



**XINERGY LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OF**

**FINANCIAL CONDITION**

**AND**

**RESULTS OF OPERATIONS**

**FOR THE PERIOD ENDED SEPTEMBER 30, 2011**

**OCTOBER 19, 2011**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2011**

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Xinerger Ltd. ("Xinerger") unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2011 and notes thereto and audited consolidated financial statements for the years ended December 31, 2010 and 2009 and notes thereto. In this MD&A, "Xinerger," "the Company," "we," "us," or "our" refers to Xinerger Ltd. and its subsidiaries. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards ("IFRS"). This discussion provides management's analysis of our historical financial and operating results and provides estimates of future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. All references to "\$" or "dollars" are to United States dollars unless otherwise indicated.

This MD&A was prepared using information that is current as of October 19, 2011.

**Forward Looking Information**

In the interest of providing our shareholders and potential investors with information regarding Xinerger, including management's assessment of our future plans and operations in the "Outlook" section of this MD&A, certain statements in this MD&A are "forward-looking information" within the meaning of applicable Canadian securities legislation. In some cases, forward-looking information can be identified by terminology such as "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "intend," "may," "objective," "ongoing," "outlook," "potential," "project," "plan," "should," "target," "would," "will" or similar words suggesting future outcomes, events or performance. The forward-looking information contained in this MD&A speaks only as of the date of this document and is expressly qualified by this cautionary statement.

Specifically, this MD&A contains forward-looking information relating to:

- Tons under contract for the remainder of 2011 and for 2012, 2013 and 2014;
- Price per ton for committed tons under contract for the remainder of 2011 and for 2012, 2013 and 2014;
- Estimated cash cost of production for remainder of 2011 and for 2012;
- Increased production capacity as the result of recently acquired properties, additional capital expenditures and additional permitted mines;
- Reserves that have recently been leased or acquired; and
- Future development of recently acquired properties and leased reserves.

This forward-looking information is based on certain key assumptions regarding, among other things: no material disruption in production; no material variation in anticipated coal sales volumes; no material variations in markets and pricing of steam coal other than anticipated variations; continued availability of and no material disruption in rail service; no production or shipping disruptions due to adverse weather conditions other than normal, seasonal patterns; no material delays in the current timing for completion of ongoing projects; financing will be available on terms favorable to the Company; no material variation in historical coal purchasing practices of customers; coal sales contracts will be entered into with new customers; parties execute and deliver contracts currently under negotiation; and no material variations in the current regulatory environment. The reader is cautioned that such assumptions, although considered reasonable by us at the time of preparation, may prove to be incorrect.

Actual results achieved during the forecast period may vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: changes in general economic, market and business conditions; uncertainties associated with estimating the quantity and quality of coal reserves and resources; commodity prices, currency exchange rates, the availability of credit facilities for capital expenditure requirements, debt service requirements; dependence on a single rail system; changes to legislation; liabilities inherent in coal mine development and production; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; geological, mining and processing technical problems; ability to obtain required mine licenses, mine permits and regulatory approvals required to proceed with mining and coal processing operations; ability to comply with current and future environmental and other laws; actions by governmental or regulatory authorities including increasing taxes and changes in other regulations; the occurrence of unexpected events involved in coal mine development and production; and other factors, many of which are beyond our control. Many of these risk factors and uncertainties are discussed in our Annual Information Form in a section entitled “Risk Factors” and other documents we file with the Canadian securities regulatory authorities available on SEDAR at [www.sedar.com](http://www.sedar.com).

**We make no representation that actual results achieved during any forecast period will be the same, in whole or in part, as forecasted results and we do not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities law.**

**Readers of this MD&A should refer to the section entitled “Risk Factors” in Xinerge’s Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com) for factors which could cause actual results to differ materially from those anticipated in the forward-looking information contained in this report and which could potentially impact the Company’s financial performance and its ability to meet its targets.**

## **OVERVIEW**

Our corporate headquarters are located in Knoxville, Tennessee. We currently mine, process and sell high quality bituminous thermal coal and high volatility metallurgical coal from coal mines located in eastern Kentucky, West Virginia and Virginia. We sell our thermal coal to electric utilities and industrial companies throughout the southeastern United States and our metallurgical coal to a large central Appalachian producer and marketer of metallurgical coals.

Xinerge Corp. was incorporated in October 2007. On December 21, 2009, we completed a reverse takeover, or RTO, of Greenwich Global Capital, Inc., or GGC, which was previously listed on the NEX Board of the TSX Venture Exchange. GGC was incorporated under the *Business Corporations Act* (Ontario) on February 11, 2005, and was classified as a capital pool company as defined in the TSX Venture Exchange Policy 2.4 and, accordingly, had no significant assets other than cash and no commercial operations. GGC changed its name to Xinerge Ltd. on December 21, 2009.

We commenced mining in April 2008 at our Straight Creek property in Kentucky and expanded our thermal coal operations into West Virginia in April 2010 with the acquisition of Raven Crest Mining, LLC (“Raven Crest”). In March 2011, we entered into leases with Penn Virginia Operating Co., LLC (“Penn Virginia”) on a tract of land known as Brier Creek, which is adjacent to and north of our Raven Crest properties in Kanawha and Boone Counties, West Virginia. The leases included surface and coal leases of underground thermal coal reserves and also included active permits for a coal preparation plant and refuse area adjacent to the Raven Crest unit train loading facility. We began construction on a new preparation plant and upgrades to our existing unit train load-out facility in the third quarter. Upon completion of this preparation plant which is expected in the third quarter of 2012, we will begin mining operations from the two fully-permitted underground mines on leases we obtained from Penn Virginia.

In January 2011, we acquired coal mineral leases in Greenbrier County West Virginia through our wholly owned subsidiary, South Fork Coal Company, LLC (“South Fork”). The acquisition included permits that were recently transferred to the Company by the West Virginia Department of Environmental Protection on the area known as Lost Flats. We expect that final approvals and permits will be received in a manner that will allow initial production to begin in December 2011.

In July 2011, through our wholly-owned subsidiary, Xinergy of Virginia, LLC, we acquired 100% of the membership interest of True Energy, LLC (“True Energy”) an active high volatility metallurgical surface mining operation in southwestern Virginia. The aggregate purchase price was \$20.1 million consisting of \$16.8 million in cash, a \$1.6 million note payable to the former members, and an additional \$2.0 million due upon the issuance of a pending surface mining permit which is expected to be received in December 2011. A National Instrument 43-101 entitled “An Independent National Instrument 43-101 Report Summarizing Mineral Exploration, Development and Production Activities of the Long Canyon Project Area, Wise County, Virginia” dated October 17, 2011 was filed on SEDAR at [www.sedar.com](http://www.sedar.com).

As of September 30, 2011, our mining complexes included five active mines in Kentucky, two active mines in West Virginia and one active mine in Virginia. We lease the mineral rights to approximately 77,000 acres of land, comprised of 37,000 acres in Kentucky, 39,000 acres in West Virginia and 1,000 acres in Virginia. In addition, we have one preparation plant and one unit train load-out facility in operation in Kentucky and one unit train load-out facility in operation in West Virginia.

