XINERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF

FINANCIAL CONDITION

AND

RESULTS OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2012

August 13, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE PERIOD ENDED JUNE 30, 2012

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 interim financial statements for the three and six months ended June 30, 2012 and notes thereto and audited consolidated financial statements for the years ended December 31, 2011 and 2010 and notes thereto. In this MD&A, "Xinergy," "the Company," "we," "us," or "our" refers to Xinergy Ltd. and its subsidiaries. The condensed 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.

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 August 13, 2012.

Phillip Lucas, PE, PLS, James S. Canterbury, PE and Tracy Goff, PE are qualified persons as defined by National Instrument 43-101 and have reviewed and approved the 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 "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:

- Increased production capacity as the result of recently acquired properties;
- Estimated capital expenditures for 2012 and 2013;
- Future sales expectations of produced coal considering market conditions;
- Reserves that have recently been leased or acquired,
- Future development of, and mining plans for, recently acquired properties and leased reserves; and
- The use of proceeds relating to the $20.0 million financing commitment from Marret Asset Management.

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; 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: 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 in a section entitled "Risk Factors" and other documents we file with the Canadian securities regulatory authorities available on SEDAR at www.sedar.com.

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

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

Overview and Corporate History

We are a United States ("U.S.") producer of thermal and metallurgical coal with reserves and mining operations in the Central Appalachian regions of Kentucky, West Virginia and Virginia. We sell our thermal coal to electric utilities, industrial companies, brokers and marketers. Our metallurgical coal is sold to brokers and other coal producers.

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.

At the date of this MD&A, our operations consisted of three active mining complexes, our (i) Kentucky Straight Creek thermal operation (which includes the recently acquired Red Bird property), (ii) True Energy, a Virginia high-volatility metallurgical mine, and (iii) South Fork, a West Virginia mid-volatility metallurgical mine.

We lease the mineral rights to approximately 109,000 acres of land, comprised of 48,000 acres in Kentucky, 60,000 acres in West Virginia and 1,000 acres in Virginia. Our Kentucky properties include the Straight Creek thermal coal mining operations in Bell, Clay, Harlan and Leslie Counties. Straight Creek consist of approximately 48,000 acres and currently operates one company operated surface mine and one contractor operated underground mine. We also operate a preparation plant and a CSX unit train loading facility at the Straight Creek complex. We purchased this property in March 2008 and commenced mining in April 2008. In December 2011, we acquired a property adjacent to Straight Creek which we refer to as Red Bird. The Red Bird assets consist of coal properties in Bell, Clay and Leslie counties Kentucky, including permits and reserves that increase our thermal footprint in Kentucky by effectively expanding the reserve profile of the Company's Straight Creek mining complex.

We expanded our thermal coal operations into West Virginia in April 2010 with the acquisition of Raven Crest Mining, LLC ("Raven Crest"), a 12,000 acre surface mining operation in Boone County, West Virginia approximately twenty miles from the Kanawha River. The Kanawha River is a major navigable waterway centrally located outside Charleston, West Virginia and used extensively for transporting coal. Raven Crest operated one surface mine and one high wall miner until July 2012 at which time these two mining operations were idled due to weak market conditions. We continue to operate a CSX unit train loading facility on this property, allowing us to continue inventory reductions. In March 2011, we entered into leases with Penn Virginia Operating Co., LLC ("Penn Virginia") for an additional 13,000 acre tract known as Brier Creek, which is adjacent to and north of our Raven Crest properties in Kanawha and Boone Counties, West Virginia. These leases include surface and underground thermal coal reserves and also include permits for a coal preparation plant and refuse area adjacent to the Raven Crest unit train loading facility. We began site preparation work and construction on a new preparation plant, upgrades to our existing unit train load-out facility and development of two underground mines in the third quarter of 2011. In the first quarter of 2012, due to unfavorable market conditions we halted construction of the preparation plant and idled production from our Brier Creek underground mine that had commenced in the fourth quarter of 2011.

In January 2011, we acquired 14,000 acres of coal mineral leases in Greenbrier County, West Virginia through our wholly owned subsidiary, South Fork Coal Company, LLC ("South Fork"). The acquisition included permits that were recently transferred to the Company by the West Virginia Department of Environmental Protection for the surface mine we refer to as Lost Flats. We received all necessary final approvals and permits in the fourth quarter of 2011 for Lost Flats and began development work in December 2011. The Lost Flats mine is a high quality, mid-volatility metallurgical surface mine in the Sewell coal bed that began limited production in April 2012. We also leased approximately 21,000 additional acres adjacent to this property in January 2012 that is expected to increase our reserve base at these properties. In August 2012, the Company received the necessary permits for a second surface mine we refer to as Blue Knob.

In July 2011, through our wholly-owned subsidiary, Xinergy of Virginia, LLC, we acquired 100% of the membership interest of True Energy, LLC ("True Energy") a high volatility metallurgical surface mining operation in southwestern Virginia. We currently operate one surface mine on this property, however, we began the process of temporarily idling this mine in August 2012 due to poor market conditions. The Company received an additional permit in April 2012 that will allow us to increase production if and when market conditions warrant.

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 second quarter of 2012, 98% of our revenue was generated from coal sales to electric utility companies and brokers. Our largest customers represented approximately 61% and 24% of our revenues, respectively.

Our results of operations greatly depend on the cost of coal production. Our primary 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. We expect that our exploration costs in the next few years will be relatively significant as we continue to maintain active exploration programs on all properties.

Also, the Company experienced zero lost time accidents in the second quarter as we continue to focus on operating safe and environmentally compliant coal mines.

Market Outlook

As of the date of this MD&A, domestic and global economic uncertainty continues to negatively impact demand for thermal coal used largely in power generation and metallurgical coal used in the steel-making process.

