XINERGY Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF

FINANCIAL CONDITION

AND

RESULTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2010

FEBRUARY 24, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2010

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the audited consolidated financial statements and notes thereto of Xinergy Ltd. for the year ended December 31, 2010. In this MD&A, "Xinergy," "the Company," "we," "us," or "our" refers to Xinergy Ltd. and its subsidiaries. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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 February 23, 2011.

Forward Looking Information

In the interest of providing our shareholders and potential investors with information regarding Xinergy, 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 2011 and 2012;
- Price per ton for 2011 and 2012 tons that are committed under contract;
- Estimated cash cost of production for 2011 and 2012;
- Increased production capacity as the result of additional capital expenditures and permitted mines;
- Additional reserves that have been leased or acquired; and
- Future development of reserves or properties that have been acquired.

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.

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 Xinergy's Annual Information Form 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 it targets.

Highlights for the Quarter Ended December 31, 2010

- In November 2010, the Company signed a Letter of Intent to acquire a high quality, mid-volatility metallurgical coal reserve located in Greenbrier County, West Virginia. On January 31, 2011, the Company, through its wholly owned subsidiary, South Fork Coal Company, LLC, consummated the acquisition pursuant to an asset purchase agreement. The Company has completed an exploration program and has already begun the process of producing a reserve estimate compliant with National Instrument 43-101 ("NI 43 101") standards. The Company expects permits to be issued by late in the third quarter of 2011 and estimates initial production to begin in the early part of the fourth quarter of 2011 initially at a rate of 10,000-20,000 tons per month, with production increasing to a run rate of 600,000 metallurgical tons annually in 2012.

- On November 30, 2010, the Company acquired 1,852,367 membership units representing approximately 17.5% of the outstanding equity, of Elk Horn Coal Company, LLC ("Elk Horn"). Elk Horn is a private company located in eastern Kentucky engaged in the leasing of coal reserves to other parties. Its properties consist of mineral rights to approximately 153,600 acres of coal bearing land.

- The Company announced that with the consent of its senior lenders, it would redeem $10.0 million in principal amount of its $75 million senior secured notes at a redemption price of 110% of the face amount of the notes, which redemption would occur in four monthly installments of $2.5 million in principal amount from November 2010 through February 2011.

- The Company spent approximately $11.5 million on capital expenditures in the quarter on surface and underground equipment including one continuous miner and related support equipment for the underground operation at the Kentucky operations known as Straight Creek and several haul trucks, loaders, dozers, drills and support equipment primarily for the KY 6 (Salt Trace) surface mine also at Straight Creek that resumed production in November 2010.

Outlook

Thermal Coal Production and Sales

Xinergy announced plans to increase production and sales in 2011 from currently controlled thermal producing properties to 2.8 to 3.0 million tons with contracted sales of 1,348,000 tons, or 44-48% of forecasted production, at an average sales price of $98.16 per ton. As market conditions continue to improve we expect 2012 production and sales to increase to 3.5 to 4.0 million tons on our existing properties. We currently have 146,000 tons contracted for sale in 2012 at $115.10 per ton.

We expect to produce and ship our 2011 contracted tons as follows:

- 660,000 tons from our West Virginia mines; and
- 688,000 tons from our Kentucky mines.

We expect to produce and ship our 2012 contracted tons from our Kentucky mines.

Negotiations are currently ongoing with several customers for third and fourth quarter 2011 sales commitments as well as for 2012, 2013 and 2014. Based on recent upward pricing for 2012 through 2014, as reported by NYMEX and other commodity future pricing sources, the Company expects to be able to secure coal supply agreements in the second or third quarter of 2011 for a significant portion of its expected thermal production from its Kentucky and West Virginia mines for 2012 and possibly through 2014 at prices at or above the current 2011 NYMEX Central Appalachia market prices. We anticipate securing commitments for a substantial portion of our expected production for these periods.

Based on our discussions with customers and our views of the global coal markets, we are cautiously optimistic that we will be in a position to achieve price realizations on term contracts that amply justify the production levels discussed above. We anticipate maintaining cash production costs of between $50.00 to $55.00 per ton, while continuing to focus on safety, productivity enhancements and cost controls across all of our operations.

Metallurgical Coal Production and Sales

On January 31, 2011, the Company, through its wholly owned subsidiary, South Fork Coal Company, LLC, acquired a high quality, mid-volatility metallurgical coal reserve in Greenbrier County, West Virginia pursuant to an asset purchase agreement. Based on information provided by the previous owner of the property, management believes that the 14,300 acre property contains approximately 30.0 million mineral resource tons in the Sewell seams, of which a majority is high quality mid-volatility metallurgical coal, with the remaining portion being high quality thermal coal. The mineral resource is comprised of 11.95 million tons measured mineral resources, 6.85 million tons indicated mineral resources and 11.2 million inferred mineral resources. Total proven and probable mineral reserves are estimated to be 8.8 million tons of which 5.75 million tons are proven mineral reserve and 3.05 million tons are probable mineral reserve. The Company has completed an exploration program and already begun the process to produce a reserve estimate compliant with NI 43-101 standards, which will be filed within 45 days of the closing of the acquisition.

Additionally, the Company has prepared and will immediately submit the necessary permit application to commence production for a block of the property referred to as Blue Knob. The Company expects such permits to be issued by late in the third quarter of 2011 and expects initial production to begin in the early part of the fourth quarter of 2011 at a rate of 10,000-20,000 tons per month, with production ultimately increasing to a run rate of 600,000 metallurgical tons annually.

Financial Overview

($ '000)	As at December 31 2010	As at December 31 2009	As at December 31 2008
Balance Sheet			
Cash	$ 17,029	$10,193	$ 164
Total current assets	47,442	13,264	7,896
Total assets	153,480	63,258	55,128
Total current liabilities	23,790	5,734	8,900
Total long term liabilities	75,845	7,219	43,815
Shareholders' equity	53,845	50,305	2,413

($ '000, except per share)	2010	2009	2008
Statement of Operations			
Total coal revenues	$108,841	$ 59,448	$57,581
Cost of coal sales	74,884	46,354	49,160
Gross margin	33,957	13,094	8,421
Loss before taxes	(2,731)	(16,616)	(8,687)
Net loss	(2,915)	(11,389)	(5,547)
Basic and diluted net loss per share	(0.05)	(0.34)	(0.20)

Statistics	2010	2009	2008
Tons sold	1,278,585	666,185	664,502
Tons produced	1,332,571	669,525	475,630
Sale price/ton	85.13	88.84	86.65
COGS/ton sold	58.57	69.58	73.98
Gross margin/ton sold	26.56	19.26	12.67
Cash costs/ton produced	54.16	69.77	103.36