Since our inception, substantially all of our revenues have resulted primarily from the sale of coal we produce to electric utility companies in the southeastern United States. For the third quarter of 2011, approximately 95% of our revenue was generated from coal sales to electric utility companies in the southeastern United States and our largest customers represented approximately 39%, 25% and 16% of our revenues, respectively.

Our results of operations greatly depend on the cost of coal production. Our primary expenses are wages and benefits, repair and maintenance expenditures, diesel fuel, blasting and related supplies, coal transportation costs, coal purchased from third parties, freight and handling costs, royalties and taxes incurred in selling coal. We expect that our exploration costs in the next few years will be relatively significant but those costs should decline as a percentage of revenues. Given that the coal mining business is capital intensive, we expect our depreciation expenses to continue to increase for the remainder of 2011 and beyond as we continually increase our capital expenditures for various surface and underground equipment as well as mine development related costs necessary to expand our business.

As of September 30, 2011, we controlled an aggregate of approximately 88.5 million tons of proven and probable coal reserves, of which we estimate 31% is mid-volatility and high-volatility metallurgical coal and 69% is thermal coal. Approximately 46.1 million tons of our reserves are permitted including 28.1 million tons of which are metallurgical.

#### **Highlights for the Quarter Ended September 30, 2011**

- Coal sales increased 29% to \$48.7 million from \$37.7 million in same quarter of 2010 on sales of 532,000 tons as compared to sales of 434,000 tons in same quarter of 2010.
- Adjusted EBITDA of \$12.2 million for the quarter as compared to \$11.2 million in same quarter of 2010.
- In July 2011, we acquired 100% of the membership interest of True Energy, an active high volatility metallurgical surface mining operation in southwestern Virginia. The aggregate purchase price was \$20.1 million consisting of \$16.8 million in cash, a \$1.6 million note payable to the former members, and an additional \$2.0 million due upon the issuance of a pending surface mining permit which is expected to be received in December 2011.

- In July 2011, we entered into a long term coal supply agreement with J.P. Morgan Ventures Energy Corporation for the delivery period beginning January 1, 2012 through December 31, 2014. The Agreement provides for the delivery of an aggregate 2.16 million tons of thermal coal or 720,000 tons per year from the company's Raven Crest / Brier Creek mines in West Virginia. The specifics of the agreement represent a minimum aggregate value of approximately \$170 million (or \$78.70 per ton) in revenue over the term with significant potential upside from index-based escalators and fuel cost adjustments.

## **Outlook**

### *Overview of Coal Production and Sales*

We continue to operate and develop our mines in an efficient, safe manner with consistent emphasis on maintaining strong margins and low costs. Our third quarter coal sales revenues of \$48.7 million were the highest of any quarter since the company has been a publically traded company. We are also making good progress towards producing coal from the recently acquired Brier Creek and South Fork mines in West Virginia. The Company has received two new mining permits at Brier Creek that are not operational yet and was recently notified that two permit transfers at South Fork have been approved. In addition, Raven Crest has received two new permits and an approved amendment on an existing permit.

In Kentucky, we have received permits for two new mines that are not operational yet and have amended six other permits that will allow additional areas to be mined.

The recently acquired high volatile metallurgical mine in Virginia, True Energy, is expected to receive another permit by the end of the year and is producing at an annual rate of 140,000 to 150,000 today. This mine is expected to increase to an annual run rate of 200,000 to 240,000 in the second quarter of 2012.

The Company continues to develop and strengthen relationships with existing and new customers as evidenced by the increase in committed sales for 2012 to 1.8 million tons at \$82.71 or \$146.1 million, 1.6 million tons in 2013 at \$80.50 or \$125.6 million and 1.2 million tons at \$82.15 or \$98.6 million in 2014. As of September 30, 2011, we have remaining in 2011 coal sales of 680,000 tons at an average sales price of \$95.60 per ton, which includes 30,000 tons of high-volatility metallurgical coal sales at \$118.50 per ton.

Our overall cash production cost increased approximately \$1.25 per ton to \$59.64 in the third quarter from the previous quarter. This was due to a decrease in production at our Raven Crest Operations, resulting from a permit amendment delay at our Boone North No. 2 surface mine. The amendment was recently issued by the West Virginia Department of Environmental Protection and production should resume to normal levels in the fourth quarter. Also, we made the decision to highwall mine some smaller coal beds that the previous operator left unmined. These smaller coals have resulted in a reduction of coal quality from the highwall miner production. The Company successfully began utilizing a portable wash plant in July that has resulted in improved coal qualities from this production.

On October 6, 2011 we provided a sales and operations update in a news release which is available on SEDAR at [www.sedar.com](http://www.sedar.com). As outlined in that update, we expect to produce and sell approximately 2.2 million to 2.4 million tons of coal in 2011, as compared to the previous range of 2.8 million to 3.0 million tons. This includes coal that will be produced from existing mining operations, recently acquired properties and coal purchased from third parties. The decrease is primarily driven by our desire to maintain strong margins, continue our efforts to maintain low costs and to refrain from selling tons into a market that we believe to be temporarily depressed. Another factor is due to a major customer's delay in shipments that we incurred in the first half of 2011. The customer temporarily idled a facility that was receiving coal from our Kentucky operations in February 2011. They re-opened that facility in May 2011 at which time we resumed shipments. As of September 30, 2011, the customer continues to receive our shipments but at a rate that has not allowed us to get our delivered tons to date to the level recognized under the terms of the contract.

We have also delayed the opening of two mines at our Straight Creek operations in Kentucky that were originally slated for production this year as well as maintained our production in West Virginia at levels necessary to ship only those tons currently under contract.

*Thermal Coal Production and Sales*

In 2011, we expect to produce, purchase and sell approximately 2.2 to 2.4 million tons from all mining operations as follows:

	<b>2011</b>	
	<b>Revised Guidance</b>	<b>Previous Guidance</b>
Kentucky	1.5--1.6 million tons	1.8 million tons
West Virginia	0.7--0.8 million tons	1.0 million tons
	<b>2.2--2.4 million tons</b>	<b>2.8 million tons</b>

In Kentucky, we have delayed the opening of one underground mine and one surface mine that were originally slated to open in 2011. We have been committed in our desire to put emphasis on maintaining strong margins and low costs while not selling tons into a depressed market. Therefore, we intend to open these mines, increasing production accordingly, when we feel markets conditions improve. The delay in opening these mines has impacted previous guidance by 200,000 to 300,000 tons in 2011. In addition, at September 30, 2011, we were approximately 125,000 tons behind schedule with a larger customer that temporarily idled a facility earlier in the year.

In West Virginia, we decided to maintain production at levels necessary to service existing coal supply agreements. This allows us to maximize our margins, maintain our lower production costs while retaining the ability to increase production in 2012 and beyond. Currently, we have committed 720,000 tons per year beginning in 2012 through 2014 from the Raven Crest and Brier Creek mines. Our estimated production and sales from our Raven Crest operations in 2011 will be 700,000 to 800,000 tons as compared to previous guidance of 1.0 million tons.