The domestic market for thermal coal weakened during the first half of 2012 to levels below most producers' cash production costs as a combination of cheap natural gas and mild winter weather led to substantial coal-to-gas switching and a substantial increase in utility inventories. While 2012 domestic thermal coal consumption is expected to decrease by greater than 105 million tons compared to 2011, the domestic thermal market is showing signs of a recovery. Natural gas prices have increased approximately 50% from recent lows, while domestic utility inventories appear to have peaked at approximately 212 million tons in April, standing at approximately 204 million tons at the end of June. We believe this drawdown – slightly greater than the historical average for this period – reflects the impact of substantial supply cuts as well as above-trend temperatures throughout much of the country during the first half of the year. Notwithstanding our view that the domestic thermal market has reached an inflection point, market conditions continue to be challenging as inventories remain at elevated levels with unfavorable spot pricing and a tepid contracting environment contributing to uncertainty as to optimal thermal coal production rates.

In addition, the global met market has demonstrated significant weakness recently as spot shipments for benchmark quality hard coking coals have reportedly settled below $200 per metric tonne due to moderating growth in China, economic instability in Europe and the normalization of Australian exports following resolution of BHP's labor disputes at its Queensland coking coal mines. We believe that the recently reported spot settlements reflect relatively small volumes and in some cases distressed cargoes, and in any event bear little relation to the level at which quarterly contracts are likely to be priced. We continue to anticipate that our high-quality Sewell seam mid-vol product will command pricing at or near benchmark following completion of our preparation plant at South Fork.

The coal industry continues to make cutbacks in supply in response to the decrease in demand for coal, with continued supply rationalization expected due to the general economic environment as well as a number of regulatory factors for the coal industry and utilities from the Environmental Protection Agency and other regulatory agencies. Due to these ongoing uncertainties in the global marketplace, it continues to be challenging to accurately forecast short-term pricing for thermal and metallurgical coal. Long-term, we still believe that global demand for both thermal and metallurgical coal will continue to be driven by growth in developing economies, and that production challenges will continue in the regions that we mine coal – providing "scarcity value" for low-cost, high quality coal assets. In the short term, we remain cautious on the outlook for the global economy while we prioritize cost containment, measured discretionary capital spending and balance sheet liquidity.

The Company continues to realign its asset portfolio towards higher margin met mines. Notwithstanding our focus on building out our premium-quality mid-vol met footprint in Greenbrier County, WV, we believe that Central Appalachian thermal coal will remain a vital part of our country's energy mix, and are committed to optimizing the value of our low-cost CAPP reserves as and when the market normalizes.

During July, we idled production at our Raven Crest operation and are in the process of idling our True Energy high vol met surface mining operation. These actions are aimed at conserving cash as we reduce inventory levels over the next few months, though the "hot idling" of these mines will enable us to quickly bring these mines back into production as market conditions warrant. We continue to operate Straight Creek at production levels consistent with achieving our targeted return hurdles. We are currently in discussions with several thermal coal customers for term contracts, with a goal of having a significant portion of our thermal capacity contracted for 2013 and 2014 by the end of this year.

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

- domestic and international deterioration in economic conditions in industries in which our customers operate;
- domestic and international price volatility, supply and demand of thermal and metallurgical coal;
- domestic and worldwide 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;
- 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 June 30, 2012, and Subsequent Events

- In August 2012, our wholly owned subsidiary, South Fork Coal Company, LLC, received the requisite permits for its Blue Knob surface mine, significantly expanding our mid-volatility metallurgical production capacity.
- In July 2012, the Company received a $20.0 million financing commitment for a first lien, senior secured note with a three year maturity at an interest rate of 9.875%.
- The Company entered into definitive documentation to acquire for a purchase price of $4 million a mid-volatility metallurgical coal property adjacent to our South Fork property, which, upon closing, would significantly increase our premium mid-vol met reserves and, upon project completion, our production.
- The Company idled Raven Crest and began idling True Energy mining operations due to market conditions.
- The Company maintained a strong balance sheet, with unrestricted cash of $53.5 million as of June 30, 2012.
- The Company is providing updated 2012 and 2013 Financial Guidance.

Financial Overview

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

($'000)	As of June 30 2012	As of March 31 2012	As of December 31 2011	As of June 30 2011
Balance Sheet				
Cash and cash equivalents	$ 53,454	$ 69,465	$ 72,983	$ 145,592
Total current assets	78,828	103,688	117,269	171,196
Total assets	257,693	282,854	289,701	295,525
Total current liabilities	22,368	30,835	40,309	36,751
Total long-term liabilities	222,106	225,308	224,803	218,611
Shareholders' equity	13,220	26,711	24,589	40,163

($'000, except per share)	2012 Three months ended June 30	2012 Three months ended March 31	2012 Six months ended June 30	2011 Three months ended June 30
Statement of Operations				
Coal revenues	$ 23,143	$ 29,946	$ 53,090	$ 40,637
Cost of coal sales	26,372	30,507	56,879	29,954
Gross margin	(3,229)	(561)	(3,789)	10,683
(Loss) income before taxes	(18,070)	2,372	(15,698)	(5,289)
Net (loss) income	(14,474)	1,690	(12,784)	(2,817)
Basic and diluted net income (loss) per share	(0.27)	0.03	(0.23)	(0.05)

	2012 Three months ended June 30	2012 Three months ended March 31	2012 Six months ended June 30	2011 Three months ended June 30
Sales & Operating Statistics				
Tons sold	363,495	425,697	789,192	510,381
Tons produced	272,999	380,173	653,172	513,866
Sales price/ton	$ 63.67	$ 70.35	$ 67.27	$ 79.62
COGS/ton sold	$ 72.55	$ 71.66	$ 72.07	$ 58.69
Gross margin/ton sold	$ (8.88)	$ (1.31)	$ (4.80)	$ 20.93
Cash costs/ton produced	$ 79.22	$ 66.99	$ 72.11	$ 58.39

Thermal Coal Operations

Straight Creek

As of June 30, 2012, we continue to operate one surface mine and one contractor operated underground mine at our Straight Creek property in Kentucky. We idled two surface mines and a high wall miner in the first quarter of this year due to weak market conditions. We expect to continue producing at a rate that will allow us to meet existing sales commitments and take advantage of market opportunities as they arise.

