



XINERGY Ltd.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

FOR THE PERIOD ENDED June 30, 2010

August 4, 2010

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
FOR THE PERIOD ENDED JUNE 30, 2010**

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the period ended June 30, 2010, and audited consolidated financial statements and notes thereto of Xinerge Ltd. (the "Company" or "Xinerge") for the year ended December 31, 2009. In this MD&A, "Xinerge", "the Company," "we," "us," or "our" refers to Xinerge Ltd. and its subsidiaries and where the context requires, in respect to transactions prior to the Reverse Takeover ("RTO") in December 2009. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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 are to United States dollars unless otherwise indicated.

This MD&A was prepared using information that is current as of August 4, 2010.

Forward Looking Information

In the interest of providing our shareholders and potential investors with information regarding Xinerge, 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.

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.

There is no representation by us that actual results achieved during the forecast period will be the same in whole or in part as those forecast 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.

Highlights for the Quarter

- Gross margin from mining operations was \$6.6 million or \$22.59 per ton on revenues of \$25.2 million for the quarter.
- EBITDA was \$7.1 million whereas EBITDA adjusted for non-recurring items including a \$3.4 million gain on acquisition and related expenses of \$994,000, resulted in an Adjusted EBITDA of \$4.7 million for the quarter ended June 20, 2010, an increase from a negative Adjusted EBITDA of \$1.3 million in the previous quarter.
- Average sales price was \$86.20 per ton, an increase from \$67.83 in the first quarter of 2010
- Cash costs were \$49.94 per ton, a decrease from \$63.26 in the first quarter of 2010
- Tons sold were 292,077, an increase from 115,876 in the first quarter of 2010
- Tons produced were 336,136, an increase from 155,623 in first quarter of 2010
- Working capital more than doubled to \$14.8 million from \$6.1 million at March 31, 2010. A June 30, 2010 snapshot:

Cash	\$15.7 million
Inventory	\$ 7.5 million
AR	\$ 5.6 million

- The Company will also reduce its restricted cash by \$4.0 million in August 2010, therefore increasing its cash reserves.
- The Company closed on the acquisition of Raven Crest Mining, LLC (“Raven Crest”), a West Virginia mining operation, on April 28, 2010. The acquisition has been immediately accretive to earnings with an average sales realization of \$90.37 on the sale of 138,000 tons since acquired. The Company expects to maintain production of 65,000 to 75,000 tons per month of high quality thermal coal, however, the Company has the capability of increasing production if market conditions improve.

Outlook

With the addition of the Raven Crest operations and the increasing efforts to continually add permitted reserves in Kentucky and West Virginia, the Company expects to produce 2.5 to 3.0 million tons in fiscal 2011. The Company also expects to maintain cash costs between \$50 and \$55 per ton while maximizing quality specifications that will provide increasing market opportunities when available. The Company defines cash costs as the cost of sales excluding any inventory changes during the period divided by tons produced. This enumerates all costs associated with the production, selling, processing and loading the coal in a rail car for delivery.

The Company is consistently carrying on discussions with major utilities in efforts to increase commitments for the remainder of 2010 and through 2012 and is confident additional coal supply agreements will be executed by year end.

For the remainder of 2010, the Company has 710,000 contracted tons outstanding at an average sales price of \$93. In 2011 and 2012, the Company has contracted tons of 1,080,000 and 146,000 at average sales prices of \$102 and \$115 per ton, respectively.

