XINERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF

FINANCIAL CONDITION

AND

RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2013

May 14, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2013

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with Xinergy Ltd.'s ("Xinergy") unaudited condensed consolidated financial statements for the three months ended March 31, 2013, and 2012 and the notes thereto and audited consolidated financial statements for the years ended December 31, 2012 and the notes thereto. In this MD&A, "Xinergy," "the Company," "we," "us," or "our" refers to Xinergy Ltd. and, as applicable, its subsidiaries. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards ("IFRS"). This discussion provides management's analysis of our historical financial and operating results and provides estimates of future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. All references to "$" or "dollars" are to United States dollars unless otherwise indicated.

This MD&A reports certain financial measures that are not recognized by Canadian generally accepted accounting principles "GAAP", as used by management and readers of this MD&A to evaluate the performance of the Company. Since certain non-GAAP financial measures may not have a standardized meaning and may not be comparable to similar measures presented by other companies, Canadian securities regulations require that non-GAAP financial measures are clearly defined, quantified and reconciled with their nearest GAAP measure. These financial measures referred to in this MD&A, namely "cash costs," "cash costs per ton produced," "total cash costs" and "earnings before interest, taxes, depreciation, depletion and amortization ("EBITDA" or "Adjusted EBITDA")" are not measures recognized by GAAP. Investors and other readers of this MD&A are cautioned that these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP. The Company has included non-GAAP performance measures EBITDA and cash costs in this MD&A that are further defined, calculated and reconciled to GAAP financial measures.

Additional information relating to Xinergy has been filed electronically through SEDAR and is available online at www.sedar.com or at the Company's website at www.xinergycorp.com.

This MD&A was prepared using information that is current as of May 14, 2013.

Phillip Lucas, PE, PLS, James S. Canterbury, PE and Tracy Goff, PE are qualified persons as defined by National Instrument 43-101 *Standards of Disclosure for Mineral Projects* and have reviewed and approved any scientific and technical disclosures in this MD&A.

Forward-Looking Information

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

This MD&A contains forward-looking information related, but not limited to:

- Estimated production capacity;
- Estimated capital expenditures;
- Future sales expectations considering market conditions;
- Properties and mineral reserves that have recently been leased or acquired;
- Permits, regulatory and other required approvals for mining operations, preparation plants or rail loading facilities that have been received;
- Future coal prices and the future cost of coal production;
- Future development of, and mining plans for, recently acquired properties and leased mineral reserves;
- The use of proceeds relating to a $20.0 million financing with Bayside Capital, Inc. and its affiliates (collectively, “Bayside”); and
- The use of proceeds relating to the sale of the Company’s Straight Creek Kentucky mining operations.

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 or metallurgical coal other than anticipated variations; continued availability of and no material disruption in rail service; no production, construction 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; no material delays in the receipt of anticipated mining permits from governmental agencies; financing will be available on terms favorable and reasonable to the Company; no material variation in historical coal purchasing practices of customers; coal sales contracts will be entered into with new customers; parties execute and deliver contracts currently under negotiation; and no material variations in the current regulatory environment. The reader is cautioned that such assumptions, although considered reasonable by us at the time of preparation, may prove to be incorrect.

Actual results achieved during the forecast period may vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to the factors on page 5: 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 federal and state 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 (“AIF”) in a section entitled “Risk Factors” and other documents we file with the Canadian securities regulatory authorities available on SEDAR at www.sedar.com. Please refer to these documents for further details about the risks faced by the Company.

Readers of this MD&A should refer to the section entitled “Risk Factors” in Xinergy’s AIF for factors which could cause actual results to differ materially from those anticipated in the forward-looking information contained in this report and which could potentially impact the Company’s financial performance and its ability to meet it targets.

In making the forward-looking statements in this MD&A, the Company has made several material assumptions, including, but not limited to, the assumption that market fundamentals will result in improved demand and the continued development and operations of the South Fork mining property will prove economically viable. We make no representation that actual results achieved during any forecast period will be the same, in whole or in part, as forecasted results and we do not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities law.

Management approved the forward-looking statements and future oriented financial information contained in this MD&A on May 14, 2013.

Overview and Corporate History

We are a United States ("U.S.") producer of metallurgical and thermal coal with mineral reserves, mining operations and coal properties in the Central Appalachian regions of West Virginia and Virginia. We sell our coal to electric utilities, steelmakers, energy trading firms, producers and marketers of coal and industrial companies.

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

During the fourth quarter of 2012, we acquired a mid-volatility metallurgical coal property consisting of surface, mineral, and mining rights in Fayette, Nicholas, and Greenbrier Counties, West Virginia, through our wholly owned subsidiary, Sewell Mountain Coal Co., LLC ("Sewell Mountain"). As of the date of this MD&A, our properties included one active mining complex, South Fork Coal Company ("South Fork"), our Greenbrier County West Virginia mid-volatility metallurgical operation, and two idle facilities, True Energy, LLC ("True Energy"), our high-volatility metallurgical operation in Wise County Virginia, and Raven Crest Mining, LLC ("Raven Crest"), our thermal operation in Boone County West Virginia.

On February 1, 2013, the Company entered into an asset purchase agreement to sell all of the assets of its Straight Creek and Red Bird operations in Kentucky, for $47.2 million cash resulting in a gain of $11.0 million. The sale also included the assumption of all the Company's asset retirement obligations which were $7.2 million. In accordance with the indenture governing the Company's 9.25% Senior Secured Notes due 2019 ("2019 Notes"), such net asset sale proceeds must be used to make capital expenditures within 365 days after receipt or thereafter would be required to be used to tender for outstanding 2019 Notes at par, in certain circumstances.

We lease or own the mineral rights to approximately 72,000 acres, comprised of 71,000 acres in West Virginia and 1,000 acres in Virginia. In West Virginia, these mineral rights include: (i) Raven Crest, a 12,000 acre thermal, currently idle, surface mining operation and the adjacent Brier Creek mine, a 13,000 acre thermal underground mining operation that is also currently idle, (ii) South Fork, a 35,000 acre mid-volatility metallurgical mining operation and (iii) Sewell Mountain, an 11,000 acre mid-volatility metallurgical coal development project. In Virginia, we lease approximately 1,000 acres through our True Energy high volatility metallurgical surface mining operation in Wise County, Virginia, that was idled in 2012 due to poor market conditions.

Since our inception, substantially all of our revenues have resulted from the sale of coal we produce to electric utility companies, brokers and industrial companies. For the first quarter of 2013 and 2012, 44% and 98% respectively of our revenue was generated from coal sales to electric utility companies and brokers.