Presently we are producing approximately 45,000 to 55,000 tons per month, which is about 30% to 35% of capacity, while maintaining low cash cost.

Raven Crest

During the second quarter, we operated our Raven Crest surface and high wall miner operations in West Virginia at a significantly reduced production rate until idling them in July 2012 due to poor market conditions. We have the ability to efficiently and quickly re-start production if market opportunities arise. We continue efforts to reduce inventory, while we assess opportunities for long-term contracts at Raven Crest and Brier Creek that would justify construction of the preparation plant that we halted during the first quarter of 2012.

The following table presents selected data from our thermal coal mines for the three months ended June 30, 2012.

	Thermal Properties Three months ended June 30, 2012		
	Straight Creek	**Raven Crest**	**Total Thermal**
Tons sold	292,097	37,984	330,081
Tons produced	187,231	40,979	228,210
Sale price/ ton	$60.70	$ 50.46	$59.52
COGS/ton sold	$50.99	$148.50	$62.21
Gross margin/ton sold	$ 9.71	$(98.04)	$(2.69)
Cash costs/ton produced	$55.38	$137.65	$70.16
Total revenues	$17,731,175	$ 1,916,834	$ 19,648,009
Total cost of sales	$14,893,794	$ 5,640,690	$ 20,534,485
Gross margin	$ 2,837,381	$(3,723,856)	$ (886,746)
Total cash costs	$10,369,771	$ 5,640,690	$ 16,010,462

The following table presents selected data from our thermal coal mines for the six months ended June 30, 2012.

	Thermal Properties Six months ended June 30, 2012		
	Straight Creek	**Raven Crest**	**Total Thermal**
Tons sold	518,916	220,722	739,638
Tons produced	394,183	186,678	580,861
Sale price/ton	$63.01	$69.04	$64.81
COGS/ton sold	$58.88	$84.28	$66.46
Gross margin/ton sold	$ 4.13	($15.24)	($ 1.65)
Cash costs/ton produced	$58.29	$79.15	$64.99
Total revenues	$32,697,566	$ 15,237,684	$47,935,250
Total cost of sales	$30,552,047	$ 18,602,687	$49,154,734
Gross margin	$ 2,145,519	$ (3,365,003)	$ (1,219,484)
Total cash costs	$22,977,954	$ 14,775,052	$37,753,006

Metallurgical Coal Operations

South Fork

We began selling coal in April 2012 from the Lost Flats mine, a mid-volatility metallurgical surface mine located at our South Fork property in West Virginia. Production has been targeted at approximately 10,000 tons per month and is expected to continue at reduced levels until we complete the construction of a preparation plant and rail loading facility that is projected to commence in the third quarter of 2012. The plant and loading facility are anticipated to be fully operational by the end of the second quarter of 2013 at which time we anticipate increasing production from the Lost Flats mine as well as the recently permitted Blue Knob surface mine. Cash costs have been steadily decreasing as we continue to normalize production and are expected to settle at approximately $100 per ton as we approach run rate production of 70,000 to 80,000 tons per month.

True Energy

During the second quarter, True Energy, our high volatility metallurgical surface mine in Virginia, operated at reduced production rates as the market for high vol met coals softened. In early August 2012, we began the process of idling production from this mine due to weak market conditions. We will continue to take steps to reduce inventory and maintain the ability to re-start production as market conditions warrant.

The following table presents selected data from our metallurgical coal mines for the three months ended June 30, 2012.

	Met Properties Three months ended June 30, 2012		
	True Energy	**South Fork**	**Total Met**
Tons sold	8,214	25,200	33,414
Tons produced	19,589	25,200	44,789
Sale price/ton	$ 72.80	$114.97	$104.60
COGS/ton sold	$188.66	$170.17	$174.71
Gross margin/ton sold	($115.86)	($ 55.20)	($ 70.11)
Cash costs/ton produced	$111.79	$170.17	$144.64
Total revenues	$ 597,959	$ 2,897,199	$ 3,495,158
Total cost of sales	$1,549,663	$ 4,288,234	$ 5,837,897
Gross margin	$ (951,704)	$ (1,391,035)	$ (2,342,739)
Total cash costs	$ 2,189,891	$ 4,288,234	$ 6,478,125

The following table presents selected data from our metallurgical coal mines for the six months ended June 30, 2012.

