



XINERGY Ltd.

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

FOR THE YEAR ENDED DECEMBER 31, 2009

March 31, 2010

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This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and notes thereto of Xinergey Ltd. (the "Company" or "Xinergey") for the year ended December 31, 2009. In this MD&A, "Xinergey", "the Company," "we," "us," or "our" refers to Xinergey Ltd. and its subsidiaries and where the context requires, in respect to transactions prior to the Reverse Takeover (as defined herein). 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 our 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 March 30, 2010.

In the interest of providing our shareholders and potential investors with information regarding Xinergey, including management's assessment of our future plans and operations, 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 are expressly qualified by this cautionary statement.

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

- tons under contract for 2010 and 2011 and the related price per ton;
- coal production in fiscal 2010 and beyond;
- production costs in the future;
- increased production capacity as the result of the opening of the underground mine;
- capital expenditures and depreciation and amortization expense in the future; and
- future development or acquisition activities.

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 will 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 and other documents we file with the Canadian securities regulatory authorities.

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.

Readers of this Management's Discussion and Analysis should refer to the section entitled "Risk Factors" in our Annual Information Form for factors which could potentially impact the Company's financial performance and its ability to meet its targets.

Reverse Takeover of Xinergy Ltd. (formerly Greenwich Global Capital Inc.)

As announced in a press release dated October 15, 2009, Greenwich Global Capital Inc. ("GGC") and Xinergy Corp. entered into a letter of intent dated October 14, 2009 (the "Letter of Intent") whereby Xinergy Corp. would acquire GGC in a reverse takeover transaction. On December 21, 2009, Xinergy Corp. completed a reverse takeover ("RTO") of GGC. GGC changed its name to Xinergy Ltd. on December 21, 2009. Xinergy's shares began trading on the TSX on December 24, 2009.

On December 4, 2009, GGC, Xinergy Corp. and the major shareholders of Xinergy Corp. entered into a share exchange agreement which superseded the Letter of Intent and pursuant to which GGC would acquire all of the issued and outstanding common shares of Xinergy Corp. Prior to the completion of the RTO, GGC affected a reverse split of its outstanding common shares on the basis of one new share for each 19.92 shares outstanding and Xinergy Corp. effected a split of its outstanding common shares on the basis of 2.0857 new shares for each one share outstanding (net of 25,000 dissenting shares which were paid out in the amount of \$161,119). In addition, warrants and options to purchase Xinergy Corp.'s shares outstanding immediately prior to the RTO were replaced with warrants and options to purchase an equivalent number of common shares of the Company, on economically equivalent terms and conditions.

GGC was previously listed on the NEX Board of the TSX Venture Exchange. GGC was incorporated under the Business Corporations Act (Ontario) on February 11, 2005, was classified as a capital pool company ("CPC") as defined in the TSX Venture Exchange Policy 2.4 and, accordingly, had no significant assets other than cash. It had no commercial operations.

In connection with the RTO during December 2009, the Company acquired 385,700 common shares for \$1.28 million from an entity controlled by its principal shareholder and issued 18,985,700 common shares at Cdn\$3.50 per share and 9,492,850 common stock purchase warrants valued at \$3.79 million for cash proceeds of \$56.51 million, net of \$6.25 million of offering costs. The proceeds were held in escrow until the RTO was completed. The Company also issued to the placement agents an aggregate of 1,139,142 common stock purchase warrants valued at \$465,000. All these common stock warrants have an exercise price of Cdn\$4.20 and expire in December 2011. The Company also issued an additional 42,572 shares at \$3.50 per share and 21,286 common stock warrants to additional investors and received \$149,000 in proceeds. All of the above referenced shares were converted into Xinergy Ltd.'s common shares on a one-for-one exchange basis. Please refer to our Annual Information Form for additional information regarding the RTO.

Common share activity of GGC 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 December 31, 2008	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

The acquisition of the shares of Xinergy Corp. was accounted for as an RTO transaction as GGC did not qualify as a business for accounting purposes; accordingly, the transaction was accounted for as a capital transaction of the Company. Pursuant to the RTO transaction, the consolidated financial statements for the years ended December 31, 2009 and 2008 reflect the assets, liabilities, and results of operations of Xinergy Corp. prior to the RTO and the consolidated assets, liabilities and results of operations of the Company and Xinergy Corp. subsequent to the RTO. The consolidated financial statements are issued under the name of the legal parent, Xinergy Ltd., but are deemed to be a continuation of the legal subsidiary, Xinergy Corp. The consolidated financial statements include Xinergy Ltd. and its subsidiaries, all of which are wholly-owned.

Financial Overview

We mine, process and sell high quality bituminous steam coal from mining operations located in Southeastern Kentucky. We lease the coal mineral rights to over approximately 60,000 acres of land in Southeastern Kentucky and Alabama and until March 2010, in Tennessee. In March 2010, we exercised our right to terminate our lease for the 29,000 acre Blue Diamond tract in Tennessee. We were incorporated in Tennessee in October 2007 and were formed with the intent of acquiring assets in the coal mining industry. We purchased certain coal mining assets from National Coal Corporation, a wholly-owned subsidiary of National Coal Corp. (NASDAQ: NCOG) on March 28, 2008 and began our mining operations on April 1, 2008. As of December 31, 2009, our active mining complexes included three surface mines and one highwall mine. In addition, we have one preparation plant and one unit train loading facility served by the CSX railroad. We hold permits for five additional mines, three underground, one surface and one highwall mine. These permits will allow us (1) to open one new underground mine close to our current operations, (2) to reopen one temporarily closed underground mine, which we reopened in January 2010; and (3) to open one surface mine in Alabama if market conditions are favorable. During the year ended December 31, 2009, we generated total revenues of approximately \$59.45 million with an Adjusted EBITDA of \$9.52 million and we sold approximately 666,000 tons of coal. During the three months ended December 31, 2009, we generated total revenues of approximately \$8.76 million with a negative Adjusted EBITDA of \$(387,039) and we sold approximately 112,000 tons of coal. We expect our production to significantly increase as we continue to expand our operations. Please refer to our Annual Information Form for a discussion of our coal reserves.

To date, our revenues have resulted primarily from the sale of coal to electric utility companies and industrial companies in the Southeastern United States. According to the U.S. Energy Information Administration (“EIA”), in 2008 the Southeast region accounted for 27.5% of coal-generated electricity production in the United States, up from 23% in 2007 and second only to the greater Mid West region in the United States. We believe that that the long-term outlook for coal demand in the Southeast is favorable, as coal-generated electricity production in our region is expected to grow at a rate of 1.3% per year according to the EIA. In addition, the Southeast region is projected by the EIA to account for 27% of the expansion of coal-generated electricity production in the United States over the next 20 years. We began selling purchased coal in March 2008 and began mining and processing coal on April 1, 2008.

For the year ended December 31, 2009, our largest customers were Georgia Power, Tennessee Valley Authority (“TVA”) and the Department of Energy (“DOE”), representing approximately 45% and 30% and 21% of our revenues, respectively. For the year ended December 31, 2008, our three largest customers were Duke Energy, Georgia Power and Constellation Energy, which represented 33%, 27% and 15% of our total revenue, respectively.

In excess of 99% of our revenues are derived from the sale of coal we produce from our own mines or purchase from third parties. Additionally, when capacity has been available, we have allowed third parties the use of our rail loading facility for a per ton fee. For the year ended December 31, 2009 and 2008, we derived \$240,000 and \$388,000 of revenue, respectively, from third party loading fees. We do not anticipate any meaningful revenues to be derived in the foreseeable future from third party use of our load-out facility.

We sell our coal for a specified per ton amount at a negotiated price pursuant to both short-term contracts and contracts exceeding twelve months. The weighted average selling price in 2009 was \$88.84. We have contracts in place which provide for \$88.88 per ton and \$115.10 per ton on 813,000 tons and 384,000 tons contracted for 2010 and 2011, respectively. Price adjustments, price reopener and other provisions in long-term supply agreements may reduce the protection from short-term coal price volatility traditionally provided by such contracts. Any adjustment or renegotiation leading to a significantly lower contract price or lower volumes would result in decreased revenues and lower margins, which would have a material adverse effect on our operating cash flows. Additionally, our customers may have the ability to delay the timing of their purchases, which could negatively impact operating cash flows. Finally, coal supply agreements also typically contain force majeure provisions allowing temporary suspension of shipments to the customer which specified events are beyond our control.