	2010		
	Kentucky	**West Virginia**	**Total**
Tons sold	808,193	470,392	1,278,585
Tons produced	843,663	488,908	1,332,571
Sale price/ton	81.80	90.85	85.13
COGS/ton sold	70.15	56.89	58.57
Gross margin/ton sold	11.65	33.96	26.56
Cash costs/ton produced	56.57	50.00	54.16
Total cash costs	47,724,806	24,446,974	72,171,780

Comparison of Select Annual Information for Past Three Years

In 2010, our net loss was $2.9 million, or $(0.05) per basic and diluted share as compared to a net loss of $11.4 million, or $(0.34) per basic and diluted share in 2009 and a net loss of $5.5 million, or $(0.20) per basic and diluted share in 2008. Our gross margin from operations was $34.0 million in 2010 as compared to $13.1 million in 2009 and $8.4 million in 2008, a substantial increase in 2010 from prior years due to the lower operating costs at our Kentucky mines as well as the increase in production from Raven Crest Mining, LLC ("Raven Crest"), which we acquired in April 2010. The 2010 net loss was significantly reduced from prior years due to the increased revenues resulting from the Raven Crest acquisition, and the increased coal shipments from our Kentucky operations. Operating loss increased to $4.4 million in 2010 from $3.7 million in 2009; however, operating loss included non-cash depreciation, depletion and amortization expense of $25.5 million in 2010 as compared to $9.6 million in 2009.

Results of Operations

Revenues

The Company's coal revenues increased to $108.8 million in 2010 from $59.4 million in 2009 and $57.6 million in 2008, an increase of $49.4 million over 2009 and $51.2 million over 2008. The 83% increase in coal revenues in 2010 as compared to 2009 is primarily the result of the Raven Crest acquisition and higher sales volumes at the Straight Creek mining operations in Kentucky.

Sales volumes in 2010 were 1.3 million tons, a 92% increase from 0.7 million tons sold in 2009 and 2008. The increase was primarily driven by the addition of the Raven Crest operations in West Virginia commencing in April 2010 and resuming coal shipments in June 2010 from our Kentucky operations to a major customer as scheduled under a supplemental contract that was executed in May 2010.

Sales Volumes	**2010**	**2009**
Coal sales tons	1,278,585	666,185
Sales tons by operation:		
Straight Creek (Kentucky)	808,193	666,185
Raven Crest (West Virginia)	470,392	N/A

The average sale price per ton was $85.13 in 2010 as compared to $88.84 in 2009 and $86.65 in 2008. The 4% decrease in 2010 as compared to 2009 was primarily driven by an increase in sales volume from our Straight Creek operations at then–current, lower pricing prevalent in the market in 2010 as a result of the general economic downturn throughout the United States in late 2009 and 2010. The Company has since seen better pricing opportunities in 2011 and expects higher prices in 2012, 2013 and 2014 based on NYMEX and other market indicators for forward pricing.

Sales prices per ton by operation	**2010**	**2009**
Straight Creek	$81.80	$88.84
Raven Crest	$90.85	N/A
Average sale price	$85.13	$88.84

In November 2010, the Company re-opened its KY No. 6 (Salt Trace) surface mine. This surface mine facilitates the re-mining of an area previously mined and is located on the Straight Creek property in south eastern Kentucky. We began extracting coal from this mine in April 2008 and temporarily idled the mine in June 2010. We truck coal from this mine to our Brittain preparation plant where it is washed and then trucked to our Viall rail load-out facility located on the CSX railroad. The Salt Trace Surface Mine is located on an estimated 470 acres with an average seam height of 38 inches. Typical coal quality for this mine is 12,500 BTU per pound and SO2 content is less than 2.5 pounds per million BTU. We acquired the Brittain and Viall facilities as part of the Straight Creek acquisition from National Coal Corporation.

Cost of Sales

The cost of coal sales was $74.9 million in 2010 as compared to $46.4 million in 2009 and $49.2 million in 2008. This is an increase in 2010 of 61% over 2009 and 52% over 2008. However, the per ton cost of sales decreased to $58.57 in 2010 as compared with $69.58 in 2009 and $73.98 in 2008. We achieved a 159% increase in gross margin from operations in 2010 as compared to 2009.

The Company’s 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, decreased by $15.61, or 22%, in 2010 as compared to 2009.

This lower per ton cost can be attributed to the purchase of essential surface mining equipment resulting in increased utilization and the continuing efforts of management to increase operating efficiencies with emphasis on safety and productivity at all operations. The Company has also been successful in managing certain larger expenses that are more volatile such as fuel by providing suppliers with guaranteed purchasing in exchange for fixing the per unit price for several quarters.

Cost of sales per ton	2010	2009
Sale price/ton	$ 85.13	$ 88.84
COGS/ton sold	$ 58.57	$ 69.58
Gross margin/ton sold	$ 26.56	$ 19.26
Cash costs/ton produced	$ 54.16	$ 69.77
Total cash costs	$72,171,780	$46,713,233

Other operating expenses

General and administrative expenses were $12.8 million in 2010, up from $7.2 million in the prior year and $4.9 million in 2008. This increase is primarily the result of increasing the executive and operating management teams, additional support staff, professional fees associated with the Raven Crest acquisition and other expenses directly resulting from the associated efforts to grow the Company, organically and through acquisitions.

Depreciation, depletion, and amortization expenses in 2010 were $25.5 million as compared to $9.6 million in 2009, an increase of 165%. This increase was primarily driven by the $63.7 million, or 222%, increase in property, plant, equipment including mineral rights, mine development costs, and the purchase of an above market coal supply agreement associated with the Raven Crest operations.

Other income (expense)

The Company had a pre-tax gain in 2010 on the Raven Crest business acquisition of $4.7 million, which resulted from the difference in the fair value of the consideration paid and the identifiable assets acquired.

The Company also had a gain of $2.1 million on the sale of its wholly owned subsidiary, Xinergy of Alabama, Inc. in September 2010 for $3.1 million. The Company determined that the Alabama property was not consistent with the Company's long-term growth strategy and the Company decided to sell the property in 2010. There were no active mining operations on this property.

On November 30, 2010, Xinergy agreed to redeem $10.0 million in principal amount of its $75 million senior secured notes at a purchase price of 110% of the face amount of such notes, which agreement was reached in conjunction with the lenders' waiver of a covenant in the loan documents allowing the Company to purchase 17.5% of the outstanding equity interests in Elk Horn, an eastern Kentucky mineral holding company. As a result, the Company incurred $1.0 million in early redemption fees in accordance with the terms of the indenture, of which $500,000 was incurred in 2010.