	Met Properties Six months ended June 30, 2012		
	True Energy	**South Fork**	**Total Met**
Tons sold	24,354	25,200	49,554
Tons produced	47,111	25,200	72,311
Sale price/ton	$ 92.68	$114.97	$104.01
COGS/ton sold	$141.09	$170.17	$155.88
Gross margin/ton sold	($ 48.41)	($ 55.20)	($ 51.86)
Cash costs/ton produced	$107.33	$170.17	$129.23
Total revenues	$ 2,257,149	$ 2,897,199	$ 5,154,348
Total cost of sales	$ 3,436,022	$ 4,288,234	$ 7,724,256
Gross margin	$ (1,178,873)	$ (1,391,035)	$ (2,569,908)
Total cash costs	$ 5,056,205	$ 4,288,234	$ 9,344,439

Revised Financial Guidance

	2012 Thermal Coal Full Year Sales Guidance	
	Revised Guidance	**Previous Guidance**
Straight Creek	0.7—0.8 million tons	0.6—0.8 million tons
Raven Crest	0.2—0.3 million tons	0.2—0.3 million tons
	0.9—1.1 million tons	0.8—1.1 million tons

	2013 Thermal Coal Full Year Sales Guidance
	Revised Guidance
Straight Creek	0.7—0.9 million tons
Raven Crest	0.3—0.4 million tons
	1.0—1.3 million tons

	2012 Metallurgical Coal Full Year Sales Guidance	
	Revised Guidance	**Previous Guidance**
South Fork	80,000—100,000 tons	360,000—480,000 tons
True Energy	40,000 — 50,000 tons	200,000—250,000 tons
	120,000—150,000 tons	560,000—730,000 tons

	2013 Metallurgical Coal Full Year Sales Guidance	
	Revised Guidance	**Previous Guidance**
South Fork	300,000—400,000 tons	800,000—1,000,000 tons
True Energy		250,000 — 300,000 tons
	300,000—400,000 tons	1,050,000—1,300,000 tons

Estimated Capital Expenditures

We have spent approximately $24.0 million on capital expenditures for the six months ended June 30, 2012. The Company estimates an additional $12.0 million to $14.0 million in capital expenditures will be incurred during the remainder of 2012, for a total of $36.0 to $38.0 million for the full year 2012.

Of the remaining capital expenditures, $11.0 million to $12.0 million will be for the continued development and expansion of our South Fork metallurgical property including the construction of a coal preparation plant and rail loading facility, the acquisition of additional reserves and the payment due the previous owners upon receipt of the Blue Knob permit. The remaining capital expenditures of $1.0 million to $2.0 million will be for maintenance capital that will be incurred at our other properties.

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 ended June 30	
	2012	2011
Coal revenue	100.00	100.00
Cost of coal sales	114.0	73.7
General and administrative expenses	14.9	9.4
Amortization of above market coal supply agreement	-	7.6
Depreciation, depletion and amortization	30.1	15.9
Operating loss	(59.0)	(6.6)
Other income (expense):		
Finance income	0.0	0.0
Finance cost	(21.9)	(38.0)
Finance income	0.0	0.0
Unrealized gain (loss) on derivative financial instrument	1.3	4.7
Gain on business acquisition	-	-
Gain on sale of investment	-	27.1
Other (expense) income	1.5	(0.3)
Net other (expense) income	(19.1)	(6.5)
(Loss) income before income taxes	**(78.1)**	**(13.1)**
Income tax benefit	15.5	6.1
Net (loss) income	**(62.6)**	**(7.0)**

Our net loss for the second quarter of 2012 was $14.5 million, as compared to a net loss of $2.8 million for the second quarter of 2011, a change of $11.7 million. This increased net loss is due to the significantly lower production and sales during the second quarter of 2012 as compared to same quarter in 2011. Our reduced production and sales were directly related to the termination of two high-margin, thermal coal supply agreements during the first quarter of 2012 and unprecedented weak market conditions, domestically as well as abroad. As a result, the Company has idled thermal mines in Kentucky and West Virginia and our high volatility metallurgical mine in Virginia. We continue to operate low-cost mines at our Straight Creek property at reduced levels in efforts to better balance our production with market demand.

Our gross margin from operations was a loss of $3.2 million for the second quarter of 2012 as compared to a gain of $10.7 million for the second quarter of 2011. The decrease in gross margin in the second quarter 2012 as compared to the second quarter of 2011 is primarily due to the reduction in overall sales as well as sales price per ton and production cut backs at all of our thermal mining operations. These lower production levels in the second quarter have negatively impacted operating costs per ton, however, the Company continues to aggressively manage costs and continues to pursue efforts to reduce cash costs at all mines.

Comparison of three months ended June 30, 2012 and 2011

Revenues. Our coal revenues decreased to $23.1 million for the second quarter 2012 from $40.6 million for the second quarter 2011, a decrease of $17.5 million or 43% as compared to the same period in the prior year. This decrease in revenues is the result of decreased sales volumes at our thermal mines in Kentucky and West Virginia operations as well as the unprecedented overall weak market conditions that have significantly reduced the lower average sales price per ton.

The following table shows comparative detail regarding coal sales volumes:

	For the three months ended June 30,	
	2012	**2011**
	(In tons)	
Coal sales	363,495	510,381
Sales by operation:		
Straight Creek	292,097	357,698
Raven Crest	37,984	152,683
South Fork	25,200	0
True Energy	8,214	0

Coal sales volume for the second quarter 2012 was 363,495 tons, a 29% decrease from 510,381 tons sold for the second quarter 2011. The decrease in sales volume was the result of the termination of two thermal coal supply agreements at the end of 2011 as well as lower overall market demand resulting in lower per ton sales prices as compared to same period in 2011.

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

Sales prices per ton by operation:	For the three months ended June 30,	
	2012	**2011**
Straight Creek	$ 60.70	$ 72.63
Raven Crest	$ 50.46	$ 96.00
South Fork	$114.97	$ 0.00
True Energy	$ 72.80	$ 0.00
Avg. Sales Price	$ 63.67	$ 79.62

Our average sale price per ton was $63.67 for the second quarter 2012 as compared to $79.62 for the second quarter 2011, a decrease of 20%. This 20% decrease was due to lower overall demand as discussed above.