In June 2009, a major customer gave notice of the termination of our coal supply agreement with them. The basis for the customer’s termination is contained in a June 5, 2009 letter to us. Our view is that the contract provision on which the customer bases its termination does not apply in the context of other provisions of the contract and facts applicable to them and we intend to vigorously contest the termination. In this context, the parties have discussed a proposed amendment to the contract which would nullify the contract termination and permit us to perform the contract. We currently have been issued permits to open two new mines, one underground mine at our Straight Creek mining complex in Kentucky and one surface mine at our Coal Valley property in Alabama. In addition, we have the necessary permits to reopen one underground mine at the Straight Creek property. We opened this underground mine in January 2010. We estimate that we can mine a total 265,000 tons from this mine. We have also applied for permits or have pending permit applications in various stages that could enable us to open four new mines at the Straight Creek property as market conditions improve.

Our results of operations are materially impacted by production costs. Our production cost prior to the quarter ended September 30, 2009, were costs incurred for contract mining services provided to the Company by third party contractors. These contractors mined coal and delivered it to the Company’s processing plant or rail loading facility on a per ton price. We were responsible for paying all royalties, coal taxes, freight and costs associated with processing and loading. We have been advancing monies to the contractors or making payments on behalf of contractors because of continuing concerns about the

possibility of production disruptions and the ongoing failure of the contractors to pay certain vendors. By September 30, 2009, we terminated all of the third party mining contractor agreements. As a result, in 2009 we wrote off \$2.6 million in advances made to contractors or payments made directly to contractor vendors. We believe this decision will reduce our overall cost and allow us to better control production and create a more reliable supply of necessary qualities of coal to service our customers.

Selected Annual Financial Information

	As at December 31,	
	2009	2008
Balance Sheet		
Cash	\$10,192,766	\$163,813
Total current assets	13,263,615	7,895,579
Total assets	63,257,701	55,128,019
Total current liabilities	5,734,404	8,900,287
Total long-term liabilities	7,218,743	43,815,079
Shareholders' equity	50,304,554	2,412,653
	Year ended December 31,	
	2009	2008
Statement of Operations		
Total revenues	\$59,448,264	\$57,581,374
Cost of coal sales	46,353,871	49,160,388
Net loss	(11,388,852)	(5,547,245)
Basic and diluted net loss per share	(0.34)	(0.20)
	Year ended December 31,	
	2009	2008
Statistics		
Tons of coal produced	669,525	475,630
Tons of coal sold	666,185	664,502
Coal sales	\$59,181,948	\$57,102,923
Average sales price per ton	\$88.84	\$85.93
Average cost of sales per ton	\$69.58	\$73.98

Our financial position as of December 31, 2009 improved from 2008 primarily as the result of a private equity placement in December 2009 in connection with the RTO where we received \$56.67 million in net proceeds from the private placement and a sale of shares in connection with the RTO. We used a portion of the proceeds from the private equity placement to repay \$33.20 million of debt. For the year ended December 31, 2009 our net loss increased \$5.84 million on a \$1.87 million increase in revenues. The increase in the loss was primarily due to additional interest expense, higher non-cash stock-based compensation expense, the loss on advances to third party contract miners and an increase in our future income tax benefit.

Results of Operations

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

	Year ended December 31,	
	2009	2008
Revenues	100.0%	100.0%
Operating expenses:		
Cost of coal sales	78.0	85.4
General and administrative	12.0	8.5
Depreciation, depletion and amortization	16.2	9.0
Total operating expenses	106.2	102.9
Operating loss	(6.2)	(2.9)
Other income (expense):		
Interest income	0.3	0.3
Interest expense	(17.9)	(12.3)
Amortization of deferred financing costs	(0.3)	(0.2)
Gain on sale of mineral rights	1.1	-
Loss on sale of equipment	(0.1)	-
Loss on advances to contract miners	(4.4)	-
Write-off of deferred financing costs	(0.4)	-
Other expense	(0.1)	(0.0)
Net other expenses	(21.8)	(12.2)
Loss before income taxes	(28.0)	(15.1)
Future income tax benefit	(8.8)	(5.5)
Net loss	(19.2)%	(9.6)%

Years Ended December 31, 2009 and December 31, 2008

We commenced operations in March 2008 and began mining coal on April 1, 2008, and had limited activity prior to that date.

For the year ended December 31, 2009, our net loss increased \$5.84 million to \$11.39 million from \$5.55 million in 2008. Our net loss increased for the year ended December 31, 2009, in comparison to the year ended December 31, 2008, primarily due to:

- interest expense increased \$3.58 million due to our debt being outstanding for the entire calendar year 2009 vs. nine months for 2008 and larger average outstanding balances during 2009;
- our non-cash stock-based compensation expense increased \$2.13 million;
- we incurred a \$2.60 million loss on advances to third party contract miners in 2009; and
- our income tax benefit increased \$2.09 million during 2009.

Revenues

	Year ended December 31,	
	2009	2008
Coal sales	\$59,181,948	\$57,102,923
Loading services and other	266,316	478,451
Total revenues	\$59,448,264	\$57,581,374
Tons sold	666,185	664,502
Average price per ton sold	\$ 88.84	\$ 85.93

For the year ended December 31, 2009, our revenues from coal sales of approximately \$59.18 million were derived from the sale of 666,185 tons of coal, at an average price of \$88.84 per ton to ten customers, three of which were electric utilities, one which was an agency of the U.S. government, two of which were industrial companies and four of which were other coal producers or brokers. For the year ended December 31, 2009, our largest customers were Georgia Power, TVA and the DOE, representing approximately 45%, 30% and 21% of our revenues, respectively. In June 2009, a major customer gave notice of the termination of our coal supply agreement with them. As a result, expected shipments and revenues for the year ended December 31, 2009 were approximately 240,000 tons and \$27 million less than anticipated, respectively. The basis for the customer's termination is contained in a June 5, 2009 letter to us. Our view is that the contract provision on which the customer bases its termination does not apply in the context of other provisions of the contract and facts applicable to them and we intend to vigorously contest the termination. In this context, the parties have discussed a proposed amendment to the contract which would nullify the contract termination and permit us to perform the contract.

For the year ended December 31, 2008, our revenues from coal sales of approximately \$57.10 million were derived from the sale of 664,502 tons of coal, which included 198,851 tons of purchased coal, at an average sales price of \$85.93 per ton, to ten customers, five of which were utilities and five of which were industrial customers. Our largest customers were Duke Energy, Georgia Power and Constellation Energy which represented 33%, 27% and 15% of our total revenues, respectively. For the year ended December 31, 2009 and 2008, we derived \$240,000 and \$388,000 of revenues, respectively, from third party rail loading services. We do not anticipate any meaningful revenues to be derived in the foreseeable future from third party use of our load-out facility.

Operating Expenses

Production Costs and Cost of Sales

During the years ended December 31, 2009 and 2008, our mines produced and we sold the following tons of coal:

	Year ended December 31,	
	2009	2008
	<i>(in Tons)</i>	
Mine production	669,525	475,630
Purchased coal	10,885	198,851
Tons sold	666,185	664,502
	Year ended December 31,	
	2009	2008
Cost of coal sales	\$46,353,871	\$49,160,388
Average cost per ton sold	\$69.58	\$73.98

Cost of coal sales consists primarily of third party coal purchases, direct costs paid to third party vendors whose goods and services were directly used in the process of producing coal inventory, salary, benefits and other compensation costs paid directly to miners, blasting, fuel, hauling costs, royalties and taxes. The average cost per ton sold decreased \$4.40 per ton or 5.9% in 2009 from 2008 primarily due to decreases in labor, fuel, blasting and other direct mining related expenses. Effective September 30, 2009, we terminated all of our third party mining contractor agreements and anticipate lower costs in the future.