In 2010, the Company had approximately $1.85 million in other income consisting of $0.5 million of interest on short term investments, $0.75 million of gains on the sale of non-strategic mineral assets and $0.6 million of gains from our investment in Elk Horn. This compares to other income of $0.9 million in 2009 and $0.2 in 2008.

Interest expense was $5.6 million in 2010, a decrease from $10.6 million and $7.1 million in 2009 and 2008, respectively. The decrease was due to the Company's debt pay down including prepayment penalties in December 2009 with proceeds from the RTO.

Liquidity and Capital Resources

In February 2011, the Company retained investment bankers to assist in exploring various debt financing transactions, the proceeds of which would be used to fund capital expenditures for the recently acquired mid-volatility metallurgical property in West Virginia and other capital needed for future development of existing properties and possible expansion through additional acquisitions. There are no assurances that the Company will be able to arrange such financing and if so at terms favorable to the Company.

The Company had cash of $17.0 million at December 31, 2010, an increase of $6.8 million from the December 31, 2009 cash position of $10.2 million and $0.2 million at December 31, 2008.

Cash provided by operating activities in 2010 generated $17.1 million, compared to cash used in operating activities of $6.5 million in 2009 and $1.8 million in 2008. This increase in cash provided by operating activities was mainly due to the decrease in the net loss in 2010 and the increase in depreciation, depletion and amortization offset by the gain on the Raven Crest acquisition and the gain on the sale of Xinergy of Alabama.

Cash used in investing activities in 2010 increased to $69.2 million from $2.4 million and $43.2 million in 2009 and 2008, respectively. This was primarily due to the Raven Crest acquisition in April 2010, the Elk Horn investment in November 2010 and the purchase of property, plant, and equipment. The decrease from 2008 to 2009 is due to the reduction in capital expenditures in 2009 as compared to 2008.

Cash provided by financing activities increased to $58.9 million in 2010 from $18.9 million in 2009 and $45.1 million in 2008. This increase can be attributed to the issuance of senior secured notes to finance the Raven Crest acquisition and new debt to finance various equipment acquisitions, offset by debt payments made on equipment and vehicle notes, the redemption of $5.0 million of senior secured notes in 2010.

Capital expenditures in 2010 were $24.9 million as compared to $5.4 million in 2009 and $23.6 million in 2008. Approximately $18.0 million of the 2010 expenditures was for production equipment, including haul trucks, dozers, loaders, drills and a continuous miner, and for equipment that was included with the Raven Crest acquisition.

The Company expects to employ $40.0 to $50.0 million in capital to develop its recently acquired metallurgical mining property in West Virginia including the construction of a rail siding and coal loading facility, the refurbishing of approximately seven miles of rail line and the purchase of two spreads of surface mining equipment. As discussed above, the Company has retained investment bankers to assist with various debt financing scenarios.

On September 7, 2010, the Company sold its Xinergy of Alabama, Inc. subsidiary for $3.1 million in cash and recorded a gain of $2.1 million. The Company concluded that this asset, known as “Coal Valley”, was not consistent with its long term growth strategy and decided to sell the asset in 2010. There were no active or planned mining operations on the property, so the sale did not affect the Company’s current or projected production.

Also on July 26, 2010, the Company entered into an agreement to replace approximately $5.0 million in outstanding reclamation bonds that were 100% collateralized with cash. The agreement reduced the Company’s cash collateral requirements to 25% of the face amount of the bond and reduced the Company’s restricted cash and increased available cash by approximately $4.0 million.

The Company did not have any off-balance sheet financing arrangements in place at December 31, 2010 or December 31, 2009.

Management believes that its existing cash flow from operations and the proceeds from additional debt financing that the Company will seek to raise in the first half of 2011 will be sufficient to fund ongoing working capital requirements and provide the capital necessary to fund the recently acquired metallurgical coal property in West Virginia. The Company expects that 2011 coal production and coal inventory from existing thermal operations in Kentucky and West Virginia will be sufficient to meet customer requirements for 2011.

At December 31, 2010, the Company had $9.7 million of coal inventory and $6.0 million in accounts receivable as compared to $1.8 million in coal inventory and $0.8 million in accounts receivable at December 31, 2009, respectively. Also, based on recent upward pricing for 2012 through 2014 as reported on NYMEX, the Company expects to be able to secure coal supply agreements in the second or third quarter of 2011 for a significant portion of its expected thermal production from its Kentucky and West Virginia mines for 2012 and possibly through 2014.

Fourth Quarter 2010 as Compared to Fourth Quarter 2009

Results of Operations

Revenues

Fourth quarter 2010 coal revenues were $38.1 million on sales of 436,274 tons at an average sales price per ton of $87.28, as compared to coal revenues of $8.8 million on sales of 112,119 tons at an average sales price per ton of $78.18 for the same quarter of 2009. Sales volume and revenues increased in the quarter as compared to the same quarter in 2009 because the Company resumed shipping coal from its Straight Creek operations in Kentucky in June 2010 to a major customer as scheduled under a supplemental contract that was executed in May 2010 and the Company's acquisition of its Raven Crest operations on April 28, 2010.

Cost of Sales

Fourth quarter 2010 cost of sales was $25.2 million, or $57.78 per ton, compared to $7.0 million, or $62.43 per ton in the same period last year. Cost of sales includes cost of sales, changes in inventory balances, purchases of third party coal and all expenses incurred for mining, processing, transporting, royalties and taxes during the period. The overall decrease in costs on a per ton basis as compared to the comparable quarter in 2009 is primarily because the Company began phasing out third party mining contractors in the third quarter 2009, which has positively impacted operating costs. This accomplishment, along with the receipt of additional mining permits, increased equipment utilization, the purchase of essential surface mining equipment and management's continuing efforts to increase operating efficiencies while maintaining safety and productivity has consistently reduced overall mining cost.

Actual cash costs on a produced ton basis were $23.2 million, or $55.23 per ton, for the quarter ended December 31, 2010 compared to $11.1 million, or $63.34 per ton, for the comparable quarter of 2009. Cash costs include cost of sales excluding third party coal purchases and changes in inventory balances during the period divided by produced tons.

Related Party Transactions

The Company had no related party transactions during the fourth quarter 2010.

General and Administrative Expenses

General and administrative expenses were $3.6 million for the quarter, down from $4.0 million in the comparable period in 2009. This decrease was primarily due to $2.1 million in stock-based compensation expense related to stock options granted and common shares issued in December 2009 that vested immediately.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expenses were $8.1 million during the quarter, up from $2.3 million in the comparable period in 2009. This increase in amortization and depreciation is primarily due to the $71.7 million in identifiable assets acquired with the Raven Crest acquisition, including the purchase of an above market coal supply agreement that is incurring approximately $1.0 million in amortization expense per month, and $24.9 million in capital expenditures in 2010 which resulted in much higher depreciation expense.

