off after exhaustive efforts at collection. As of March 31, 2015 and June 30, 2014, $667,175 and $0 allowance for doubtful accounts was provided, respectively.

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 amount of mineralized coal materials. 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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Construction-in-progress ("CIP") includes direct costs of construction for mining tunnel improvements and the Company's new coking plant. Interest incurred during the period of construction, if material, is capitalized. For the nine months ended March 31, 2015 and 2014, no interests were capitalized into CIP for construction is halted during the period. All other interest is expensed as incurred. CIP is not depreciated until such time the asset in question is completed and put into service.

Refundable deposit

A deposit was made to Henan Coal Seam Gas and is refundable when its joint venture with Zhonghong commences operations (see Note 12).

Intangible assets

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. Intangible assets with finite lives are amortized over their useful lives and reviewed at least annually for impairment.

Mining rights are capitalized at fair value when acquired, including amounts associated with any value beyond the total amount of mineralized coal materials, and amortized to operations as depletion expense using the units-of-production method over the estimated amount of mineralized coal materials. The Company's coal mines are controlled through its VIEs, which control generally lasts until the mineralized coal materials are depleted.

Impairment of long - lived assets

The Company evaluates long-lived tangible and intangible assets for impairment 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 an asset’s carrying value to the related projected undiscounted cash flows generated by the long-lived asset or asset group, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. When the carrying 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 to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party independent appraisals, as considered necessary.

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.

Entities in which the Company has the ability to exercise significant influence, but does not have a controlling interest, are accounted for under the equity method. Significant influence is generally considered to exist when the Company has between 20% and 50% of ownership interest in the voting share, but other factors, such as representation on the board of directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate.

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. Management believes that no impairment charge was necessary as of March 31, 2015 and June 30, 2014.

Asset retirement cost and obligations

The Company accounts for the asset retirement cost and obligations to retire tangible long-lived assets in accordance with U.S. GAAP, which requires that the Company’s legal obligations associated with the retirement of long-lived assets be recognized at fair value at the time the obligations are incurred. Such obligations are incurred when development 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.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 mineralized coal materials 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, the Henan Bureau of Finance and the Bureau of Land and Resource issued regulations requiring mining companies to file an evaluation report regarding the environmental impacts of their mining (the "Evaluation Report") before December 31, 2010. The relevant authorities would then determine whether to approve the Evaluation Report after performing on-site investigation, and the asset retirement obligation would be determined by the authorities based on the approved filing. Such requirement was extended along with the extension of the provincial mine consolidation schedule, although the specific extension date has not been finalized by the relevant provincial authorities.

The Company did not record any asset retirement obligation as of March 31, 2015 and June 30, 2014 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 relevant authorities is affected by several factors, such as the extent 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

Deferred income taxes are provided on the asset and liability method for 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.

An uncertain 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 were incurred during the nine months ended March 31, 2015 and 2014.

Chinese income taxes

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Value added tax (“VAT”)

Sales revenue represents the invoiced value of goods, net of VAT. All of the Company’s coal and coke are sold in the PRC and subject to a VAT 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 its consolidated financial statements. The VAT tax return is filed to offset the payables against the receivables.

Warrants liability

A contract is designated as an asset or a liability and is carried at fair value on the Company’s balance sheet, with any changes in fair value recorded in its 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 unaudited condensed consolidated statements of income and other comprehensive income as “change in fair value of warrants.”

In connection with the Company’s share exchange transaction in February 2010 with Top Favour, whereby Top Favour became a wholly-owned subsidiary of the Company (the “Share Exchange”), 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 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 adopting this accounting standard, all warrants issued after the Share Exchange are recorded as a liability because their strike price is denominated in U.S. dollars, while the Company’s functional currency is denominated in RMB.

All warrants issued before the Share Exchange, which were treated as equity pursuant to the derivative treatment exemption prior to the Share Exchange, are also no longer afforded equity treatment for the same reason. Since such warrants are no longer considered indexed to the Company’s own stock, all future changes in their fair value will be recognized currently in earnings until they are exercised or expire.