In each of 2012 and 2013, we expect to produce and sell 2.5 to 3.0 million tons from all thermal mining operations assuming market conditions allow us to maintain strong margins and low production costs. This includes the following:

	<b>2012-2013</b>	
	<b>Revised Guidance</b>	<b>Previous Guidance</b>
Kentucky	1.5--1.8 million tons	1.8--2.1 million tons
WV--Raven Crest	0.6--0.7 million tons	0.8--0.9 million tons
WV--Brier Creek	0.4--0.5 million tons	0.4--0.5 million tons
	<b>2.5--3.0 million tons</b>	<b>3.0--3.5 million tons</b>

We have begun site preparation work and construction on the coal preparation plant and upgrades to the loading facility at Raven Crest and the recently acquired Brier Creek underground property in West Virginia. Two underground mines are permitted, faced-up with some support facilities, mining equipment and infrastructure in place. Production from these underground mines is expected to begin in late 2011 or early 2012 and slowly increase to 40,000 to 50,000 tons per month when the preparation plant becomes fully operational in third quarter of 2012.

We anticipate that our cash production costs will be \$58 to \$60 per ton for the remainder of 2011. For 2012 and 2013, we anticipate our cash production costs to be in the range of \$58 to \$62 per ton for our Raven Crest and Kentucky surface mines. We estimate that our cash production cost for the Brier Creek underground mines to be \$68 to \$72 per ton for 2012 and 2013. These slight increases are being driven by anticipated higher regulatory related costs that could impact production as well as possible higher labor related costs.

*Metallurgical Coal Production and Sales*

In 2012 and 2013, we expect to produce, purchase and sell approximately 0.5 to 1.0 million tons from our metallurgical mining operations as follows:

	<b>2012-2013</b>	
	<b>Revised Guidance</b>	<b>Previous Guidance</b>
WV--South Fork	300,000--750,000 tons	1.0--1.2 million tons
VA--True Energy	200,000--250,000 tons	200,000--300,000 tons
	0.5--1.0 million tons	1.2--1.5 million tons

In January 2011, we acquired a high quality, mid-volatility metallurgical coal reserve located in Greenbrier County, West Virginia through our wholly owned subsidiary, South Fork. The Company was recently notified that the transfer of permits from the previous holders has been approved. We expect to receive approval from the West Virginia Department of Environmental Protection soon which will allow us to begin mining on a portion of the property referred to as Lost Flats by December 2011. We expect initial production at a run rate of 10,000 to 20,000 tons per month, increasing to 50,000 to 60,000 tons per month in the second or third quarter of 2012. The production increases are contingent upon receipt of all necessary mining related permits and other essential permits for the construction of a loading facility and rehabilitation of the rail line.

To date, our cash production costs for the recently acquired high-vol met property, True Energy, have been approximately \$72 per ton. We would expect cash costs to be between \$75 and \$80 per ton in 2012 and 2013, primarily due to higher royalty and coal tax related costs expected due to anticipated higher sales prices than we are receiving at this time.

At our South Fork mid-vol metallurgical property in Greenbrier County West Virginia, we continue to expect our cash costs to be between \$95 and \$100 per ton on the surface operations.

*Estimated Capital Expenditures*

In West Virginia, the Company is currently developing the Brier Creek underground mines, constructing a preparation plant and various upgrades to its loading facility as well as initiating development on its South Fork properties. To date, we have incurred approximately \$4.5 million in capital expenditures for Brier Creek and less than \$500,000 at South Fork. Below is the Company's current estimate of capital expenditures remaining for 2011 and 2012. The majority of the Brier Creek and South Fork capital expenditures will be incurred in the first half of 2012. We anticipate all of the True Energy capital expenditures in 2012 will be incurred in the first quarter. The estimated capital expenditures in 2012 for Straight Creek and Raven Crest are expected to be incurred evenly throughout the year.



## **Financial Overview**

The following tables present selected balance sheet, statement of operations and sales and operating statistics for Xenergy.

(\$'000)	<b>As of September 30 2011</b>	<b>As of June 30 2011</b>	<b>As of March 31 2011</b>	<b>As of December 31 2010</b>
<b>Balance Sheet</b>				
Cash and cash equivalents	\$ 94,441	\$ 145,592	\$ 17,192	\$ 17,029
Total current assets	123,953	171,196	41,334	47,442
Total assets	285,523	295,525	162,156	153,234
Total current liabilities	36,614	36,751	38,446	28,659
Total long-term liabilities	220,145	218,611	81,084	75,449
Shareholders' equity	28,763	40,163	42,626	49,126

(\$'000, except per share)	<b>2011</b>			<b>2010</b>
	<b>Three months ended September 30</b>	<b>Three months ended June 30</b>	<b>Nine months ended September 30</b>	<b>Three months ended September 30</b>

### **Statement of Operations**

Coal revenues	\$ 48,652	\$ 40,637	\$ 132,340	\$ 37,724
Cost of coal sales	32,527	29,954	97,548	23,479
Gross margin	16,125	10,683	34,792	14,245
Income (loss) before taxes	4,618	(5,289)	(13,516)	4,786
Net income (loss)	5,409	(2,817)	(7,660)	1,667
Basic net income (loss) per share	0.10	(0.05)	(0.14)	0.03
Diluted net income (loss) per share	0.09	(0.05)	(0.14)	0.03

	<b>2011</b>			<b>2011</b>
	<b>Three months ended September 30</b>	<b>Three months ended June 30</b>	<b>Three months ended March 31</b>	<b>Nine months ended September 30</b>
<b>Sales &amp; Operating Statistics</b>				
Tons sold	531,724	510,381	553,485	1,595,590
Tons produced	525,129	513,866	465,620	1,504,615
Sales price/ton	\$91.50	\$79.62	\$77.78	\$82.94
COGS/ton sold	\$61.17	\$58.69	\$63.36	\$61.14
Gross margin/ton sold	\$30.33	\$20.93	\$14.42	\$21.80
Cash costs/ton produced	\$59.64	\$58.39	\$61.18	\$59.69

The following table presents selected coal production and sales data by region for the three months ended September 30, 2011.