General and administrative expenses

	Year ended December 31,	
	2009	2008
General and administrative expenses	\$7,159,052	\$4,886,768

General and administrative expense increased \$2.27 million in 2009 from 2008, primarily due to a \$2.13 million increase in stock-based compensation, of which \$2.10 million relates to stock options granted and common shares issued in December 2009 that vested immediately, an increase of \$240,000 in salaries, wages and related benefits related to an increase in staffing levels and an additional four months of expense in 2009 as we hired additional administrative personnel in April 2008, offset by a \$217,000 reduction in 2009 cash bonuses and additional costs related to initial filings and registration fees and costs related to the RTO.

Depreciation, depletion and amortization expense

	Year ended December 31,	
	2009	2008
Depreciation, depletion and amortization expense	\$9,648,593	\$5,180,783

Depreciation, depletion and amortization for the year ended December 31, 2009 increased \$4.47 million from 2008 due to the incurring of four additional months of expense in 2009 (or approximately \$2.58 million) and the result of a larger asset base in 2009. Total depreciation and amortization expense for 2009 was \$8.95 million compared to \$4.69 million for 2008. Because coal mining is capital intensive, we expect our depreciation expense to increase for 2010 and in future years as we increase capital investment. Depletion expense for 2009 was \$702,000 compared to \$488,000 in 2008 due to an increase in mine production partially offset by an increase in mine development costs.

Other income (expense)

	Year ended December 31,	
	2009	2008
Interest income	\$ 196,123	\$ 182,486
Interest expense	(10,637,893)	(7,058,934)
Amortization of deferred financing costs	(184,865)	(136,025)
Gain on sale of mineral rights	655,472	-
Loss on sale of equipment	(33,662)	-
Loss on advances to contract miners	(2,602,147)	-
Write-off of deferred financing costs	(231,082)	-
Other income (expense), net	(64,435)	(27,978)
Net other expense	\$(12,902,489)	\$(7,040,451)

Net other income (expense) for the year ended December 31, 2009 consists primarily of interest expense on our senior secured debt and interest paid on our equipment and vehicle notes payables. Interest expense increased \$3.58 million in 2009 due primarily to having the senior secured facility in place for the entire calendar year 2009 vs. nine months in 2008 and larger outstanding balances during 2009. We repaid our senior secured debt in December 2009 and wrote off \$231,000 of deferred financing costs in connection with the repayment. During 2009, we sold mineral rights for \$1.75 million and recognized a gain on the sale of \$655,000. We recorded amortization expense of \$185,000 related to deferred financing cost in 2009, an increase of \$49,000 from 2008. Interest income for 2009 was \$196,000 from

earnings on cash, restricted cash and certificate of deposits. Interest income was \$14,000 more than in 2008 due to larger cash balances. Other expenses increased \$36,000 in 2009.

Income Taxes

We recorded a United States income tax benefit of \$5.23 million for the year ended December 31, 2009, compared with an income tax benefit of \$3.14 million for 2008. We have net operating loss (“NOL”) carryovers which are available to offset further taxable income. The United States Federal NOL carryovers are approximately \$27.20 million and state (Kentucky & Tennessee) NOL carryovers are approximately \$13.20 million. Collectively, the NOLs expire between 2023 and 2030.

Three Months Ended December 31, 2009 and December 31, 2008

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

	Three months ended December 31,	
	2009	2008
Revenues	100.0%	100.0%
Operating expenses:		
Cost of coal sales	79.9	80.3
General and administrative	45.9	9.8
Depreciation, depletion and amortization	28.4	12.6
Total operating expenses	154.2	102.7
Operating loss	(54.2)	(2.7)
Other income (expense):		
Interest income	0.7	0.4
Interest expense	(32.4)	(16.2)
Amortization of deferred financing costs	(0.5)	(0.1)
Loss on sale of equipment	(5.5)	-
Loss on advances to contract miners	(4.0)	-
Write-off of deferred financing costs	(2.7)	-
Other expense	(0.5)	(0.3)
Net other expenses	(44.9)	(16.2)
Loss before income taxes	(99.1)	(18.9)
Future income tax benefit	(30.0)	(5.5)
Net loss	(69.1)%	(13.4)%

For the three months ended December 31, 2009, our net loss increased \$3.51 million to \$6.05 million from \$2.54 million in 2008. Our operating loss increased by \$4.24 million to \$4.75 million in 2009 from \$508,000 in 2008.

The \$3.51 million increase in our net loss for the fourth quarter 2009, as compared to the same quarter in 2008, was primarily due to:

- a \$10.00 million decrease in coal sales resulting in approximately \$2.01 million increase in the pre tax loss;
- a \$1.83 million increase in non-cash stock-based compensation expense;
- a \$475,000 loss on the sale of equipment;
- a \$350,000 loss on advances to contract miners;
- a \$100,000 increase in depreciation, depletion and amortization; and
- a \$231,000 write-off of deferred financing costs.

offset by

- a \$239,000 reduction in interest expense; and
- a \$1.60 million increase in the future income tax benefit.

For the three months ended December 31, 2009, our two largest customers individually accounted for 61% and 25% of our total revenue.

Revenues

	Three months ended December 31,	
	2009	2008
Coal sales	\$ 8,766,021	\$ 18,770,426
Loading services and other	(4,750)	154,434
Total revenues	\$ 8,761,270	\$ 18,920,800
Tons sold	112,119	225,522
Average price per ton sold	\$ 78.18	\$ 83.23

For the three months ended December 31, 2009, our coal sales of approximately \$8.77 million were derived from the sale of approximately 112,000 tons of coal at an average price of \$78.18 per ton. Our largest customers were Georgia Power and the DOE, representing approximately 61% and 25%, respectively, of our revenues for the three months ended December 31, 2009. For the three months ended December 31, 2009, we did not have any revenue from loading services. Coal sales decreased \$10.00 million for the fourth quarter of 2009 compared to the fourth quarter of 2008 primarily as the result of (1) the Company completed the shipping requirements for 2009 under their DOE contract on October 1, 2009 and did not resume shipping until January 2010 representing approximately \$4.2 million of the decrease; (2) we shipped \$3.2 million of coal to Georgia Power in the third quarter of 2009 that was originally scheduled to be shipped in the fourth quarter of 2009; and (3) a decrease in the price per ton of coal sold resulting in a \$572,000 reduction in revenue.

For the three months ended December 31, 2008, our coal sales of \$18.77 million were derived from the sale of 225,522 tons of coal at an average sales price of \$83.23 per ton. Our two largest customers were Duke Energy and Constellation Energy which represented 34% and 37% of our total revenue, respectively. For the three months ended December 31, 2008, we also derived approximately \$110,000 of revenue from loading services, where we charge a negotiated price per ton for third parties to use our load-out facility to transport coal by rail. The remaining approximately \$45,000 was other income.

Operating Expenses

Cost of sales

	Three months ended December 31,	
	2009	2008
Cost of coal sales	\$6,999,176	\$15,188,924
Average cost per ton sold	62.43	67.35

Cost of coal sales consists primarily of third party coal purchases, direct costs paid to third party vendors whose goods and services were directly used in the process of producing coal inventory, salary, benefits and other compensation costs paid directly to miners, blasting, fuel, hauling costs, royalties and taxes. A significant portion of the \$8.19 million decrease in cost of sales from the fourth quarter of 2008 to the fourth quarter of 2009 was due to the \$10.00 million decrease in revenue as discussed above. The average cost per ton sold decreased \$4.92 per ton or 7.3% in the fourth quarter of 2009 from the same period in 2008 primarily due to a decrease in third party mining expenses, royalties and taxes.

General and administrative expenses

	Three months ended December 31,	
	2009	2008
General and administrative expenses	\$4,022,509	\$1,849,172

General and administrative expenses increased \$2.17 million for the three months ended December 31, 2009, compared to 2008 primarily due to a \$1.83 million increase in stock-based compensation expense, of which \$2.10 million relates to stock options granted and common shares issued in December 2009 that vested immediately; offset by a \$270,000 decrease in stock option expense in 2009 due to accelerated vesting provisions for some options, an increase in initial filing and registration fees to TSX and travel, meals and entertainment primarily relating to the RTO and the private equity transaction.