The remaining 2010 committed tons expect to be produced and shipped as follows:

- 330,000 tons from its West Virginia mines
- 380,000 tons from its Kentucky mines

The committed 2011 tons expect to be produced and shipped as follows:

- 660,000 tons from its West Virginia mines
- 420,000 tons from its Kentucky mines

The committed 2012 tons expect to be produced from its Kentucky mines and shipped as follows:

- 146,000 tons from its Kentucky mines

Financial Overview

	As at June 30 2010	As at March 31 2010	As at December 31 2009	As at June 30 2009
<u>Balance Sheet</u>				
Cash	\$ 15,692,206	\$ 8,584,572	\$10,192,766	\$ 454,169
Total current assets	\$ 29,652,766	\$13,807,091	\$13,263,615	\$ 5,875,156
Total assets	\$149,973,086	\$66,363,164	\$63,257,701	\$ 51,886,720
Total current liabilities	\$ 14,838,602	\$ 7,720,236	\$ 5,734,404	\$ 7,331,293
Total long-term liabilities	\$ 83,223,356	\$ 8,474,884	\$ 7,218,743	\$ 45,289,517
Shareholders' equity	\$ 51,911,128	\$50,168,044	\$50,304,554	\$ (734,090)
		2010		2009
	Three months ended June 30	Three months ended March 31	Six months ended June 30	Three months ended June 30
<u>Statement of Operations</u>				
Coal revenues	\$ 25,177,248	\$ 7,860,061	\$33,037,309	\$ 12,912,514
Cost of coal sales	\$ 18,579,210	\$ 7,615,643	\$26,194,853	\$ 12,268,957
Gross margin	\$ 6,598,038	\$ 244,418	\$ 6,842,456	\$ 643,557
Net income (loss)	\$ 416,974	\$(3,110,296)	\$(2,693,322)	\$ (5,462,335)
Basic and diluted net income (loss) per share	0.01	(0.06)	(0.05)	(0.17)
		2010		2009
	Three months ended June 30	Three months ended March 31	Six months ended June 30	Three months ended June 30
<u>Sales & Operating Statistics</u>				
Tons sold	292,077	115,876	407,953	147,870
Tons produced	336,136	155,623	491,759	148,187
Gross margin/ton sold	22.59	2.11	16.77	4.35
Sales/ton	86.20	67.83	80.98	87.32
COGS/ton sold	63.61	65.72	64.21	82.97
Cash costs/ton produced	49.94	63.26	54.15	81.19

Three months ended June 30, 2010

	<u>Raven Crest (WV)</u>	<u>Straight Creek (KY)</u>	<u>Total</u>
Tons sold	138,470	153,607	292,077
Tons produced	132,183	203,953	336,136
Revenues	\$12,512,863	\$12,664,385	\$25,177,248
Sales/ton	90.37	82.45	86.41

Results of Operations

Revenues

Second quarter 2010 coal revenues were \$25.2 million on sales of 292,077 tons at an average sales price of \$86.20 as compared to revenues of \$12.9 million on sales of 147,870 tons at an average sales price of \$87.32 for the same quarter of 2009. Sales volume and revenues increased in the quarter compared to the same quarter in 2009 because the Company resumed shipping coal 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 Raven Crest on April 29, 2010. The Company shipped approximately 44,000 tons during the quarter to that major customer and 138,000 tons were shipped by Raven Crest during the quarter.

Cost of Sales

Second quarter cost of sales was \$18.6 million, or \$63.61 per ton, compared to \$12.3 million, or \$82.97 per ton in the same period last year, an improvement of 23% per ton. Cost of sales reflects changes in inventory balances and actual cash costs during the period. The overall decrease in costs to the comparable quarter in 2009 is primarily because the Company began phasing out contractors in the third quarter 2009 and is now benefiting from lower operating costs. This accomplishment along with the receipt of additional mining permits, increased equipment utilization, the purchase of essential surface mining equipment and the continuing efforts of management to increase efficiencies with emphasis on safety and productivity have reduced overall mining costs four consecutive quarters.

Overall actual cash costs on a produced ton basis were \$16.8 million or \$49.94 for the quarter ended June 30, 2010 compared to \$12.0 million or \$81.19 per ton for the comparable quarter 2009, an improvement of 38% per ton which is discussed above. Cash costs include cost of sales excluding changes in inventory balances during the period divided by produced tons.