	<b>Three months ended September 30, 2011</b>			
	<b>Kentucky</b>	<b>West Virginia</b>	<b>Virginia</b>	<b>Total</b>
Tons sold	358,420	154,787	18,517	531,724
Tons produced	321,914	179,647	23,568	525,129
Sale price/ton	\$90.00	\$91.88	\$117.28	\$91.50
COGS/ton sold	\$62.27	\$57.57	\$ 69.95	\$61.17
Gross margin/ton sold	\$27.73	\$34.31	\$ 47.33	\$30.33
Cash costs/ton produced	\$61.20	\$55.15	\$ 72.55	\$59.64
Total cash costs	\$19,700,830	\$9,908,289	\$1,709,739	\$31,318,858

## Results of operations

The following table presents consolidated statement of operations data as a percentage of revenues for each of the periods indicated:

	<b>For the three months ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Coal revenue	100.00	100.00
Cost of coal sales	66.9	62.2
General and administrative expenses	9.2	9.2
Amortization of above market coal supply agreement	4.9	8.9
Depreciation, depletion and amortization	15.3	12.6
Operating income	3.7	7.1
Other income (expense):		
Finance income	0.1	-
Finance cost	(10.8)	(5.4)
Unrealized gain on derivative financial instrument	14.3	5.5
Gain on business acquisition	2.4	-
Gain on sale of subsidiary	-	5.7
Other (expense) income	(0.2)	(0.1)
Net other income	5.8	5.6
<b>(Loss) income before income taxes</b>	<b>9.5</b>	<b>12.7</b>
Income tax benefit	1.6	(8.3)
<b>Net (loss) income</b>	<b>11.1</b>	<b>4.4</b>

Our net income for the third quarter of 2011 was \$5.4 million, as compared to \$1.7 million for the third quarter of 2010. The increase was primarily due to an increase in the non-cash unrealized gain associated with our outstanding share purchase warrants resulting from volatility in the closing stock price throughout the third quarter of 2011. Our closing share price fluctuated between \$2.94 and \$4.96 throughout the quarter. The increase in gross margin is due to the lower operating costs at our Kentucky mines and the addition of our Raven Crest property that was acquired in April 2010. The Raven Crest operations had margins in excess of \$47 per ton in the third quarter of 2011. Operating income for the third quarter 2011 decreased to \$1.8 million from \$2.7 million in the third quarter of 2010; however, operating income included non-cash depreciation, depletion and amortization expense of \$9.8 million for the third quarter of 2011 as compared to \$8.1 million for the third quarter of 2010.

### Comparison of three months ended September 30, 2011 and 2010

*Revenues.* Our coal revenues increased to \$48.7 million for the third quarter 2011 up from \$37.7 million for the third quarter 2010, an increase of \$11.0 million or 29% as compared to the prior period. The increase in revenues is the result of increased sales volumes at our Kentucky operations, the addition of True Energy in Virginia commencing in July 2011 and the overall increase in sales price per ton in the third quarter of 2011 as compared to the same quarter in 2010.

The following table shows comparative detail regarding coal sales volumes:

Coal sales volumes:	For the three months ended September 30,	
	2011	2010
	(In tons)	
Coal sales .....	531,724	434,321
Sales by operation:		
Straight Creek (Kentucky) .....	358,420	240,743
Raven Crest (West Virginia).....	154,787	193,578
True Energy (Virginia).....	18,517	N/A

Coal sales volume for the third quarter 2011 was 0.5 million tons, a 22% increase from 0.4 million tons sold for the third quarter 2010. The increase in sales volume was primarily the result of increased production from our Kentucky operations and the addition of our Virginia operations commencing in July 2011.

The following table shows comparative detail regarding sales prices per ton:

Sales prices per ton by operation:	For the three months ended September 30,	
	2011	2010
Straight Creek (Kentucky) .....	\$ 90.00	\$ 83.74
Raven Crest (West Virginia).....	\$ 91.88	\$ 90.73
True Energy (Virginia) .....	\$ 117.28	N/A
Average sales price .....	\$ 91.50	\$ 86.86

Our average sale price per ton was \$91.50 for the third quarter 2011 as compared to \$86.86 for the third quarter 2010. The 5% increase for the third quarter 2011 as compared to the third quarter 2010 was due primarily to the increase in shipments to one customer in Kentucky in the third quarter of 2011 and the addition of the True Energy operations in the quarter.

*Cost of coal sales.* Cost of coal sales consists primarily of direct mining costs associated with the production and sale of coal including salaries and benefits, blasting, fuel, repairs and maintenance, processing and indirect mining costs including hauling costs, royalties and coal related taxes. The total cost of coal sales was \$32.5 million for the third quarter 2011 as compared to \$23.5 million for the third quarter 2010, an increase of \$9.0 million, or 39%, which was attributable to increased production at the Kentucky operations in the third quarter 2011 as compared to the third quarter 2010. Our cash cost per ton produced, which we calculate as cost of sales plus or minus change in inventory and third party purchases, divided by tons produced, increased by \$8.32 for the third quarter 2011 as compared to the third quarter of 2010. This increase was primarily being driven by the increase in certain costs associated with production at the Kentucky surface mines including labor, fuel, blasting and related supplies, coal handling and preparation.

The following table shows comparative costs of sales data:

Costs of coal sales data:	For the three months ended September 30,	
	2011	2010
Sale price/ton .....	\$ 91.50	\$ 86.86
COGS/ton sold.....	\$ 61.17	\$ 54.06
Gross margin/ton sold.....	\$ 30.33	\$ 32.80
Cash costs/ton produced .....	\$ 59.64	\$ 51.32
Total cash costs.....	\$ 31,318,858	\$ 21,723,294

*General and administrative expenses.* Our general and administrative expenses were \$4.5 million for the third quarter 2011 compared to \$3.5 million for the third quarter 2010. This increase of \$1.0 million, or 29%, is primarily the result of an increase in the executive and operating management teams, support staff, and professional fees, as well as an increase in other expenses due to the substantial growth in our operations in 2010 and 2011.

*Amortization of above market coal supply agreement.* Amortization of above market coal supply agreement for the third quarter 2011 was \$2.4 million compared to \$3.4 million for the third quarter of 2010 which was the result of the purchase of an above market coal supply agreement associated with the Raven Crest operations acquired in April 2010. This contract which is being amortized on a per ton basis for coal shipped in accordance with the agreement will continue until the expiration of the coal supply agreement in December 2011.

*Depreciation, depletion and amortization.* Depreciation, depletion, and amortization expenses for the third quarter 2011 were \$7.4 million as compared to \$4.8 million for the third quarter of 2010, an increase of \$2.6 million, or 56%. This increase was primarily driven by approximately \$30 million in capital expenditures to date for 2011. These capital expenses are generally depreciated or amortized over depreciable lives of 2 to 7 years.

*Change in fair value on derivative financial instrument.* Our gain on the fair value movement on derivative financial instrument for the third quarter 2011 was \$7.0 million as compared to \$2.1 million for the third quarter 2010, an increase of 238%. This non-cash increase was due to the change in the fair value of our share purchase warrants resulting from volatility in the closing stock price throughout the third quarter of 2011 in conjunction with the converting of our financial statements to satisfy IFRS reporting requirements versus previous reporting requirements as outlined by Canadian Generally Accepted Accounting Principal guidelines.

*Finance income (cost).* Finance cost was \$5.3 million for the third quarter 2011 compared to \$2.1 million for the third quarter 2010. The increase was due to the additional interest expenses associated with the issuance of our \$200 million senior secured notes at 9.25% due May 15, 2019 partially offsetting the increase was a gain of \$0.3 million on the repurchase of \$2.0 million of our \$200 million senior secured notes.

*Income taxes.* Our income tax benefit for the third quarter 2011 was \$0.8 million compared to income tax expense of \$3.2 million for the third quarter 2010. This was due to excluding the gain on the fair value movement on derivative financial instruments.

## **Liquidity and capital resources**

*General.* Our primary uses of cash have been operating expenses associated with our coal production, capital expenditures, debt service, acquisitions, share repurchases, general and administrative expenses and the funding and performance of reclamation obligations. Our primary sources of liquidity have been revenues generated from sales of our produced coal, cash on hand and proceeds from the sale of debt and equity securities.