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 $26.4 million for the second quarter 2012 as compared to $30.0 million for the second quarter 2011, a decrease of $3.6 million, or 12%, which was attributable primarily to the decrease in overall levels of production as discussed above. Per ton cost of sales increased for the second quarter 2012 to $72.55 as compared to $58.69 for the second quarter 2011, resulting in a decrease in gross margin from operations for the second quarter of 2012 as compared to the second quarter of 2011. This increase in cost of sales and decrease in gross margin in the second quarter of 2012 as compared to same quarter of 2011 was due to increases in most mining related costs during the transitional second quarter as we deleveraged on fixed costs while we continued to reduce production from our thermal mines.

The following table shows comparative costs of sales data:

Costs of coal sales data:	**For the three months ended June 30,**	
	2012	**2011**
Sale price/ton	$ 63.67	$ 79.62
COGS/ton sold	$ 72.55	$ 58.69
Gross margin/ton sold	$ (8.88)	$ 20.93
Cash costs/ton produced	$ 79.22	$ 58.39
Total cash costs	$ 21,627,859	$ 30,005,240

General and administrative expenses. Our general and administrative expenses were $3.5 million for the second quarter 2012 compared to $3.8 million for the same quarter 2011. This decrease of $0.3 million, or 14%, is primarily the result of an overall decrease in salaries for executive management and support staff associated with our overall efforts to decrease corporate overhead related costs.

Amortization of above market coal supply agreement. The amortization of above market coal supply agreement in the amount of $3.1 million in the second quarter of 2011 was associated with an above market coal supply agreement that was included with the purchase of Raven Crest in April 2010. This contract amortization will continue until all coal has been delivered under the coal supply agreement and at June 30, 2012, there are approximately 13,000 tons remaining under this agreement that were shipped from our Kentucky operations in July 2012. There were no tons shipped under this contract in the second quarter of 2012.

Depreciation, depletion and amortization. Depreciation, depletion, and amortization expenses for the second quarter 2012 were $7.0 million as compared to $6.5 million for the same quarter of 2011, an increase of $0.5 million, or 7.7%. This increase was primarily driven by the increase in property, plant and equipment including mineral rights and mine development costs, including the South Fork operation.

Change in fair value on derivative financial instrument. Our gain on the fair value movement on derivative financial instrument for the second quarter 2012 was $0.3 million as compared to a gain of $1.9 million for the same quarter 2011. This non-cash decrease was due to the change in the fair value of our share purchase warrants in conjunction with the converting of our financial statements to satisfy IFRS reporting requirements versus previous reporting requirements as outlined by Canadian Generally Accepted Accounting Principal guidelines.

Finance income (expense). Finance cost was $5.1 million for the second quarter 2012 compared to $15.4 million for the same quarter 2011. The decrease was due to the additional interest expenses and associated fees with the May 2011 issuance of our $200 million senior secured notes at 9.25% due May 15, 2019.

Gain on sale of investment. During the second quarter 2011, the Company had a gain on the sale of its equity interest in the Elk Horn Coal Company of $11.0 million.

Income taxes. Our income tax benefit for the second quarter 2012 was $3.6 million compared to a tax benefit of $2.5 million for the same quarter 2011. This difference was due to the increase in the loss before income taxes which was driven by lower overall sales and higher costs during the second quarter of 2012 as compared to the same quarter of 2011.

Liquidity and capital resources

General. As of June 30, 2012, we had total cash and cash equivalents (excluding restricted cash) of $53.5 million, compared with $72.9 million at December 31, 2011. This reduction in cash is primarily associated with reduced revenues and margins as previously discussed, capital expenditures as discussed below, principal payments on equipment debt, the repurchase of our senior secured notes and payment of the note related to the Red Bird acquisition offset by the increases in restricted cash as well as reductions in coal inventory since December 31, 2012.

The Company secured a $20 million financing commitment from Marret Asset Management, Inc. ("Marret") in July 2012. This commitment contemplates issuance of $20 million in principal amount of first lien senior secured notes, which would bear interest at a rate of 9.875% per annum, have a three year term and be issued at an original issue discount of 98% of face amount. These funds are expected to be used to continue the development of planned capital projects at our mid-volatility metallurgical property.

We continue to implement operational changes throughout all our mining operations that are expected to conserve cash and liquidity and allow us to emerge as a more competitive company when market conditions return to normal levels. We have idled higher cost mines and continue to operate our lower costs mines at production levels commensurate with market demand in order to optimize our liquidity profile. We are also continuing to reduce inventory levels at all operations along with a steady reduction in our overall corporate overhead. Our primary sources of cash have been revenues from the sale of coal to utilities, brokers and 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 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 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 recently acquired metallurgical coal properties.

In May 2011, we issued $200.0 million in senior secured notes at 9.25%, due May 15, 2019 of which $195.0 million are outstanding. Interest payments are required semi-annually beginning November 2011. We may redeem the notes, in whole or in part, at any time on or after May 15, 2015 at redemption prices ranging from 104.625% beginning May 15, 2015 to 100% beginning on May 15, 2018. We used a portion of the net proceeds from the offering to repay our 9.75% senior secured notes due 2015, including prepayment penalties of 10% of the principal amount repaid. The remaining funds have been and will continue to be used for general corporate purposes including the development of our recently acquired properties in West Virginia and Virginia.

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

Cash Flows from Operating activities. Cash provided by operating activities for the six months ended June 30, 2012 was $3.7 million, compared to cash provided by operating activities of $10.9 or a decrease of $7.2 million for the same period of 2011. The primary items impacting this change were reductions in accounts payable, accounts receivable and inventory offset by the gain or loss on derivative financial instruments and amortization of an above market coal supply agreement.

Cash Flows from Investing activities. Cash used in investing activities for the six months ended June 30, 2012 was $16.2 million compared to $6.2 million or an increase of $10.0 million for the same period of 2011. The primary items impacting this change were increased capital expenditures offset by the return of restricted cash that was received from the early termination of a coal supply agreement.