General and Administrative Expenses

General and administrative expenses were \$3.4 million for the quarter, up from \$1.1 million in the comparable period. This increase is primarily the result of increasing the executive management team, additional support staff, professional fees associated with the Raven Crest acquisition and other expenses directly resulting from the RTO in December 2009 and associated efforts to grow the Company, organically and through acquisitions.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization expenses were \$6.6 million during the quarter, up from \$2.7 million in the comparable period. This increase in amortization and depreciation is due to the \$71.7 million in identifiable assets acquired with the Raven Crest acquisition. The Raven Crest acquisition is discussed in the "Business Acquisition" section in this MD&A.

Other Income (Expense)

Other income (expenses) was income of \$2.1 million from (\$5.0 million) in expense in the comparable period, a net change of \$7.1 million, primarily due to a reduction in interest expense of \$1.2 million, a reduction in losses on advances to contract miners of \$2.3 million and an increase of \$3.4 million in gain on the Raven Crest business acquisition.

Liquidity and Capital Resources

At June 30, 2010, the Company had cash and cash equivalents of \$15.7 million compared to \$8.6 million at March 31, 2010. This increase in liquidity was primarily driven by the \$3.3 million in cash provided by operating activities and the \$3.8 million net cash provided from financing activities less the net cash used in investing activities during the quarter. The addition of Raven Crest and the commencement of shipping to a major customer in June 2010 from our Kentucky Straight Creek operations will continue to enhance our cash flow from operations.

On July 26, 2010, the Company entered into an agreement to replace approximately \$5.0 million in outstanding reclamation bonds that are 100% collateralized with cash. The agreement reduces the Company's cash collateral requirements to 25% of the face amount of the bond and will reduce the Company's restricted cash and increase available cash by \$4.0 million, respectively.

Operating Activities

For the three month period ended June 30, 2010, the Company generated \$3.3 million from operating activities compared to cash used in operating activities of \$655,000 in the same period in the prior year. The net cash provided from operations consisted primarily of increases in accounts payable and accrued interest, and by non-cash increases in depreciation, depletion and amortization and a gain on acquisition offset by increases in accounts receivable and coal inventories. All of these increases are directly attributable to the addition of Raven Crest and the increase in production, revenues and reduction in operating costs.

Investing Activities

For the three month period ended June 30, 2010, the Company used \$50.7 million from investing activities compared to cash provided by investing activities of \$105,000 in the same period in the prior year. The cash used in investing activities consisted of \$41.2 million for the acquisition of Raven Crest, \$6.7 million in purchases of mining equipment for the Straight Creek operations and the reduction in restricted cash of \$2.7 million.

Financing Activities

For the three month period ended June 30, 2010, the Company had cash provided from financing activities of \$54.5 million compared to cash used in financing activities of \$599,000 in the same period in the prior year. The Company issuance of senior secured notes to finance the Raven Crest acquisition, as discussed under "Notes Payable". The Company repaid \$17.9 million of long term debt acquired in the Raven Crest acquisition and paid \$2.9 million in financing related costs. The Company also received \$3.4 million in equipment related financing for capital expenditures at its Straight Creek mining operations.

Adjusted EBITDA

EBITDA is defined as net loss plus (i) interest expense, (ii) depreciation, depletion, accretion and amortization minus (iii) interest income, and (iv) future income tax benefit. We present Adjusted EBITDA, including stock-based compensation expense and loss on advances to contract miners 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 generally accepted accounting principles (“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:

	2010			2009
	Three months ended June 30	Three months ended March 31	Six months ended June 30	Three months ended June 30
Net income (loss)	\$ 416,974	\$(3,110,296)	\$(2,693,322)	\$ (5,462,335)
Interest expense	\$ 1,431,555	\$ 10,416	\$ 1,441,971	\$ 2,578,623
Depreciation, depletion amortization and accretion	\$ 6,738,564	\$ 2,786,459	\$ 9,525,023	\$ 2,579,969
Income tax benefit	\$ (1,621,752)	\$(1,715,462)	\$ (3,337,214)	\$ (2,608,364)
Interest income	\$ (45,146)	\$ (153,919)	\$ (199,065)	\$ (54,743)
Investment income	\$ (215,000)		\$ (215,000)	
Stock based compensation	\$ 349,195	\$ 870,164	\$ 1,219,359	\$ 94,853
EBITDA	\$ 7,054,390	\$(1,312,638)	\$ 5,741,752	\$(2,871,997)
Advances to contractors	\$ –	\$ –	\$ –	\$ 2,252,004
Non-recurring expenses related to acquisition	\$ 994,250	\$ –	\$ 994,250	\$ –
Non-recurring gain on acquisition	\$ (3,357,356)	\$ –	\$ (3,357,356)	\$ –
Adjusted EBITDA	\$ 4,691,284	\$(1,312,638)	\$ 3,378,646	\$(619,993)

Business Acquisition—Raven Crest

Effective in December 2009, the Company purchased 100% of the membership interest in Shenendoah Energy, LLC (“Shenendoah”). Shenendoah’s assets consisted 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 Shenendoah were retained by the seller. Management evaluated this transaction and determined that Shenendoah did not meet the definition of a business under GAAP; accordingly, this transaction was considered acquiring a group of assets and not a business combination.

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 that the Company did not own. Raven Crest is a West Virginia coal producer. A description of the Raven Crest projects is set forth in a technical report entitled “An Independent National Instrument 43-101 Report Summarizing Mineral Exploration, Development and Production Activities of Raven Crest Mining Reserves, Boone County, West Virginia” dated April 6, 2010. This technical report can be found under the Company’s profile on SEDAR at www.sedar.com.

On April 28, 2010, the Company completed the acquisition of the remaining 95% membership interest in Raven Crest that it did not own (“the Acquisition”). The operations of Raven Crest are included in the accompanying interim consolidated financial statements as of April 28, 2010. Total fair value consideration for the Acquisition was \$43,990,000 in cash, consisting of a purchase price of \$40,000,000, plus a payment of \$3,990,000 for a working capital adjustment settlement. During the first quarter of 2010, the Company made cash deposits for the Acquisition totaling \$1,250,000 that were funded from its cash balances. The Company paid \$37,270,667 (net of \$1,479,333 of cash acquired from Raven Crest) on April 28, 2010 and paid the working capital adjustment of \$3,990,000 in June 2010.

Prior to acquiring the remaining 95% membership interest in Raven Crest, 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 \$1,852,211 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, Shenendoah wrote-off the \$160,000 in accounts receivable from Raven Crest.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the Acquisition date. The Company obtained independent third-party valuations of the mining machinery and equipment, coal supply agreement and other intangible assets and the asset retirement obligations. The Company used a widely accepted valuation model to determine the fair value of the mineral rights. 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 inventory	\$ 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
Future income taxes	\$ 1,311,749
Total liabilities assumed	\$ 24,016,166
Net identifiable assets acquired	\$ 47,720,026
Fair value of consideration transferred for 100% of the membership interest	\$ 44,362,670
Gain	\$ 3,357,356

The Company recognized \$994,250 of acquisition related expenses in the second quarter of 2010. These expenses are included in the interim consolidated statement of operations in general and administrative expenses.

In connection with the Acquisition, certain deferred 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 \$1,113,943 in net deferred tax liabilities related to transaction costs, which resulted in a deferred tax asset of \$34,799, and the gain on the Acquisition, which resulted in a deferred tax liability of \$1,148,742. Primarily as a result of the deferred tax liability on the gain on the Acquisition being recorded in connection with the Acquisition, the provision for income tax recorded on the statement of operations differs from the amount that would be calculated at the statutory federal and state income tax rates.