In May 2011, we issued \$200.0 million in senior secured notes at 9.25%, due May 15, 2019. Interest payments are required semi-annually beginning November 2011. We may redeem the notes, in whole or in part, at any time on or after May 15, 2015 at redemption prices ranging from 104.625% beginning May 15, 2015 to 100% beginning on May 15, 2018. We used the net proceeds from the offering to repay our existing 9.75% senior secured notes due 2015, including prepayment penalties of 10% of the principal amount being repaid. The remaining funds are being used for development of our recently acquired properties in West Virginia and Virginia including the construction of a preparation plant, the purchase of underground mining equipment along with support equipment as well as necessary infrastructure development at the recently acquired Brier Creek underground mining property in West Virginia, the construction of a rail siding and loading facility and surface mining equipment at the recently acquired Greenbrier County, West Virginia metallurgical property, surface equipment at the True Energy operation and for general corporate purposes. In September, we acquired and retired \$2.0 million our senior secured notes payable and recognized a gain on the retirement of this debt.

As a regular part of our business model, we review opportunities for the acquisition of coal mining properties, coal reserves and other assets that we believe will give us the ability to continue to develop existing properties and maintain low costs as well as create stakeholder value. When we find opportunities that are consistent with our growth plans and acquisition criteria, we enter into discussions and negotiations, and at times make bids or proposals and enter into letters of intent or other similar agreements. The discussions, negotiations, bids, proposals, and agreements are customarily subject to conditions that allow us to terminate them if, among other things, we are not satisfied with our due diligence investigations. Any acquisition opportunities we pursue could materially affect our liquidity and capital resources and may require us to incur indebtedness, seek equity capital or both.

We believe that our existing cash flow from operations and the net proceeds from the recent debt offering will be sufficient to fund ongoing working capital requirements and provide the capital necessary to fund development and operations at our recently acquired metallurgical coal property in West Virginia. We expect that 2011 coal production and coal inventory from existing thermal operations in Kentucky and West Virginia and the high-vol met mine in Virginia will be sufficient to meet customer requirements for 2011.

We manage our exposure to changing commodity prices for our non-trading, long-term coal contract portfolio through the use of long-term coal supply agreements. We enter into fixed price, fixed volume supply contracts with terms greater than one year with customers with whom we have historically had limited collection issues. Our ability to satisfy debt service obligations, to fund planned capital expenditures, and to make acquisitions will depend on our future operating performance, which will be affected by prevailing economic conditions in the coal industry and financial, business and other factors, some of which are beyond our control. We also enter into term commitments for diesel fuel to reduce the effects of volatility in prices and to allow us to fix a portion of one of the company's major mining related costs.

We had operating cash of \$94.4 million at September 30, 2011, as compared to \$17.0 million at December 31, 2010. This increase is primarily due to the cash on hand remaining from the recent debt offering.

*Operating activities.* Cash provided by operating activities for the nine months ended September 30, 2011 was \$16.3 million, compared to cash provided by operating activities of \$9.2 million for the nine months ended September 30, 2010. The primary items that are increasing cash provided by operating activities are depreciation, amortization of the coal supply agreement, early redemption penalties paid when the previous Raven Crest acquisition debt and accrued interest payable which has increased due to the additional debt placement in May of 2011. These increases are primarily offset by the gain on sale of Elk Horn Coal of \$11.0 million, the unrealized gain on the derivative financial instrument and various changes in current assets and liabilities.

*Investing activities.* Cash used in investing activities for the nine months ended September 30, 2011 decreased to \$43.8 million from \$50.8 million for the nine months ended September 30, 2010. This decrease was directly related to the acquisition of Raven Crest during the second quarter 2010 offset by the True Energy acquisition in July 2011, \$30.0 million in purchases of property and equipment in 2011 and the increase in restricted cash due to a cash deposit to collateralize the coal supply agreement with J. P. Morgan that we begin servicing in 2012. The Company will begin to reduce this cash deposit at a minimum rate of \$1.0 million per quarter beginning in the first quarter of 2012.

*Financing activities.* Cash provided by financing activities increased to \$104.9 million for the nine months ended September 30, 2011 up from \$57.7 million for the nine months ended September 30, 2010. The increase was due to the issuance of our \$200.0 million in senior secured notes at 9.25%, due May 15, 2019, offset by repayment of our senior secured notes at 9.75% due 2015 as well as stock purchases pursuant to the normal course issuer bid.

*Capital expenditures.* Capital expenditures for the nine months ended September 30, 2011 were approximately \$30.0 million as compared to \$13.1 million for the nine months ended September 30, 2010. Our capital expenditures for the nine months ended September 30, 2011 were for mining production equipment, including a high wall miner, haul trucks, dozers, loaders and drills.

<b>Capital expenditure by operation:</b>	(\$'000)	<b>For the nine months ended September 30, 2011</b>	<b>For the three months ended September 30, 2011</b>
Straight Creek .....	\$	22,342	\$ 7,452
Raven Crest.....		4,735	848
Brier Creek.....		4,542	2,088
South Fork.....		453	92
True Energy .....		50	50

We anticipate investing approximately \$35.0 to \$40.0 million to develop our recently acquired metallurgical mining property in West Virginia, including approximately \$8.0 million for the construction of a rail siding and coal loading facility, \$1.0 to \$2.0 million for the refurbishing of approximately seven miles of rail line and up to \$30.0 million for the purchase of two spreads of surface mining equipment including production equipment similar to Caterpillar 992 type loaders, Caterpillar 777 type haul trucks, Caterpillar D-11 type dozers and various support equipment. We also expect to invest approximately \$40.0 million to develop our recently acquired Brier Creek thermal coal reserve including \$20.0 to \$25.0 million for the construction of a new preparation plant to enlarge the existing rail loading facility at Raven Crest and up to \$20.0 million to purchase underground mining equipment.

## EBITDA and Adjusted EBITDA

EBITDA is defined as net income (loss) plus (i) interest expense and (ii) depreciation, depletion, accretion and amortization, minus (iii) interest income (iv) future income tax benefit (expense) (v) fair value movement on derivative financial liability – warrants and (vi) stock-based compensation expense. We define Adjusted EBITDA as EBITDA plus or minus non-recurring gains or losses.

EBITDA and Adjusted EBITDA are not required by, or presented in accordance with, IFRS. EBITDA and Adjusted EBITDA are not measurements of our financial performance or financial position under IFRS and should not be considered as alternatives to total revenues, net income (loss) or any other performance measures derived in accordance with IFRS or as alternatives to cash flow from operating activities as measures of our liquidity. We present EBITDA and Adjusted EBITDA because we consider them important supplemental measures of our performance and believe EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties in the evaluation of high yield issuers, many of which present EBITDA and Adjusted EBITDA when reporting their operating results.

Management uses EBITDA and Adjusted EBITDA as internal measures of operating performance, to establish operational goals, to allocate resources and to analyze business trends and financial performance. EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS.