Cash Flows from Financing activities. Cash used in financing activities was $7.1 million for the six months ended June 30, 2012 compared to cash provided by financing activities of $123.8 million for the same period of 2011. The change was primarily due to the proceeds from the issuance of senior secured notes in May of 2011 offset by the repayment of previously issued senior secured notes.

Capital expenditures. Capital expenditures for purchases of property, plant, and equipment, exploration and evaluation assets, capital lease additions and asset acquisitions were $4.2 million during the quarter ended June 30, 2012.

Total capital expenditures for the second quarter of 2012 were as follows:

	Straight Creek	**Raven Crest**	**South Fork**	**Brier Creek**	**True Energy**	**Total**
Maintenance capital	$144,000	$204,000	$ –	$ –	$ –	$ 348,000
Expansion capital	544,000	–	1,705,000	1,283,000	370,000	3,902,000
	$688,000	$204,000	$1,705,000	$1,283,000	$370,000	$4,250,000

The Company has continued to re-deploy equipment as needed from our Straight Creek and Raven Crest thermal mining operations to our South Fork operation.

Credit and long term debt

$200 million Senior secured notes due 2019

In May 2011, the Company issued $200.0 million in senior secured notes at 9.25%, due May 15, 2019, of which $195.0 million are outstanding. Interest payments are required semi-annually beginning in November 2011. The Company may redeem the notes, in whole or in part, at any time on or after May 15, 2015 at redemption prices ranging from 104.625% beginning May 15, 2015 to 100% beginning on May 15, 2018. Net proceeds from the offering are being used for general corporate purposes, including the development of our recently acquired properties in West Virginia and Virginia to repay its previous 9.75% senior secured notes due 2015.

The Company paid $6.8 million of fees in connection with the financing, which were capitalized as deferred financing costs. In addition, the Company incurred $6.5 million in prepayment penalties on its senior secured notes due 2015 and incurred costs of $2.4 million to write off deferred financing costs and $2.7 million to write-off the unamortized original issuance discount associated with its senior secured notes due 2015.

During September 2011, the Company acquired and retired $2.0 million of its senior secured notes payable, and as a result, recognized a gain of $0.3 million on the retirement of its debt which was offset by $66,103 to write off deferred financing costs. In January 2012, the Company acquired and retired an additional $3.0 million of its senior secured notes payable, and as a result, recognized a gain of $0.4 million on the retirement of its debt.

As previously discussed, the Company has secured a $20 million financing commitment from Marret Asset Management, Inc. The financing commitment contemplates an issuance of $20 million in principal amount of first lien senior secured notes, which notes would bear interest at a rate of 9.875% per annum, have a three year term and be issued at an original issue discount of 98% of face value.

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 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.

	2012			2011
	Three months ended June 30	Three months ended March 31	Six months ended June 30	Three months ended June 30
Net (Loss) Income	$(14,474,200)	$ 1,689,710	$(12,784,487)	$ (2,817,396)
Finance Cost	5,064,958	4,801,126	9,866,084	15,439,405
Depreciation, Depletion, Amortization	6,966,409	7,369,812	14,336,221	6,466,303
Amortization of Coal Supply Agreement	–	791,326	791,326	3,085,100
Income tax (benefit) expense	(3,596,015)	682,240	(2,913,775)	(2,471,703)
Finance Income	(2,278)	(7,925)	(10,203)	(20,169)
Fair value movement on warrants	(301,974)	(1,095,219)	(1,397,192)	(1,922,207)
Stock Based Compensation	949,964	361,840	1,311,804	332,547
EBITDA	$ (5,393,135)	$ 14,592,910	$ 9,199,776	$ 18,091,880
Gain on sale of investment in Elk Horn	–	–	–	(11,025,505)
Non recurring expenses	–	642,855	642,855	–
Gain on contracts settlement	–	(18,900,000)	(18,900,000)	–
Adjusted EBITDA	$ (5,393,135)	$ (3,664,235)	$ (9,057,369)	$ 7,066,375

Summary of Quarterly Results

Summary of Quarterly Results
(000) except per ton

	2012 Q2	2012 Q1	2011 Q4	2011 Q3
Tons Produced	273	380	532	525
Tons Sold	363	426	395	532
Sales price/ton	$63.67	$70.35	$85.96	$91.50
COGS/ton	$72.55	$71.66	$62.16	$61.17
Cash costs/ton produced	$79.22	$66.99	$57.07	$59.64
Revenue	$23.10	$29.95	$33.94	$48.65
Net income (loss)	($14.50)	$ 1.69	($ 6.45)	$ 5.41
Basic net income (loss) per common shares and common non-voting shares	($ 0.27)	$ 0.03	($ 0.12)	$ 0.10
Diluted net income (loss) per common shares and common non-voting shares	($ 0.27)	$ 0.03	($ 0.12)	$ 0.09

	2011 Q2	2011 Q1	2010 Q4	2010 Q3
Tons Produced	514	466	419	423
Tons Sold	510	553	436	434
Sales price/ton	$79.62	$77.78	$87.28	$86.86
COGS/ton	$58.69	$63.36	$57.78	$54.06
Cash costs/ton produced	$58.39	$61.18	$55.23	$51.32
Revenue	$ 40.64	$43.05	$38.08	$37.72
Net Income (loss)	($ 2.82)	($10.25)	($ 2.52)	$ 1.67
Basic net income (loss) per common shares and common non-voting shares	($ 0.05)	($ 0.18)	($ 0.05)	$ 0.03
Diluted net income (loss) per common shares and common non-voting shares	($ 0.05)	($ 0.18)	($ 0.05)	$ 0.03

Outstanding Share Data

The Company has authorized an unlimited number of voting common shares at no par value and an unlimited number of common non-voting shares. The Company has issued, outstanding and fully paid 43,935,697 and 43,802,534 voting common shares and as of June 30, 2012 and December 31, 2011, respectively. The Company has issued 10,467,541 common non-voting shares as of June 30, 2012 and December 31, 2011 with an allocated share capital amount of $2.4 million. The outstanding 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 common shares on the basis of one common share for one common non-voting share at the option of the holder without the payment of additional consideration. In May 2011, 5,000,000 common non-voting shares were converted to common shares. On June 21, 2011 all common non-voting shares became available to convert to common shares. In December 2011, an additional 4,000,000 common non-voting shares were converted to voting common shares.