Noncontrolling interests

As further discussed in Note 20, noncontrolling interests mainly consist of a 40% equity interest of Xingsheng Coal owned by unrelated parties. For the nine months ended March 31, 2015 and 2014, there was no net income or loss attributable to such noncontrolling interests because Xingsheng Coal was not operational during such periods.

Earnings (loss) per share

The Company reports earnings per share in accordance with the provisions of ASC – 260 “Earnings per Share.” 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 are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby are used to purchase common stock at the average market price during the period.

Comprehensive income

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 all items recognized under current accounting standards as components of comprehensive income to 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 foreign currency translation adjustments.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Recently issued accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-9, "Revenue from Contracts with Customers" ("ASU 2014-9"). ASU 2014-9 provides for a single comprehensive principles-based standard for the recognition of revenue across all industries through the application of the following five-step process:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The updated guidance related to revenue recognition which affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for us starting on January 1, 2017. We are currently evaluating the impact this guidance will have on our combined financial position, results of operations and cash flows.

In April 2015, the FASB issued guidance to simplify the presentation of debt issuance costs. This new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This new guidance will be effective for us beginning July 1, 2016. We are currently evaluating the impact of this standard on our consolidated financial statements.

Note 3 – Concentration risk

For the three months ended March 31, 2015, 78.2% of the Company's total revenues were from four customers who individually accounted for 31.1%, 17.8%, 16.0% and 13.3% of total revenues, respectively. For the nine months ended March 31, 2015, 52.5% of the Company's total revenues were from three major customers who individually accounted for 22.0%, 15.9% and 14.6% of total revenues, respectively. For the three months ended March 31, 2014, 70.4% of the Company's total revenues were from two customers who individually accounted for 58.0% and 12.4% of the total revenues, respectively. For the nine months ended March 31, 2014, 60.5% of the Company's total revenues were from three major customers who individually accounted for 37.3%, 13.1%, - 10.1% of total revenues, respectively. Accounts receivables of three customers were 13.6%%, 12.0% and 12.0% of the total accounts receivable balance at March 31, 2015, respectively. Accounts receivables of two customers were 34.8% and 24.1% of the total accounts receivable balance at June 30, 2014, respectively.

For the three months ended March 31, 2015, three major suppliers provided 91.8% of the Company's total raw material purchase, with each supplier individually accounting for 43.6%, 30.7% and 17.5%, respectively. For the nine months ended March 31, 2015, three major suppliers provided 55.3% of total raw material purchases, with each supplier individually accounting for 29.3%, 15.2% and 10.8% of total raw material purchases, respectively. For the three months ended March 31, 2014, three major suppliers provided 83.4% of the Company's total raw material purchase, with each supplier individually accounting for 56.3%, 14.2% and 12.9% of the total purchases, respectively. For the nine months ended March 31, 2014, two major supplier provided 39.1% of the Company's total raw material purchases, with each supplier individually accounting for 23.0% and 16.1% of the total purchases, respectively. The Company held no accounts payable to its major suppliers as of March 31, 2015. Accounts payable of three suppliers were 58.5%, 8.1% and -21.0% of total accounts payable balance at June 30, 2014, respectively.

Note 4 – Other receivables and deposits

Other receivables and deposits consisted of the following:

	March 31, 2015	June 30, 2014
Security deposit for auction	$ 4,901,481	$ 4,873,928
Receivables from an unrelated company	50,649	29,396
Advances to employees	20,995	6,447
Interest receivable	-	906,857
	4,973,125	5,816,628
Less: allowance for doubtful accounts	-	(29,396)
	$ 4,973,125	$ 5,787,232

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Security deposit for auction