	<b>2011</b>			<b>2010</b>
	<b>Three months ended September 30</b>	<b>Three months ended June 30</b>	<b>Nine months ended September 30</b>	<b>Three months ended September 30</b>
Net income (loss)	\$ 5,408,935	\$ (2,817,396)	\$(7,659,786)	\$ 1,666,804
Finance cost	\$ 5,264,997	\$ 15,439,405	\$ 23,067,391	\$ 2,052,510
Depreciation, depletion amortization and accretion	\$ 7,440,036	\$ 6,466,303	\$ 20,064,983	\$ 4,769,090
Amortization of above market coal supply agreement	\$ 2,397,581	\$ 3,085,100	\$ 8,816,370	\$ 3,353,493
Income tax (benefit) expense	\$ (790,997)	\$ (2,471,703)	\$ (5,856,531)	\$ 3,119,601
Finance income	\$ (30,581)	\$ (20,169)	\$ (64,739)	\$ –
Fair value movement on derivative financial liability - warrants	\$ (6,962,325)	\$ (1,922,207)	\$ (3,581,243)	\$ (2,061,112)
Stock based compensation	\$ 392,988	\$ 332,547	\$ 1,098,865	\$ 461,406
<b>EBITDA</b>	<b>\$ 13,120,634</b>	<b>\$ 18,091,880</b>	<b>\$ 35,885,310</b>	<b>\$ 13,361,792</b>
Non-recurring gain on sale of investment	\$ –	\$ (11,025,505)	\$(11,025,505)	\$ –
Non-recurring gain on sale of subsidiary	\$ –	\$ –	\$ –	\$ (2,141,069)
Non-recurring acquisition costs	\$ 201,340	\$ –	\$ 201,340	\$
Non-recurring gain on acquisition	\$ (1,164,648)	\$ –	\$ (1,164,648)	\$ –
<b>Adjusted EBITDA</b>	<b>\$ 12,157,326</b>	<b>\$ 7,066,375</b>	<b>\$ 23,896,497</b>	<b>\$ 11,220,723</b>

## Summary of Quarterly Results

As reported under IFRS		
2011		
Q3	Q2	Q1

Tons Produced	525	514	466
Tons Sold	532	510	553
Sales price/ton	\$91.50	\$79.62	\$77.78
COGS/ton	\$61.17	\$58.69	\$63.36
Cash costs/ton produced	\$59.64	\$58.39	\$61.18
Revenue	\$48.65	\$40.64	\$43.05
Net income (loss)	\$ 5.41	(\$ 2.82)	(\$10.25)
Basic net income (loss) common shares and common non-voting shares	\$ 0.10	(\$ 0.05)	(\$ 0.18)
Diluted net income (loss) common shares and common non-voting shares	\$ 0.09	(\$ 0.05)	(\$ 0.18)

As reported under IFRS					As reported, under Canadian GAAP
2010					2009
Q4	Q3	Q2	Q1	Q4	

Tons Produced	419	423	338	152	118
Tons Sold	436	434	292	116	112
Sales price/ton	\$87.28	\$86.86	\$86.20	\$67.49	\$78.18
COGS/ton	\$57.78	\$54.06	\$63.61	\$65.72	\$62.43
Cash costs/ton produced	\$55.23	\$51.32	\$49.94	\$62.09	\$63.67
Revenue	\$38.08	\$37.72	\$25.18	\$ 7.86	\$ 8.80
Net Income (loss)	(\$ 2.52)	\$ 1.67	\$ 3.85	(\$ 5.07)	(\$ 6.10)
Basic net income (loss) per common shares and common non-voting shares	(\$ 0.05)	\$ 0.03	\$ 0.07	(\$ 0.09)	(\$ 0.17)
Diluted net income (loss) per common shares and common non-voting shares	(\$ 0.05)	\$ 0.03	\$ 0.07	(\$ 0.09)	(\$ 0.17)

## Outstanding Share Data

The Company has authorized an unlimited number of common shares at no par value and an unlimited number of common non-voting shares. As of September 30, 2011, the Company has issued 39,767,534 common shares and as of December 31, 2010 there were 37,125,825 common shares outstanding. The Company has issued 14,467,541 common non-voting shares as of September 30, 2011, with an allocated share capital amount of \$13.9 million. The common and outstanding non-voting shares are divided into Series A, Series B and Series C common non-voting shares. The common non-voting shares are convertible into common shares on the basis of one common share for one common non-voting share at the option of the holder without the payment of additional consideration. In May 2011, 5,000,000 common non-voting shares were converted to common shares. On June 21, 2011 all common non-voting shares became available to convert to common shares.

The holders of common shares are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

On June 24, 2011, the Board of Directors authorized the Company to purchase up to \$17.6 million of its securities in the open market pursuant to a normal course issuer bid, which has been completed. All common shares and warrants purchased under this bid will be cancelled. During July 2011, the Company purchased and cancelled 3,297,572 common shares for Cdn\$15.8 million and purchased and cancelled 945,516 of the warrants that were exercisable until December 2011 for Cdn\$0.9 million.

	<b>Number of Shares Voting and Non-Voting</b>	<b>Share Capital Amount</b>
Balance at December 31, 2010	56,593,366	\$ 65,628,739
Issuance of shares for exercise of warrants	768,964	3,284,348
Issuance of shares for exercise of options	170,317	239,238
Purchases pursuant to normal course issuer bid	(3,297,572)	(17,229,745)
Balance at September 30, 2011	<u>54,235,075</u>	<u>\$ 51,922,580</u>

## Share Based Payments

The Company has a Stock Incentive Plan under which, among other things, non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or service providers of the Company or any of its subsidiaries. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria. In accordance with these programs, options are exercisable at the market price of the shares at the grant date.

Under this Stock Incentive Plan options may have a term of up to ten years and are subject to vesting periods determined by the Board of Directors.

During 2010, the Company issued stock options pursuant to the Stock Incentive Plan (and pre-existing plans) as follows: in January 2010, options were granted to purchase 400,000 common shares with an exercise price of \$3.10 per share and options were granted to purchase 120,000 common shares with an exercise price of \$3.62 per share; in May 2010, options were granted to purchase 115,000 common shares with an exercise price of \$2.71 per share; in September 2010, options were granted to purchase 200,000 common shares with an exercise price of \$1.65 per share; in November 2010, options were granted to the three independent directors to purchase 150,000 common shares with an exercise price of \$2.39 per share, to the other officers to purchase 540,000 common shares with an exercise price of \$2.39 per share and to employees to purchase 194,500 common shares with an exercise price of \$2.39 per share; in December 2010, options were granted to purchase 32,500 common shares with an exercise price of \$2.56 per share. The weighted average grant-date fair value of options granted during 2010 was \$2.58 per share.

During June 2011, the Company issued 100,000 stock options to the Company's Vice-Chairman in connection with entering into an employment agreement and 50,000 stock options to the Vice President of Mining Operations, South, pursuant to its Stock Incentive Plan with an exercise price of \$4.21 per share. The grant-date fair value of options granted during June 2011 was \$2.32 per share.

During August 2011, the Company issued 40,000 stock options to its newly appointed independent director with an exercise price of \$3.63 per share. The grant-date fair value of options granted during August 2011 was \$1.97 per share.