Depreciation, depletion and amortization expense

	Three months ended December 31,	
	2009	2008
Depreciation, depletion and amortization expense	\$2,491,738	\$2,390,994

Total depreciation and amortization expense for the three months ended December 31, 2009 was \$2.42 million compared to \$2.14 million for 2008. The \$280,000 increase in depreciation and amortization in the fourth quarter of 2009 was primarily due to depreciation expense related to the \$3.10 million of net property, plant and equipment additions during 2009. Because coal mining is capital intensive, we expect our depreciation and amortization expense to increase for 2010 and in future years as we increase coal production. Depletion expense for the three months ended December 31, 2009 was \$71,000 in 2009 compared to \$225,000 in 2008. Depletion expense decreased as a result of a 46% reduction in tons produced in 2009 from 2008 and a larger depletion asset base.

Other income (expenses)

	Three months ended December 31,	
	2009	2008
Interest income	\$ 57,956	\$ 66,164
Interest expense	(2,840,227)	(3,079,583)
Amortization of deferred financing costs	(46,216)	(46,217)
Loss on sale of equipment	(475,242)	-
Loss on advances to contract miners	(350,143)	-
Write-off of deferred financing costs	(231,082)	-
Other income (expense), net	(44,162)	(7,535)
Net other expenses	<u><u>\$(3,929,116)</u></u>	<u><u>\$(3,067,171)</u></u>

Net other income (expense) for the three months ended December 31, 2009 consists primarily of interest expense on our senior secured debt and on our equipment and vehicle notes payable. Interest expense decreased \$239,000 in the fourth quarter of 2009 from 2008, due to the repayment of the senior secured debt in December 2009 and lower outstanding balances on equipment and vehicle notes during the fourth quarter of 2009. In connection with the repayment of the senior secured debt, we wrote-off deferred financing costs of \$231,000 in December 2009. We incurred a \$350,000 loss on advances to contract mines in the fourth quarter of 2009. Effective in the fourth quarter of 2009, we no longer use contract miners. During the fourth quarter of 2009, we recorded a \$475,000 loss on the sale of equipment. Interest income for the fourth quarter of 2009 was \$58,000 as compared with \$66,000 in 2008. Other expenses increased \$37,000 in 2009.

Income taxes

We recorded a United States income tax benefit of \$2.63 million for the three months ended December 31, 2009, compared with a United States income tax benefit of \$1.03 million for the three months ended December 31, 2008. We have United States net operating loss (“NOL”) carryovers which are available to offset further taxable income. The Federal NOL carryovers are approximately \$27.2 million and the state (Kentucky & Tennessee) NOL carryovers are approximately \$13.20 million. Collectively, the NOLs expire between 2023 and 2030.

Liquidity and Capital Resources

We have sustained losses since inception and we have financed these losses mainly through a combination of equity and debt offerings. In December 2009, we completed the RTO that gives us the ability to sell shares to the public in Canada. We also completed a private equity placement and a sale of common shares, in connection with the RTO, in which we received \$56.67 million in net proceeds. We used \$33.20 million of the proceeds to repay long-term notes payable, paid \$1.28 million to acquire 385,700 common shares from JEN Holdings, LLC (“JEN”), an entity controlled by our Chairman and Chief Executive Officer, paid \$8.67 million of accrued interest, paid \$959,000 of costs incurred with the formation of Xinergy Ltd. and paid \$161,000 to dissenting common shareholders. As of December 31, 2009, we had cash and cash equivalents of approximately \$10.19 million, \$7.53 million in working capital and \$50.30 million of shareholders’ equity.

The following is a summary of our financing activities prior to the RTO. The number of warrants and related exercise prices have been adjusted below to reflect the 2.0857 split of Xinergy Corp. shares and subsequent exchange for Xinergy Ltd. warrants that the holders received in exchange for their Xinergy Corp. warrants.

In February and March 2008, we sold approximately 2.25 million of our common shares at a price per share of \$1.25, which generated proceeds to us of approximately \$2.8 million. We were incorporated in October 2007 with an initial capital contribution of \$97,500 from our founding shareholders.

In March 2008, we entered into an unsecured, convertible subordinated note agreement with our Chairman and Chief Executive Officer pursuant to which we borrowed \$1.9 million (the “Sub Debt”) and issued a common stock warrant which gives our Chairman and Chief Executive Officer the right to purchase up to 938,565 of our common shares at a price per share of \$0.96. These warrants expire on March 31, 2010. In accordance with the terms of the Sub Debt agreement, on June 30, 2008, we issued 61,475 of our common shares to JEN, as consideration for accrued but unpaid interest expense and issued 1.52 million of our common shares to JEN upon the conversion of the Sub Debt. We issued the shares to JEN pursuant to notice provided to us by our Chairman and Chief Executive Officer that the Sub Debt was assigned to JEN. The above referenced common stock warrants were exercised on March 11, 2010, resulting in the issuance of 938,565 common shares and the receipt of \$901,022 in proceeds.

In March 2008, we entered into a senior secured credit facility with TCW Energy Fund XIV, LP and certain other entities of Trust Company of the West (collectively referred to as “TCW” or the “Lenders”), and issued a two-year common stock warrant with the right to purchase up to 1,564,275 of our common shares at a price per share of \$0.96 to TCW, pursuant to which we borrowed \$24.0 million to facilitate our purchase of certain coal mining assets from National Coal Corporation, a wholly-owned subsidiary of National Coal Corp. (NASDAQ: NCOC). We borrowed an additional \$11.0 million in June 2008 pursuant to this senior secured credit facility, substantially all of which was used for the purchase of mining equipment. These warrants were exercised, on a cashless basis, in December 2009 for 1,079,566 common shares.

In July 2008, we sold 1,680,000 common shares to JEN for proceeds to us of \$2.1 million and issued a common stock warrant which gives JEN the right to purchase up to 1,037,360 of our common shares at a price per share of \$0.96. These warrants expire in July 2011. The proceeds from the sale of common shares were used to purchase mining equipment.

In order to continue to expand our operations, it may be necessary for us to obtain additional financing in the future. We cannot assure that additional financing will be available when needed or that if available, such financing will include favorable terms. If such financing is not available when required or are not available on acceptable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of 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, a non recurring expense, 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:

	Year ended		Three months ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Net loss	\$(11,388,852)	\$(5,547,245)	\$(6,050,439)	\$(2,544,140)
Interest income	(196,123)	(182,486)	(57,956)	(66,164)
Interest expense	10,637,893	7,058,934	2,840,227	3,079,583
Amortization of deferred financing costs and debt discounts	504,788	213,172	336,520	46,211
Depreciation, depletion and amortization	9,648,593	5,180,783	2,491,738	2,390,994
Accretion	361,544	165,099	53,973	87,349
Future income tax benefit	(5,226,889)	(3,139,771)	(2,630,830)	(1,031,261)
EBITDA	4,340,944	3,748,486	(3,016,767)	1,962,572
Stock-based compensation expense	2,579,626	445,101	2,279,585	445,101

Loss on advances to contract miners	<u>2,602,147</u>	–	<u>350,143</u>	–
Adjusted EBITDA	<u>\$9,522,717</u>	\$ 4,193,587	<u>\$ (387,039)</u>	\$ 2,407,673

Cash Flows

Years Ended December 31, 2009 and December 31, 2008

We currently satisfy our working capital requirements primarily through internally generated cash flows and sales of equity and debt securities. For the year ended December 31, 2009, we had a net increase in cash of approximately \$10.03 million. Cash flows from operating, financing and investing activities for the years ended December 31, 2009 and 2008 are summarized in the following table:

<u>Activity:</u>	<u>Year ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Operating activities	\$ (6,513,434)	\$ (1,803,395)
Investing activities	(2,370,085)	(43,192,636)
Financing activities	18,912,472	45,139,594
Net increase in cash	<u>\$ 10,028,953</u>	<u>\$ 143,563</u>

Operating Activities

The net cash used in operating activities was \$6.51 million during the year ended December 31, 2009. We incurred a net loss for the ended December 31, 2009 of \$11.39 million, of which \$9.85 million was a non-cash loss. The primary reasons for the \$6.51 million cash used in operating activities during the year ended December 31, 2009, were the result of a net loss of \$11.39 million and decreases in accounts payable and accrued expenses of \$2.78 million, assignment of overriding coal royalty interest payable of \$2.95 million, recoupable royalties of \$1.04 million, and increases in coal inventories of approximately \$591,000 and approximately \$157,000 in other noncurrent asset offset by a decrease in trade receivables of \$1.14 million and a decrease in advances to contract mines of approximately \$357,000. The primary non-cash expenses recorded during 2009 included depreciation, depletion and amortization of \$9.65 million, accretion of approximately \$362,000, loss on advances to contract miners of \$2.60 million, stock-based compensation expense of approximately \$2.58 million, and amortization and write-off of deferred financing cost and debt discount of approximately \$505,000 that were partially offset by a \$5.23 million future income tax benefit and a gain on sale of mineral rights of approximately \$655,000. By the end of the third quarter of 2009, we had terminated all of our third party mining contracts and as a result no longer make cash advances for contract mining.