Our two largest customers represented approximately 55% and 26% of our revenues for the first quarter of 2013 and 42% and 11% for the first quarter of 2012.

Our results of operations greatly depend on the cost of coal production. Primary mining related expenses are wages and benefits, repairs and maintenance, diesel fuel, blasting and related supplies, coal transportation costs, coal purchased from third parties, freight and handling costs, royalties and taxes incurred in selling coal.

Market Outlook

First quarter metallurgical coal benchmark prices remained below the comparable 2012 period, reflecting a global steel market pressured by limited demand growth and steel mill overcapacity. International benchmark pricing for premium hard coking coal settled 3% lower than the fourth quarter settlement, before recovering 4% for the second quarter settlement at $172/t. The Company continues to believe that the current pricing environment for metallurgical coal leaves a substantial portion of the seaborne market producing at levels below cash cost, with production curtailments continuing for lower quality coals as the global metallurgical coal market moves towards balancing a position of oversupply. We remain cautiously optimistic that more balanced metallurgical coal market conditions will emerge over the medium term, providing substantial opportunity for the Company's premium quality mid-vol metallurgical coal assets to drive value for our shareholders.

The Energy Information Administration ("EIA") May 2013 Short Term Energy Outlook forecasts that total coal consumption will increase by 7.3% from 890 million tons in 2012 to 955 million tons in 2013 as consumption in the electric power sector increases due to higher electricity demand and higher natural gas pricing. According to the EIA, consumption is expected to grow at a more modest pace of 2.2% to 976 million tons in 2014. While global economic uncertainties persist, continued rationalization by domestic coal suppliers, flat natural gas production growth, and favorable late winter weather helped reduce inventories and support domestic thermal coal pricing during the first quarter. We believe that structural challenges will persist for CAPP thermal producers, however, due to several factors including (i) the ability of electricity producers to switch to more cost competitive thermal coals from lower-cost production basins such as the Illinois Basin and Powder River Basin and (ii) coal-fired plant retirements occurring with disproportionate frequency in regions served by CAPP thermal coal. While recognizing that significant challenges exist for the CAPP thermal market, Xinergy continues to believe that low-cost thermal coal production in Central Appalachia will prove viable over the long-term, affording low-cost producers the potential to earn favorable returns on invested capital as certain higher-cost production is curtailed.

A number of factors beyond our control could materially impact actual results, including:

- deterioration in economic conditions in industries in which our customers operate;
- price volatility, supply and demand of thermal and metallurgical coal;
- global demand for coal, electricity and steel;
- availability and prices of competing energy sources for electricity generation;
- changes in the application, enforcement and interpretation of existing and potential laws and regulations affecting the production and use of coal;
- deferral of coal shipments by customers and our reliance on major customers;
- the disruption of rail, barge, trucking or other transportation facilities and systems that deliver our coal to market;
- regulatory and court decisions affecting air emission standards for coal-fired power plants;
- weather conditions affecting demand for energy and supply disruption;
- delays in construction of infrastructure projects at our mines;
- geologic and operational risks associated with coal mining; and
- the availability of credit, surety bonds and capital on economic terms.

Our business is very sensitive to changes in supply and demand for coal and we carefully manage our mines to maximize operating results. As our current coal supply agreements are fulfilled, our profitability in the future will be impacted by the price levels that we achieve on future coal supply agreements. Events beyond our control could impact our profit margins.

Highlights for the Quarter Ended March 31, 2013, and Subsequent Events

- First quarter 2013 revenue and adjusted EBITDA of $4.1 million and $(3.6) million, respectively

- Operating efficiencies at South Fork beginning to take hold, with cash costs trending towards low $120s/ton on limited production;

- Construction of preparation plant, rail load-out and rail rehabilitation on budget during the first quarter, with project completion anticipated by end of the second quarter of 2013;

- Divested Kentucky thermal operations ("Straight Creek") for gross proceeds of $47.2 million as Xinergy continues to focus on its strategy of building out a high-quality, metallurgical coal portfolio;

- Total liquidity at March 31 of $37.4 million (excluding $29.4 million in restricted cash).

Financial Overview

The following tables present selected balance sheet, statement of operations and coal production and sales data as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012.

($'000)	**As of March 31 2013**	**As of December 31 2012**
Balance Sheet		
Cash and cash equivalents	$ 27,634	$ 32,325
Total current assets	$ 66,043	$ 50,723
Total assets	$ 178,516	$188,772
Total current liabilities	$ 20,650	$ 20,797
Total long-term liabilities	$ 221,280	$229,786
Shareholders' equity	$ (63,414)	$ (61,811)

($'000, except per share)	**Three months ended March 31, 2013**	**Three months ended March 31, 2012**
Statement of Operations		
Coal revenues	$ 4,086	$ 29,946
Cost of coal sales	$ 5,930	$ 30,507
Gross margin	$ (1,844)	$ (561)
(Loss) income before taxes	$ (1,905)	$ 2,372
Net (loss) income	$ (1,905)	$ 1,690
Basic and diluted net income (loss) per share	$ (0.03)	$ 0.03

Sales & Operating Statistics	**Three months ended March 31, 2013**	**Three months ended March 31, 2012**
Tons sold	59,956	425,697
Tons produced	51,152	380,173
Sales price/ton	$ 68.16	$ 70.35
COGS/ton sold	$ 98.90	$ 71.66
Gross margin/ton sold	$ (30.74)	$ (1.31)
Cash costs/ton produced	$ 108.07	$ 66.99

The following table presents selected coal production and sales data from our metallurgical and thermal coal mines for the three months ended March 31, 2013 and March 31, 2012.

