Royal Coal Corp.

Management's Discussion and Analysis
For the Three and Nine Months ended September 30, 2011

This Management's Discussion and Analysis ("MD&A") provides a review of the results of operations of Royal Coal Corp. ("Royal Coal" or the "Company"), and should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the nine months ended September 30, 2011 and the audited consolidated financial statements and related notes for the years ended December 31, 2010. The audited consolidated financial statements for the year ended December 31, 2010 have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The unaudited condensed interim consolidated financial statements dated September 30, 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS). All dollar figures included therein and in the following MD&A are quoted in United States dollars unless otherwise specified. The following MD&A is prepared as of November 24, 2011.

Internal Controls over Financial Reporting ("ICFR")

The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any have been detected. Therefore, no matter how well designed, ICFR has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com or at the Company's website, www.royalcoal.com.

Cautionary Note on Forward-Looking Statements

When used in this document, words such as 'estimate', 'expect', 'anticipate', 'believe' and similar expressions are intended to identify forward-looking statements. Such statements are used to describe management's future plans, objects, and goals for Royal Coal and therefore involve inherent risks and uncertainties.

Shareholders and prospective investors should be aware that the financial statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risk and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Royal Coal undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or such factors which affect this information, except as required by law.

OVERALL PERFORMANCE

Company Highlights for the Three and Nine Months Ended September 30, 2011:

During the third quarter of 2011, the Company generated revenue of $6,390,573 compared with $5,403,845 for the same period in 2010, and revenue for the nine months ended September 30, 2011 of $17,058,015, compared with $15,754,051 for the same period in 2010. However, cost of sales remained high during the third quarter of 2011, as production was lower than anticipated, resulting in a gross margin loss of $2,687,855 for the three months ended September 30, 2011, compared with a gross margin loss of $3,130,927 for the same period in 2010; for the nine month period ending September 30, 2011, gross margin loss was $11,542,078 compared with a gross margin loss of $8,110,445 for the same period in 2010.

Specifically:

- On August 15, 2011, the Company acquired the Charlene rail load-out facility (the "Charlene Load Out"), which was previously leased by the Company since October 2009. The total purchase price for the Charlene Load Out was US$5.5 million. Sandstorm Metals & Energy (US) Inc. provided a $3 million bridge loan to partially fund the purchase of the Charlene rail load-out facility. This $3 million bridge loan bears interest at 15% per annum, and matures 120 days from the date of the loan agreement, or December 12, 2011. Sandstorm Metals & Energy (US) Inc. holds a senior, secured first priority charge on the Charlene Load-Out Facility.

- On July 25, 2011, the Company closed a private placement financing (the "Offering") of a C$10,000,000 secured convertible debenture to Mercuria Energy Group Holding SA ("Mercuria") which bears interest at a rate of 9% per annum, payable semi-annually in arrears and is due on or about July 22, 2013. The convertible debenture may be converted by Mercuria at any time and from time to time into common of the Company, at a conversion price of C$0.2689 per share, subject to adjustment in certain circumstances. The convertible debenture is guaranteed by the subsidiaries of Royal Coal, secured by second ranking security over all assets of Royal Coal and its subsidiaries and first security over certain future assets of Royal Coal and its subsidiaries, is not redeemable until maturity and is subject to typical anti-dilution protections. If the volume weighted average trading price of the common shares for each of any 90 consecutive trading days exceeds $0.4033, Royal Coal may require Mercuria to convert all or part of the then outstanding principal amount of the convertible debenture.

- The company continues to invest in mining equipment to refurbish and upgrade its fleet. For the nine months ended September 30, 2011, the company has invested approximately $10 million in new and refurbished equipment that will result in a more dependable and cost efficient equipment supporting operations.

- Coal production for the three and nine months ended September 30, 2011 was 73,471 and 245,496 respectively and 96,579 and 283,509 for the same periods in 2010.

- The average sale price of the Company's coal during the third quarter of 2011 was up 33% to $73 as compared to $55 during the third quarter of 2010.

- During the first quarter of 2011, the Company repaid $4.2 million on its convertible debentures and $325,000 was converted into common shares resulting in the repayment or conversion of all of the Company's convertible debentures. Also, during the first quarter of 2011, the Company repaid $7.95 million in principal payments on its notes payable, and paid $6.4 million to retire the royalty, resulting in the repayment of the entire loan and royalties' payable. Accretion and interest on notes payable and loss on extinguishment of debt totaled $7.5 million during the first quarter of 2011. Also, $7.6 million was paid during the first quarter to reduce accounts payable, improving our working capital position.

Update on Results Subsequent to September 30, 2011

The third quarter represented a significant change in the operations at the Big Branch Mine. A new operating team assumed control and a new mine plan was introduced. The objective was to increase production, lower unit operating costs and achieve a more efficient and profitable operation. By the end of the third quarter of 2011, the new mine plan was in effect and production and unit costs for October 2011 show a significant improvement over historical operations. The Company sold 40,949 tons during the month of October 2011 for gross revenue of $3.0 million or $73 per ton.

Other Business Subsequent to September 30, 2011

In October 2011, the Company entered into discussions with various parties to acquire and operate several permitted coal deposits in Kentucky. These discussions are expected to be concluded in the next few weeks.

Company Outlook

Big Branch & Big Branch Extension Project

The Company continues to operate its Big Branch mine, near Hazard, Kentucky. The Company remains focused on achieving increased production levels and maximizing prices for its coal products. Since the Company began operations in October 2009, its main challenges have been to achieve targeted production levels at its Big Branch mine. The Company, however, has not been able to meet its target production levels primarily because the availability of its mining fleet was below projected levels. The significant financings completed during the nine months ended September 30, 2011, as well as the difficult operating conditions, from poor weather provided an opportunity for the Company to take a significant amount of equipment out of service, for refurbishment and major maintenance.

Sid Mining Project

The Company continues to pursue a contract mining option to develop the project. These discussions are expected to be concluded over the coming weeks, with production commencing shortly thereafter.