Other income (expense)

Other expense was $0.6 million during the quarter, a decrease from $4.1 million in expense in the comparable period of 2009. This change is primarily due to an increase of interest expense of $0.7 million and the gain on sale of Xinergy of Alabama, Inc. which is discussed below.

<u>Operating Activities</u>

For the three month period ended December 31, 2010, the Company generated net cash of $7.9 million from operating activities compared to net cash used from operating activities of $10.6 million in the same period 2009. This change was primarily driven by a net income of $0.03 million in the fourth quarter of 2010 as compared to a net loss of $6.02 million in the fourth quarter of 2009 as well as an increase in depreciation, depletion and amortization expenses of $5.9 million in the fourth quarter of 2010 as compared to the same quarter of 2009.

<u>Investing Activities</u>

For the month period ended December 31, 2010, the Company used $18.4 million in cash from investing activities as compared to cash used in investing activities of $3.9 million in the same quarter in 2009. This change was the result of the investment in Elk Horn and the increase in capital expenditures of $8.3 million from the same quarter 2009.

<u>Financing Activities</u>

For the three month period ended December 31, 2010, the Company had cash provided from financing activities of $1.2 million compared to $23.0 million in the quarter ended December 31, 2009. This decrease is the result of proceeds from the RTO in December 2009 offset by the payoff of the Company’s debt in same quarter.

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) and (v) stock-based compensation expense. Adjusted EBITDA is defined as EBITDA plus (i) non-recurring expenses related to acquisitions and (ii) loss on advances to contract miners, minus (iii) non-recurring gain on sale of subsidiary and (iv) non-recurring gain on acquisition of Raven Crest. We present Adjusted EBITDA and other non-recurring expenses, to enhance understanding of our operating performance. We use Adjusted EBITDA as a criterion for evaluating our performance relative to that of our peers, including measuring our cost effectiveness and return on capital, assessing our allocations of resources and production efficiencies and making compensation decisions. We believe that Adjusted EBITDA is an operating performance measure that provides investors and analysts with a measure of our operating performance and permits them to evaluate our cost effectiveness and production efficiencies relative to competitors. In addition, our management uses Adjusted EBITDA to monitor and evaluate our business operations. However, Adjusted EBITDA is not a measurement of financial performance under Canadian GAAP and may not be comparable to other similarly titled measures of other companies. Adjusted EBITDA should not be considered as an alternative to cash flows from operating activities, determined in accordance with GAAP, as indicators of cash flows. The following reconciles our net loss to Adjusted EBITDA:

	Three months ended 12/31/2010	**Three months ended 12/31/2009**	**Twelve months ended 12/31/2010**	**Twelve months ended 12/31/2009**
Net income (loss)	$ 28,091	$(6,017,715)	$(2,915,181)	$ (11,388,852)
Interest expense/redemption fee	$ 3,115,821	$ 2,840,227	$ 6,610,302	$ 10,637,893
Depreciation, depletion, amortization and accretion	$ 8,666,934	$ 2,597,835	$26,632,458	$ 10,283,833
Income tax (benefit) expense	$ 438,361	$(2,610,240)	$ 183,730	$ (5,226,889)
Interest income	$ (92,242)	$ (57,956)	$ (279,977)	$ (196,123)
Investment income	$ (612,127)	$ –	$ (827,127)	$ –
Stock based compensation	$ 1,700,158	$ 2,279,585	$ 3,375,098	$ 2,579,626
EBITDA	**$13,244,996**	**$ (968,264)**	**$32,779,303**	**$ 6,689,488**
Non-recurring expenses related to acquisition	$ –	$ –	$ 994,250	$ –
Non-recurring gain on sale of Subsidiary	$ –	$ –	$(2,141,069)	$ –
Non-recurring gain on acquisition of Raven Crest	$ –	$ –	$(4,669,105)	$ –
Loss on advances to contract miners	$ –	$ 350,143	$ –	$ 2,602,147
Adjusted EBITDA	$13,244,996	$ (618,121)	$26,963,379	$ 9,291,635

Business Acquisitions

Raven Crest Mining

Effective in December 2009, the Company purchased 100% of the membership interest in Shenandoah Energy, LLC ("Shenandoah"). Shenandoah's assets consist of a 5% ownership interest in Raven Crest and $160,000 in accounts receivable from Raven Crest. Pursuant to the purchase agreement, all liabilities of Shenandoah were retained by the seller. Management evaluated the transaction and determined that Shenandoah did not meet the definition of a business under GAAP; accordingly, the transaction was considered an acquisition of a group of assets and not a business combination and was recorded as investment in entity at December 31, 2009.

On March 11, 2010, the Company executed a definitive membership interest purchase agreement with JMP Coal Holdings, LLC ("JMP") and Raven Crest to acquire the remaining 95% membership interest from JMP in Raven Crest.

On April 28, 2010, the Company completed the acquisition of the remaining 95% membership interest in Raven Crest ("the Acquisition"). The operations of Raven Crest are included in the accompanying consolidated financial statements beginning April 28, 2010. Total fair value consideration for the Acquisition was $43,990,000 in cash (net of $1,479,333 of cash acquired from Raven Crest).

Prior to the Acquisition, the Company accounted for its 5% membership interest in Raven Crest using the cost method. The Company recognized a loss of $32,789 as a result of re-measuring its prior investment in Raven Crest to fair value as of the date of the Acquisition. The re-measured fair value of the previous membership interest in Raven Crest was $1,852,003 and was determined based on the fair value paid for the 95% interest in Raven Crest less a 20% discount to exclude the control and deal size premium inherent in the purchase price of the Acquisition. In connection with the Acquisition, Shenandoah wrote-off the $160,000 in accounts receivable from Raven Crest, which has been netted against $375,000 in investment income received from Raven Crest prior to the acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the Acquisition date. The Company obtained an independent third-party valuation to assist in determining the fair value of the acquired tangible and intangible assets. The fair value of the assets acquired and liabilities assumed as of the Acquisition date (April 28, 2010) are as follows:

Trade accounts receivable	**$1,676,400**
Coal inventories	**5,267,707**
Other current assets	**114,438**
Property, plant and equipment	**14,401,682**
Mine development costs and mineral rights	**28,249,472**
Coal supply contract	**20,790,000**
Restricted cash	**1,209,003**
Other assets	**27,490**
Total identifiable assets acquired	**71,736,192**
Accounts payable and accrued expenses	**2,997,391**
Notes payable	**17,908,600**
Asset retirement obligations	**1,798,426**
Total liabilities assumed	**22,704,417**
Net identifiable assets acquired	**49,031,775**
Fair value of consideration transferred for 100% of the membership interest	**44,362,670**
Gain on acquisition	**4,669,105**
Less provision for future income tax benefit	**(1,311,749)**
Gain, net of future income tax benefit	**$3,357,356**

The Company issued $75,000,000 of senior secured notes payable and received $72,750,000 in net proceeds, after a 3% discount, to finance the Acquisition, repay approximately $17,900,000 of long-term debt acquired in the Acquisition, fund reclamation bond collateral payments of approximately $2,800,000, and pay financing costs and transaction expenses of approximately $3,900,000, retaining approximately $6,900,000, inclusive of approximately $1,500,000 of cash acquired, to be used for working capital and general corporate purposes.