The net cash used in operating activities of \$1.80 million during the year ended December 31, 2008 was primarily the result of the net loss of \$5.55 million, increases in trade receivables of \$1.97 million, increases in advances to contract miners of \$2.96 million, increases in coal inventories of approximately \$891,000, an increase in deposits of equipment lease agreement of \$1.37 million, increases in other current assets of approximately \$251,000, an increase in recoupable royalties of approximately \$155,000, and the settlement of asset retirement obligations (“ARO”) of approximately \$186,000, offset by increases in accounts payable and accrued liabilities of \$5.97 million and an increase in the assignment of overriding coal royalty interest payable of \$2.95 million. The non-cash expenses recorded during 2008 included depreciation, depletion, and amortization of \$5.18 million, accretion of approximately \$165,000, stock-based compensation expense of \$445,000, amortization of deferred financing costs and discount on notes payable of \$213,000, offset by \$3.14 million of future income tax benefit. The above mentioned increase in accounts payable is primarily a result of increased operational activity attributed to the start up of the business.

Investing Activities

We used \$2.37 million of cash in investing activities during the year ended December 31, 2009 primarily to purchase additional property, plant and equipment, to acquire the membership interests of a company

and to increase our funding of restricted cash, offset by the sale of certain mineral rights and property, plant and equipment and the acquisition of cash in our reverse merger with GGC.

During 2009, we made purchases of property plant and equipment of \$4.63 million and made approximately \$751,000 of investments in mine development costs. In December 2009, we acquired the membership interests of Shenendoah Energy, LLC for \$500,000 in cash and 500,000 common shares valued at \$1.55 million. Shenendoah's principal asset is a 5% interest in Raven Crest Mining LLC ("Raven Crest"), a West Virginia coal mining company. We executed a purchase agreement to acquire the remaining 95% of Raven Crest on March 11, 2010. See additional information regarding Raven Crest in the Subsequent Events discussion.

During 2009, our restricted cash balance decreased \$1.44 million due to our former senior lender eliminating the requirement to maintain a debt service requirement that totaled \$1.84 million at December 31, 2008, and our purchase of a piece of equipment in the fourth quarter of 2009 that requires us to maintain a \$400,000 cash deposit as collateral for an equipment note payable. During 2009, we generated cash from investing activities from proceeds of the sale of equipment of \$1.30 million and \$1.75 million from the sale of mineral rights. We also acquired approximately \$567,000 in cash as a result of the RTO.

The approximately \$43.19 million of cash used in investing activities during the year ended December 31, 2008 was due primarily to the acquisition of \$10.57 million of certain mining assets upon the closing of the Kentucky assets acquired from National Coal Corp. on March 28, 2008, the purchase of property, plant and equipment of approximately \$22.35 million, \$1.28 million used for mine development costs, the use of \$7.15 million to purchase certificates of deposits pledged as collateral for our mining reclamation bonds and approximately \$1.84 million cash deposited in a restricted account controlled by our former senior secured lender.

Financing Activities

For the year ended December 31, 2009, financing activities provided \$18.91 million in cash. In connection with the RTO in December 2009, we raised \$56.51 million in net proceeds from the private equity placement and also received an additional \$149,000 in additional sales of common shares. We used a portion of the proceeds to repay our senior secured debt totaling \$33.20 million and paid \$1.28 million to acquire 385,700 common shares from JEN, paid \$8.67 million of accrued interest, paid \$959,000 of costs incurred in connection with the formation of Xenergy, Ltd. and paid dissenting common shareholders approximately \$161,000. We also made principal payments totaling \$1.8 million in 2009 on our senior secured debt prior to the RTO. We obtained \$3.02 million in equipment and vehicle notes payable during 2009 and made scheduled principal payments on equipment and vehicle notes payable totaling \$3.68 million. Also, during 2009 we received approximately \$313,000 in proceeds for the exercise of stock options.

The net cash provided by financing activities of approximately \$45.14 million during the year ended December 31, 2008 was primarily the result of \$35.00 million raised from sales of debt securities, equipment note proceeds of approximately \$7.81 million, of proceeds from the issuance of an unsecured \$1.90 million note payable to a related party and the sale of \$4.91 million of common shares. This was offset by the approximately \$3.89 million of principal payments on our equipment and vehicle notes, the repayment of approximately \$156,000 on the notes payable to a related party and the payment of \$432,000 in finance and legal fees upon the closing of our debt financing in March 2008.

Cash Flows

Three Months Ended December 31, 2009 and December 31, 2008

For the three months ended December 31, 2009, we had a net increase in cash of \$8.54 million. Cash flows from operating, financing and investing activities for the three months ended December 31, 2009 and 2008 are summarized in the following table:

<u>Activity:</u>	Three months ended December 31,	
	2009	2008
Operating activities	\$(10,591,433)	\$1,572,556
Investing activities	(3,860,638)	(1,291,323)
Financing activities	22,992,443	(509,024)
Net increase (decrease) in cash	\$ 8,540,372	\$ (227,791)

Operating Activities

The net cash used in operating activities was \$10.59 million during the three months ended December 31, 2009. We incurred a net loss for the three months ended December 31, 2009 of \$6.05 million of which \$3.36 million was a non-cash loss. Cash used in operations was primarily the result of the net loss of \$6.05 million, a decrease in accounts payable and accrued liabilities of approximately \$2.77 million, a decrease in the assignment of overriding coal royalty interest payable of approximately \$6.26 million and an inventory increase of approximately \$502,000, offset by a decrease in advances to contract miners of approximately \$417,000 as we no longer make such advances, a decrease of \$1.37 million for deposits on equipment leases, a decrease in accounts receivable of approximately \$103,000 and a decrease in prepaid and other current assets of approximately \$89,000. The primary non-cash expenses recorded during the three months ended December 31, 2009 included depreciation, depletion and amortization of approximately \$2.49 million, accretion of approximately \$54,000, amortization and write-off of deferred financing costs of approximately \$277,000, amortization of debt discount of approximately \$59,000, stock-based compensation expense of \$2.28 million and a loss on advances to contract miners of approximately \$350,000, offset by a \$2.63 million future income tax benefit.

The net cash provided by operating activities of approximately \$1.57 million during the three months ended December 31, 2008 was primarily the result of the decrease in trade receivables of approximately \$1.77 million, a decrease in coal inventories of approximately \$263,000 and an increase in the assignment of overriding coal royalty interest payable of approximately \$1.81 million, offset by the net loss of approximately \$2.54 million, decrease in accounts payable and accrued liabilities of approximately \$1.17 million, a decrease in recoupable royalties of approximately \$453,000, an increase in other current assets of approximately \$67,000 and the settlement of ARO of approximately \$30,000. The non-cash expenses recorded during the three months ended December 31, 2008 included depreciation, depletion and amortization of approximately \$2.39 million, accretion of approximately \$87,000 and \$445,000 of stock-based compensation expense that were partially offset by a \$1.03 million future income tax benefit.