	Three months ended March 31, 2013		
	Thermal	**Met**	**Total**
Tons sold	34,773	25,184	59,956
Tons produced	28,489	22,663	51,152
Sale price/ton	$ 51.98	$ 90.49	$ 68.16
COGS/ton sold	$ 102.62	$ 93.77	$ 98.90
Gross margin/ton sold	$ (50.64)	$ (3.28)	$ (30.74)
Total Revenues	$ 1,807,542	$ 2,278,901	$ 4,086,443
Total Cost of Sales	$ 3,568,235	$ 2,361,486	$ 5,929,721
Total Gross Margin	$ (1,760,693)	$ (82,585)	$ (1,843,278)
Cost of Coal Sales	$ 3,568,235	$ 2,361,486	$ 5,929,721
Inventory Change	$ 65,648	$ (466,747)	$ (401,099)
Purchase Coal	$ (637)	$ –	$ (637)
Cash cost	$ 3,633,246	$ 1,894,739	$ 5,527,985
Tons Produced	28,489	22,663	51,152
Cash costs/ton produced	$ 127.53	$ 83.60	$ 108.07

	Three months ended March 31, 2012		
	Thermal	**Met**	**Total**
Tons sold	409,557	16,140	425,697
Tons produced	352,651	27,522	380,173
Sale price/ton	$ 69.07	$ 102.80	$ 70.35
COGS/ton sold	$ 69.88)	$ 116.87	$ 71.66
Gross margin/ton sold	$ (0.81)	$ (14.07)	$ (1.31)
Total Revenues	$ 28,287,241	$ 1,659,190	$ 29,946,431
Total Cost of Sales	$ 8,620,254	$ 1,886,359	$ 30,506,613
Total Gross Margin	$ (333,013)	$ (227,169)	$ (560,182)

Cost of Coal Sales	$ 28,620,254	$ 1,886,359	$ 30,506,613
Inventory Change	$ (2,383,307)	$ 979,955	$ (1,403,352)
Purchase Coal	$ (3,633,671)	$ –	$ (3,633,671)
Cash cost	$ 22,603,276	$ 2,866,314	$ 25,469,590
Tons Produced	352,651	27,522	380,173
Cash costs/ton produced	$ 64.10	$ 104.15	$ 66.99

Cash Costs

Management uses cash costs as an internal measurement of operating costs and performance for our mining operations.

Cash costs, which is a non-GAAP measure, is defined as the cost of coal sales plus (i) the increase in coal inventory from the previous period and its impact in the statement of operations for the reporting period, or less (ii) the decrease in coal inventory from the previous period and its impact in the statement of operations for the reporting period, and less (iii) purchases of coal from third parties. Coal inventory is calculated at lower of cost or market basis which requires inventory to be valued at whichever is the lower value, the original cost of production or purchase price or its current market price. Original cost is equal to the total cost of production, excluding certain selling related costs.

The following table is our calculation and reconciliation of non-GAAP cash cost to cost of sales:

	Three months ended March 31, 2013	**Three months ended March 31, 2012**
Cost of sales	$ 5,929,721	$ 30,506,611
Inventory Change	$ (401,099)	$ (1,403,353)
Purchase coal	$ (637)	$ (3,633,671)
Cash costs	$ 5,527,985	$ 25,469,587
Tons produced	51,152	380,173
Cash cost/tons produced	$ 108.07	$ 66.99

Metallurgical Coal Operations

South Fork

In the first quarter of 2013, we began producing coal from the recently received Blue Knob surface mine permit and were completing the mining from the existing Lost Flats permit. Total production for the first quarter 2013 was 22,663 tons and is expected to continue at this reduced level until we complete the construction of the preparation plant and rail loading facility, which is expected to be fully operational by the end of the second quarter of 2013 at which time we anticipate having the ability to increase production to approximately 50,000 tons per month. At this run rate, we expect our production cash costs to normalize at approximately $100 per ton.

True Energy

We idled True Energy, our high volatility metallurgical surface mine in Virginia, during the third quarter of 2012 as the market for high volatility met coals softened. We are continuing to take steps to reduce inventory while maintaining our ability to re-start production as market conditions warrant.

The following table presents selected coal production and sales data from our metallurgical coal mines by region for the three months ended March 31, 2013 and March 31, 2012.

	Three months ended March 31, 2013		
	South Fork	**True Energy**	**Total Met**
Tons sold	17,630	7,554	25,184
Tons produced	22,663	–	22,663
Sale price/ton	$ 106.95	$ 52.08	$ 90.49
COGS/ton sold	$ 80.04	$ 125.81	$ 93.77
Gross margin/ton sold	$ 26.91	$ (73.73)	$ (3.28)
Total Revenues	$ 1,885,528	$ 393,373	$ 2,278,901
Total Cost of Sales	$ 1,411,185	$ 950,301	$ 2,361,486
Total Gross Margin	$ 474,343	$ (556,928)	$ (82,585)
Cost of Coal Sales	$ 1,411,185	$ 950,301	$ 2,361,486
Inventory Change	$ 189,500	$ (656,247)	$ (466,747)
Purchase Coal	$ –	$ –	$ –
Cash cost	$ 1,600,685	$ 294,053	$ 1,894,738
Tons Produced	22,663	–	22,663
Cash costs/ton produced	$ 70.63	$ –	$ 83.60

	Three months ended March 31, 2012		
	South Fork	**True Energy**	**Total Met**
Tons sold	–	16,140	16,140
Tons produced	–	27,522	27,522
Sale price/ton	$ –	$ 102.80	$ 102.80
COGS/ton sold	$ –	$ 116.87	$ 116.87
Gross margin/ton sold	$ –	$ (14.07)	$ (14.07)
Total Revenues	$ –	$ 1,659,190	$ 1,659,190
Total Cost of Sales	$ –	$ 1,886,359	$ 1,886,359
Total Gross Margin	$ –	$ (227,169)	$ (227,169)

Cost of Coal Sales	$ –	$1,886,359	$ 1,886,359
Inventory Change	$ –	$ 979,955	$ 979,955
Purchase Coal	$ –	$ –	$ –
Cash cost	$ –	$2,866,314	$ 2,866,314
Tons Produced	$ –	27,522	27,522
Cash costs/ton produced	$ –	$ 104.15	$ 104.15

Thermal Coal Operations

Straight Creek

Until the sale of our Straight Creek property in February, 2013, we were operating one surface mine and one contractor operated underground mine during the first quarter. These two mines were producing approximately 45,000 to 55,000 tons of coal per month, representing about 30% to 35% of capacity. This reduced rate of production allowed us to meet existing sales commitments and take advantage of market opportunities as they arose while focusing on maintaining low operating cash cost.

Raven Crest

Our Raven Crest surface and high wall miner operations and Brier Creek underground mines in West Virginia were idled during the third quarter of 2012 due to poor market conditions. We anticipate completing construction of a preparation plant by the end of 2013 at a total capital cost of approximately $10 million, after halting construction of a preparation plant during the first quarter of 2012 due to market conditions.

During March, 2013, we amended our coal supply agreement that previously provided for the delivery of 360,000 tons per year in each of 2013 and 2014 with index-based pricing. The amendment effectively terms out the first delivery date to January 2014, continuing through the end of 2015 at the same rate of 360,000 tons per year. We continue to assess opportunities for term business to further de-risk our thermal coal operations at Raven Crest/Brier Creek.