On January 26, 2013, Hongli entered into an agreement with Pingdingshan Rural Credit Cooperative Union ("PRCCU") to pay $3,249,285 (RMB 20 million) as a security deposit to bid at an auction for some non-performing assets, including certain mining rights subject to the ongoing mine consolidation program, valued collectively at $19.5 million (RMB 120 million). Should Hongli win the auction, the deposit would be applied against Hongli's bid price for the assets. Otherwise, PRCCU would refund the deposit back to Hongli before December 31, 2013. On September 18, 2013, the parties entered into a supplemental agreement to postpone the auction date and to extend the deposit refund date to December 31, 2013. On September 26, 2013, the parties entered into another agreement for Hongli to pay $1,637,000 (RMB 10 million) as additional security deposit. Should Hongli win the auction, this additional deposit would also be applied against Hongli's bid price for the assets. Otherwise, PRCCU would refund the deposit back to Hongli before December 31, 2013. On December 30, 2013, the parties entered into a supplemental agreement to postpone the auction date and to extend the deposit refund date to December 31, 2014. On January 23, 2015, PRCCU issued a notice indicating that the transaction is terminated due to PRCCU's internal problems, PRCCU advised that it would return the refund of a total of RMB 30,000,000 to the Company by the end of March 2015. On March 26, 2015 PRCCU issued a notice to the Company that this deposit will be returned by the end of December 2015.

Note 5 – Loans receivable

On June 8, 2011, Capital Paradise Limited ("CPL") or previously known as Ziben Tiantang Co., Ltd., an unrelated party, borrowed $10,044,200 from Top Favour, one of the Company's consolidated entities, in an unsecured loan at an annual interest rate of 9.45%, with interest due every six months. The loan matured on June 7, 2012. On June 8, 2012, Top Favour and CPL entered into a supplemental agreement to extend the maturity date to December 7, 2012, and to decrease the interest rate to 7% annually.

On December 8, 2012, both parties entered into another supplemental agreement to extend the maturity date to June 8, 2013, with 7% annual interest rate. On June 8, 2013 both parties entered into another supplemental agreement to extend the maturity date to December 7, 2013, with 7% annual interest rate.

In August and September 2012, Top Favour loaned an additional $350,000 to CPL. This loan is unsecured and has an annual interest rate of 7%, and is due on August 11, 2013. On August 2, 2013, the Company and CPL entered into a supplemental agreement to extend the remaining balance due to December 31, 2013.

On October 7, 2014, Top Favour loaned an additional $200,000 to CPL with a short term maturity date on January 31, 2015. The additional loan of $200,000 was free of the interest charge and had been fully repaid in January 2015.

On January 27, 2014, both parties agreed on a repayment schedule whereby CPL will repay 50% of the outstanding principal and accrued interest thereon before June 30, 2014, and the balance and accrued interest thereon before December 31, 2014.

On August 2014, the Company had collected $4.5 million from CPL as a repayment and all remaining principal was settled on January 15, 2015. On January 28, 2015 all outstanding interest payable, which both parties agreed accrued as of December 31, 2014, was cleaned.

For the three months ended March 31, 2015 and 2014, interest incomes from loans receivable amounted to $0 and $58,809, respectively. For the nine months ended March 31, 2015 and 2014, interest incomes from the loans receivable amounted to $164,400 and $422,067, respectively.

Note 6 – Inventories

Inventories consisted of the following:

	March 31, 2015	June 30, 2014
Raw materials	$192,488	$139,162
Work in process	1,664,036	129,726
Supplies	13,732	44,800
Finished goods	117,035	7,275,698
Total	1,987,291	7,589,386
Less: allowance for impairment	-	(169,565)
Total inventories, net	$1,987,291	$7,419,821

15

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Advances to suppliers

Advances to suppliers are monies deposited with 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 funds to be deposited with them as a guarantee that the Company will receive its purchases on a timely basis and with favorable pricing.

Advances to suppliers amounted to $9,302,744 and $8,700,022 as of March 31, 2015 and June 30, 2014, respectively. For the three and nine months ended March 31, 2015 and 2014, the Company provided allowance for long-term outstanding advances amounted to $667,175 and $0, respectively.