Details of the stock options outstanding are as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at January 1, 2010	4,385,658	\$1.19
Granted	1,752,000	2.58
Forfeited	(11,736)	0.60
Exercised	<u>(292,226)</u>	0.71
Outstanding at December 31, 2010	5,833,696	1.63
Granted	190,000	4.09
Forfeited	(123,481)	1.81
Exercised	<u>(170,317)</u>	0.84
Outstanding at September 30, 2011	<u>5,729,898</u>	\$1.76

Of the stock options outstanding at September 30, 2011, 2,316,865 options expire in 2018, 1,555,408 options expire in 2019, 1,667,625 options expire in 2020, and 190,000 options expire in 2021. Details of the stock options exercisable at September 30, 2011 are as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
	3,797,129	\$1.79
	4,518	Cdn1.99
	<u>3,801,647</u>	<u>\$1.79</u>

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

Expected term (years).....	2.00	–	10.00
Risk-free interest rates.....	0.32%	–	3.82%
Expected / weighted-average volatility .....	40.49%	–	65.93%

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

Total share-based compensation expense for the three and nine months ended September 30, 2011 was \$0.4 million and \$1.1 million, respectively, and for the three and nine months ended September 30, 2010 was \$0.4 million and on \$1.3 million, respectively.

## Share Purchase Warrants

As at September 30, 2011, the Company had outstanding common share purchase warrants to purchase 8,938,798 common shares of the Company at a price of Cdn\$4.20 per share until December 2011, and common share purchase warrants to purchase 3,000,000 common shares at a price of Cdn\$4.20 per share until December 31, 2012. In order to determine the valuation of its common share purchase warrants, the Company used the Black-Scholes pricing model.

	<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Balance at January 1, 2010	12,629,203		
Exercised during first quarter 2010	(1,975,925)	\$0.96	
Issued for Marret note payable	<u>3,000,000</u>	Cdn\$4.20	December 2012
Balance at December 31, 2010	13,653,278		
Purchased pursuant to normal course issuer bid	(945,516)	Cdn\$4.20	December 2011
Exercised during 2011	<u>(768,964)</u>	Cdn\$4.20	December 2011
Balance at September 30, 2011	<u>11,938,798</u>		

## Credit risk

Credit risk arises from the potential that a customer or counterparty will fail to perform its obligations. Our exposure to credit risk exists primarily related to our trade accounts receivable. While economic factors can affect credit risk, we manage risk by providing credit terms on a case by case basis. Our customers are primarily investment grade companies and quasi-governmental agencies. We previously made periodic advances to certain contract miners; however, this practice has since been terminated. During 2009, we ceased operations with certain contract miners with whom we had advanced monies and recognized credit losses of \$2.6 million. Our cash and certificates of deposit are on deposit with quality financial institutions and such deposits are subject to insurance by the Federal Deposit Insurance Corporation, an independent agency of the United States of America, and the Canada Deposit Insurance Corporation, a federal Crown corporation created by Canadian Parliament. Our maximum credit risk exposure at September 30, 2011 is approximately \$124.3 million and is equal to the carrying amount of all cash, restricted cash and trade accounts receivable as listed on the accompanying consolidated balance sheet.

## Market risk

Market risk includes interest rate risk and pricing risk. Our interest rate risk primarily relates to our interest bearing debt. As our debt has fixed interest rates, we have minimized our exposure to cash flow interest rate risk.

Our price risk primarily relates to significant fluctuations in coal sales prices which is caused by many factors outside of our control. We minimize our price risk by entering into long-term sales contracts with customers which fix the price of coal sold.

## Liquidity risk

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

We have sustained losses since operations commenced in 2008 and have financed these losses mainly through a combination of equity and debt offerings. As a result of the RTO and equity issuance in December 2009, we have significantly increased our cash balances, reduced our outstanding debt and increased our shareholders' equity. Subsequently in 2010 we incurred debt to finance a business acquisition. Management believes that we have sufficient resources to meet all of our obligations in 2011.

## Foreign currency

All of our transactions are denominated in U.S. dollars, and as a result, we do not have material exposure to currency exchange rate risk.

## Contractual obligations

Description	Less than 1 year	2 – 3 Years	Thereafter	Total
Accounts payable and accrued expenses	\$ 16,039,141	\$ –	\$ –	\$ 16,039,141
Accrued interest payable	7,450,685	–	–	7,450,685
Notes payable	7,308,846	7,892,131	198,875,281	214,076,258
Leases	196,920	109,192	–	306,112
	<u>\$ 30,995,592</u>	<u>\$ 8,001,323</u>	<u>\$ 198,875,281</u>	<u>\$ 237,872,196</u>

## Customer concentration

Our three largest customers individually accounted for approximately 39%, 25% and 16% of our revenues during the third quarter of 2011, and approximately 54%, 25% and 7% of our revenues for the third quarter of 2010.

Trade accounts receivable consists primarily of contractual receivables from coal sales to our customers, which are nationally recognized public utilities and industrial companies, as is typical in the industry. Two customers accounted for approximately 40% and 23% of trade accounts receivable as of September 30, 2011. Two customers accounted for approximately 49% and 15% of trade accounts receivable as of December 31, 2010. It is our policy not to require collateral on trade accounts receivable. Accounts are charged to bad debt expense as they are determined to be uncollectible based upon a review of aging and collections. Credit losses from coal sales, when realized, have been in the range of our expectations and, historically, have not been significant.

## Debt obligations

The following table summarizes our long-term debt obligations, excluding capital leases, as of the dates indicated:

	As of September 30, 2011	As of December 31, 2010
9.25% senior secured notes due 2019.....	\$ 198,000,000	\$ –
9.75% senior secured notes due 2015, net of unamortized discount of \$2,884,624 .....	–	67,115,376
Equipment, vehicle, and other notes payable.....	16,076,258	13,218,501
Total notes payable, net of unamortized discount.....	214,076,258	80,333,877
Less current portion of notes payable .....	7,308,846	12,736,702
Long-term portion of notes payable, net of unamortized discount .....	<u>\$ 206,767,412</u>	<u>\$ 67,597,175</u>

## \$200 million Senior secured notes due 2019

In May 2011, the Company issued \$200.0 million in senior secured notes at 9.25%, due May 15, 2019. Interest payments are required semi-annually beginning in November 2011. The Company may redeem the notes, in whole or in part, at any time on or after May 15, 2015 at redemption prices ranging from 104.625% beginning May 15, 2015 to 100% beginning on May 15, 2018. The Company used the net proceeds from the offering to repay its previous 9.75% senior secured notes due 2015, including prepayment penalties of 10% of the principal amount being repaid. The remaining funds will be used for (i) the construction of a preparation plant, the purchase of underground mining equipment along with support equipment as well as necessary infrastructure development at Brier Creek underground mining property in West Virginia, (ii) the construction of a rail siding and loading facility and surface mining equipment at the recently acquired Greenbrier County West Virginia metallurgical property (iii) the acquisition of True Energy, LLC and (iv) general corporate purposes.