The following table presents selected coal production and sales data from our thermal coal mines by region for the three months ended March 31, 2013 and March 31, 2012.

	Three months ended March 31, 2013		
	Straight Creek	**Raven Crest**	**Total**
Tons sold	30,443	4,330	34,773
Tons produced	28,489	–	28,489
Sale price/ton	$ 56.84	$ 17.83	$ 51.98
COGS/ton sold	$ 80.70	$ 256.69	$ 102.62
Gross margin/ton sold	$ (23.86)	$ (238.86)	$ (50.64)
Total Revenues	$ 1,730,341	$ 77,201	$ 1,807,542
Total Cost of Sales	$ 2,456,859	$ 1,111,377	$ 3,568,236
Total Gross Margin	$ (726,518)	$ (1,034,176)	$(1,760,694)

Cost of Coal Sales	$ 2,456,859	$ 1,111,377	$ 3,568,236
Inventory Change	$ 221,170	$ (155,522)	$ 65,648
Purchase Coal	$ (637)	$ –	$ (637)
Cash cost	$ 2,677,392	$ 955,855	$ 3,633,247
Tons Produced	28,489	–	28,489
Cash costs/ton produced	$ 93.98	$ –	$ 127.53

	Three months ended March 31, 2012		
	Straight Creek	**Raven Crest**	**Total**
Tons sold	226,819	182,738	409,557
Tons produced	206,952	145,699	352,651
Sale price/ton	$ 65.98	$ 72.90	$ 69.07
COGS/ton sold	$ 69.03	$ 70.93	$ 69.88
Gross margin/ton sold	$ (3.05)	$ 1.97	$ (0.81)
Total Revenues	$14,966,391	$13,320,850	$28,287,241
Total Cost of Sales	$15,658,253	$12,962,001	$28,620,254
Total Gross Margin	$ (691,862)	$ 358,849	$ (333,013)
Cost of Coal Sales	$15,658,253	$12,962,001	$28,620,254
Inventory Change	$ (1,814,810)	$ (568,497)	$ (2,383,307)
Purchase Coal	$ (1,235,260)	$ (2,398,411)	$ (3,633,671)
Cash cost	$12,608,183	$ 9,995,093	$22,603,276
Tons Produced	206,952	145,699	352,651
Cash costs/ton produced	$ 60.92	$ 68.60	$ 64.10

Results of operations

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

	For the three months March 31	
	2013	**2012**
	(In Percentages)	
Coal revenue	100.00	100.0
Cost of coal sales	145.1	101.9
General and administrative expenses	41.4	11.6
Amortization of above market coal supply agreement	–	2.6
Depreciation, depletion and amortization	87.3	24.2
Impairment	–	–
Operating loss	(173.8)	(40.3)
Other income (expense):		
Finance income	0.2	–
Finance cost	(125.8)	(16.0)
Write-off of deferred finance costs		
Unrealized gain (loss) on derivative financial instrument	(7.5)	3.7
Gain on debt retirement		
Gain on contract settlement	–	63.1
Gain on sale of investment	269.3	–
Loss on sale and disposal of equipment	–	
Other (expense) income	(9.0)	(2.1)
Net other (expense) income	127.2	48.7
(Loss) income before income taxes	(46.6)	8.4
Income tax (expense) benefit	–	(2.3)
Net (loss) income	(46.6)	6.1

Our net loss for the first quarter of 2013 was $1.9 million, which included an $11.0 million one-time gain on the sale of our Kentucky operations, as compared to net income of $1.7 million, which included an $18.9 million one-time gain on contract settlements for the first quarter of 2012. Excluding the one-time gains, the net loss for the first quarter of 2013 would have been $12.9 million as compared to a loss of $17.2 million for the first quarter of 2012. This $4.3 million decrease is mainly attributable to $1.8 million lower general and administrative expenses, and $2.8 million lower depreciation, depletion and amortization expenses in the first quarter of 2013 as compared to the same quarter of 2012. Our gross margin from operations was a loss of $1.8 million for the first quarter of 2013 as compared to a loss of $0.6 million for the first quarter of 2012. These decreased expenses and increased gross margin losses are primarily a result of the sale of our Kentucky operations on February 1, 2013, overall lower sales and coal production from all mining operations and associated corporate overhead in the quarter ending March 2013 as compared to the same quarter of 2012.

Comparison of three months ended March 31, 2013 and 2012

Revenues. Our coal revenues decreased to $4.1 million for the first quarter 2013 from $29.9 million for the first quarter 2012, a decrease of $25.8 million or 86% as compared to the same period in the prior year. This decrease in revenues is the result of decreased sales volumes due to the sale of our Straight Creek operations in the first quarter of 2013 and as well as the overall current weak market conditions that have significantly reduced the lower average sales price per ton.

The following table shows comparative detail regarding coal sales volumes:

Coal sales volumes:	**For the three months ended March 31**	
	2013	**2012**
	(In tons)	
Coal sales	59,956	425,697
Sales by operation:		
Straight Creek (Kentucky Thermal)	30,443	226,819
Raven Crest (West Virginia Thermal)	4,330	182,738
South Fork (West Virginia Met)	17,630	-
True Energy (Virginia Met)	7,554	16,140

Coal sales volume for the first quarter 2013 was 0.06 million tons, a 86% decrease from 0.43 million tons sold for the first quarter 2012. The decrease in sales volume was the result of sale of Straight Creek operations and lower overall market demand and the resulting lower sales prices as compared to same period in 2012.

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

Sales prices per ton by operation:	**For the three months ended March 31**	
	2013	**2012**
Straight Creek (Kentucky Thermal)	$ 56.84	$ 65.98
Raven Crest (West Virginia Thermal)	$ 17.83	$ 72.90
South Fork (West Virginia Met)	$ 106.95	$ -
True Energy (Virginia Met)	$ 52.08	$ 102.80
Average sales price	$ 68.16	$ 70.35

Our average sale price per ton was $68.16 for the first quarter 2013 as compared to $70.35 for the first quarter 2012. The 3% decrease for the first quarter 2013 as compared to the first quarter 2012 was due to higher per ton sale price from our South Fork operations offset by lower overall demand which has resulted in significantly lower market prices in the first quarter of 2013 and sale of our Straight Creek operations.