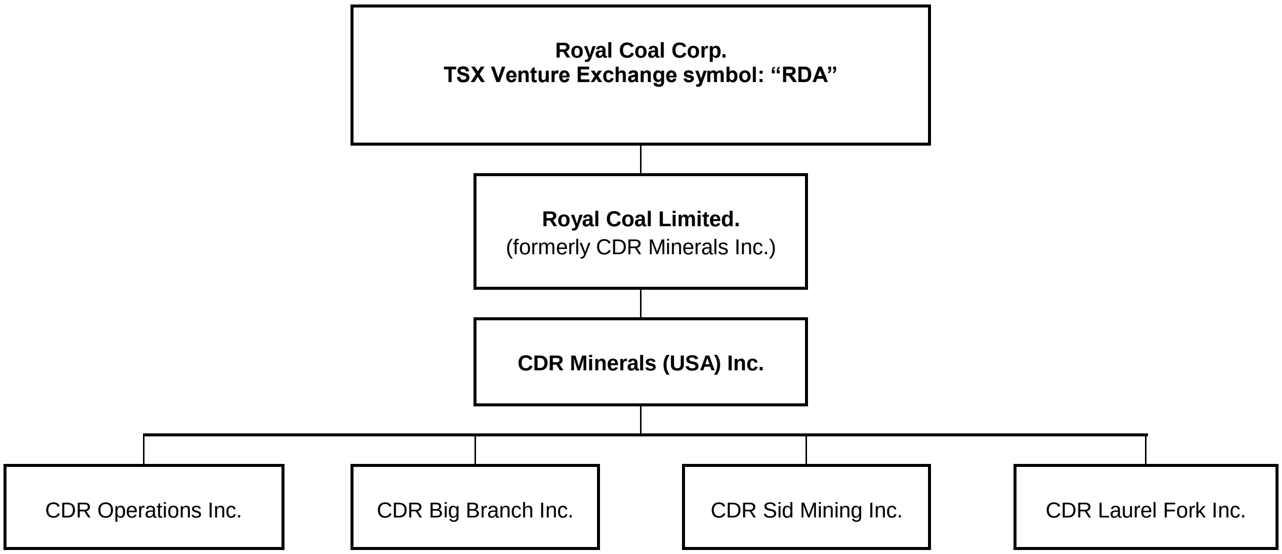
Coal Prices

The Company has also seen continued price improvements for its products, thus recovering from the lower price levels experienced during 2010. Average market prices per ton have improved from a range of $50-55/ton during 2010 to approximately $75/ton year to date November 2011. Based on the Central Appalachian Coal Futures Market, at time of writing, coal prices are trading at approximately $76/ton for the remainder of 2011. In addition, a number of lower priced coal contracts which the Company was committed to when the Big Branch mine was purchased in 2009 terminated during the first half of 2011, thus allowing the Company to benefit from an improved price environment for the Company's products for the balance of 2011.

Overview and Corporate Structure

Royal Coal Corp. is a coal exploration and development company, headquartered in Toronto, Ontario Canada with a subsidiary based in Hazard, Kentucky, U.S.A. whose primary business focus is developing producing surface coal mining operations in the Central Appalachian coal producing Region of the United States, which includes parts of West Virginia, Virginia, Kentucky, Ohio and Tennessee (the "CAPP Region"). The Company's primary business model includes increasing production at its existing properties while seeking partners and investors to facilitate expanding its properties and coal production capacities. The Central Appalachian's history of producing large volumes of high BTU and low sulphur, thermal coal and metallurgical coal, along with the under-utilized coal infrastructure already in place make the area ideal for the implementation of the business model. Coal assets in the area can be acquired and brought into production relatively quickly. The nature of the CAPP Region has created a positive and unique environment for aggregation and consolidation of coal assets. Royal Coal believes that it is well positioned to capitalize on these opportunities to acquire additional coal projects to increase shareholder value. The Company may then expand internationally as opportunities allow.

Royal Coal's operations are conducted directly and through its 100% owned subsidiaries as reflected in the chart set out below. Coal mining activities are conducted through CDR Operations Inc., while the mineral properties are held in the separate Kentucky companies; CDR Big Branch Inc., CDR Sid Mining Inc. and CDR Laurel Fork Inc. The mineral exploration properties in Quebec, Canada are owned by Royal Coal Limited.



Mineral Exploration and Coal Mining Properties in Kentucky, U.S.A

Royal Coal has concentrated its efforts on developing an asset base in the CAPP coal producing Region of the United States. The Company's principal properties are the Big Branch Project, the Sid Mining Project and the Laurel Fork Mining Project. Set forth in this section are brief descriptions of the Big Branch Project, the Sid Mining Project and the Laurel Fork Project.

Big Branch & Big Branch Extension Project

On September 30, 2009, the Company completed the acquisition of certain assets and commenced the Big Branch Project, being certain coal and surface leases and in addition was named operator under DSMRE permit 860-0393 (the "Big Branch Permit"). An amendment to permit 860-0393 is currently proceeding and estimated to be issued by the end of 2011. The Big Branch Project is located proximate to Hazard, Kentucky and has the necessary permits for initial production. The Big Branch Project is bounded to the north by Troublesome Creek, to the south by the town of Amburgey near Elklick Fork of Lotts Creek, to the east by Kentucky Route 1231, and to the west by Clear Creek and Walter's Branch. The project area is located within Knott County, Kentucky, primarily in the Carrie USGS quadrangle map. The seams to be evaluated include the Hazard #5A, Hazard #7, Hazard #8, Hindman (Hazard#9), Skyline (Hazard #10), and the Hazard #11 seams. The total project area covers approximately 2750 acres. Property lines of the Big Branch Project have already been surveyed.

Sid Mining Project

Pursuant to a sale agreement dated October 23, 2008 between Sid Mining LLC and CDR Sid Mining, Inc., the Company acquired the Sid Mining Project for a purchase price of $1,700,000 in cash and a 2% override royalty from all sales of all coal mined or extracted from the Sid Mining Project. The Company is also obligated to replace existing reclamation bonds totaling approximately $160,000. The Sid Mining Project is permitted for mining operations. While currently idle, the area was previously mined by Minnehan Mining, LLC and contains a pre-existing haul road facilitating access to the project.

The Sid Mining Project covers approximately 850 acres and lies within the drainage areas of Cam Johnson Branch and Bowling Creek of the Middle Fork of the Kentucky River, lying in Perry and Breathitt Counties, Kentucky. The seams include the Fireclay (Hazard No. 4), Haddix, Hazard No. 5A, Hazard No. 7, Hazard No. 8, and Hindman (Hazard No. 9). The current permitted area of the Sid Mining Project is 330 acres, with a pending amendment increasing the total to 406.38 acres.

Currently all mining operations on the Sid Mining Project are idle. The Company concluded its drilling program after the drill hole PKM-09-05 was drilled in October 2008 and no further drilling activity was undertaken. Core drilling is, as of this date, not taking place on the Sid Mining Project.

Cashflow Forecast from Coal Reserves

Given the changes with the new mine plan at BB and the other initiatives underway, a forecast production and cashflows for 2012 through 2014, are currently being developed.