The Company recognized $994,250 of acquisition related expenses that were expensed in 2010. These expenses are included in the consolidated statement of operations in general and administrative expenses.

In connection with the Acquisition, certain future income tax items were created to reflect the tax effects of temporary differences between the carrying amounts of certain assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the $1,311,749 in net future income tax liabilities included transaction costs, which resulted in a future income tax asset of $354,950, and the gain on the Acquisition, which resulted in a future income tax liability of $1,666,699.

The following represents the pro forma consolidated statements of operations as if Raven Crest had been included in the consolidated results of the Company for the entire year ended December 31:

	2010	2009
Revenue	$126,122,681	$128,268,262
Net loss	3,950,494	11,470,331

The pro forma amounts have been calculated after applying the Company's accounting policies and adjusting the results of Raven Crest to reflect the fair value adjustments for (i) depreciation and amortization related to plant and equipment, (ii) the amortization of the coal supply agreement and mineral rights, (iii) the change in accretion expense, (iv) additional interest expense related to the financing, net of historical interest expense related to the assumed debt that was repaid at closing, (v) additional interest income from the net proceeds of the financing, (vi) elimination of the effect of a change in a Raven Crest accounting principle in 2010 that will not have a continuing effect on the results of operations, (vii) elimination of the non-recurring transaction expenses included in the Company's historical financial statements, and (viii) income tax adjustments. These adjustments assume that the Acquisition and the related financing occurred on January 1 of each period presented.

Greenbrier County, West Virginia Metallurgical Acquisition

In January 2011, the Company acquired the properties from Meral, Inc. pursuant to an asset purchase agreement including certain real property and related interests (including leases, mineral rights, and mining rights) in Greenbrier County, West Virginia. Pursuant to the purchase agreement, the purchase price consisted of an initial deposit of $200,000 and an additional $1,500,000 paid at the closing date. Also, the provisions of the purchase agreement provide for a $2,500,000 payment once certain permitting is obtained and an additional $1,000,000 18 months after this permitting is obtained. Terms of the agreement also include an overriding royalty paid at a rate ranging from $1.50 to $2.00 per ton, determined based gross sales price, with a possible reduction to $0.40 per ton if certain quality measurements are not achieved. The purchase price allocation has not yet been finalized.

Financial Instruments and Financial Risk Factors

The Company's financial instruments include cash, restricted cash, trade accounts receivable, accounts payable and accrued expenses, accrued interest payable and notes payable.

The estimated fair value of financial instruments has been determined by the Company using available market information. The carrying value of the Company's cash, restricted cash, trade accounts receivable, and accounts payable and accrued expenses and accrued interest payable approximates their fair value due to the short-term nature of these items or the terms of the financial instruments. The estimated fair value of the Company's notes payable also approximate their carrying values because the effective interest rates are not significantly different from current market rates.

The Company's financial instruments have been classified as follows:

Financial Instrument	Classification
Cash	Held-for-trading
Restricted cash	Held-to-maturity
Trade accounts receivable	Loans and receivables
Accounts payable and accrued expenses	Other financial liabilities
Accrued interest payable	Other financial liabilities
Notes payable	Other financial liabilities

The Company is exposed to credit risk, liquidity risk and market risk associated with its financial instruments.

Credit Risk

Credit risk arises from the potential that a customer or counterparty will fail to perform its obligations. The Company's exposure to credit risk exists primarily related to its trade accounts receivable. While economic factors can affect credit risk, the Company manages risk by providing credit terms on a case by case basis. Customers are primarily investment grade companies and quasi-governmental agencies. The Company previously made periodic advances to certain contract miners; however, this practice has since been terminated. During 2009, the Company ceased operations with certain contract miners with whom it had advanced monies and recognized credit losses of $2,602,147. The Company's cash and certificates of deposit are on deposit with quality financial institutions and such deposits are subject to insurance by the Federal Deposit Insurance Corporation, an independent agency of the United States of America, and the Canada Deposit Insurance Corporation, a federal Crown corporation created by Canadian Parliament. The Company's maximum credit risk exposure at December 31, 2010 is approximately $6,900,000 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. The Company's interest rate risk primarily relates to its interest bearing debt on the accompanying consolidated balance sheet. As the Company's debt has fixed interest rates, the Company has minimized its exposure to cash flow interest rate risk.

The Company's price risk primarily relates to significant fluctuations in coal sales prices which is caused by many factors outside of the Company's control. The Company minimizes its price risk by entering into long-term sales contracts with customers which fix the price of coal sold.

Liquidity Risk

Liquidity risk is the risk that the Company will have difficulty meeting its obligations associated with financial liabilities. To manage this risk, the Company ensures, to the extent possible, that it will have sufficient liquidity to meets its obligations when due by continually monitoring its cash balances and its cash flow projections.

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

At December 31, 2010, the Company has contractual obligations with future minimum undiscounted amounts payable as follows:

Description	2011	2012 to 2013	Thereafter	Total
Accounts payable and accrued expenses	**$ 8,868,892**	**$ –**	**$ –**	**$ 8,868,892**
Accrued interest payable	**1,256,147**	**–**	**–**	**1,256,147**
Notes payable	**12,736,702**	**5,275,859**	**65,205,940**	**83,218,501**
Leases	**135,630**	**126,371**	**–**	**262,001**
	$22,997,371	**$5,402,230**	**$65,205,940**	**$93,605,541**

Concentrations

The Company's three largest customers individually accounted for approximately 52%, 23% and 8% of the Company's revenues during 2010, and approximately 45%, 30% and 21% of the Company's revenues during the 2009.

Trade accounts receivable consists primarily of contractual receivables from coal sales to its customers, which are nationally recognized public utilities and industrial companies, as is typical in the industry. Two customers accounted for approximately 49% and 15% of trade accounts receivable at December 31, 2010, while two customers accounted for approximately 54% and 43% of trade accounts receivable at December 31, 2009. It is the Company's policy not to require collateral on trade accounts receivable. Accounts are charged to bad debt expense as they are determined to be uncollectible based upon a review of aging and collections. Credit losses from coal sales, when realized, have been in the range of the Company's expectations and, historically, have not been significant.