Note 8 – Plant and equipment, net

Plant and equipment consisted of the following:

	March 31, 2015	June 30, 2014
Buildings and improvements	$11,174,772	$11,111,956
Mine development cost	11,806,084	11,739,719
Machinery and equipment	15,576,611	7,508,807
Other equipment	412,651	410,332
Total	38,970,118	30,770,814
Less: accumulated depreciation	(17,493,808)	(16,344,495)
Total plant and equipment, net	$21,476,310	$14,426,319

Depreciation expense amounted to $400,032, and $79,200 for the three months ended March 31, 2015 and 2014, respectively, and $1,052,240 and $640,309 for the nine months ended March 31, 2015 and 2014, respectively. No depreciation expense was incurred for mining-related assets due to the shutdown of all coal mine operations since September 2011.

Note 9 – Construction in progress ("CIP")

CIP at March 31, 2015 and June 30, 2014 amounted to $47,159,165 and $40,389,961, respectively, and relates to the new coking plant still under construction and the second stage of construction of the coke gasification facility which commenced in November 2014. The new coking plant, with an estimated construction cost of approximately $94.51 million or RMB 578 million originally, requires an additional $24 million or RMB 144 million to complete. The second stage of the construction of the coke gasification facility, with an estimated construction cost of approximately $8.03 million or RMB 49 million, had outstanding payable of $1.48 million or RMB 9.86 million to the construction firm. The remaining unpaid amount includes retention money for the construction of gasification facility, amount to $0.95 million or RMB 5.84 million, which will be paid certain months after completion of the construction.

Project	Invested cost as of March 31, 2015	Estimated cost to complete	Estimated total cost
New coking plant (1)	$ 70,965,599	$ 23,543,679	$ 94,509,296
Coke gasification facility (2)	$ 6,540,878	$ 1,484,479	$ 8,025,357

(1) Due to a lack of funding, the Company has placed construction on hold until additional funding is secured. As such, management is unable to estimate the completion date for CIP. No depreciation is provided for CIP until such time the asset in question is completed and placed into service.

16

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(2) The second stage of the coke gasification facility was constructed based on our existing coking facility which was leased from Hongfeng. Hongfeng granted the Company the right to use the coking facility during the leasing period freely. The Company believes that the leasing agreement with Hongfeng will be renewed from time to time in future. The first stage of the coke gasification facility was completed and put into production on October 2014. The construction of the second stage of the coke gasification facility was started on November 2014 and expected to be completed by May 2015.

Note 10 – Prepayments

Prepayments consisted of the following:

	March 31, 2015	June 30, 2014
Land use rights	$11,460,053	$11,395,633
Construction	50,705,026	50,419,999
Total	$62,165,079	$61,815,632

Prepayments for land use rights

Prepayments for land use rights are advances made in connection with acquiring land use rights to expand the site of the Company's new coking plant that is still under construction. The transaction is organized and guaranteed by the Bureau of Land and Resources of Baofeng County, and payments made to the former occupants of the land underlying the land use rights are not subject to refund if the transaction cannot be completed for any reason. As of March 31, 2015 and June 30, 2014, such prepayments amounted to $11,460,053 and $11,395,633, respectively. The Company is in the process of obtaining the certificates of the land use rights with the relevant authorities and expects to complete such registrations at an estimated total cost of $11,935,104 (RMB 73,050,000), concurrently with completing the construction of the new plant.

Prepayments for construction

Prepayments for construction consisted of the following:

	March 31, 2015	June 30, 2014
Baofeng new coking plant (1)	$20,675,291	$20,559,069
Hongchang new mining tunnels (2) (6)	1,307,061	1,299,714
Hongchang safety instruments (3) (6)	3,267,653	3,249,285
Xingsheng safety instruments (4) (6)	14,230,631	14,150,636
Hongchang mine consolidation (5) (6)	11,224,390	11,161,295
Total	$50,705,026	$50,419,999

(1) At March 31, 2015, the Company made prepayments of approximately $20.7 million (RMB 126.5 million) toward construction of its new coking plant.

(2) The Company made prepayments of approximately $1.31 million (RMB 8 million) during the year ended June 30, 2010 for constructing new mining tunnels at Hongchang coal mine.

(3) The Company made prepayments of approximately $3.27 million (RMB 20 million) during May 2012 for upgrading the safety equipment at Hongchang coal mine.