Investing Activities

We used \$3.86 million of cash in investing activities during the three months ended December 31, 2009 primarily due to the purchase of property, plant and equipment, the acquisition of membership interests of a company and an increase in restricted certificates of deposit that are pledged as collateral for our mine reclamation bonds. During the quarter, we made purchases of property, plant and equipment totaling \$3.16 million, acquired the net assets of Shenendoah for \$500,000 and \$1.55 million in common shares and made investments in mine development costs of approximately \$169,000. Our restricted cash increased by \$400,000 due to a requirement to maintain a cash deposit as collateral for an equipment note payable. Our restricted certificate of deposits that are pledged as collateral for our mining reclamation bonds increased approximately \$201,000 during the quarter. We also acquired approximately \$567,000 in cash as a result of the RTO, and we received \$600 in proceeds from the sale of equipment during the fourth quarter of 2009.

The approximately \$1.29 million of cash used in investing activities during the three months ended December 31, 2008 was due primarily to the purchase of property, plant and equipment of approximately \$1.50 million, the investment of approximately \$353,000 for mine development costs, the addition of approximately \$15,000 of restricted cash held by our senior secured lender and the addition of approximately \$161,000 of certificates of deposits pledged as collateral for our mining reclamation bonds.

Financing Activities

During the three months ended December 31, 2009, net cash provided by financing activities totaled \$22.99 million. In connection with the RTO in December 2009, and a sale of common shares in connection with the RTO, we raised a total of \$56.67 million net proceeds from the private equity placement. We used a portion of the proceeds to repay our senior secured debt totaling \$33.20 million, paid \$1.28 million to acquire 385,700 common shares from JEN, paid \$959,000 of costs incurred with the formation of Xinergy, Ltd. and paid \$161,000 to dissenting common shareholders. We obtained \$2.57 million in equipment and vehicle notes payable during 2009 and made scheduled principal payments on the equipment and vehicle notes payable of \$957,000. Also, during 2009 we received approximately \$313,000 in proceeds for the exercise of stock options.

The net cash used in financing activities of approximately \$509,000 during the three months ended December 31, 2008 was primarily the result of approximately \$539,000 of principal payments on our equipment and vehicle notes offset by approximately \$30,000 in equipment and vehicle note proceeds.

Sale of Common Shares

In connection with the RTO in December 2009, we acquired 385,700 common shares for \$1.3 million from an entity controlled by our principal shareholder, and issued 18,985,700 common shares at Cdn\$3.50 per share and 9,492,850 common stock purchase warrants valued at \$3.79 million for net cash proceeds of \$56.51 million. We also issued to the placement agents an aggregate of 1,139,142 common stock purchase warrants valued at \$465,000. All these common stock warrants have an exercise price of Cdn\$4.20 and expire in December 2011. Xinergy also issued an additional 42,572 shares and 21,286 common stock warrants to additional investors in connection with this private equity placement and received \$149,000 in proceeds.

The following table presents a comparison of actual use of the private equity placement to the estimated used of proceeds presented in our December 11, 2009, filing statement.

	Actual	Estimated(1)	Difference
Gross proceeds	\$62,768,509	\$61,399,000	\$1,369,509
Issuance costs	6,253,640	6,139,900	113,740
Net proceeds	56,514,869	55,259,100	1,255,769
Acquisition of common shares from an entity controlled by JEN	1,275,163	–	1,275,163
Repayment of debt	33,200,000	36,839,940	(3,639,940)
Payment of accrued interest	8,674,250	5,289,280	3,384,970
Working capital	\$13,365,456	\$13,129,880	\$ 235,576

(1) Converted to USD at the exchange of .9446 USD to Cdn\$1.

The following is a summary of our financing activities prior to the RTO. The number of warrants and related exercise prices have been adjusted below to reflect the 2.0857 exchange ratio for Xinerger Ltd. warrants that the holders received in exchange for their Xinerger Corp. warrants.

In February and March 2008, we sold 2,246,000 of our common shares to accredited investors at a price per share of \$1.25 which generated gross proceeds to us of \$2.81 million. In July 2008, we sold 1,680,000 of our common shares to JEN, at a price per share of \$1.25 for proceeds to us of \$2.1 million. As an inducement for JEN to purchase these shares, we issued a two year warrant to our Chairman and Chief Executive Officer to purchase up to 938,565 of our common shares at a price per share of \$0.96.

Issuance of Common Shares

In March 2008, we issued 220,000 of our common shares as consideration for the purchase of trucks to be used in our mining operations, and we issued 96,000 as consideration for placement agent services rendered to us in connection with the sale of our common shares. The per share value of our common shares in both transactions was \$1.25. On December 22, 2009, we issued an aggregate of 120,000 common shares to our officers and employees as additional compensation for services performed in 2009. We recognized \$396,732 in compensation expense in 2009 related to these shares. The shares are subject to cancellation if not approved by our shareholders. We also issued an aggregate of 150,000 common shares to our three independent Directors. These restricted shares vested immediately but are not exercisable until December 23, 2010. We recognized \$495,915 of compensation expense related to this issuance. These shares are also subject to cancellation in not approved by our shareholders.

Sale of Unsecured Convertible Subordinated Debenture

In March 2008, we entered into an unsecured convertible subordinated credit agreement with our Chairman and Chief Executive Officer pursuant to which we borrowed \$1.9 million and issued common stock warrants which give our Chairman and Chief Executive Officer the right to purchase up to 938,565 common shares at a price per share of \$0.96. The unsecured note had a rate of interest of 8.0% and, unless paid in accordance with the terms of the agreement, had an automatic conversion date of September 30, 2008, at a conversion price of \$1.25, including the conversion of accrued interest. We also issued our Chairman and Chief Executive Officer a two year common stock purchase warrant to purchase an aggregate of up to 1,037,360 of our common shares at an exercise price per share of \$0.96. In September 2008, our Chairman and Chief Executive Officer assigned the debt and warrant to JEN, an entity controlled by our Chairman and Chief Executive Officer. On September 30, 2008, the unsecured note was converted and we issued JEN, 1,581,475 common shares and canceled the note.

Senior Secured Credit Facility

On March 28, 2008, in connection with our acquisition of certain coal mining assets from National Coal Corporation, a wholly-owned subsidiary of National Coal Corp., we entered into a three year senior secured credit agreement with TCW and TCW Asset Management Company, as administrative agent for the Lenders. We, along with our Chairman and Chief Executive Officer, guaranteed the obligations of Xinergy Corp. under the credit agreement. The credit agreement provided for an initial credit facility of \$24 million with a subsequent credit facility not to exceed \$6 million additional funds. The facility was increased to \$35.0 million in June 2008. Also, in connection with this financing, we entered into an assignment of overriding coal royalty interest with TCW, whereby we agreed to pay (including quarterly interest payments at 15%) a total of 1.8 times the loan amount. Borrowings under the credit agreement bore interest at the fixed rate of interest per annum of 15% payable at each calendar quarter in arrears. The obligations under the credit agreement were secured by substantially all of our assets and those of our subsidiaries.

In connection with this credit facility, we issued a two year common stock purchase warrant to purchase an aggregate of up to 1,564,275 of our common shares at an exercise price per share of \$0.96 to three separate TCW entities. These warrants were exercised, on a cashless basis, in December 2009 for 1,079,566 common shares.

In connection with these financings, we incurred certain financing, legal and other costs, including finance charges through the issuance of 96,000 common shares, valued at \$120,000. The value of the common shares was estimated based on private offering prices of our common shares around the same time period. Total deferred financing and legal costs of \$551,972 (including the \$120,000 in common shares issued) were capitalized.

Prior to the RTO, we had a \$35.00 million senior secured credit agreement with TCW and TCW Asset Management Company, as administrative agent for TCW. During the first nine months of 2009, we made principal payment on the senior secured credit facility totaling \$1.80 million. As a result of the RTO, we repaid the \$33.20 million balance outstanding on the senior secured credit facility and the facility was terminated. In connection with the repayment of this senior secured credit facility, we wrote off deferred financing costs totaling approximately \$231,000 in December 2009.

Contractual Obligations

The following summarizes our contractual obligations at December 31, 2009 and the effects such obligations are expected to have on liquidity and cash flow in future periods.