Notes Payable

Notes payable consist of the following at December 31:

	2010	2009
Senior secured notes payable to Marret, net of unamortized discount of $2,884,624 at December 31, 2010	**$67,115,376**	$ –
Equipment and vehicle notes payable	**13,218,501**	3,304,395
Total notes payable, net of unamortized discount	**80,333,877**	3,304,395
Less current portion of notes payable	**12,736,702**	2,128,959
Long-term portion of notes payable, net of unamortized discount	**$67,597,175**	$1,175,436

In 2008, the Company issued notes payable totaling $35,000,000 and entered into an assignment of overriding coal royalty interest, all of which were paid in full during December 2009. Total interest expense related to these notes payable and assignment of royalty interest amounted to $9,056,917 in 2009. Also in connection with the notes being paid in full, the remaining unamortized deferred financing costs of $231,082 were written-off.

Notes Payable to Marret:

In conjunction with the Acquisition, during April 2010 the Company issued $75,000,000 of senior secured notes payable to Marret Asset Management, Inc. ("Marret") and received $72,750,000 in net proceeds, after a 3% discount. These senior secured notes are collateralized by substantially all assets of the Company and bear interest at an annual rate of 9.75%, payable in semi-annual payments of $3,656,250 ($1,256,147 accrued as at December 31, 2010). These senior secured notes mature in April 2015. The Company is required to maintain certain debt covenants, including certain restrictions on dividends, and has limitations on additional indebtedness.

The Company has certain early redemption options, in whole or in part, which would result in the payment of premiums on such indebtedness ranging from 110% to 102% of the principal amount of the notes, based on the dates of the early redemption. If a change in control occurs, the Company will be required to offer to redeem the outstanding notes for a redemption price equal to 109.75% of the outstanding principal balance of the notes. In November 2010, in order to secure a required consent of the note holders to acquire the membership units in a separate entity, the Company agreed to redeem $10,000,000 of the principal amount of the notes outstanding pursuant to four separate redemptions in the amount of $2,500,000 per month beginning in November 2010 at a redemption price of 110% of the face amount of the notes, resulting in early redemption penalties totaling $1,000,000. As at December 31, 2010, $5,000,000 had been redeemed and $500,000 in early redemption penalties had been paid.

In consideration for the closing of the financing, the Company issued 3,000,000 common share purchase warrants to the note holders with an exercise price of Cdn$4.20 expiring in December 2012. The value of these common share purchase warrants was estimated at the date of issuance to be $976,915 and was recorded as a discount to the notes payable. Additionally, the Company paid $2,915,336 of fees in connection with the financing, which have been capitalized as deferred financing costs.

Equipment and Vehicle Notes Payable

The Company has numerous equipment and vehicle notes totaling $13,218,501 and $3,304,395 at December 31, 2010 and 2009, respectively. These notes bear interest at fixed rates ranging from 5.25% to 9.50% and are due in various monthly payments through April 2014. All of these notes are collateralized by the related equipment and vehicle purchased, and a note with an outstanding balance of $1,175,436 at December 31, 2010 is personally guaranteed by a Company officer.

During 2011, the Company entered into additional equipment and vehicle notes payable totaling $4,253,700. These notes payable, which bear interest at fixed rates ranging from 4.95% to 5.54%, have annual future maturities of $1,535,388.

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

Scheduled Maturities of Notes Payable

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

2011	**$12,736,702**
2012	**4,622,498**
2013	**653,361**
2014	**205,940**
2015	**65,000,000**
Total	**83,218,501**
Less unamortized discount	**2,884,624**
Total notes payable, net of discount	**$80,333,877**

Derivatives

The Company has not entered into any hedging actives or derivatives since its incorporation.

Summary of Quarterly Results (*tons are 000's*)

	2010				**2009**			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Tons Produced	419	423	338	152	118	168	148	236
Tons Sold	436	434	292	116	112	185	148	221
Sales price /ton	$87.28	$86.86	$86.20	$67.83	$78.18	$78.38	$86.39	$104.58
COGS / ton	$57.78	$54.06	$63.61	$65.72	$62.43	$64.89	$85.50	$67.21
Cash costs / ton produced	$55.23	$51.32	$49.64	$64.92	$63.67	$66.02	$81.19	$68.07
Revenue	$38.08	$37.72	$25.18	$7.86	$8.80	$14.50	$12.90	$23.20
Net Income (loss)	$0.03	($0.25)	$0.40	($3.10)	($6.10)	($1.80)	($5.50)	$1.90
Basic net income (loss) share	$0.00	$0.00	$0.01	($0.06)	($0.17)	($0.06)	($0.17)	$0.06
Diluted net income (loss) share	$0.00	$0.00	$0.01	($0.06)	($0.17)	($0.06)	($0.17)	$0.05

Outstanding Share Data

Share Capital

The authorized share capital consists of an unlimited number of voting Common Shares and non-voting Common Shares, without par value ("Non-Voting Common Shares"). The Non-Voting Common Shares were created in connection with the RTO in December 2009, resulting in the issuance of 19,467,541 Non-Voting Common Shares with an allocated share capital amount of $4,500,015. As of December 31, 2010, there are 37,125,825 Common Shares issued and outstanding and 19,467,541 Non-Voting Common Shares issued and outstanding.

In connection with the RTO during December 2009, the Company acquired 385,700 Common Shares for $1,275,163 from an entity controlled by its principal shareholder and issued 18,985,700 Common Shares at Cdn$3.50 per Common Share and 9,492,850 common share purchase warrants valued at $3,786,325 for net cash proceeds of $56,514,869. The Company also issued to the placement agents an aggregate of 1,139,142 common share purchase warrants valued at $464,828, which has been recorded as a reduction to share capital.

Additionally, the Company issued 42,572 Common Shares at $3.50 per share and 21,286 common share purchase warrants valued at $8,546 for total cash proceeds of $149,000. All these common share purchase warrants have an exercise price of Cdn$4.20 and expire in December 2011. In connection with this offering, the Company incurred offering costs totaling $6,253,754 which has been recorded as a reduction to share capital.

Common share activity of Greenwich Global Capital, Inc. ("GCC") during 2009, up to and including the RTO closing date, is as follows:

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

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

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

Additionally, in January 2010, the Company issued an aggregate of 60,000 restricted Common Shares to its three independent Directors, which are exercisable in January 2011. These Common Shares were valued at the trading price at the date of issuance.