OVERALL PERFORMANCE

FINANCIAL REVIEW

For the three months ended September 30, 2011 the Company recorded a net gain of $4.6 million or $0.02 gain per share compared to a net loss of $6.5 million or $0.08 loss per share, for the three months ended September 30, 2010. For the nine months ended September 30, 2011, the Company recorded a net loss of $8.3 million, $0.04 loss per share, compared with a net loss of $18.6 million, $0.29 loss per share for the same period in 2010. The Company's net gain for the three months ended September 30, 2011 is primarily due to the reduced cost from the revaluation of the equity component of outstanding warrants and convertible debentures. This revaluation will occur at each quarter end as required by the International Financial Reporting Standards ("IFRS") for companies with different functional currencies than the currency attached to the warrants and convertible debentures. The Company's functional currency is the United States dollar, whereas the warrants and convertible debenture are denominated in Canadian dollars. Royal Coal's warrant and convertible debenture valuation significantly decreased as of September 30, 2011 due to the reduction in the Company's share price. The revaluation calculation which is based on the Black Scholes option pricing methodology resulted in a non-cash gain of approximately $9.2 million and $16.4 million for the three and nine months ended September 30, 2011 respectively.

The Company has an interest in nickel properties in Quebec, Canada and Coal properties in Kentucky, United States of America. The main operations of the Company are with its coal properties and the details in the financial review below are related to the coal properties.

Result of Operations

Revenue

Revenue for the three months ended September 30, 2011 was $6.4 million and $17.1 million for the first nine months ended September 30, 2011 as compared to $5.4 million for the three month period ending September 30, 2010, and $15.8 million for the nine months ended September 30, 2010. Revenues are recognized at the point of shipment of coal either at the mine site when trucked directly to customers or at the load-out facility where trains are typically loaded with 8,000 to 12,500 tons of coal. Prices are negotiated based on a specific shipment or a contract for a committed volume of coal, at a specified quality level, that can be shipped over one to six months, or longer. The majority of the Company's coal is classified as CSX-BSK, BTU of 12,500 and less than 1% sulphur. The Company's average selling prices reflect a higher mix of lower priced coal sales tied to sales contracts entered into when market prices were lower and Royal Coal's production volumes were expected to be higher.

The Company expects the average selling price of its coal to continue to increase in 2011, as a result of increased production of compliant coal at higher prices, and increasing market prices. The Company's average blended selling price in Q3 2011 was approximately $73.

Production Volumes

The Company's coal production for the three months ended September 30, 2011 was 73,471 tons (87,195 tons sold); and 245,496 tons (255,101 tons sold) for the first nine months of 2011, compared to the Company's 96,579 tons produced (97,639 tons sold) for the first three months ended September 2010, and 283,509 tons produced (291,128 tons sold) for the nine months ended of 2010. Coal production decreased for the first nine months of 2011, due primarily to excessive equipment down-time which resulted in higher repair costs and much lower production volumes. The Coal produced was from the Big Branch Project.

During the third quarter of 2011, a new mine plan was introduced and consequently as a result of implementing this renewed plan, production during the quarter declined.

COSTS AND EXPENSES

Costs of Sales

The cost of sales, including mine operating expenses and the load-out operating expenses, for the nine months ended September 30, 2011 was $28,600,093 compared to $$23,864,496 for the same period in 2010. The Company sold production of 255,101 tons and 293,977 tons of coal during the nine month periods ending September 30, 2011 and 2010, respectively. On a per ton basis, the Company's cost to produce increased to $112.11 for the nine months ended September 30, 2011 an increase of $32.12 from $78.99 for the nine months ended September 30, 2010. For the three months ended September 30, 2011, the cost per ton was $104.12 compared to $88.60 for the same period in 2010.

The following table itemizes each variance analysis for cost of sales per ton for the nine month periods ending September 30, 2010 and 2011, respectively:

Expense Type	Nine Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2011	Unfavorable (Favorable) Variance	Variance Analysis Reference
Fuel and lubricants	$ 14.69	$ 23.30	$ 8.61	A
Repairs and maintenance	11.90	18.08	6.18	B
Labour, payroll taxes, and benefits	12.60	16.34	3.74	C
Equipment rental	11.35	12.40	1.05	D
Blasting and drilling	10.63	10.95	0.32	
Royalties	7.34	8.72	1.38	E
Depreciation, ARO accretion, depletion	2.24	5.53	3.29	F
Production taxes	3.80	3.97	0.17	
Purchased coal	-	3.34	3.34	G
Tires	1.80	3.13	1.33	H
Trucking	1.82	3.01	1.19	I
Equipment insurance	1.74	1.52	(0.22)	
Subcontractors	-	1.27	1.27	J
Other	(0.92)	0.55	1.47	K
Total	**$ 78.99**	**$ 112.11**	**$ 33.12**	

Explanation of each variance per ton is noted below in further detail:

A. The main cause of the unfavourable variance of $8.61 is the price increase in diesel fuel and crude oil per gallon in comparison to the same period in 2010.

B. During the nine month period ended September 30, 2011, the Company utilized proceeds from new financing agreements to implement much needed improvements and rebuilds in order to increase efficiency of the equipment fleet that will reduce downtime in the future.

C. The increase in labour and benefits per ton sold is directly a result of the decline in the number of tons sold during the nine months ending September 30, 2011 in comparison to the same period in 2010.

D. The Company started renting two dozers and a loader in the beginning of the nine month period ending September 30, 2011. The Company has also been renting additional drilling machines in comparison to the same period in 2010.

E. The Company entered into new royalty agreements in addition to the obligations present during the same period in 2010.

F. During the nine month period ended September 30, 2011, the company purchased new and refurbished mining equipment with a total cost of $10.95 million. $5.45M of this total cost was for the loadout equipment that was purchased on August 16, 2011. These purchases caused the depreciation expense for the period to noticeably increase.

G. The Company started purchasing coal from third parties to satisfy certain sales contracts. Coal purchases were utilized to keep up with the sales orders while restructuring the mine site towards increased production efficiency

H. The Company purchased new tires for the entire equipment fleet in early 2011.

I. Increase in trucking expense is due to the increase in fuel prices and the trucking fees incurred during the transportation of purchased coal.

J. The Company paid for a one-time well closing fee on site that required to be sealed to continue production. In addition, the Company paid for pond reclamation fees during the later part of the period.

K. General increases in other various other costs.

The Company's plans to lower its average cost per ton produced includes allocating a portion of the proceeds from the 2011 financings to new equipment purchases which will increase production and decrease down time thus increasing efficiency in production. The acquisition of the rail load out facility, completed during Q3 2011, which was previously being leased by the Company, will also reduce the cost per ton.