Cost of coal sales. Cost of coal sales consists primarily of direct mining costs associated with the production and sale of coal including salaries and benefits, blasting, fuel, repairs and maintenance, processing and indirect mining costs including hauling costs, royalties and coal related taxes. The total cost of coal sales was $5.9 million for the first quarter 2013 as compared to $30.5 million for the first quarter 2012, a decrease of $24.6 million, or 81%, which was attributable primarily to the decrease in overall production. Per ton cost of sales, increased for the first quarter 2013 to $98.90 as compared to $71.66 for the first quarter 2012, resulting in a decrease in gross margin from operations for the first quarter of 2013 as compared to the first quarter of 2012 due to increases in mining related costs per ton. Our cash cost per ton produced, which we calculate as cost of sales plus or minus change in inventory and third party purchases, divided by tons produced, increased by $41.08 for the first quarter 2013 as compared to the first quarter of 2012, again due primarily to decreases in production and higher mining costs at South Fork.

The following table shows comparative costs of sales data:

Cost of coal sales data:	**For the three months ended March 31**	
	2013	**2012**
Sale price/ton	$ 68.16	$ 70.35
COGS/ton sold	$ 98.90	$ 71.66
Gross margin/ton sold	$ (30.74)	$ (1.31)
Cash costs/ton produced	$ 108.07	$ 66.99
Total cash cost	$ 5,527,985	$ 25,469,590

General and administrative expenses. Our general and administrative expenses were $1.7 million for the first quarter 2013 compared to $3.5 million for the first quarter 2012. This decrease of $1.8 million, or 54%, is primarily the result of an overall decrease in salaries for executive management and support staff.

Amortization of above market coal supply agreement. Amortization of the above market coal supply agreement for the first quarter of 2013 was nil as compared to $0.8 million in the same quarter of 2012. This coal supply agreement was acquired with the acquisition of Raven Crest and the final shipments as called for in this agreement were made in July of 2012.

Depreciation, depletion and amortization. Depreciation, depletion, and amortization expenses for the first quarter 2013 were $3.6 million as compared to $7.4 million for the first quarter of 2012, a decrease of $3.8 million, or 51%. This decrease was primarily driven by the sale of our Straight Creek operations offset increase in property, plant and equipment including mineral rights, mine development costs placed into service throughout 2012 and in the first quarter of 2013.

Change in fair value on derivative financial instrument. Our gain on the fair value movement on derivative financial instrument for the first quarter 2013 was nil as compared to a gain of $1.1 million for the first quarter 2012. The first quarter 2012 non-cash increase was due to the change in the fair value of our outstanding share purchase warrants in conjunction with the converting of our financial statements to satisfy IFRS reporting requirements versus previous reporting requirements as outlined by GAAP guidelines.

Finance costs. Finance cost was $5.1 million for the first quarter of 2013 compared to $4.8 million for the first quarter 2012. The increase was due to the additional interest expenses associated with the issuance of our $10 million senior secured Term Loan A at 9.875%.

In December 2012, the Company entered into a credit agreement with Bayside providing for a $20.0 million senior secured term loan drawable in two tranches of $10.0 million each, bearing interest at a rate of 9.875%. The Company has drawn Term Loan A under the credit agreement in the principal amount of $10.0 million and may draw down Term Loan B in the principal amount of $10.0 million on or before the first anniversary of the date of the credit agreement, subject to the closing conditions set forth in the credit agreement.

In connection with the Bayside financing, in December 2012, the Company issued to the lenders 1,300,000 common share purchase warrants. 500,000 of the warrants have an exercise price of Cdn$1.20 and expire in December 2017, 450,000 of the warrants have an exercise price of Cdn$1.40 and expire in December 2017, and 350,000 of the warrants have an exercise price of Cdn$1.60, would vest upon Term Loan B issuance and expire five years from the date the Term Loan B is issued.

Gain on contract settlement. During first quarter 2012 we recorded a gain due to a negotiated a contract settlement and a partial buyout with two major thermal coal customers realizing $18.9 million in cash to the Company and releasing an additional $12.0 million of restricted cash.

Income taxes. Our income tax expense for the first quarter 2013 was nil compared to a tax expense of $0.7 million for the first quarter 2012; this difference was due to the operating loss in 2013 compared to operating income in 2012.

Liquidity and Capital Resources

As of March 31, 2013, we had total cash and cash equivalents (excluding restricted cash) of $27.6 million, compared with $32.3 million at December 31, 2012. As of March 31, 2013 the Company's liquidity profile is as follows:

Cash	$	27.6 million
Term Loan B Commitment	$	9.8 million
Liquidity	$	37.4 million
Restricted Cash....................................	$	39.2 million

Effective February 1, 2013, the Company entered into an asset purchase agreement pursuant to which it has sold all assets, along with the related asset retirement obligation liabilities, of its Kentucky operations, which consisted of the Straight Creek and Red Bird mining operations, for cash consideration of $47,200,000, of which $3,000,000 was placed in escrow for future settlement of prospective indemnity claims until June 2014, at which time any remaining funds will be released to the Company. The Company received a deposit of $250,000 in 2012 related to this agreement.

The following table summarizes the carrying amount of the assets and related liabilities sold at the disposition date:

Inventories	$ 2,304,424
Recoupable royalties	2,200,561
Property, plant and equipment	25,972,801
Exploration and evaluation assets	2,386,097
Mineral properties	9,503,519
Asset retirement obligations	(7,198,885)
Total identifiable net assets	$ 35,168,517

As a result of the transaction, the Company recorded a gain of $11,004,207, net of $1,027,276 of transaction related expenses paid.

Additionally, in connection with the transaction, certain inventories of the Company, in excess of the minimum requirements identified in the asset purchase agreement, were sold for additional proceeds of $821,150.

The Company used $5,094,387 of the net proceeds to repay certain equipment notes payable and settle certain capital lease obligations related to the equipment sold. The remaining $41,078,337, net of transaction expenses, is restricted for use as identified in connection with the indenture governing our Notes (as defined below) due May 2019.

Currently, we have limited production at South Fork and our other mines continue to be idle due to weak market conditions. We continue to implement operational changes throughout all our mining operations aimed at preserving cash and liquidity and allowing us to emerge as a more competitive company when market conditions improve and when South Fork is operating at its anticipated production levels that are expected to generate higher margins than we are currently realizing. We are also continuing efforts to reduce inventory levels at our idle operations along with contain costs at the corporate level.

Our primary sources of cash have been revenues from the sale of coal to utilities, energy trading firms, brokers, coal producers, industrial customers, proceeds from the sale of debt and equity securities, settlement of coal supply agreements and cash on hand.

Our primary uses of cash have been the payment of normal operating expenses associated with our coal production, capital expenditures, debt service, acquisitions, share and note repurchases, general and administrative expenses and the funding of reclamation bonding obligations.