In September 2010, in connection with the Vice President of Surface Mining's employment agreement, the Company issued 25,000 restricted Common Shares all of which are exercisable in September 2011. These Common Shares were valued at the trading price at the date of issuance.

In September 2010 and December 2010, in connection with the Chief Executive Officer's compensation agreement, the Company issued 30,177 and 35,468 restricted Common Shares, respectively, all of which are immediately exercisable. These Common Shares were valued at the average of the five day trading price immediately preceding the date of issuance.

In November 2010, the Company issued an aggregate of 150,000 restricted Common Shares to its three independent Directors which are exercisable January 2012.

Also in November 2010, the Company issued an aggregate of 125,000 Common Shares to officers and 47,500 Common Shares to employees.

Stock Options

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

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

In connection with the RTO, the Company established a new stock option plan (the "Option Plan") to reflect the Company's current equity structure. This Option Plan replaced the preexisting plans and authorized up to 7,000,000 Common Shares, including options issued under the previous plans, for grants of incentive awards to employees, executive officers, directors and consultants to the Company. In 2010, the Company implemented the 2010 stock incentive plan (the "Incentive Plan"). The Incentive Plan replaced the Option Plan. Subject to the provisions of the Incentive Plan, the aggregate maximum number of Common Shares which may be issued pursuant to any stock options, stock appreciation right, restricted stock, restricted stock units or other awards under the Incentive Plan is 7,000,000 Common Shares, which includes awards granted under any preexisting plans ("Awards").

Total stock-based compensation expense was $1,894,054 in 2010 and $1,686,318 in 2009.

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

During 2010, the Company issued stock options pursuant to the Incentive Plan as follows: in January 2010, options were granted to purchase 400,000 Common Shares with an exercise price of $3.10 per Common Share and options were granted to purchase 120,000 Common Shares with an exercise price of $3.62 per Common Share; in May 2010, options were granted to purchase 115,000 Common Shares with an exercise price of $2.71 per Common Share; in September 2010, options were granted to purchase 200,000 Common Shares with an exercise price of $1.65 per Common 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 Common Share, to the other officers to purchase 540,000 shares with an exercise price of $2.39 and to employees to purchase 194,500 Common Shares with an exercise price of $2.39 per Common Share; in December 2010, options were granted to purchase 32,500 Common Shares with an exercise price of $2.56 per Common Share. The weighted average grant-date fair value of options granted during 2010 was $1.60 per Common Share.

Details of the stock options outstanding are as follows:

	Number of Options	**Weighted Average Exercise Price**
Outstanding at January 1, 2009	3,806,403	$0.60
Granted	1,626,283	2.16
Options acquired as a result of RTO	27,108	Cdn1.99
Forfeited	(552,711)	0.60
Exercised	(521,425)	0.60
Outstanding at December 31, 2009	4,385,658	1.19
Granted	**1,752,000**	**2.58**
Forfeited	**(11,736)**	**0.60**
Exercised	**(292,226)**	**0.71**
Outstanding at December 31, 2010	**5,833,696**	**1.63**

Of the stock options outstanding at December 31, 2010, 2,482,185 options expire in 2018, 1,599,511 options expire in 2019, 1,752,000 options expire in 2020. Details of the stock options exercisable at December 31, 2010 are as follows:

Number of Options	**Weighted Average Exercise Price**
3,800,472	**$1.40**
4,518	**Cdn1.99**
3,804,990	**1.40**

Warrants

Summarized information about warrants, after changes of the converted number of warrants and exercise prices, from January 1, 2009 to December 31, 2010, is as follows:

	Number of Warrants	Amount	Exercise Price Cdn	Expiry Date
Balance outstanding at January 1, 2009	3,540,200	$ 224,114		
Issued to investors in December 2009	9,514,136	3,794,871	$4.20	December 2011
Issued to agents in December 2009	1,139,142	464,828	4.20	December 2011
Exercised in December 2009	(1,564,275)	(118,433)		
Balance outstanding at December 31, 2009	12,629,203	4,365,380		
Exercised in March 2010	**(1,975,925)**	**(105,681)**	**0.96**	
Issued for Marret note payable	**3,000,000**	**976,915**	**US 4.20**	**December 2012**
Balance outstanding at December 31, 2010	**13,653,278**	**$5,236,614**		

During 2011, 284,785 shares have been issued for exercised warrants, resulting in total proceeds received of approximately $1,430,000.

Black-Scholes Valuations

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

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

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

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 accordance with Canadian generally accepted accounting principles. The preparation of these financial statements 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.

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 its 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

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

The Company estimates the fair value of its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of future costs for third-party to perform the required work. Cost estimates are escalated for inflation, and then discounted at the credit-adjusted risk-free rate, which approximated 10% at December 31, 2010. Total estimated undiscounted future costs related to the ARO liabilities totaled approximately $10,101,000 at December 31, 2010, with costs expected to be paid from 2011 to 2019. The Company records a capital asset retirement cost associated with the initial recorded liability. The capital asset retirement cost is amortized based on the units of production method over the estimated recoverable, proven and probable reserves at the related mine, and the ARO liability is accreted to the projected settlement date. Changes in estimates could occur in the near term due to revisions of mine plans, changes in estimated costs, and changes in timing of the performance of reclamation activities.

At December 31, 2010 and 2009, the Company had restricted certificates of deposit in the amount of $7,328,103 and $8,689,989, respectively, which are required by authoritative agencies for necessary permitting to allow mining and as collateral to ensure the completion of future reclamation.

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 the Company 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 the Company in its annual filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

Management is also responsible 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 accordance with Canadian GAAP. The Company continues to work with an independent accounting firm to determine if any material weaknesses exist in its 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 the Officers of the Company, as certified in the Company's 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 of 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.

Changes in Accounting Polices including Critical Adoption of International Financial Reporting Standards

In March 2006, the CICA released its plan to adopt International Financial Reporting Standards ("IFRS"). After a five year transitional period, at the beginning of 2011, Canadian GAAP will cease to exist as a separate basis of financial reporting for public companies.

The Company will issue consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") for the year ended December 31, 2011, with comparative information.

Preliminary Impact Assessment

The Company has completed a diagnostic study of the conversion of its consolidated financial statements to IFRS, with the assistance of external consultants. The study identified the principal differences between the Company's records using existing Canadian GAAP and IFRS standards.

The results of this assessment identified:

- Preliminary analysis of all Canadian GAAP to IFRS differences and IFRS 1 elections and resulting prioritization of high, medium and low impact areas of focus for the Company based on potential impact;
- Preliminary resource requirements;
- A preliminary IFRS Transition Plan (details outlined below).