	Payment due by period			
	Total	Less than 1 year	1-3 years	Thereafter
Accounts payable and accrued expenses	\$3,116,088	\$3,116,088	\$ -	\$ -
Equipment and vehicle notes payable	3,304,395	2,128,959	1,175,436	-
Operating leases	151,759	53,562	98,197	-
Total contractual obligations	<u>\$6,572,242</u>	<u>\$5,298,609</u>	<u>\$1,273,633</u>	<u>\$ -</u>

In February 2008, we entered into a lease agreement for our corporate operations in Knoxville, Tennessee. The annual base lease rate is \$53,562 and has a termination date of October 31, 2012.

We have statutory obligations to complete reclamation of lands disturbed in the mining process. At December 31, 2009, we had approximately \$8.70 million of cash invested in certificates of deposit, against which have some irrevocable bank letters of credit are written in favor of KYDMRE and approximately \$31,000 of the cash invested in certificates of deposit are written in favor of the ASMC.

Upon the successful completion of our reclamation obligations in accordance with state and the U.S. Department of Interior’s Office of Surface Mining regulations, we will be released from such obligations and the bank letters of credit shall no longer be required as collateral, at which time the certificates of deposit shall no longer be deemed restricted cash.

Off-Balance Sheet Arrangements

At December 31, 2009, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, variable interest or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Financial Instruments and Other Instruments

Our financial instruments include cash, restricted cash and certificates of deposit, trade accounts receivable, advances to contract miners, accounts payable and accrued expenses, assignment of overriding coal royalty interest payable, and notes payable.

The estimated fair value of financial instruments has been determined by us using available market information. The carrying value of our cash, restricted cash and certificates of deposit, trade accounts receivable, advances to contract miners, accounts payable and accrued expenses and assignment of overriding coal royalty 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 our notes payable also approximate their carrying values because the effective interest rates are not significantly different from current market rates.

Our financial instruments have been classified as follow:

Financial Instrument	Classification
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
Assignment of overriding coal royalty interest payable	Other financial liabilities
Notes payable	Other financial liabilities

We are exposed to credit risk, liquidity risk and market risk associated with our financial instruments.

Credit Risk

Credit risk arises from the potential that a customer or counterparty will fail to perform its obligations. Our exposure to credit risk exists primarily related to our trade accounts receivable. While economic factors can affect credit risk, we manage our risk by providing credit terms on a case by case basis. Customers are primarily investment grade companies and quasi-governmental agencies. We previously made periodic advances to certain contract miners; however, this practice has since been terminated. During 2009, we ceased operations with certain contract miners with whom it had advanced monies and recognized credit losses of \$2.60 million. Our cash and certificates of deposit are on deposit with quality financial institutions and such deposits are subject to insurance by the Federal Deposit Insurance Corporation (“FDIC”), an independent agency of the United States of America, and the Canada Deposit Insurance Corporation (“CDIC”), a federal Crown corporation created by Canadian Parliament. Some of our cash on deposits exceed the FDIC and CDIC insurance limits. Our maximum credit risk exposure at

December 31, 2009, is approximately \$8.63 million and is equal to the carrying amount of all cash, restricted cash and certificates of deposit and trade accounts receivable.

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. Our interest rate risk primarily relates to our interest bearing debt that is comprised of equipment and vehicle notes payables as of December 31, 2009. The equipment and vehicle notes payable are at fixed interest rates and therefore, we have minimized our exposure to cash flow interest rate risk.

Our price risk primarily relates to the ability for coal prices to fluctuate widely and is affected by many factors outside of our control. We attempt to minimize price risk by entering into long-term sales contracts with customers which fix the price of coal sold.

Liquidity Risk

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

We have sustained losses since operations commenced in 2008 and 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, has significantly increased our cash balances, reduced our outstanding debt and increased our shareholders' equity. 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.

Derivatives

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

Transactions with Related Parties

Effective in December 2009, the Company purchased 100% of the membership interests in Shenendoah Energy, LLC ("Shenendoah") from an individual, who became a member of management in 2010, and his wife. Pursuant to the purchase agreement, the total purchase price was \$2.04 million, which included \$500,000 in cash and 500,000 shares of the Company's common shares valued at \$1.55 million. Shenendoah's assets consist of a 5% ownership interest in Raven Crest Mining, LLC ("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. Because Shenendoah does not meet the definition of a business under GAAP this transaction is considered acquiring a group of assets and not a business combination. The consolidated balance sheet as at December 31, 2009 includes the \$160,000 accounts receivable and an investment in Raven Crest of \$1.88 million which is accounted for on the cost basis. The Raven Crest operating agreement requires that all members must approve any sale of the LLC. The acquisition of Shenendoah provided us with leverage in our negotiations with Raven Crest.

In December 2009, in connection with the private equity placement and the RTO, we acquired 385,700 common shares from JEN for \$1.28 million, a company owned by our Chairman and Chief Executive Officer and principal shareholder. We purchased these shares to further reduce the non-Canadian citizens total ownership percentage of the Company to below 51% to maintain our "foreign private issuer" status under United States securities law.

In March 2008, we issued a \$1.90 million subordinated convertible note payable to our Chairman and Chief Executive Officer and principal shareholder. The business purpose for the loan was to provide us with cash in order to fund our operations. In connection with this financing, the Company issued 938,565

common stock purchase warrants at an exercise price of \$0.96 per share, expiring in March 2010. The value of these common stock purchase warrants was estimated to be \$47,545 upon issuance and was recorded as a discount on the notes payable. In September 2008, our Chairman and Chief Executive Officer, assigned the debt and warrant to JEN, an entity controlled by him. As the note was not re-paid in full at maturity in September 2008, the principal, as well as accrued interest of \$76,844, was mandatorily converted into 1,581,475 common shares at a conversion price of \$1.25 per share pursuant to the agreement. The above referenced common stock warrants were exercised on March 11, 2010 resulting in the issuance of 938,565 common shares and the receipt of \$901,022 in proceeds.

In July 2008, we sold 1,680,000 of our common shares to JEN, at a price per share of \$1.25 for proceeds to us of \$2.1 million. We sold the common stock in order to raise additional funds needed to finance our operations. As an inducement for JEN to purchase these shares, we issued a two year warrant to our Chairman and Chief Executive Officer to purchase up to 1,037,360 of our common shares at a price per share of \$0.96. On March 11, 2010, these warrants were exercised and converted into 1,037,360 common shares, and we received proceeds of \$1.04 million upon the conversion.

Summary of Quarterly Results

	2009	Q4	Q3	Q2	Q1
Coal production (tons)	669,525	117,810	167,306	148,187	236,222
Tons of coal sold	666,185	112,119	184,752	147,870	221,444
Average sales price per ton	\$88.84	\$78.18	\$78.38	\$86.39	\$104.58
Average cost of sales per ton	\$69.58	\$62.43	\$64.89	\$85.50	\$66.49
Revenues \$	59,448,264	8,761,270	14,526,623	12,912,514	23,247,857
Net (loss) income \$	(11,388,852)	(6,050,439)	(1,827,501)	(6,073,503)	2,562,591
Basic net (loss) income per share \$	(0.34)	(0.17)	(0.06)	(0.17)	0.06
Diluted net (loss) income per share \$	(0.34)	(0.17)	(0.06)	(0.17)	0.06
	2008	Q4	Q3	Q2	Q1
Coal production (tons)	475,630	216,473	129,019	130,138	—
Tons of coal sold	664,502	225,522	254,039	184,378	563
Average sales price per ton	\$85.93	\$83.23	\$104.17	\$144.04	\$138.89
Average cost of sales per ton	\$73.98	\$67.35	\$89.53	\$60.55	\$112.56
Revenues \$	57,581,374	18,920,800	26,699,192	11,883,185	78,197
Net loss \$	(5,547,245)	(2,544,140)	(544,911)	(2,034,796)	(423,398)
Basic and diluted net loss per share \$	(0.20)	(0.08)	(0.02)	(0.08)	(0.02)

Our quarterly net income (loss) in 2009 and 2008 fluctuated primarily due to changes in tons sold and the average selling price and our cost per ton and an increase of \$1.83 million of stock-based compensation expense in the fourth quarter of 2009 primarily due to the issuance of common shares and stock options that vested immediately. Additionally, in the second quarter of 2009, we wrote off \$2.25 million of advances to contract miners.