Three Months Ended September 30, 2011 Variance Analysis:

Expense Type	Three Months Ended Sept 30, 2010	Three Months Ended Sept 30, 2011	Unfavorable (Favorable) Variance	Variance Analysis Reference
Fuel and lubricants	$ 14.22	$ 22.23	$ 8.01	L
Repairs and maintenance	11.27	15.85	4.58	M
Labour, payroll taxes, and benefits	12.03	11.78	(0.25)	
Equipment rental	12.44	8.80	(3.64)	N
Blasting and drilling	9.90	9.58	(0.32)	
Royalties	8.05	7.29	(0.76)	
Depreciation, ARO accretion, depletion	2.61	7.98	5.37	O
Production taxes	4.92	4.49	(0.43)	
Purchased coal	-	9.09	9.09	P
Tires	3.26	2.84	(0.42)	
Trucking	2.09	3.56	1.47	Q
Equipment insurance	(3.46)	0.22	3.68	R
Subcontractors	-	-	-	
Other	11.27	0.41	(10.86)	S
Total	**$ 88.60**	**$ 104.12**	**$ 15.52**	

<u>Three Months Ended September 30, 2011 Variance Analysis:</u>

Explanation of each variance per ton is noted below in further detail:

L. The main cause of the unfavourable variance of $8.01 is the price increase in diesel fuel and crude oil per gallon in comparison to the same period in 2010.

M. The increase of repairs and maintenance cost per ton sold is a direct result of the lesser number of tons sold during the quarter in comparison to the same quarter in 2010. During the three months ended September 30, 2011, 87,195 tons were sold whereas 97,639 tons were sold during the same period in 2010.

N. The equipment rental cost decreased significantly during the quarter because of the purchase of the previously rented loadout equipment fleet.

O. On August 16, 2011, the Company purchased the equipment fleet at the Charlene Loadout facility for $5.45M. This purchase cost increased the depreciation expense for the quarter in comparison to prior year's expense.

P. The Company started purchasing coal from third parties to satisfy certain sales contracts. Coal purchases were utilized to keep up with the sales orders while restructuring the mine site towards increased production efficiency.

Q. Increase in trucking expense is due to the increase in fuel prices and the trucking fees incurred during the transportation of purchased coal.

R. The purchase of the equipment fleet at the Charlene Load out facility, increase in insurance premiums, and lower number of tons sold in comparison to 2010 are all factors in the increase of equipment insurance per ton sold during the Period.

S. The Company has been actively communicating with vendors in an effort to increase efficiency to reduce the other various costs of goods sold components. The Company is expecting this cost line item to continue to decrease in the upcoming quarters.

The Company's plans to lower its average cost per ton produced includes allocating a portion of the proceeds from the 2011 financings to new equipment purchases which will increase production and decrease down time thus increasing efficiency in production. The acquisition of the rail load out facility, competed during Q3 2011, which is currently being leased by the Company, will also reduce the cost per ton.

Accretion and interest on notes payable and loss on extinguishment of debt

The Company received loan proceeds of $8,950,000 from a company related by virtue of a common officer and director ('Related Company'). The Related Company received the loan proceeds from an unrelated lender for the sole purpose of lending the funds to the Company based on the same terms provided by the unrelated lender to the Related Company, except that the Company issued the Related Party 5,000,000 common shares to provide security for the notes payable. The transaction would not have occurred unless the related party pledged security which was in addition to the security provided by the Company. All fees and interest charges imposed by the unrelated lender are charged by the Related Company to the Company.

The value of the debt was being accreted to $17,900,000, representing the loan proceeds of $8,950,000 and a Royalty of $8,950,000.

On January 25, 2011 and February 25, 2011, the Company repaid $4,000,000 and $3,950,000, respectively, of the principal amount outstanding under the note purchase agreement dated September 30, 2009. The Related Company has made a corresponding $4,000,000 and $3,950,000 principal repayments to the third party lender. As a result, the principal amount of the notes was reduced to zero. The royalty payable to the Related Party under the royalty agreement dated September 30, 2009, which provides for a $2.00 per ton royalty, of $6,476,704, inclusive of a $200,000 waiver fee, was paid in full on March 31, 2011. The Related Company has made a corresponding $6,476,704 payment to the third party lender. Due to the early repayment of the royalty, the Company recorded a loss on repayment of debt of $3,926,188.

Accretion and interest on convertible debentures

Accretion expense in the three and nine months ended September 30, 2011 due to the convertible debentures is $475,416 and $582,327 as compared to $199,380 and $582,924 for the same periods in 2010.

(i) Global Capital Convertible Debenture

On December 22, 2010, Global Capital requested conversion of C$75,000 of the principal amount. Subsequent to year end, the Company issued 500,000 shares at a conversion price of C$0.15 per share (note 10).

Between January 7, 2011 and February 25, 2011, the Company issued 1,666,666 common shares at a deemed issue price of C$0.15 per share upon the conversion by GC Global Capital Corp. of the entire C$250,000 outstanding principal amount of the convertible debenture dated June 26, 2008, all in accordance with the terms of the debenture. No principal remains outstanding under the debenture.

(ii) Cheyenne Convertible Debenture

On February 25, 2011, the company repaid the $4,200,000 Cheyenne convertible debenture. No principal remains outstanding under the Cheyenne convertible debenture.

(iii) Mercuria Convertible Debenture

On July 25, 2011, the Company issued a C$10,000,000 secured convertible debenture to Mercuria Energy Group Holding SA ("Mercuria") bearing interest at a rate of 9% per annum, payable semi-annually in arrears and is due on or about July 22, 2013. The convertible debenture may be converted by Mercuria at any time and from time to time into common shares of the Company, at a conversion price of C$0.2689 per share. The convertible debenture is guaranteed by the subsidiaries of Royal Coal, secured by second ranking security over all assets of Royal Coal and its subsidiaries and first security over certain future assets of Royal Coal and its subsidiaries. The convertible debenture is not redeemable until maturity and is subject to typical anti-dilution protections. If the volume weighted average trading price of the common shares for each of any 90 consecutive trading days exceeds $0.4033, the Company may require Mercuria to convert all or part of the then outstanding principal amount of the convertible debenture.

The loan has both an equity component and a debt component. Since the convertible debenture was issued in Canadian dollars which is different to the functional currency of the Company (US Dollars), the equity portion of the convertible debenture is treated as a financial liability and the fair value movement during the period is recognized in the Condensed Interim Consolidated Statement of Operations and Comprehensive Loss. The equity component was estimated at $1,541,410 (C$1,457,874) and the debt component was estimated at $9,031,590 (C$8,542,126) less costs of $370,418 (C$351,799) allocated proportionately. The fair value of the equity component as at September 30, 2011 was estimated at $495,667.