We believe that cash on hand, cash generated from our operations including coal inventory reductions and the net proceeds from the debt offerings and the sale of our Kentucky operations will be sufficient to fund ongoing working capital requirements, meet our debt service requirements and provide the capital necessary to fund development and capital expenditures at our properties.

Cash Flows from Operating activities. Cash used by operating activities for the first quarter 2013 was $0.7 million, compared to cash provided by operating activities of $13.1 million for the first quarter 2012. The primary items impacting cash used by operating activities are changes in depreciation, gain on sale of Straight Creek, change in reclamation assets/liabilities, the unrealized gain on the derivative financial instrument and various changes in current assets and liabilities.

Cash Flows from Investing activities. Cash provided in investing activities for the first quarter 2013 was $1.0 million compared to cash used in investing activities of $13.7 million for the first quarter 2012. The primary items impacting cash provided in investing activities were cash proceeds from the sale of Straight Creek, offset by outlays related to exploration and evaluation assets and the increase of restricted cash.

Cash Flows from Financing activities. Cash used in financing activities was $6.4 million for the first quarter 2013 compared to $2.9 million for the first quarter 2012. The change was primarily due to the repayment of equipment and vehicle notes payable and payments of capital lease obligations associated with the Straight Creek sale.

Capital expenditures. Capital expenditures for purchases of property, plant, and equipment, expenditures, exploration and evaluation assets, capital lease additions and asset acquisitions were $14.0 million and $19.7 million for the first quarter 2013 and for the first quarter 2012, respectively.

Total capital expenditures for the first quarter of 2013 were as follows:

	Raven Crest	**South Fork**	**True Energy**	**Brier Creek**	**Sewell Mountain**	**Total**
Maintenance Capital	$ -	$ -	$ -	$ -	$ -	**$ -**
Expansion Capital	$ 4,337	$ 12,491,690	$ 3,700	$ 7,031	$ 1,470,000	**$ 13,976,758**
Total	**$ 4,337**	**$ 12,491,690**	**$ 3,700**	**$ 7,031**	**$ 1,470,000**	**$ 13,976,758**

Credit and long term debt

$200 Million Senior Secured Notes due 2019

In May 2011, the Company issued $200,000,000 of its 9.25% Senior Secured Notes due May 15, 2019 (the "Notes"). Interest payments are required semi-annually with the first payment in November 2011. The Company may redeem the Notes, in whole or in part, at any time on or after May 15, 2015 at redemption prices ranging from 104.625% beginning May 15, 2015 to 100% beginning on May 15, 2018. The Company paid $6,772,844 of fees in connection with the financing, which were capitalized as deferred financing costs and are being amortized using the interest method over the term of the Notes.

During January 2012, the Company acquired and retired $3,000,000 of its Notes, and as a result, recognized a gain of $442,500 on the retirement of its debt which was offset by $95,597 to write-off deferred financing costs.

Note Payable to Bayside

In October 2012, the Company secured a $20,000,000 financing commitment from Bayside Capital Inc. ("Bayside"). The Bayside credit agreement provides for the issuance of $20,000,000 in principal amount of first lien senior secured term loans, which can be drawn in two tranches of $10,000,000 each, bearing interest at a rate of 9.875% per annum, having a four-year term. The first $10,000,000 tranche was drawn in December 2012 and the second $10,000,000 tranche can be drawn up to one year following issuance of the first $10,000,000 tranche.

In consideration for the financing, in December 2012, the Company issued to Bayside 1,300,000 common share purchase warrants valued at $392,484 at the date of issue. Also, the Company paid $1,060,830 of additional fees in connection with this financing, which resulted in total costs of $1,453,314, which were capitalized as deferred financing costs.

EBITDA and Adjusted EBITDA

Management uses EBITDA and Adjusted EBITDA as internal measures of operating performance, to establish operational goals, to allocate resources and to analyze business trends and financial performance. EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. EBITDA and Adjusted EBITDA are non-GAAP financial measures that do not have any standardized meanings as prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

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

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

	For the three months ended March 31, 2013	For the three months ended March 31, 2012
EBITDA		
Net (loss) income	$ (1,905,059)	$ 1,689,710
Finance costs (income), net	$ 5,073,392	$ 4,793,201
Depreciation, depletion, amortization	$ 3,625,789	$ 7,369,812
Amortization of coal supply agreement	$ –	$ 791,326
Gain on derivative instrument (warrants)	$ 307,622	$ (1,095,219)
Stock based compensation	$ 302,567	$ 361,840
Income tax (benefit) expense	$ –	$ 682,240
EBITDA	**$ 7,404,311**	**$ 14,592,910**
Non-recurring		
Gain on contract terminations	$ –	$ (18,900,000)
Gain on sale of Straight Creek	$ (11,004,207)	$ –
Non-recurring expenses	$ –	$ 642,855
Adjusted EBITDA	**$ (3,599,896)**	**$ (3,664,235)**

Summary of Quarterly Results

	2013	**2012**	**2012**	**2012**
	Q1	**Q4**	**Q3**	**Q2**
Tons produced	51	147	184	273
Tons sold	60	180	242	363
Sales price/ton	$ 68.16	$ 64.30	$ 68.16	$ 63.67
COGS/ton sold	$ 98.90	$ 95.99	$ 86.85	$ 72.55
Cash costs/ton produced	$ (30.74)	$ 94.55	$ 95.17	$ 79.22
Revenue (000,000)	$ 40.86	$ 11.55	$ 16.52	$ 23.10
Net Income (Loss) (000,000)	$ (19.05)	$ (40.40)	$ (35.61)	$(14.50)
Basic net income (loss) per common share and common non-voting share	$ (0.03)	$ (0.74)	$ (0.65)	$ (0.27)
Diluted net income (loss) per common share and common non-voting share	$ (0.03)	$ (0.74)	$ (0.65)	$ (0.27)

	2012 Q1	2011 Q4	2011 Q3	2011 Q2
Tons produced	380	532	525	514
Tons sold	426	395	532	510
Sales price/ton	$ 70.35	$ 85.96	$91.50	$ 79.62
COGS/ton sold	$ 71.66	$ 62.16	$61.17	$ 58.69
Cash costs/ton produced	$ 66.99	$ 57.07	$59.64	$ 58.39
Revenue (000,000)	$ 29.95	$ 33.94	$48.65	$ 40.64
Net Income (Loss) (000,000)	$ 1.69	$ (6.45)	$ 5.41	$ (2.82)
Basic net income (loss) per common share and common non-voting share	$ 0.03	$ (0.12)	$ 0.10	$ (0.05)
Diluted net income (loss) per common share and common non-voting share	$ 0.03	$ (0.12)	$ 0.09	$ (0.05)

Outstanding Share Data

Voting Common Shares

An unlimited number of voting common shares at no par value are authorized. The Company has issued, outstanding and fully paid 47,304,482 and 44,237,240 voting common shares as of March 31, 2013 and December 31, 2012, respectively. The holders of common shares are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

Common Non-Voting Shares

An unlimited number of common non-voting shares at no par value are authorized.