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 six months ended June 30:

	<u>2010</u>	<u>2009</u>
Revenue	\$50,319,428	\$66,143,923
Net loss	4,224,362	4,191,337

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.

Financial Instruments and Financial Risk Factors

All financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on how the financial instrument has been classified upon its inception. Financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value with changes in those fair values recognized in net income (loss). Available-for-sale financial instruments are measured at fair value, with changes in those fair values recognized in other comprehensive income (loss). Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Transaction costs for financial instruments, other than held-for-trading, are included in the value of the financial instrument. Income and expense related to financial instruments is included in the consolidated statement of operations as interest income or interest expense.

The Company's financial instruments include cash, restricted cash and certificates of deposit, trade accounts receivable, advances to contract miners, accounts payable and accrued expenses and notes payable.

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

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

<u>Financial Instrument</u>	<u>Classification</u>
Cash	Held-for-trading
Restricted cash and certificates of deposit	Held-to-maturity
Trade accounts receivable	Loans and receivables
Advances to contract miners	Loans and receivables
Accounts payable and accrued expenses	Other financial liabilities
Notes payable	Other financial liabilities

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

Credit Risk

Credit risk arises from the potential that a customer or counterparty will fail to perform its obligations. The Company's exposure to credit risk exists primarily related to its trade accounts receivable. While economic factors can affect credit risk, the Company manages risk by providing credit terms on a case by case basis. Customers are primarily investment grade companies and quasi-governmental agencies. The Company's cash and certificates of deposit are on deposit with quality financial institutions and such deposits are subject to insurance by the Federal Deposit Insurance Corporation, an independent agency of the United States of America, and the Canada Deposit Insurance Corporation, a federal Crown corporation created by Canadian Parliament. The Company's maximum credit risk exposure at June 30, 2010, is approximately \$18,870,000 and is equal to the carrying amount of all uninsured cash, restricted certificates of deposit and trade accounts receivable as listed on the accompanying consolidated balance sheet.

Market Risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's interest rate risk primarily relates to its interest bearing debt on the accompanying consolidated balance sheet. As the Company's debt has fixed interest rates, the Company has minimized its exposure to cash flow interest rate risk.

The Company's price risk primarily relates to the ability for coal prices to fluctuate widely and is affected by many factors outside of the Company's control. The Company minimizes its price risk by entering into long-term sales contracts with customers which fix the price of coal sold.

Liquidity Risk

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

The Company has sustained losses since operations commenced in 2008 and has financed these losses mainly through a combination of equity and debt offerings. As a result of the RTO and equity issuance in December 2009, the Company significantly increased its cash balances, reduced its outstanding debt and increased its shareholders' equity. As a result of the financing for the business acquisition discussed previously, the Company's debt and cash increased significantly during the second quarter of 2010. Management of the Company believes it has sufficient resources to meet all its obligations and also has the ability to fund the Company's operations in the upcoming year. The Company has contractual obligations with future minimum undiscounted amounts payable that are due as follows at June 30, 2010:

	Less than 1 Year	2-3 Years	Thereafter	Total
Accounts payable and accrued expenses	\$ 9,414,839	\$ -	\$ -	\$ 9,414,839
Accrued interest payable	1,282,192	-	-	1,282,192
Notes payable	3,713,214	3,469,551	75,000,000	82,182,765
	<u>\$ 14,410,245</u>	<u>\$ 3,469,551</u>	<u>\$ 75,000,000</u>	<u>\$ 92,879,796</u>

Concentrations

The Company's three largest customers individually accounted for approximately 62%, 15% and 13% of the Company's revenues during the six months ended June 30, 2010, and approximately 47%, 31%, and 21% of the Company's revenues during the six months ended June 30, 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 47% and 46% of trade account receivable at June 30, 2010. Two customers accounted for approximately 54% and 43% of trade accounts receivable at December 31, 2009.