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

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

	Voting Common Shares and Common Non-Voting Shares	Share Capital Amount
Balance at January 1, 2011	56,593,366	$65,628,739
Purchased pursuant to normal course issuer bid	(3,297,572)	(16,264,035)
Issued share capital for services	35,000	4,212
Options activity	170,317	239,238
Warrants exercised	768,964	4,273,631
Balance at December 31, 2011	54,270,075	$53,881,785
Options activity	133,163	120,297
Shares issued	255,000	
Balance at June 30, 2012	54,658,238	$54,002,082

Share Based Payments

a) 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.

During December 2011, the Company issued an aggregate of 35,000 restricted common shares to employees. These shares vest in December 2012 if employment has not been terminated for each respective employee.

During April 2012, the Company's Board of Directors and shareholders approved the grant of 255,000 restricted stock units with a value of $2.42 per share to certain executive officers and directors subject to shareholder approval. On May 22, 2012, the shareholders approved these grants. During May 2012, the Company's Board of Directors and shareholders approved the grant of 80,000 options to certain directors with an exercise price of $1.45 per share.

b) Options Issued During the Period

During June 2011, the Company granted 100,000 options to the Company's then Vice-Chairman in connection with entering into an employment agreement and 50,000 options to the Vice-President of Mining Operations, South pursuant to the Amended 2010 Stock Incentive Plan with an exercise price of $4.21 per share and a grant-date fair value of $2.32 per share.

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

During December 2011, the Company granted options to employees to purchase an aggregate 647,500 common shares with an exercise price of $2.95 per share and a grant-date fair value of $1.61 per share and during April 2012, the Company granted 245,000 options to certain executive officers and directors with and exercise price of $2.42 per share. During May 2012, the Company granted 80,000 options to certain directors with an exercise price of $1.45 per share.

Details of the options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2011	5,833,696	$1.63
Granted	837,500	3.21
Forfeited	(132,264)	1.96
Exercised	(170,317)	0.84
Outstanding at December 31, 2011	6,368,615	1.86
Outstanding at January 1, 2012	6,368,615	$1.86
Granted	325,000	2.18
Exercised	(133,163)	0.74
Outstanding at June 30, 2012	6,560,452	$1.89

Of the options outstanding at June 30, 2012, 265,999 options expire in 2012, 1,668,560 options expire in 2013, 378,902 options expire in 2018, 1,526,991 options expire in 2019, 1,595,750 options expire in 2020, 799,250 options expire in 2021 and 325,000 in 2022. There are 5,442,799 options exercisable at June 30, 2012 with a weighted average exercise price of $1.75.

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 June 30, 2012 was 5,489,554. The options expire at various times throughout 2013 and 2022.

c) Fair Value of Options 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)..	0.25	–	10.00
Risk-free interest rates..	0.18%	–	1.62%
Expected / weighted-average volatility..............................	54.60%	–	57.00%

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 implied volatilities of peer companies and the Company, and the expected term is determined using the simplified method.

d) Expenses Arising from Share-Based Payment Transactions

Total share-based compensation expense for the three and six months ended June 30, 2012 was $755,503 and $1,124,655, respectively, and for the three and six months ended June 30, 2011 was $332,549 and $697,626, respectively.

Share Purchase Warrants

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

	Number of Warrants	Exercise Price	Expiry Date
Balance at January 1, 2011	13,653,278		
Exercised during 2011	(768,964)	Cdn$4.20	December 2011
Purchased pursuant to normal course issuer bid	(945,516)	Cdn$4.20	December 2011
Expired during 2011	(8,938,798)	Cdn$4.20	December 2011
Balance at December 31, 2011	3,000,000		
Balance at January 1, 2012	3,000,000		
Exercised during 2012	–		
Balance at June 30, 2012	3,000,000		

	Number of Warrants	Exercise Price	Expiry Date
Balance at January 1, 2011	13,653,278		
Exercised during 2011	(768,964)	Cdn$4.20	December 2011
Purchased pursuant to normal course issuer bid	(945,516)	Cdn$4.20	December 2011
Expired during 2011	(8,938,798)	Cdn$4.20	December 2011
Balance at December 31, 2011	3,000,000		
Balance at January 1, 2012	3,000,000		
Exercised during 2012	–		
Balance at June 30, 2012	3,000,000		

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 June 30, 2012 is approximately $70.0 million and is equal to the carrying amount of all cash, restricted cash and trade accounts receivable as listed on the accompanying consolidated balance sheet.

Market risk

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

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

Liquidity risk

Liquidity risk is the risk that we will have difficulty meeting our obligations associated with financial liabilities. To manage this risk, we ensure, to the extent possible, that we will have sufficient liquidity to 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 its 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 2012.