The Company has issued and outstanding 7,467,541 and 10,467,541 common non-voting shares as of March 31, 2013 and December 31, 2012, respectively, with an allocated share capital amount of $1,726,158 and $2,419,622 at March 31, 2013 and December 31, 2012, respectively. The common non-voting shares are divided into Series A, Series B and Series C common non-voting shares. The common non-voting shares are convertible into voting common shares on the basis of one voting common share for one common non-voting share at the option of the holder without the payment of additional consideration.

In March 2013, 3,000,000 common non-voting shares were converted to voting common shares.

Common Share Purchase Warrants

	Number of Warrants	Exercise Price	Expiry Date
Balance at January 1, 2012	3,000,000		
Issued during 2012	1,000,000	Cdn$1.20	July 2017
Issued during 2012	500,000	Cdn$1.20	December 2017
Issued during 2012	450,000	Cdn$1.40	December 2017
Issued during 2012	350,000	Cdn$1.60	To Be Determined
Expired during 2012	(3,000,000)	Cdn$4.20	
Balance at December 31, 2012 and March 31, 2013	2,300,000		

Nature and Purpose of Equity

The reserves recorded in equity on the Company's balance sheet include 'Share Capital', 'Share-based Payments', 'Contributed Surplus' and 'Accumulated Deficit'.

'Share Capital' is used to recognize the value of equity-settled share based transactions.

'Share-based Payments' is used to record the issuance of options and restricted stock units.

'Contributed Surplus' is used to record the expiration or forfeiture of warrants or options.

'Accumulated Deficit' is used to record the Company's change in deficit from period to period.

Share-Based Payments

Amended 2010 Stock Incentive Plan

The Company's Amended 2010 Stock Incentive Plan provides for non-transferable options to purchase common shares of the Company to be granted to directors, officers, employees or service providers of the Company or any of its subsidiaries. No amounts are paid or payable by the recipient on receipt of options, and the options granted are not dependent on any performance-based criteria. In accordance with these programs, options are exercisable at the market price of the shares at the grant date.

Under the Amended 2010 Stock Incentive Plan, options may have a term of up to ten years and are subject to vesting periods determined by the Board of Directors.

Options Issued During this Period

In March 2013, the Company granted 1,437,887 options to certain executive officers and directors with an exercise price of $0.85 per share and a grant-date fair value of $0.74 per share. These options vest at varying rates over two years and expire in ten years.

In April 2013, the former Chief Executive Officer surrendered stock options for 250,000 shares of the Company's voting common shares. In addition, in April 2013, the Company granted 250,000 options under the Company's Amended 2010 Stock Incentive Plan to an employee with an exercise price of $1.25 per share and a grant date fair value of $0.65 per share.

Details of the options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2012	6,368,615	$1.86
Granted	560,566	1.76
Forfeited	(147,146)	2.42
Exercised	(292,162)	0.68
Outstanding at December 31, 2012	6,489,873	1.88
Granted	1,437,887	.87
Forfeited	(20,000)	2.39
Exercised	(208,570)	.60
Outstanding at March 31, 2013	7,699,190	1.72

During February 2013, 67,242 shares were issued in a cashless exercise of 208,570 options.

Of the options outstanding at March 31, 2013, 1,838,892 options expire in 2018, 1,498,095 options expire in 2019, 1,565,750 options expire in 2020, 798,000 options expire in 2021, 560,566 options expire in 2022 and 1,437,887 expire in 2023. There are 5,591,112 options exercisable at March 31, 2013 with a weighted average exercise price of $1.90. As of March 31, 2013, the weighted average remaining contractual life of the outstanding options was 80.91 months.

Fair Value of Options and Warrants Issued During the Period

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

Expected term (years)	1.00	–	10.00
Risk-free interest rates	0.12%	–	2.04%
Expected / weighted-average volatility	36.27%	–	92.00%

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

Expenses Arising from Share-Based Payment Transactions

Total share-based compensation expense for the three months ended March 31, 2013 and 2012 was $302,567 and $369,152, respectively.

Credit risk

Credit risk arises from the potential that a customer or counterparty will fail to perform its obligations. Our exposure to credit risk exists primarily related to our trade accounts receivable. While economic factors can affect credit risk, we manage risk by providing credit terms on a case by case basis. Our customers are primarily investment grade companies and quasi-governmental agencies. Our cash and certificates of deposit are on deposit with quality financial institutions and such deposits are subject to insurance by the Federal Deposit Insurance Corporation, an independent agency of the United States of America, and the Canada Deposit Insurance Corporation, a federal Crown corporation created by Canadian Parliament. Our maximum credit risk exposure at March 31, 2013 is approximately $69.7 million and is equal to the carrying amount of all cash, restricted cash and trade accounts receivable as listed on the accompanying consolidated balance sheet.

Market risk

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

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

Liquidity risk

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

We have sustained losses since operations commenced in 2008 and have financed these losses mainly through a combination of equity and debt offerings. As a result of the RTO and equity issuance in December 2009, we have significantly increased our cash balances, reduced our outstanding debt and increased our shareholders' equity. During 2010 we incurred debt to finance a business acquisition. During 2011 we incurred additional debt which was used to repay previously incurred debt and will be used for expansion and general corporate purposes. Management believes that we have sufficient resources to meet all of our obligations in 2013.

Foreign currency risk

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

Contractual obligations

Description	Less than 1 year	2 - 3 Years	Thereafter	Total
Accounts payable and accrued expenses	$ 10,220,327	$ -	$ -	$ 10,220,327
Accrued interest payable	$ 7,038,368	$ -	$ -	$ 7,038,368
Debt and interest payments	$ 1,022,367	$ 1,032,470	$ 205,000,000	$ 207,054,837
Leases	$ 1,925,231	$ 1,821,127	$ -	$ 3,746,358
Total obligations	$ 20,206,293	$ 2,853,597	$ 205,000,000	$ 228,059,890

Customer concentration

The Company's two largest customers individually accounted for approximately 55% and 26% of the Company's revenues during the three months ended March 31, 2013, and approximately 42% and 11% of the Company's revenues during the three months ended March 31, 2012.