Notes Payable

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

In conjunction with the Acquisition previously discussed, 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. 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 percentages ranging from 110% to 102% of the principal amount of the notes, based on the dates of the early redemption. If a change in control occurs, the Company 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 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 approximately \$2,900,000 of fees in connection with the financing and paid transaction expenses of approximately \$1,000,000.

Additionally, the Company has numerous equipment and vehicle notes. These notes bear interest at fixed rates ranging from non-interest bearing to 8.1% and are due in various monthly payments through April 2013. All these loans are collateralized by the related equipment and vehicle purchased.

Aggregate annual future maturities of the Company's notes payable are as follows at June 30, 2010:

July 1, 2010 to June 30, 2011	\$ 3,713,214
July 1, 2011 to June 30, 2012	2,917,651
July 1, 2012 to June 30, 2013	551,900
July 1, 2012 to June 30, 2014	-
July 1, 2012 to June 30, 2015	<u>75,000,000</u>
Total notes payable	<u><u>\$82,182,765</u></u>

Derivatives

We have not entered into any hedging activities and have not had any derivatives since our incorporation.

Recent and Upcoming Changes in Accounting Policies

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants announced that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition date of January 1, 2011, will require the restatement for comparative purposes, amounts reported by the Company for the six months ended June 30, 2010, for which the current and comparative information will be prepared under IFRS. Please see "International Financial Reporting Standards" below for details with respect to Xinerdy's assessment of IFRS and its transition plan.

Subsequent Events

In June 2010 the Compensation Committee of Xinerdy approved an amendment to the Chief Executive Officer's employment agreement, to provide for the payment to him of equity and cash in lieu of just cash as his base salary on a quarterly basis. In accordance with this amendment on July 1, 2010, Mr. Nix received certain restricted stock units ("RSU") granted in accordance with the Company's 2010 Stock Incentive Plan (the "Stock Incentive Plan"). The RSUs provides that on September 30, 2010, the Chief Executive Officer will be issued 30,177 Common Shares, provided he remains employed with the Company.

On July 27, 2010, the Company entered into a non-binding letter of intent to sell all of its interest in Xinerdy of Alabama, Inc., a wholly owned subsidiary of the Company, for \$3,300,000. Although the Company owns mineral rights and a permit in Alabama through Xinerdy of Alabama, Inc., the Company considers this property non-strategic in its near term plans and there are currently no active or planned mining operations related to these properties.

Summary of Quarterly Results

	2010		2009			
	Q2	Q1	Q4	Q3	Q2	Q1
<i>(thousands, except per ton amounts)</i>						
Tons produced	336	156	118	168	148	236
Tons sold	292	116	112	185	148	221
Sales price/ton	86.20	67.83	78.18	78.38	86.39	104.58
COGS/ton	63.61	65.72	62.43	64.89	85.50	67.21
Cash costs/ton produced	49.94	63.26	63.67	66.02	81.19	68.07
Revenue	25.2	7.9	8.8	14.5	12.9	23.2
Net income (loss)	0.4	(3.1)	(1.1)	(1.8)	(5.5)	1.9
Basic net income (loss)/share	0.01	(0.06)	(0.17)	(0.12)	(0.17)	0.05
Diluted net income (loss)/share	0.01	(0.06)	(0.17)	(0.12)	(0.17)	0.05

Outstanding Share Data

Share Capital

The authorized share capital of the Company consists of an unlimited number of common shares without par value (the “Common Shares”) and an unlimited number of common non-voting shares (the “Common Non-Voting Shares”). As at the date hereof, there are 36,712,680 Common Shares issued and outstanding and 19,467,541 Common Non-Voting Shares issued and outstanding.

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 are exercisable in December 2010 and 50,000 Common Shares are exercisable in December 2011. These shares were valued based on the trading price at the date of issuance.

Additionally, in January 2010 the Company issued an aggregate of 60,000 restricted common shares to its three independent Directors, which are exercisable in January 2011. These shares were value based on the trading price at the date of issuance.