Accretion and interest on bank loan and debt obligation

Bank loan and debt obligation

		Sept 30 2011		Dec 31 2010
Bank loan (i)	$	91,393	$	309,044
Debt obligation (ii)		-		66,333
Debt obligation (iii)		2,877,733		-
Royalty agreement (iv)		1,649,076		1,597,997
Royalty agreement (v)		3,157,628		3,035,986
Debt obligation (vi)		3,000,000		-
Debt obligation (vii)		39,795		-
Debt obligation (viii)		20,436		-
		10,836,061		5,009,360
Less current portion		(6,204,084)		(871,165)
	$	4,631,977	$	4,138,195

Future undiscounted repayments by year based on estimated production are as follows:

2011	$ 3,333,972
2012	4,084,141
2013	2,938,523
2014	479,424
Total	$ 10,836,061

(i) The Company received loan proceeds in January 2010 of $516,609 to finance mining equipment acquired and leased. The loan is repayable at $23,005 per month for 24 months and bears interest at 6.5% per annum. The loan is unsecured. At September 30, 2011 $91,393 (December 31, 2010 - $309,444) is outstanding, of which $91,393 is due within 12 months.

(ii) The Company received loan proceeds in April 2010 of $197,797 to finance repairs of leased mining equipment. The loan is repayable at $16,483 per month for 12 months and bears no interest. The loan is unsecured. At September 30, 2011 $Nil (December 31, 2010 - $66,333) is outstanding.

(iii) On June 8, 2011, the Company purchased certain equipment from a supplier. The supplier provided financing for the purchase at a 5.8% interest rate with 36 monthly payments of $97,280 commencing June 21, 2011. The monthly payment is a blend of interest and principal.

(iv) In October 2010, the Company entered into new royalty arrangements ("Debt Obligation") with third parties (the "Payees") to provide additional operating capital to the Company of $1,500,000 (the "Debt Obligation Proceeds"). The Company incurred a transaction cost of $71,220 for arranging the Debt Obligation. Subject to the terms of these new royalty arrangements, the Company will pay to the Payees an aggregate royalty equal to $1.50 for each short ton of coal mined, removed, and sold from the Company's Big Branch and Sid Mining Projects and other mines within a defined area (the "Mines") subject to a minimum monthly payment of $50,000, until the Payees have been paid an aggregate amount equal to two times the amount of the Debt Obligation Proceeds received by the Company, and thereafter, $0.60 for each short ton of coal mined, removed, and sold from the Mines. The effective interest rate of the Debt Obligation based on production forecasts resulting in two times the payment of the Debt Obligation Proceeds is approximately 50%. The Company recorded effective interest on the Debt Obligation of $575,208 (December 31, 2010 - $167,449), paid the Payees $478,420 (December 31, 2010 - $69,452) and paid the transaction cost of $nil (December 31, 2010 - $71,220), resulting in a Debt Obligation of $1,649,076 (December 31, 2010 - $1,597,997) at September 30, 2011.

(v) In November 2010, the Company entered into a separate royalty agreement with Sandstorm Metals & Energy (US) Inc. ("Sandstorm US") pursuant to which, in exchange for an upfront payment by Sandstorm of $3,000,000 ("Sandstorm Debt Obligation") on December 17, 2010, the Company will pay Sandstorm US a royalty equal to 2.7% of revenue from the above Mines until Sandstorm US has been paid an aggregate amount of $4,500,000, and thereafter 1.35% of revenue from the Big Branch Mine and the Sid Mining Project. The effective interest rate of the Debt Obligation based on production forecasts resulting in 1.5 times ($4,500,000) the Sandstorm Debt Obligation is 25.87%. The Company recorded effective interest on the Debt Obligation of $588,462 (December 31, 2010 - $35,986) and paid Sandstorm US $430,834 (December 31, 2010 - $nil), resulting in a Sandstorm Debt Obligation of $3,152,628 (December 31, 2010 - $3,035,986) at September 30, 2011.

(vi) In August 2011, the Company entered into a loan agreement with Sandstorm Metals & Energy Inc. ("Sandstorm CDA") for $3,000,000 maturing on December 10, 2011. Interest is payable at a rate of 15% and due on December 10, 2011. Proceeds were used to purchase equipment. The loan is unsecured.

(vii) In August, 2011, the financed the purchase of a vehicle through a bank. The financing has an interest rate of 2% with 24 monthly payments of $1,000 commencing September, 2011. The monthly payment is a blend of interest and principal. In August 2013, the financing has a lump sum final principal payment of $21,066.

(viii) In September, 2011, the financed the purchase of a vehicle through a bank. The financing has an interest rate of 2% with 24 monthly payments of $903 commencing September, 2011. The monthly payment is a blend of interest and principal.

Financing fees

Financing fees for the three and nine months ended September 30, 2011 were $36,087 and $119,424 as compared to $615,571 and $2,040,358 for the same periods in 2010. The future trend for financing fees will be consistent with the current period or higher due to the expansion of the operations of the Company.

General and administrative expenses

General and administrative expenses for the three and nine months ended September 30, 2011 were $293,162 and $1,014,258 compared to $209,382 and $851,346 for the same periods during 2010. The future trend for G&A expenses will be consistent with the current period or higher due to the expansion of the operations of the Company.

Management and consulting

Management and consulting expenses for the three and nine months ended September 30, 2011 were $903,327 and $2,276,856 compared to $293,854 and $1,077,642 for the same periods during 2010. The future trend of Management and consulting expenses may increase further consistent with the projected growth of the company.

Other expenses

Professional fees which include legal and accounting costs for the three and nine months ended September 30, 2011 were $303,986 and $748,724 as compared to $44,433 and $206,834 for the same periods in 2010. Professional fees increased in 2011 primarily due to closing an equity financing of $34.5 million, the Sandstorm deferred revenue advance of $11 million, and costs associated with the repayment of indebtedness and increased audit costs. The Company expects professional fees to increase in 2011 as a result of continued financings and agreements. Travel expenses for the three and nine months ended September 30, 2011 were $54,981 and $180,131 as compared to $108,107 and $173,512 for the same periods in 2010. Overall, travel expenses are expected to be consistent with first half of 2011.

Foreign exchange Gain / (Loss)

Foreign exchange gain / (loss) for the three and nine months ended September 30, 2011 was $519,534 and $494,854 as compared to ($260,574) and ($355,314) for the same periods in 2010. The foreign exchange gains and losses are the result from the timing of conversions of Canadian dollars obtained via financings and the resultant fluctuations in the US and Canadian dollar; any exchange gain or loss that arises on translation is included in the determination of net income or loss for the period.