IFRS Transition Plan

During the year the Company has established a formal IFRS Transition Plan. This plan includes:

- An established project structure and governance practices;
- Detailed timetable with milestones and deliverables;
- Identification and allocation of resources (combination of internal and external);
- Development and execution of a training program;
- Detailed analysis of all Canadian GAAP to IFRS differences;
- Detailed analysis and selection of all IFRS 1 elections; and
- Assessment of impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements.

The Company has completed the detailed assessment of all standards that affect the transition. The Company has scheduled the solutions development and the implementation for 2011. Specifically, the items identified are being analyzed and any differences quantified.

Potential accounting changes as a result of transition to IFRS

The Company has implemented a detailed review of the potential impact of International Financial Reporting Standards, IFRS, on our accounting policies. Outlined below is a very brief summary of select IFRS that may impact the Company, their differences from Canadian GAAP and their potential impact. Based on the impact analysis performed with the assistance of the external consultants, the Company is currently considering what IFRS 1 exemptions to elect. The list below is not comprehensive and does not include all of the differences from GAAP for the standards noted. Also, the list does not include all the standards that may require changes for the transition to IFRS. Some of the standards not presented below could have a significant impact on the Company's consolidated financial statements.

The areas of IFRS that may have the most potential impact to the Company are those that deal with property, plant and equipment, asset impairment, borrowing costs, transaction costs and asset retirement obligation. The International Accounting Standards Board continues to make revisions to or replace existing IFRS standards that address certain of these areas. Some of the anticipated changes may have come into effect prior to the Company's transition date, such that IFRS may differ at the transition date from its current form. However, it is likely that the majority of the changes may occur subsequent to the Company's date of transition.

Stock-based Compensation – The Company intends to use the IFRS 1 exemption to prevent full retrospective restatement of stock options under IFRS. However, retrospective restatement will still be required for any outstanding equity instruments that are unvested and liabilities that have not been settled prior to the date of transition to IFRS. The impact of this retrospective restatement is currently being quantified.

Share purchase warrants – The Company has assessed share-purchase warrants issued to brokers and investors under the requirements of IFRS 2 and IAS 32 respectively. On transition to IFRS, broker warrants will be measured at the fair value of goods and services received rather than the fair value of the warrants issued. Further, warrants issued to investors are denominated in US dollars and have an exercise price of Canadian dollars. This exposes the Company to a degree of variability in the cash received on exercise of these warrants. Under IAS 32, this precludes equity accounting, since the warrants do not represent a fixed number of shares issued in return for a fixed amount of cash. These may be classified as derivative financial liabilities on transition to IFRS. The impact of these differences is currently being assessed.

Foreign Exchange Translation – IFRS requires the assessment of functional currency by entity. The indicators of functional currency are similar to Canadian GAAP. However, IFRS provides a hierarchy within those indicators, meaning certain factors that are considered under the Canadian GAAP assessment may not be as relevant under IFRS. This could result in a change to the functional currency which, under certain circumstances, can lead to translation differences. The Company has assessed the application of IAS 21 and the functional currency, concluding that the functional currency remains the US dollar on transition to IFRS.

Property, Plant & Equipment (PP&E) – Analysis of all material PP&E accounts is required to ensure that any components with different useful lives are identified and depreciated appropriately. Net book values as at the date of transition will be reviewed to ensure that any material components are identified. The Company may require increased tracking of balances in order to comply with IFRS requirements. An IFRS 1 election is available to use fair value as deemed cost for PP&E on the date of transition. The PP&E potential differences including the IFRS 1 election is being analyzed by the Company.

Decommissioning liabilities: Under IFRS, these costs should be capitalized (generally as part of the asset's carrying value) when the entity becomes obligated to incur such costs. Changes in a decommissioning, restoration or similar liability that have been previously recognized as part of the cost of an item of property, plant and equipment and as a liability are generally are added to or deducted from the asset cost. IFRS 1 provides an exemption for alternative treatment for changes in such liabilities that occurred before the date of transition to IFRS, which allows the provision to be estimated as of the transition date with relevant changes calculated for the prior periods. The Company is currently revisiting its process for recording decommissioning liabilities and will incorporate IFRS requirements into the new methodology. The impact on the opening balance sheet, if any, is currently being assessed.

Borrowing costs – IAS 23 does not allow the expensing of borrowing costs; to the extent they are directly attributable to acquisition, production and construction of a qualifying asset. IAS 23 also includes guidance on how to determine the amount of borrowing costs eligible for capitalization. IAS 23 defines a qualifying asset as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale under IFRS. An IFRS 1 election exists which can be utilized to avoid confirmation that borrowing costs were capitalized in accordance with the provisions of IAS 23 and specifically within the appropriate classification period for all qualifying assets. The Company has assessed the applicability of IAS 23 and has concluded that there are no borrowings that will be capitalized on transition to IFRS.

Transaction costs - Under GAAP, the Company's current accounting policy is to expense transaction costs in the period in which they occur. Under IFRS, certain transaction costs related to financial instruments must be capitalized and amortized over the life of the instrument. The Company has assessed the impact of this change and has concluded that there will be no difference on transition.

At this time, the Company cannot quantify the impact of IFRS to its financial statements. The Company is close to finalizing preliminary conclusions and accounting policy choices on the standards noted above. Those conclusions and accounting policy choices will be reported on when finalized.

Impact on Information Systems and Technology – It is anticipated that the adoption of IFRS will have some impact on information systems requirements. The main drivers for system changes include:

- Additional information required as a result of enhanced note disclosures;
- Tracking of IFRS to GAAP differences during the transition; and
- Tracking sufficient level of details within the accounting records to allow management to maintain adherence with IFRS going forward.

The impact and changes to systems are on-going and will be prioritized as part of the project.

Impact on Reporting and Internal Controls – In accordance with the Company's approach to certification of internal controls required under Canadian Securities Administrators' National Instrument 52-109, all entity-level, information technology, disclosure and business process controls will require updating and testing to reflect changes arising from the conversion to IFRS. Where material changes are identified, these changes will be mapped and tested to ensure that no material control deficiencies exist as a result of the Corporation's conversion to IFRS.

Impact on Business – The Company is in the process of finalizing the detailed analysis of the accounting implications of transition to IFRS. As part of this analysis, the wider impact on the business is being considered. At present, the Company does not believe the transition to IFRS will have significant contractual implications. Financing relationships will be affected by the different accounting treatment of share purchase warrants as outlined above. The impact is currently being assessed. Other changes to business practices are also being considered with a view to implementing during Q1.

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.

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 that is expected to be filed in early March 2011, are and will be available on the Company's SEDAR company profile at www.sedar.com and on the Company's website at www.xinergycorp.com.