Debt obligations

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

	March 31, 2013	December 31, 2012
Senior secured notes payable	$195,000,000	$195,000,000
Senior secured term loans	10,000,000	10,000,000
Equipment, vehicle and other notes payable	2,054,837	5,663,120
	207,054,837	210,663,120
Less current portion of notes payable	1,022,367	3,708,301
Non-current portion of notes payable	$206,032,470	$206,954,819

Equipment, vehicle, and other notes payable

As of March 31, 2013 and December 31, 2012, the Company had numerous equipment, vehicle and other notes payable totaling $2,054,837 and $5,663,120, respectively. These notes bear interest at fixed rates ranging from 4.16% to 6.75% and are due in various monthly payments through July 2016. All of the equipment and vehicle notes are collateralized by the related equipment and vehicles purchased.

Capital leases

The Company leases certain equipment under capital lease arrangements with the option to purchase at the end of lease for $1, which the Company intends to exercise. At March 31, 2013 and December 31, 2012, equipment under capital leases had a total cost of $5,735,000 and $9,993,000, respectively, and a net carrying amount of $3,746,359 and $6,309,271, respectively. The future minimum monthly lease payments for these leases are approximately $178,000 through January 2015. Amortization of equipment under capital leases is included with depreciation expense in the accompanying condensed consolidated interim financial statements.

Derivative Financial Liabilities

In July 2012, the Company issued 1,000,000 warrants for financing purposes at a price of Cdn$1.20 per share, exercisable until July 2017. The fair value of the warrants, measured using the Black-Scholes valuation model at March 31, 2013 was $0.51 per warrant and at December 31, 2012 was $0.38 per warrant.

In December 2012, the Company issued 1,300,000 common share purchase warrants for financing purposes. 500,000 are at a price of Cdn$1.20 per share, exercisable until December 2017, 450,000 are at a price of Cdn$1.40 per share, exercisable until December 2017, and 350,000 are at a price of Cdn$1.60 per share, exercisable for five years from the date the Term Loan B is advanced. The fair value of the 500,000, 450,000 and 350,000 warrants, measured using the Black-Scholes valuation model at March 31, 2013 was $0.53, $0.50 and $0.48 per warrant, respectively, and at December 31, 2012 was $0.38, $0.35 and $0.33 per warrant, respectively.

As the warrants have an exercise price in Canadian dollars which is different to the functional currency of the Company (United States dollars), the warrants are treated as a financial liability and the fair value movement during the period is recognized in the condensed consolidated interim statements of operations.

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements.

Related Party Transactions

The Ultimate Parent

Xinergy Ltd. is the ultimate parent entity.

Related Party Entities

The Company had no related party transactions, other than those disclosed below, for the three months ended March 31, 2013 and 2012.

Equity instrument disclosures related to key management personnel

Option Plan Details

Share-Based Payments outlines the details of the Company's Stock Incentive Plan related to key management personnel.

Options Holdings

The number of options over common shares in the Company held during the financial period by all directors and key management personnel of the Company outstanding as of March 31, 2013 was 6,641,293. The options expire at various times throughout 2018 through 2022.

Share Holdings

Share Capital outlines the details of the Company's common shares issued to key management personnel.

Income Taxes

Income tax expense or benefit is recognized based on management's best estimate of the weighted average annual income tax rate for the full financial year applied to the pre-tax income of the period.

For tax purposes at March 31, 2013, the Company has United States net operating loss ("NOL") carryovers which are available to offset future taxable income. The Federal NOL carryovers are approximately $106,900,000 and the state (Kentucky, West Virginia, Virginia and Tennessee) NOL carryovers are approximately $141,900,000. The future benefit of these NOLs may be limited on an annual basis and in total under Section 382 of the United States Internal Revenue Code as a result of ownership changes and depending on the extent of any future ownership changes.

These NOL carryovers expire as follows:

	Federal		State	
Year Generated	Year of Expiration	Amount	Year of Expiration	Amount
2008	2028	$14,900,000	2023	$ 4,100,000
2009	2029	12,500,000	2024	13,200,000
2010	2030	2,100,000	2025	7,500,000
2011	2031	13,200,000	2026	34,700,000
2012	2032	62,300,000	2027	80,500,000
2013	2033	1,900,000	2028	1,900,000
		$106,900,000		$141,900,000

Restricted Cash

The Company is required in connection with certain equipment and vehicle note payables to maintain restricted cash and by surety agencies as collateral in order to issue necessary reclamation bonds as required by authoritative agencies for various permitting to allow mining and to ensure the completion of future reclamation. Additionally, certain proceeds from the sale of Straight Creek and Red Bird are restricted for use as identified in connection with the indenture governing over the Notes due May 2019. At December 31, 2012, the Company had restricted cash in the amount of $7,494,851, of which $2,682,970 related to the Straight Creek and Red Bird properties that was released when the properties were sold in the first quarter of 2013.

Critical accounting estimates

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in conformity with IFRS which 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, until we have adequate time to process and record actual results from operations.

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

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

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

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

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

We estimate the fair value of our ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of future costs for third-parties to perform the required work. Cost estimates are escalated for inflation, and then discounted at the risk-free rate, which approximated 4% at December 31, 2012. Total estimated undiscounted future costs related to the ARO liabilities totaled approximately $26.9 million as of December 31, 2012 with costs expected to be paid from 2013 to 2043. We record a capital asset retirement cost associated with the initial recorded liability. The capital asset retirement cost is amortized based on the units of production method over the estimated recoverable, proven and probable reserves at the related mine, and the ARO liability is accreted to the projected settlement date. Changes in estimates could occur in the near term due to revisions of mine plans, changes in estimated costs, and changes in timing of the performance of reclamation activities.

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

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

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

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

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

Controls and Procedures

Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods, and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the Chief Executive Officer and Chief Financial Officer, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that the Company's receipts and expenditures are made only in accordance with authorizations of management and the Company's Directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

There has been no change in the Company's internal control over financial reporting during the three months ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Risk Factors

Please refer to the AIF (already defined) for the year ended December 31, 2012 for a discussion of our risk factors which will be available on SEDAR.

Additional Information

Additional information regarding the Company and its business operations, including the Company's AIF, will be available on the Company's SEDAR company profile at www.sedar.com and on the Company's website at www.xinergycorp.com.