SUMMARY OF QUARTERLY RESULTS (UNAUDITED) - Summary of Quarterly Financial Information

For the three months ended	$ 30 Sep 11	$ 30 Jun 11	$ 31 Mar 11	$ 31 Dec 10
Revenues	6,390,573	6,621,792	4,045,649	5,500,619
Cost of sales	9,078,429	9,658,066	9,863,598	7,886,330
Gross losses	(2,687,855)	(3,036,274)	(5,817,949)	(2,385,711)
Net gain/(loss) for the period	4,552,036	2,761,449	(15,642,221)	(9,001,436)
Basic gain/(loss) per share	0.02	0.01	(0.15)	(0.07)
Coal – tons produced	73,471	107,168	64,857	91,262
Coal – tons sold	87,195	102,571	65,335	93,146
Average cost per ton sold	104.12	94.16	150.97	92.33
Average price per ton sold	73.29	64.56	61.92	59.05

For the three months ended	$ 30 Sep 10	$ 30 Jun 10	$ 31 Mar 10	$ 31 Dec 09
Revenues	5,403,845	4,593,994	5,756,212	2,891,301
Cost of sales	8,534,772	6,798,168	8,531,558	5,692,672
Gross losses	(3,130,927)	(2,204,174)	(2,775,346)	(2,801,371)
Net (loss) for the period	(7,027,853)	(5,878,829)	(6,214,065)	(5,049,073)
Basic loss per share	(0.08)	(0.10)	(0.11)	(0.10)
Coal – tons produced	112,678	89,533	100,183	57,255
Coal – tons sold	97,638	87,150	109,125	50,741
Average cost per ton produced	75.94	75.93	85.16	99.43
Average price per ton sold	55.31	52.71	52.75	56.98

Liquidity

The Company had a working capital deficit of $3,999,127 as at September 30, 2011 compared to a working capital deficit of $23,952,430 as at December 31, 2010. Included in the working capital for September 2011 is $1,762,276 in cash, $2,880,693 in accounts payable, $6,204,084 in bank loan and debt obligation. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing to support the business until production volumes increase to levels that generate revenue in excess of the costs incurred.

In January 2011, Sandstorm Energy made an upfront payment of $11 million of deferred revenue to Royal Coal on a coal purchase agreement, plus Sandstorm Energy is required to pay ongoing fixed payments of $55/ton, subject to certain adjustments as set out in the coal purchase agreement. The Company provided certain production level guarantees, including that Sandstorm Energy will receive minimum cash flows of $2 million in calendar year 2011 and minimum cash flows of $2.5 million in each of calendar years 2012, 2013, 2014 and 2015 as a result of the further sale of the coal purchased from the Company.

The Company entered into a separate royalty agreement with Sandstorm Energy pursuant to which, in exchange for an upfront payment by Sandstorm Energy of $3 million which was paid on December 17, 2010. The Company pays Sandstorm Energy a royalty equal to 2.7% of revenue from the above Big Branch Project and the Sid Mining Project until Sandstorm has been paid an aggregate amount of $4.5 million, and thereafter 1.35% of revenue from the above Mines.

On February 23, 2011, the company issued 138,000,000 Special Warrants for gross proceeds of $34,896,750 (C$34,500,000). On April 8, 2011, the Special Warrants were exercised into one unit (a "Unit") without payment of any additional consideration. On February 23, 2011, the Company issued special broker warrants entitling the holder to acquire, for no additional consideration, compensation options entitling the holder to purchase from the Company 8,280,000 units, each consisting of one common share and one-half of one warrant at an exercise price of C$0.25 per unit until February 23, 2013. Each whole warrant shall be exercisable to acquire one additional common share at a price of C$0.335 per common share until February 23, 2013.

Capital Resources

The Company does not have any capital expenditure commitments as of the date of this MD&A.

Subsequent events

There are no subsequent events to report, at time of writing.

Commitments and Contractual Obligations

The Company, in connection with the acquisition of the Big Branch property, entered into an agreement to lease mining equipment for $232,677 per month for the two years ending September 29, 2010. The Company has five individual leases for mining equipment for $25,000 per month per lease, all of which expire during 2011. At September 30, 2011, the Company's equipment and premises lease commitments totaled $250,000 (December 31, 2010 - $2,620,689) for 2011. None of these commitments extend beyond 2011.

Health and Safety

Stringent health and safety standards have been in effect since Congress enacted the Coal Mine Health and Safety Act of 1969. The Federal Mine Safety and Health Act of 1977 significantly expanded the enforcement of safety and health standards and imposed safety and health standards on all aspects of mining operations. Kentucky has a state program for mine safety and health regulation and enforcement. In the aftermath of several fatal mining accidents in early 2006, Kentucky enacted a new mine safety legislation. The Mine Safety and Health Administration issued an emergency temporary standard addressing emergency mine evacuation, training and underground oxygen supplies on March 9, 2006 and the Federal Mine Improvement and New Emergency Response (MINER) Act of 2006 was signed into law on June 15, 2006. Management does not believe this will have a significant impact on the Company's operating costs due to the Company having primarily surface operations; however, the MINER Act could lead to further regulatory changes that will impact operating costs

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Related Party Transactions

For the three and nine months ended September 30, 2011, the Company:

a) Paid administration fees of $64,905 and $193,806 for the three and nine months ended September 30, 2011 (September 30, 2010 - $59,902 and $181,731) of which $nil (December 31, 2010 - $147,193) remains unpaid to a company related by virtue a common officer and director of the Company. These amounts are included in management and consulting expense.

b) As of September 30, 2011, included in accounts payable are $nil (December 31, 2010 - $650,000) in fees, $nil (December 31, 2010 - $660,671) in interest payable and $nil (December 31, 2010 - $210,853) in royalties that are payable to Juno.

c) The Note Payable detailed in note 7 of the financial statements was from a company related by virtue of a common officer and director (the "related lender") who received the loan proceeds from an unrelated lender for the sole purpose of lending the funds to the Company based on the same terms provided by the unrelated lender to the related lender. The related lender also guaranteed the loan for the Company and as compensation received a royalty, at a rate of $0.50 per ton, of $43,301 and $121,562 for the three and nine months ended September 30, 2011 (September 30, 2010 - $48,753 and $141,580) and $10,940 (December 31, 2010 - $211,010) is included in accounts payable and accrued liabilities as at September 30, 2011.

d) The Company received proceeds of a Debt Obligation of $750,000 in October 2010 from a related party by virtue of a common officer and director as part of the total Debt Obligation Proceeds of $1,500,000. Effective December 1, 2010 the related party reduced its interest in the Debt Obligation to $495,000 by selling $255,000 of the obligation to unrelated parties. Accretion expense incurred on the Debt Obligation owed to the related party was $64,568 and $189,819 for the three and nine months ended September 30, 2011 (September 30, 2010 - $nil), of which $16,500 (December 31, 2010 - $16,500) was payable as at September 30, 2011.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Conversion to IFRS

(i) Overview

IFRS replaced Canadian GAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. These are the Company's first unaudited condensed interim consolidated financial statements prepared in accordance with IAS 34, using accounting policies consistent with IFRS.