(4) The Company made prepayments of approximately $14.23 million (RMB 87.1 million) in August and September 2012 for upgrading the safety equipment at Xingsheng coal mine.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(5) The Company made prepayments of approximately $11.22 million (RMB 68.7 million) during August and September 2012 for consolidating Hongchang, Shunli and Shuangrui coal mines.

(6) As of March 31, 2015, these projects had not commenced yet, but the Company expected to do so after approval from the relevant authorities. As of the date of this report, the Company had not received the approval and the Company was expecting to obtain the approval before the end of 2015.

Note 11 – Intangible assets

Intangible assets consisted of the following:

	March 31, 2015	June 30, 2014
Land use rights	$2,561,366	$2,546,968
Mining rights	44,347,334	44,098,046
Total intangible assets	46,908,700	46,645,014
Accumulated amortization – land use rights	(800,427)	(742,866)
Accumulated depletion – mining rights	(13,673,313)	(13,596,451)
Total intangible assets, net	$32,434,960	$32,305,697

Amortization expense for the three months ended March 31, 2015 and 2014 amounted to $17,718, and $17,824, respectively. Amortization expense for the nine months ended March 31, 2015 and 2014 amounted to $53,126 and $53,250, respectively. No depletion was incurred due to the shutdown of all coal mine operations since September 2011. Depletion expense will be charged to cost of revenue in the period incurred using the unit-of-production method.

Amortization expense of the land use rights for the next five years and thereafter is as follows:

Year ending June 30,	Amortization expense
2015	$ 17,709

2016	70,834
2017	70,834
2018	70,834
2019	70,834
Thereafter	1,459,894
Total	$ 1,760,939

Note 12 – Long-term investments and refundable deposit

Long-term investments consisted of investments accounted for using the cost and equity methods.

In February 2011, the Company invested approximately $1.3 million (RMB 8 million) in Pingdingshan Xinhua District Rural Cooperative Bank ("Cooperative Bank"). This investment represents 2.86% interest in Cooperative Bank, and is accounted for under the cost method. No investment income was received and recognized during the nine months ended March 31, 2015 and 2014

In April 2011, Hongyuan CSG was established by Zhonghong (49%) and Henan Coal Seam Gas (51%) as a joint venture. The total registered capital of Hongyuan CSG is approximately $15.85 million (RMB 100 million). As of June 30, 2012, approximately $3.17 million (RMB 20 million) was funded, of which $1.6 million (RMB 9.8 million) was paid by Zhonghong. The remaining registered capital was due on April 20, 2013, of which approximately $6.2 million (RMB 39.2 million) will be paid by Zhonghong. Zhonghong's investment in Hongyuan CSG is accounted for under the equity method since Zhonghong has significant influence but not control. As of the date of this report, Zhonghong has not contributed the remaining registered capital as Hongyuan CSG has remained inactive. Zhonghong and Henan Coal Seam Gas are in the process of negotiating with the appropriate PRC authorities to extend the due date for the outstanding registered capital.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In addition, a deposit of $4,881,224 was made on December 23, 2011 to Henan Coal Seam Gas and is refundable when the joint venture commences operation.

For the nine months ended March 31, 2015 and 2014, there was no equity investment income or loss.

Note 13 – Loans

Loans from Bairui Trust

On April 2, 2011, Hongli entered into a loan agreement with Bairui Trust pursuant to which Bairui Trust agreed to loan Hongli approximately $58.4 million (RMB 360 million) with annual interest of 6.3%, of which approximately $29.2 million (RMB 180 million) would be due on April 2, 2013, and approximately $29.2 million (RMB 180 million) on April 2, 2014. The loan was issued on April 3, 2011 and is guaranteed by Hongyuan and the Company's CEO.

On November 30, 2011, the parties entered into a supplemental agreement pursuant to which approximately $4.88 million (RMB 30 million) with annual interest of 6.3% became due on October 2, 2012, approximately $16.23 million (RMB 100 million) with annual interest of 6.3%, became due on April 2, 2013, approximately $8.11 million (RMB 50 million) with annual interest of 6.3% became due on October 2, 2013, and approximately $29.2 million (RMB 180 million) with annual interest of 6.3% became due on April 2, 2014.