Stock Options

At the annual and special meeting of shareholders held in June 2010, the shareholders of the Company approved the Stock Incentive Plan. The Stock Incentive Plan provides that the aggregate maximum number of Common Shares which may be issued pursuant to any Stock Options, Stock Appreciation Rights/SAR, Restricted Stocks or Restricted Stock Units, or Other Stock-Based Awards (collectively, “Awards”) granted under the Stock Incentive Plan and awards granted under the pre-existing option plan is 7,000,000. No further awards shall be granted under any pre-existing option plan.

During January 2010, the Company issued stock options were granted to purchase 400,000 shares with an exercise price of \$3.10 per share and options were granted to purchase 120,000 shares with an exercise price of \$3.62 per share. During May 2010, the Company issued 115,000 stock options to employees with an exercise price of \$2.71 per 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	635,000	3.13
Forfeited	(11,736)	0.60
Exercised	(292,226)	0.71
Outstanding at June 30, 2010	4,716,696	\$1.48

Of the stock options outstanding at June 30, 2010, 2,482,185 options expire in 2018, 1,599,511 options expire in 2019, 635,000 options expire in 2020.

Details of the stock options exercisable at June 30, 2010 are as follows:

	Number of Options	Weighted Average Exercise Price
	2,048,353	\$0.60
	4,518	Cdn1.99
	500,000	3.62
	2,552,871	\$1.19

Warrants

Summarized information about warrants, after reflection of the converted number of warrants and exercise prices, from January 1, 2009 to June 30, 2010, is as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2009	3,540,200	\$0.96
Issued to investors in December 2009	9,514,136	Cdn\$4.20
Issued to agents in December 2009	1,139,142	Cdn\$4.20
Exercised in December 2009	(1,564,275)	0.96
Outstanding at December 31, 2009	12,629,203	\$3.52
Exercised in March 2010	(1,975,925)	0.96
Issued for Marret note payable	3,000,000	Cdn\$4.20
Outstanding at June 30, 2010	13,653,278	Cdn\$4.20

At June 30, 2010, 10,653,278 warrants outstanding expire in December 2011 and 3,000,000 warrants expire December 2012.

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 estimates the fair value of its asset retirement obligation ("ARO") liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of future costs for third-party to perform the required work. Cost estimates are escalated for inflation, and then discounted at the credit-adjusted risk-free rate, which approximated a weighted average rate of 7.48% at June 30, 2010. Total estimated undiscounted future costs related to the ARO liabilities totaled approximately \$9,100,000 at June 30, 2010, with costs expected to be paid from 2010 to 2019.

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

	Six months ended June 30, 2010	Year ended December 31, 2009
Asset retirement obligations, beginning of period	\$ 5,721,664	\$4,994,135
Liabilities assumed in acquisition	1,798,426	–
Liabilities incurred	–	703,946
Accretion expense	168,946	361,544
Revisions in estimated cash flows	–	17,028
Liabilities settled	(90,431)	(354,989)
Asset retirement obligations, end of period	\$7,598,605	\$5,721,664

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 contributed 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.

During February 2008, we established a Stock Incentive Plan (the "Plan"), which authorizes up to 3,000,000 shares for grants of incentive awards to employees, consultants and directors who will contribute to our long range success. Stock options issued under the 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 Plan prior to the RTO were converted into stock options to purchase an equivalent number of shares. This MD&A reflects the converted number of stock options and exercise prices to reflect the effects of the RTO adjustment.

As a result of the RTO, the Company established a revised Stock Option Plan to reflect the Company's current equity structure. This revised plan authorizes up to 7,000,000 shares, including options issued under the previous plans, for grants of incentive awards to employees, executive officers, directors and consultants to the Company.

At the annual and special meeting of shareholders held in June 2010, the shareholders of the Company approved the Stock Incentive Plan. As noted above, the Stock Incentive Plan provides that the aggregate maximum number of Common Shares which may be issued pursuant to any Awards granted under the Stock Incentive Plan and awards granted under the pre-existing option plan is 7,000,000. No further awards shall be granted under any pre-existing option plan.