Foreign currency

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

Contractual obligations

Description	Less than 1 year	2 – 3 Years	Thereafter	Total
Accounts payable and accrued expenses	$ 9,191,408	$ –	$ –	$ 9,191,408
Accrued interest payable	2,421,853	–	–	2,421,853
Debt and interest payments	8,842,816	8,207,641	195,431,774	212,482,231
Leases	165,348	109,758	–	275,106
	$20,621,425	$8,317,399	$195,431,774	$224,370,598

Customer concentration

The Company's two largest customers individually accounted for approximately 42% and 11% of the Company's revenues during the three months ended June 30, 2012. The Company's three largest customers individually accounted for approximately 27%, 19%, and 12% of the Company's revenues during the three months ended June 30, 2012 and approximately 38%, 14% and 10% of the Company's revenues during the six months ended June 30, 2011.

Two customers accounted for approximately 61% and 24% of trade accounts receivable at June 30, 2012. Two customers accounted for approximately 42% and 27% of trade accounts receivable at December 31, 2011. It is our policy not to require collateral on trade accounts receivable. Accounts are charged to bad debt expense as they are determined to be uncollectible based upon a review of aging and collections. Credit losses from coal sales, when realized, have been in the range of our expectations and, historically, have not been material.

Debt obligations

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

	June 30, 2012	December 31, 2011
Senior secured notes payable	$195,000,000	$198,000,000
Equipment, vehicle and other notes payable	8,472,786	23,226,692
	203,472,786	221,226,692
Less current portion of notes payable	4,704,133	17,574,596
Non-current portion of notes payable	$198,768,653	$203,652,096

Equipment, vehicle, and other notes payable

As of June 30, 2012 and December 31, 2011, the Company had equipment, vehicle and other notes payable totaling $8,472,787 and $23,226,692, respectively. These notes bear interest at fixed rates ranging from 4.16% to 9.60% and are due in various monthly payments through July 2016. All the equipment and vehicle notes are collateralized by the related equipment and vehicles purchased

Scheduled maturities of notes payable.

Aggregate annual future maturities of notes payable as of June 30, 2012 are as follows:

July 1, 2012 to June 30, 2013	$ 4,704,133
July 1, 2013 to June 30, 2014	2,562,861
July 1, 2014 to June 30, 2015	795,861
July 1, 2015 to June 30, 2016	376,965
July 1, 2016 to June 30, 2017	32,966
July 1, 2017 to June 30, 2018	–
July 1, 2018 to June 30, 2019	195,000,000
July 1, 2019 to June 30, 2020	–
Total notes payable	$203,472,786

In connection with the acquisition of coal assets in Bell, Clay and Leslie counties, Kentucky, the Company entered into a note payable for $11.8 million, which was paid in full on January 4, 2012.

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 June 30, 2012 and December 31, 2011, equipment under capital leases had a total cost of $10.0 million and $4.3 million, respectively and a net carrying amount of $7.5 million and $3.3 million, respectively. During January and February 2012, the Company entered into capital lease agreements totaling $5.7 million. The future minimum monthly lease payments for these leases are approximately $177,000 through February 2015. Amortization of equipment under capital leases is included with depreciation expense in the accompanying condensed consolidated interim financial statements.

Derivatives.

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

Off Balance Sheet Arrangements.

The Company has no off balance sheet arrangements.

Related Party Transactions.

The Company has no related party transactions.

Critical accounting estimates

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

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

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

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

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

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

We estimate the fair value of our ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of future costs for third-party's to perform the required work. Cost estimates are escalated for inflation, and then discounted at the risk-free rate, which approximated 4% at December 31, 2011. Total estimated undiscounted future costs related to the ARO liabilities totaled approximately $18.4 million as of June 30, 2012 with costs expected to be paid from 2012 to 2038. We record a capital asset retirement cost associated with the initial recorded liability. The capital asset retirement cost is amortized based on the units of production method over the estimated recoverable, proven and probable reserves at the related mine, and the ARO liability is accreted to the projected settlement date. Changes in estimates could occur in the near term due to revisions of mine plans, changes in estimated costs, and changes in timing of the performance of reclamation activities.

As of June 30, 2012 and December 31, 2011, we had restricted certificates of deposit in the amount of $10.4 million and $21.7 million, respectively, which is required in connection with certain equipment and vehicle notes payable, and by surety agencies as collateral in order to issue necessary reclamation bonds as required by authoritative agencies for various permitting at all mining operations.

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

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

Upon exercise of the stock options, consideration received together with the amount previously recognized is recorded as an increase to share capital.
When warrants or stock options expire, or stock options are forfeited, the amount is transferred to contribute surplus. We have not incorporated an estimated forfeiture rate of stock options that will not vest; rather, we account for actual forfeitures as they occur.

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

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

Management is also responsible to ensure that internal controls over financial reporting are designed, or caused to be designed under management's supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with IFRS. We continue to work with an independent accounting firm to determine if any material weaknesses exist in our current internal controls, suggest best practices when they are not being applied and also to test the material controls. No material weaknesses were found and as a result, no significant changes in internal controls over financial reporting were made during 2011 that have materially affected, or are reasonably likely to materially affect, management's internal control over financial reporting.

It should be noted that while our Officers, as certified in our interim filings and as required under National Instrument 52-109 issued by the Canadian Securities Administrators, have evaluated the effectiveness of these disclosure controls and procedures and internal controls over financial reporting for the period ended June 30, 2012 and have concluded that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Risk Factors

Please refer to the Annual Information Form for the year ended December 31, 2011 for a discussion of our risk factors which is available on SEDAR.

Additional Information

Additional information regarding the Company and its business operations, including the Company's Annual Information Form, that was filed on March 30, 2012 for the year ended December 31, 2011 and the Annual Information Form for the year ended December 31, are and will be available on the Company's SEDAR company profile at www.sedar.com and on the Company's website at www.xinergycorp.com.