For the loan due October 2, 2012, the parties entered into a separate agreement on October 8, 2012 to extend the due date to April 2, 2013 with an annual interest rate of 8.7% starting October 3, 2012. Such payment was repaid in full on December 25, 2012.

For the loan due April 2, 2013, the Company repaid $3.25 million (RMB 20 million) on April 3, 2013, and entered into a separate agreement with Bairui Trust on April 23, 2013 to extend the due date for the remaining $13.01 million (RMB 80 million) as follows: (a) $3.25 million (RMB 20 million) was extended to December 2, 2013 with an annual interest rate of 6.3% starting April 23, 2013; (b) $4.88 million (RMB 30 million) was extended to January 2, 2014 with an annual interest rate of 6.3% starting April 23, 2013; and (c) $4.88 million (RMB 30 million) was extended to February 2, 2014 with an annual interest rate of 6.3% starting April 23, 2013. For the period between April 3, 2013 and April 23, 2013, Bairui Trust charged an additional 9.45% annual interest rate on the entire $13.01 million outstanding.

On October 1, 2013, the parties executed an extension agreement, for the remaining balance of approximately $50.3 million (RMB 310 million) with 9.9% annual interest rate as follow:

Loan Amount (in USD)	Loan Amount (in RMB)	Extended Loan Repayment Date	New Interest Rate Period
$ 8,114,380	¥ 50,000,000	October 2, 2016	October 3, 2013 – October 2, 2016
3,245,752	20,000,000	December 2, 2016	December 3, 2013 – December 2, 2016
4,868,628	30,000,000	January 2, 2017	January 3, 2014 – January 2, 2017
4,868,628	30,000,000	February 2, 2017	February 3, 2014 – February 2, 2017
29,211,770	180,000,000	April 2, 2017	April 3, 2014 – April 2, 2017
$ 50,309,158	¥ 310,000,000		

On April 2, 2014, the Company entered into another supplement agreement with Bairui Trust which replaced the extension agreement dated October 1, 2013, and repaid the principal $324,929 (RMB 2,000,000). Per the supplement agreement, loans from Bairui Trust were changed as follows:

Loan Amount (in USD)	Loan Amount (in RMB)	Extended Loan Repayment Date	New Interest Rate Period
$ 2,928,734	¥ 18,000,000	April 2, 2015	December 3, 2013 – April 2, 2015
4,881,224	30,000,000	April 2, 2015	January 3, 2014 – April 2, 2015
4,881,224	30,000,000	April 2, 2015	February 3, 2014 – April 2, 2015
8,135,373	50,000,000	January 2, 2015	October 3, 2013 – January 2, 2015
29,287,340	180,000,000	October 2, 2015	April 3, 2014 – October 2, 2015
$ 50,113,895	¥ 308,000,000		

19

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

According to the new supplement agreement dated April 2, 2014, the annual interest rate was changed from 9.9% to 11.88% and, for the period between December 3, 2013 and April 2, 2014, Bairui Trust charged the Company an additional 7.2% annual interest rate on $12.9 million (RMB 80 million) of the outstanding $50.3 million (RMB 310 million) loan principal.

On January 20, 2015, Hongli repaid the loan of $8,135,373 (RMB 50,000,000) to Bairui Trust which was due on January 2, 2015.

On April 3, 2015, Honhli and Baitui Trust reached an agreement to extend the outstanding loans of $12,743,849 (RMB 78,000,000) which due on April 2, 2015 to April 2, 2016 with the annual interest rate of 11.88%. As of March 31, 2015, the loans from Bairui Trust were as follows:

Loan Amount (in USD)	Loan Amount (in RMB)	Due Date	Interest Rate	
$ 12,743,849	¥78,000,000	April 2, 2016	11.88	%
29,408,881	180,000,000	October 2, 2015	11.88	%
$ 42,152,730	¥258,000,000			

Loan from Capital Paradise Limited

On January 26, 2015, Top Favour and Capital Paradise Limited entered into a unsecured loan agreement in the amount of $2,960,000 with an annual interest rate of 7% and due on January 27, 2016. As of March 31, 2015, the outstanding loan from Capital Paradise Limited was $2,958,329.