We sold 563 tons of purchased coal in late March 2008 and began our mining operation on April 1, 2008. During 2008, we increased our production of coal and shipments ranged from 184,378 tons to 254,039 tons per quarter through the first quarter of 2009. In April 2009, a major customer ceased taking delivery of our coal. As a result, tons of coal shipped for the second through fourth quarters of 2009 were lower than 2008 quarterly shipments. In June 2009, this major customer gave notice of the termination of the Company's coal supply agreement with them. The basis for the customer's termination is contained in a June 5, 2009 letter to us. Our view is that the contract provision on which the customer bases its termination does not apply in the context of other provisions of the contract and facts applicable to them and we intend to vigorously contest the termination. In this context, the parties have discussed a proposed amendment to the contract which would nullify the contract termination and permit us to perform the contract.

In the first and second quarters of 2008 our sales price per ton of coal was higher than the third and fourth quarters of 2008 due to the sale of purchased stoker coal on the spot market in the first and second quarters with prices ranging from \$135 to \$156 per ton. Stoker coal is a higher quality coal than the steam coal that we typically sell. In the third quarter of 2008, the tons sold increased due to a special order from a customer with a contracted price of \$143 per ton. In the first quarter of 2009, we obtained a new contract for approximately 40,250 tons per month at an average price per ton of \$115. This resulted in an increase in our average sales price per ton from the fourth quarter of 2008. In April 2009, this customer accepted 23,000 tons and then ceased taking delivery of coal as discussed above. We earned quality premiums of \$768,000 and \$147,000, respectively, in the first and second quarter of 2009 from this customer that increased our average price per ton by \$6.19 in the first quarter of 2009 and \$0.99 in the second quarter of 2009. In the third and fourth quarters of 2009, our average selling price per ton was lower due to lower spot prices of approximately \$54.00 per ton and lower contract prices.

Outstanding Share Data

As of March 30, 2010, there were 56,180,221 common shares issued and outstanding. The following table lists stock options that were also outstanding as of March 30, 2010, that enables the option holder to purchase one common share for each option:

	Number Granted	Number Vested	Exercise Price	Expiration Date
	4,518	4,518	1.94	March 2010
	2,482,186	1,064,779	0.60	May to Oct. 2018
	1,094,993	—	1.53	Sept. to Oct. 2019
	500,000	500,000	3.62	December 2019
	400,000	—	3.10	January 2020
	120,000	—	3.62	January 2020
Total	<u>4,601,696</u>	<u>1,569,297</u>		

The following table lists warrants that were also outstanding as of March 30, 2010, that enable the option holder to convert one warrant into one common share:

	Number Granted	Exercise Price	Expiration Date
	9,514,136	Cdn\$4.20	December 2011
	1,139,142	Cdn\$4.20	December 2011
Total	<u>10,653,278</u>		

Subsequent Events

In January 2010, we issued an aggregate of 60,000 restricted common shares to our three independent Directors, which are exercisable in January 2011. These shares are subject to cancellation if not approved by our shareholders. We also issued, in January 2010, 100,000 restricted common shares to an officer, which are exercisable 50% on December 31, 2010 and 50% on December 21, 2011. Additionally, in January, we issued 520,000 stock options to our officers and employees. On March 11, 2010, we issued 1,975,925 common shares upon the exercise of 1,975,925 common stock warrants resulting in \$1.90 million in proceeds to us. Between January 1 and March 30, 2010, stock options to purchase 292,226 common shares were exercised resulting in us receiving \$205,147 in proceeds.

On March 11, 2010, we issued 1,975,925 common shares upon the exercise of 1,975,925 common stock warrants resulting in \$1.90 million in proceeds to us. Between January 1 and March 15, 2010, stock options to purchase 283,970 common shares were exercised at a price of \$0.60 per share.

In March 2010, we exercised our right to terminate the lease for the Blue Diamond track, located in Campbell and Scott Counties, Tennessee for 29,000 acres of mineral reserves. In connection with the lease termination, we will recognize a \$200,000 expense in the first quarter of 2010 and will also receive a \$300,000 refund of our prepaid lease payments.

Proposed Transaction to Acquire Raven Crest Mining, LLC

We executed a definitive membership interest purchase agreement effective March 11, 2010 to purchase the remaining 95% of the membership interests in Raven Crest. Terms of the purchase agreement provided for a non-refundable good faith payment of \$500,000 that we paid in 2010 and recorded as a deposit related to the pending acquisition, as well as an additional \$39.50 million in cash that will be payable at closing. Additional terms of the purchase agreement include certain working capital adjustments that could modify the final purchase price. The agreement also contains a provision that requires us to pay a break-up fee of \$750,000 if the closing does not occur by April 30, 2010, absent certain conditions specified in the letter of intent.

To fund the Raven Crest acquisition, we have received a financing commitment for \$75.0 million. The non-binding term sheet provides for the issuance of \$75.0 million in notes payable, collateralized by substantially all of our assets, for net proceeds of \$72.75 million. In consideration for the closing of the financing, we would issue 3,000,000 common stock purchase warrants, subject to TSX approval, with an exercise price of Cdn\$4.20 and expiration in December 2012. Additionally, a commission of 3.5% of the gross proceeds of the sale of the notes would be paid to the agent upon closing. Interest on the notes would be at 9.75%, payable semi-annually in arrears in equal instalments. Should we choose to terminate the commitment or not complete this financing by May 31, 2010, we are subject to a break fee of \$750,000. The notes would mature on the date that is five years and one day from the closing date. We would have 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, we would be required to offer to redeem the outstanding notes for a redemption price equal to 109.75% of the outstanding principal balance on the notes.

Additional Information

Additional information regarding the Company and its business operations, including the Company's Annual Information Form, that will be filed by 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.

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 Obligation

The Surface Mining Control and Reclamation Act of 1977 and similar state statutes require that mine properties be restored in accordance with specified standards and an approved reclamation plan. Significant reclamation activities include reclaiming refuse and slurry ponds, reclaiming the pit and support acreage at surface mines, and sealing portals at deep mines. Reclamation activities that are performed outside of the normal mining process are accounted for as ARO. We record our reclamation obligations on a mine-by-mine basis based upon current permit requirements and estimated reclamation obligations for such mines in accordance with federal and state reclamation laws as defined by each mining permit.

In accordance with each mining permit application, we post a predetermined amount of reclamation bond prior to commencing mining operations. State and/or federal estimates of disturbed acreage are determined based on approved mining plans and related engineering data. We estimate the fair value of our ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of future costs for third-party to perform the required work. Cost estimates are based upon estimates approved by the U.S. Department of Interior's Office of Surface Mining ("OSM") based on historical costs. We determine the fair value of our ARO using a discounted cash flow methodology based on a discount rate related to the rates of U.S. Treasury bonds with maturities similar to the expected life of a mine, adjusted for our credit standing, which approximated 6.5% at December 31, 2009. We record a capital asset retirement cost associated with the initial recorded liability. The capital asset retirement cost is amortized based on the units of production method over the estimated 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.

On at least an annual basis, we intend to review our entire reclamation liability and make necessary adjustments for permit changes granted by the permit-issuing authorities, additional costs resulting from accelerated mine closures, and revisions to cost estimates and productivity assumptions, to reflect current experience. At December 31, 2009, we had recorded asset retirement obligation liabilities of approximately \$5.72 million. While the precise amount of these future costs cannot be determined with certainty, as of December 31, 2009, we estimate that the aggregate undiscounted cost of final mine closure is approximately \$6.62 million.

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.

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 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 plan.

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. The Board of Directors will administer this plan and have the authority to determine the terms, limitations, restrictions and conditions, if any, applicable to the exercise of the stock options. The exercise price per share of options issued under this plan must not be less than the market price at the time the stock options are granted.

Total stock-based compensation expense was approximately \$531,000 in 2009 and \$445,000 in 2008.

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 the our trading history is limited, and the expected term is determined using the simplified method.

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 which time we determined 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.

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 us for the year ended December 31, 2009, for which the current and comparative information will be prepared under IFRS. A detailed assessment of the impact of adopting IFRS on our consolidated financial statements has not been completed.

RISK FACTORS

Risk Factors Relating to Xinergy

Please refer to the Annual Information Form for a discussion of our risk factors.