The accounting policies described in note 2 have been selected to be consistent with IFRS as is expected to be effective on March 31, 2011, the Company's first annual IFRS reporting date. These policies have been applied in the preparation of these unaudited condensed interim financial statements, including all comparative information.

(ii) First-time adoption of IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has elected to apply the following optional exemptions in its preparation of an opening IFRS statement of financial position as at January 1, 2010, the Company's "Transition Date".

- To apply IFRS 2 Share based Payments only to equity instruments that were issued after April 18, 2005 and had not vested by the Transition Date.

- To apply IAS 23 Borrowing Costs prospectively from the transition date. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.

- To elect not to apply retrospective treatment to certain aspects of IAS 21, The Effect of Changes in Foreign Exchange Rates, and deem the cumulative translation differences for all foreign operations to be zero at the transition date.

- To apply the transition provisions of IFRIC 4, Determining whether an Arrangement Contains a Lease, to determine if arrangements existing at the transition date contain a lease based on the circumstances existing at the transition date, rather than the historical date.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

The Company's Transition Date IFRS unaudited condensed interim consolidated balance sheet is included as comparative information in the unaudited condensed interim consolidated balance sheets in these financial statements.

(iii) Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires the Company to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the consolidated statements of financial position and consolidated statements of comprehensive income have resulted in reclassifications of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows from operating investing and financing activities, no reconciliations have been presented.

Reconciliation of equity	Jan 1 2010	Sept 30 2010	Dec 31 2010
Shareholders' equity under Canadian GAAP	$ 5,184,492	$ (5,468,139)	$ (10,969,798)
IFRS Adjustments	(60,431)	(3,239,009)	(6,434,303)
Total equity under IFRS	$ 5,124,061	$ (8,707,148)	$ (17,404,102)

Reconciliation of operations and comprehensive loss	Three months ended Sept 30 2010	Nine months ended Sept 30 2010	Year ended Dec 31 2010
Net loss and comprehensive loss under Canadian GAAP	$ (5,511,392)	$ (17,783,731)	$ (24,004,702)
IFRS adjustments	(998,471)	(823,842)	(4,004,900)
Net loss and comprehensive loss under IFRS	$ (6,509,863)	$ (18,607,573)	$ (28,009,602)

(iv) Changes to accounting policies

The Company has changed certain accounting policies to be consistent with IFRS as is expected to be effective on March 31, 2011, the Company's first annual IFRS reporting date. The changes to its accounting policies have resulted in certain changes to the recognition and measurement of assets, liabilities, equity, revenue and expenses within its financial statements.

The following summarizes the significant changes to the Company's accounting policies on adoption of IFRS.

(a) Inventory

Under IFRS, Coal inventory is valued when it is probable that the future economic benefits will flow to the Company. The Company had pit inventory with an estimated value of $nil on January 1, 2010, $nil on September 30, 2010 and $146,200 on December 31, 2010.

Impact on Condensed Interim Consolidated Balance Sheets

	Jan 1 2010	Sept 30 2010	Dec 31 2010
Adjustment to inventory	$ -	$ -	$ 146,200
Adjustment to deficit	$ -	$ -	$ (146,200)

Impact on Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

	Three months ended Sept 30 2010	Nine months ended Sept 30 2010	Year ended Dec 31 2010
Adjustment to cost of goods sold	$ -	$ -	$ 146,200
Adjustment to deficit	$ -	$ -	$ (146,200)

(b) Mineral properties

On transition to IFRS, the Company elected to capitalize exploration and evaluation expenditures as incurred, which is consistent with the Company's Canadian GAAP policy. There is no impact on the unaudited condensed interim consolidated financial statements.

(c) Impairment of non-financial assets

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

The Company's accounting policies related to impairment of non-financial assets have been changed to reflect these differences. There is no impact on the unaudited condensed interim consolidated financial statements.

(d) Asset Retirement Obligations

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

The Company's accounting policies related to decommissioning liabilities have been changed to reflect these differences. There is no impact on the unaudited condensed interim consolidated financial statements.

(e) Flow-through shares

Under IFRS proceeds from shares are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A future tax liability is recognized for the premium paid by the investors and is then recognized as a future income tax recovery in the period of renunciation. If flow-through shares are sold at a discount, this policy does not apply and the flow-through shares issued follow applicable IFRS guidance. Previously, the Company's Canadian GAAP policy was to adopt the recommendations of EIC 146 with respect to the accounting for flow through shares. This resulted in the Company reducing the net proceeds of the flow through share issuance by the future tax liability of the Company resulting from the renunciation of the exploration and development expenditures in favour of the flow through share subscribers. This future income tax liability was calculated net of any benefit resulting from unrecorded income tax loss carry forwards and income tax pools in excess of the accounting value available for deduction.

Impact on Condensed Interim Consolidated Balance Sheets

	Jan 1 2010	Sept 30 2010	Dec 31 2010
Adjustment to common shares	$ 98,167	$ 98,167	$ 98,167
Adjustment to deficit	$ (98,167)	$ (98,167)	$ (98,167)

(f) Share based payments

Under IFRS each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period, based on the number of awards expected to vest, by increasing contributed surplus. Canadian GAAP allowed for the expensing of options over the vesting period on a straight line basis.

Impact on Condensed Interim Consolidated Balance Sheets

	Jan 1 2010	Sept 30 2010	Dec 31 2010
Adjustment to contributed surplus	$ -	$ (31,320)	$ -
Adjustment to deficit	$ -	$ 31,320	$ -

Impact on Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

	Three months ended Sept 30 2010	Nine months ended Sept 30 2010	Year ended Dec 31 2010
Adjustment to stock based compensation	$ 87,153	$ (31,320)	$ -

(g) Derivative financial liabilities

Under IAS 32, warrants denominated in a foreign currency, which have not been issued on a pro-rata basis to all holders of the same class of shares are classified as liabilities. The Company has derivative financial instruments in the form of warrants issued in Canadian dollars. Such derivative financial instruments are initially recognized at fair value at the date at which the derivatives are issued and are subsequently re-measured at fair value. These derivatives do not qualify for hedge accounting and changes in fair value are recognized immediately in profit and loss.