Weight average interest rate and interest expense

Weighted average interest rate was 11.7% and 7.0% for the three months ended March 31, 2015 and 2014, respectively. Interest expense for the three months ended March 31, 2015 and 2014 was $1,264,104 and $872,615, respectively. No interest was capitalized into CIP.

Weighted average interest rate was 11.8% and 7.23% for the nine months ended March 31, 2015 and 2014, respectively. Total interest expense for the nine months ended March 31, 2015 and 2014 was $4,263,658 and $2,963,194, respectively. No interest was capitalized into CIP.

Note 14 – Other payables and accrued liabilities

Other payables and liabilities mainly consisted of accrued salaries, interest payable, utilities, professional services and other general and administrative expenses.

Other payables and accrued liabilities consisted of the following:

	March 31, 2015	June 30, 2014
Other payable (1)	$1,191,980	$264,522
Interest payable	1,396,731	2,017,946
Accrued liabilities (2) (3)	362,733	177,645
Total	$2,951,444	$2,460,113

(1) As of March 31, 2015, $964,597 or RMB 5,836,000 of construction deposit was retained by the Company for the security of the construction of the first stage coke gasification facility which was completed at October 2014. The amount of deposit will be paid one year after the construction was completed, if no quality defection occurs during the period.

20

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(2) As of March 31, 2015 and June 30, 2014, $180,000 and $120,000 of salary payable included in accrued liabilities was payable to the Company’s CEO.

(3) As of March 31, 2015 and June 30, 2014, $60,000 and $60,000 of salary payable included in accrued liabilities was payable to the Company’s CFO.

Note 15 – Related party payables

Other payables-related parties represent advances from the Company’s CEO. Advances from the CEO amounted to $1,893,226 and $526,699 at March 31, 2015 and June 30, 2014, respectively. Such advances are interest free, due on demand and will be settled in cash.

During the nine months ended March 31, 2015, the Company borrowed $4,785,591 from Mr. Jianhua Lv, the CEO of the Company, to pay off its interest payable to Baidu Trust. The loan of $4,785,591 due to Mr. Jianhua Lv had been repaid before March 31, 2015.

Note 16 – Acquisition payables

On August 10, 2010, Hongli acquired 60% of the equity interest of Shuangrui Coal (see Note 20). During the year ended June 30, 2012, Hongli agreed to acquire the remaining 40%. The title thereof was transferred to Hongli, and Hongli had full control of Shuangrui Coal by June 30, 2012. The purchase price thereof was tentatively set at approximately $4,544,053 (RMB 28 million), subject to certain price adjustments to be finalized at closing. The balance is due on demand. As of March 31, 2015 and June 30, 2014, acquisition payable was $4,738,098 and $4,711,463, respectively, which represented the accrued purchase price for the remaining 40% of Shuangrui Coal.

Note 17 – Taxes

<u>Income tax</u>

SinoCoking is subject to the United States federal income tax provisions. Top Favour 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, Xingsheng Coal, Shuangrui Coal, Hongguang Power and Zhonghong. All of them excepting Hongchang Coal are subject to 25% enterprise income tax rate in China. Hongchang Coal has not been required to pay income tax since its operations were halted in September 2011.