In order to determine the valuation of our common stock purchase warrants and common stock options, we 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 our trading history is limited, and the expected term is determined using the simplified method.

Share Capital

The authorized share capital consists of an unlimited number of no par Common Shares and Common non-voting shares. The Common non-voting shares were created in connection with the RTO in December 2009, resulting in the issuance of 19,467,541 shares with an allocated share capital amount of \$4,500,015. All remaining share capital transaction amounts affect Common Shares.

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

Additionally, in January 2010 the Company issued an aggregate of 60,000 restricted common shares to its three independent Directors, which are exercisable in January 2011. These shares were value based on the trading price at the date of issuance.

Reserves

We amortize our mineral rights, mine development costs, capitalized asset retirement costs and some plant and equipment 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.

During March 2009, we sold certain mineral rights with a recorded cost of \$345,000 for \$1.75 million. We then leased back the associated mineral rights under an operating lease agreement and made prepaid royalty payments related to this lease of \$750,000, which have been recorded as recoupable royalties in the accompanying consolidated balance sheet. The resulting gain that could otherwise be recognized should be deferred and amortized in proportion to the related gross rental charged to expense over the lease term; accordingly, the rental payments begin after production, the revenue will be recognized in proportion to the rent expense and related production of tonnage mined. We deferred the portion of the gain associated with the prepaid royalty payments (\$750,000) until such time we determine to mine these properties. At the time mining commences, the gain will be recognized in relation to the tons mined. We have included these tracks to our mining plan and expect to fully mine these areas within the next 4 years. Therefore, the gain will be fully recognized within this time frame. A gain of \$655,000 was recognized in the accompanying consolidated statement of operations for the year ended December 31, 2009.

Internal Controls and Procedures

Internal control weaknesses for most new public companies relate to the lack of sufficient staff with technical accounting knowledge and experience. It should be noted that the Company's Chief Executive Officer and Chief Financial Officer believe that internal controls and procedures in place are reasonably effective and provide reasonable, not absolute, assurance that the objectives of the control system are met.

Internal control over financial reporting is a process designed to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. The process includes policies and procedures to maintain records that accurately and fairly reflect transactions, to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements and that receipts and expenditures are being made with proper authorization and to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions that could have a material effect on the financial statements.

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision. We assessed the design and implementation of our internal controls over financial reporting as of June 30, 2010 and during this process, management identified certain weaknesses in internal controls over financial reporting which are as follows:

- a) Due to the limited number of staff currently in place, it was not feasible to achieve complete segregation of incompatible duties through June 30, 2010.
- b) The Company does not currently have a sufficient number of finance personal with the technical accounting knowledge to address all complex and non-routine accounting transactions that may arise.

These weaknesses in the Company's internal controls over financial reporting result in more than a remote likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors are continuing to work to mitigate the risk of material misstatement in financial reporting and have engaged third party consulting expertise to assist in the design and implementation of internal controls over financial reporting and intend to execute this plan by December 31, 2010. In spite of management's best efforts, there can be no such assurance that this risk can be reduced to a remote likelihood of material misstatement.

International Financial Reporting Standards

In March 2006, the CICA released its plan to adopt International Financial Reporting Standards. After a five year transitional period, at the end 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 the remainder of this year and the first quarter of next year. Specifically, the items identified are being analysed 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 Generally Accepted Accounting Principles (“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.

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 is assessing the application of IAS 21 and the functional currency.

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 amortized 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 analysed 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 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.

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 is assessing the applicability of IAS 23 and its impact, if any.

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 is currently assessing the impact of this change.

At this time, the Company can not 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.

Risk Factors

Please refer to the Annual Information Form 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, is available on the Company's SEDAR company profile at www.sedar.com and on the Company's website at www.xinergycorp.com.