The Company paid \$6.8 million of fees in connection with the financing, which were capitalized as deferred financing costs. In addition, the Company incurred \$6.5 million in prepayment penalties on its senior secured notes due 2015 and incurred costs of \$2.4 million to write off deferred financing costs and \$2.7 million to write-off the unamortized original issuance discount associated with its senior secured notes due 2015. During September 2011, the Company acquired and retired \$2.0 million of its senior secured notes payable, and as a result, recognized a gain of \$0.3 million on the retirement of its debt which was offset by \$66,103 to write off deferred financing costs.

**Equipment, vehicle, and other notes payable**

As of September 30, 2011 and December 31, 2010 the Company had numerous equipment and vehicle notes totaling \$16.1 million and \$13.2 million, respectively. These notes bear interest at fixed rates ranging from 4.16% to 9.60% and are due in various monthly payments through July 2016. All of the equipment and vehicle notes are collateralized by the related equipment and vehicle purchased.

*Scheduled maturities of notes payable.*

Aggregate annual future maturities of notes payable as of September 30, 2011 are as follows:

October 1, 2011 to September 30, 2012.....	\$7,308,846
October 1, 2012 to September 30, 2013.....	4,930,531
October 1, 2013 to September 30, 2014.....	2,961,600
October 1, 2014 to September 30, 2015.....	556,447
October 1, 2015 to September 30, 2016.....	318,834
October 1, 2016 to September 30, 2017.....	–
October 1, 2017 to September 30, 2018.....	–
October 1, 2018 to September 30, 2019.....	198,000,000
Total notes payable .....	<u>\$214,076,258</u>

*Derivatives.*

We have not entered into any derivative hedging actives since our incorporation.

*Off Balance Sheet Arrangements.*

The Company has no off balance sheet arrangements.

*Related Party Transactions.*

The Company has no related party transactions.

**Critical accounting estimates**

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in conformity with IFRS requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to computing depreciation, depletion, amortization, accretion, reclamation liability, asset impairment, valuation of non-cash transactions, and recovery of receivables. Estimates are then based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our use of estimates, however, is limited, as we have adequate time to process and record actual results from operations.

We believe our most critical accounting policies include revenue recognition, the corresponding accounts receivable and the methods of estimating depletion and reclamation expense of actual mining operations in relation to estimated total mineable tonnage on our properties. We believe the following accounting policies affect our more significant judgments and estimates used in preparation of our consolidated financial statements.

In the normal course of business, the Company is also involved in various lawsuits, claims and other legal matters. The Company is of the opinion that the outcome of such lawsuits, claims and other legal matters will not have a material impact on the Company's future financial position, results of operations or cash flows.

*Revenue recognition.* We recognize revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller's price to the buyer is fixed or determinable, and (4) collectability is reasonably assured. In the case of coal we mine and sell, we negotiate a specific sales contract with each customer, which includes a fixed price per ton, a delivery schedule, and terms for payment. We recognize revenue from sales made pursuant to these contracts at the time of possession of our coal legally transfers from us to our customer which generally occurs at the time of shipment.

*Accounts receivable.* Accounts receivable balances are evaluated on a continual basis and allowances, if any, are provided for potentially uncollectible accounts based on management's estimate of the collectability of customer accounts. If the financial condition of a customer were to deteriorate, resulting in an impairment of our ability to make payments, an additional allowance may be required. Allowance adjustments, if any, are charged to operations in the period in which the facts that give rise to the adjustments become known. It is our policy not to require collateral on trade accounts receivable. Credit losses, when realized, have been in the range of our expectations and, historically, have not been significant.

*Asset retirement obligations.* Our asset retirement obligation, or ARO, liabilities primarily consist of estimated costs related to reclaiming surface land and support facilities at our mines in accordance with federal and state reclamation laws as defined by each mining permit.

We estimate the fair value of our ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of future costs for third-party's to perform the required work. Cost estimates are escalated for inflation, and then discounted at the risk-free rate, which approximated 4% at September 30, 2011. Total estimated undiscounted future costs related to the ARO liabilities totaled approximately \$13.0 million as of September 30, 2011, with costs expected to be paid from 2011 to 2019. We record a capital asset retirement cost associated with the initial recorded liability. The capital asset retirement cost is amortized based on the units of production method over the estimated recoverable, proven and probable reserves at the related mine, and the ARO liability is accreted to the projected settlement date. Changes in estimates could occur in the near term due to revisions of mine plans, changes in estimated costs, and changes in timing of the performance of reclamation activities.

As of September 30, 2011 and December 31, 2010, we had restricted certificates of deposit in the amount of \$19.0 million and \$7.7 million, respectively, which \$7.0 million is required in connection with certain equipment and vehicle notes payable, and by surety agencies as collateral in order to issue necessary reclamation bonds as required by authoritative agencies for various permitting to allow mining and to ensure the completion of future reclamation and \$12.0 million of which was required collateral on a coal supply agreement.

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

Contribution expense attributable to stock options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to stock options, a component of shareholders' equity.

Upon exercise of the stock options, consideration received together with the amount previously recognized is recorded as an increase to share capital.

When warrants or stock options expire, or stock options are forfeited, the amount is transferred to contribute surplus. We have not incorporated an estimated forfeiture rate of stock options that will not vest; rather, we account for actual forfeitures as they occur.

*Reserves.* We amortize our mineral rights, mine development costs, and capitalized asset retirement costs using the units-of-production method and estimates of proven and probable reserves. We review these estimates on a regular basis and adjust them to reflect our current mining plans. The rate at which we record depletion also depends on the estimates of our reserves. If the estimates of proven and probable reserves decline, the rate at which we record depletion increases. Such a decline in reserves may result from geological conditions, coal quality, effects of governmental, environmental and tax regulations, and assumptions about future prices and future operating costs.

*Internal controls and procedures.* Management has designed or caused to be designed under management's supervision, disclosure controls and procedures that provide reasonable assurance that (i) material information relating to us is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by us in our annual filings or other reports filed or submitted by us under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

Management is also responsible to ensure that internal controls over financial reporting are designed, or caused to be designed under management's supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with IFRS. We continue to work with an independent accounting firm to determine if any material weaknesses exist in our current internal controls, suggest best practices when they are not being applied and also to test the material controls. No material weaknesses were found and as a result, no significant changes in internal controls over financial reporting were made during 2010 that have materially affected, or are reasonably likely to materially affect, management's internal control over financial reporting.

It should be noted that while our Officers, as certified in our interim filings and as required under National Instrument 52-109 issued by the Canadian Securities Administrators, have evaluated the effectiveness of these disclosure controls and procedures and internal controls over financial reporting for the year ended December 31, 2010 and have concluded that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## **Risk Factors**

Please refer to the Annual Information Form for the year ended December 31, 2010 for a discussion of our risk factors which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Additional Information**

Additional information regarding the Company and its business operations, including the Company's Annual Information Form, that was filed on March 31, 2010 for the year ended December 31, 2009 and the Annual Information Form for the year ended December 31, 2010 are and will be available on the Company's SEDAR company profile at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.xinergycorp.com](http://www.xinergycorp.com).