The provision for income taxes consisted of the following:

	For the three months ended March 31,		For the nine months ended March 31,	
	2015	2014	2015	2014
U.S. current income tax expense	$ -	$ -	$ -	$ -
BVI current income tax expense	-	-	-	-
PRC current income tax expense	719,551	445,945	1,712,995	1,511,634
Total	$ 719,551	$ 445,945	$ 1,712,995	$ 1,511,634

SinoCoking has incurred a net operating loss for income tax purposes for 2015. As of March 31, 2015, the estimated net operating loss carry forwards for U.S. income tax purposes was approximately $3,063,000, which may be available to reduce future years taxable income. The net operating loss carry forward will expire through 2034 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, 2015 and June 30, 2014, respectively. Management reviews this valuation allowance periodically and makes adjustments as necessary.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles the valuation allowance for the three months and nine months ended March 31, 2015 and 2014 which consisted of the following:

	For the three months ended March 31,		For the nine months ended March 31,	
	2015	2014	2015	2014
Beginning balance	$ 1,042,000	$ 773,000	$ 1,042,000	$ 715,000
Additions	-	56,000	-	114,000
Ending balance	$ 1,042,000	$ 829,000	$ 1,042,000	$ 829,000

Value added tax

The Company incurred VAT on sales and VAT on purchases in the PRC as follows:

	For the three months ended March 31,		For the nine months ended March 31,	
	2015	2014	2015	2014
VAT on sales	$ 3,280,167	$ 4,422,941	$ 11,207,331	$ 15,368,143
VAT on purchase	$ 2,374,541	$ 4,189,062	$ 8,329,437	$ 14,039,697

Sales and purchases are recorded net of VAT collected and paid, as the Company acts as an agent for the PRC government.

Taxes payable

Taxes payable consisted of the followings:

	March 31, 2015	June 30, 2014

VAT	$194,435	$(47,378)
Income tax	1,238,656	643,498
Others	204,239	169,301
Total	$1,637,330	$765,421

Note 18 – Capital transactions

Common Stock:

On September 24, 2014, the Company completed a registered sale of its common stock with two institutional investors under its shelf registration statement on Form S-3 pursuant to a Securities Purchase Agreement executed on September 18, 2014. Gross proceeds from the offering were approximately $14.3 million in exchange of 2,818,845 shares of the Company's common stock. After payment of expenses, the Company received approximately $13.2 million in net proceeds. In addition, the Company issued to the investors Series A warrants ("Warrants A") to purchase an aggregate of 1,409,423 common shares and Series B warrants ("Warrants B") to purchase an aggregate of 1,644,737 common shares. Under the Purchase Agreement, the investors also had an option to purchase additional 1,644,737 shares of the Company's common stock and warrants – Series C ("Warrants C") to purchase 822,369 shares of the Company's common stock. If fully exercised, the Company would receive aggregate gross proceeds from the warrants of approximately $36.2 million.

Options:

Under the 2002 Stock Option Plan for Directors, options exercisable for 1,666 shares of the Company's common stock at $36.00 per share were granted on October 11, 2002, and expired on October 15, 2012. Options exercisable for 3,126 shares of the Company's common stock at $96.00 per share were granted on November 16, 2004, and expired on November 16, 2014.

Under the 1999 Stock Option Plan, options exercisable for 6,059 shares of the Company's common stock at $96.00 per share were granted on November 14, 2004, and expired on November 14, 2014. Such options were fully vested before the Share Exchange on February 5, 2010.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On September 24, 2014, the Company closed an initial offering with two institutional investors pursuant to a securities purchase agreement ("Purchase Agreement) dated September 18, 2014. Under the Purchase Agreement, the investors also had an option to purchase additional 1,644,737 shares of the Company's common stock and warrants – Series C ("Warrants C") to purchase 822,369 shares of the Company's common stock for a period beginning six months and one day from September 24, 2014 and ending ten months from September 24, 2014. The expiration date for Warrants C will be the fourth anniversary of September 24, 2014.

Options outstanding and exercisable at March 31, 2015 are as follows:

Outstanding options			Exercisable options		
Number of options	Average remaining contract life	Average exercise price	Number of options	Average remaining contractual life	Average exercise price
9,185	Expired	$ 96.00	9,185	Expired	$ 96.00
1,644,737	0.32 years	$ 6.08	1,644,737	0.32 years	$ 6.08

The following is a summary of changes in options activities:

	Outstanding options		
	Exercisable	Un-exercisable	Total
Outstanding, June 30, 2013	9,185	-	9,185
Granted	-	-	-
Forfeited	-	-	-
Exercised			