Impact on Condensed Interim Consolidated Balance Sheets

	Jan 1 2010	Sept 30 2010	Dec 31 2010
Adjustment to warrants	$ (71,164)	$ (2,394,580)	$ (2,440,137)
Adjustment to derivative financial instruments	60,431	3,239,009	6,580,503
Adjustment to deficit	$ 10,733	$ (844,428)	$ (4,140,367)

Impact on Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

	Three months ended Sept 30 2010	Nine months ended Sept 30 2010	Year ended Dec 31 2010
Adjustment to gain (loss) in fair value of derivative instruments	$ (908,318)	$ (855,162)	$ (4,151,100)

(h) Debt covenants

IAS 1 requires that if the Company is in breach of a debt covenant and the Company does not have an unconditional right to defer settlement of a liability for at least twelve months after the reporting period then the liability must be classified as a current liability. As at January 1, 2010 and December 31, 2010 the Company was in breach of its notes payable.

Impact on Condensed Interim Consolidated Balance Sheets

	Jan 1 2010	Sept 30 2010	Dec 31 2010
Adjustment to notes payable, current	$ 860,792	$ -	$ 3,570,530
Adjustment to notes payable, long term	$ (860,792)	$ -	$ (3,570,530)

(i) Cumulative translation differences

To elect not to apply retrospective treatment to certain aspects of IAS 21, The Effect of Changes in Foreign Exchange Rates, and deem the cumulative translation differences for all foreign operations to be zero at the transition date.

Impact on Condensed Interim Consolidated Balance Sheets

	Jan 1 2010	Sept 30 2010	Dec 31 2010
Adjustment to accumulated and other comprehensive loss	$ 542,103	$ 542,103	$ 542,103
Adjustment to deficit	$ (542,103)	$ (542,103)	$ (542,103)

Future Accounting Changes

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 9.

IFRS 13, Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company has not yet considered the potential impact of the adoption of IFRS 13.

Uncertainties and Risk Factors

The mining business is inherently risky in nature. Exploration activities rely on professional judgments and statistically based tests and calculations and often yield few rewarding results. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and operations may be subject to risks including labour disputes, environmental requirements and hazards, safety issues, geological issues, weather conditions, and changing regulatory requirements as examples. Royal Coal is subject to competitive risk as its ability to finance its activities and generate profitable operations or proceeds from disposal of assets are subject to the world price for the precious metals and the economic forces that influence capital markets. As a result, Royal Coal considers the following uncertainties and risk factors:

Financing Risks

Royal Coal has limited financial resources, has negative operating cash flow from its Big Branch mine in Kentucky, and has no assurance that additional funding will be available to it for further capital equipment expenditures, exploration and development work or to fulfill its obligations under any applicable agreements. Failure to obtain such additional financing could result in delay or indefinite postponement of further coal mining, exploration and development plans.

Credit risk

Credit risk is the risk of a loss should a counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk is limited to cash and accounts receivables. The Company limits its exposure to credit risk on cash by holding most of its cash in deposits with high credit quality Canadian financial institutions. The Company manages its credit risk on accounts receivable by utilizing a well-qualified and experienced coal sales agent and reviewing available customer financial information and references.

Fair value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash, accounts receivables, accounts payable, accrued liabilities, bank loan, notes payable and convertible debentures approximates fair value due to the short-term nature of these financial instruments.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk. It is management's opinion that the Company is not exposed to significant currency, credit or interest rate.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments.

Commodity Prices

The Company's future revenues are expected to be in large part derived from the mining and sale of coal. The price of coal has fluctuated in recent years, and is affected by numerous factors beyond the Company's control including international economic and political conditions, expectations of inflation, international currency exchange rates, interest rates, global or regional consumption patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and improved mining and production methods. The effect of these factors on commodity prices makes it difficult to predict the economic viability of the Company's operations.

Foreign Currency Risks

The Company's U.S.A. operations generate 100% of the revenue and incur its operating costs and capital expenditures in American dollars. The Company's future revenue is expected to be denominated in United States dollars, while the Company's Canadian head office operates in Canadian dollars and may raise future equity in either Canadian or American dollars. As a result, the Company's has some exposure to the currency fluctuations relative to these two currencies.

Exploration and Development

Exploration for coal and other minerals is highly speculative in nature, involves many risks and frequently is unsuccessful. There can be no assurance that exploration efforts will result in the discovery of mineralization or that any mineralization discovered will result in the definition reserves. If reserves are developed, it may take a number of years and substantial expenditures from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. No assurance can be given that exploration programs will result in the definition of reserves or that reserves may be economically mined.

The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors, which are beyond the control of the Company.

All exploration and development evaluation expenditures incurred by Royal Coal, prior to establishing that a property has economically recoverable reserves are capitalized according its significant accounting policy.

Operating Hazards and Risks

Mineral exploration and mining involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The work that the Company proposes to undertake will be subject to all the hazards and risks normally incidental to exploration, development and production, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, explosions and cave-ins, are all the risks involved in the operation of mines and the conduct of exploration programs. Although the Company has secured liability insurance and will, when appropriate, secure property insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs or uninsured losses that could have a material adverse effect upon its financial condition.

Regulations and Mining Law

Mining operations and exploration activities are subject to extensive local (Canada and U.S.A.) and overseas laws and regulations governing exploration, development, production, taxes, labour standards, occupational health, waste disposal, protection and remediation of the environment, reclamation, mine safety, toxic substances and other matters. Compliance with such laws and regulations increases the costs of planning, designing, developing, constructing, operating and closing mines and other facilities. It is possible that the costs and delays associated with compliance with such laws and regulations could become such that the Company would not proceed with or would postpone the development and operation of a mine or mines.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which they operate. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Royal Coal's operations or result in substantial costs and liabilities in the future.

Permits and Licenses

The operations of the Company may require licenses and permits from various governmental authorities. The Company has obtained permits and licenses identified in the NI 43-101 reports pertaining to the Big Branch, Sid and Laurel Fork projects and believes it complies with present requirements for operating the Big Branch mine. Obtaining the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions. There can be no assurance that Royal Coal will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

Title to Assets

Although the Company believes that it holds valid title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned.

Governmental Regulation

Exploration, development and mining of the properties will be affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law; (iii) restrictions on production; price controls; and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are required in connection with the exploration activities proposed for the properties. To the extent such approvals are required and not obtained, the Company's planned exploration, development and production activities may be delayed, curtailed, or cancelled entirely.

Failure to comply with applicable laws, regulations and requirements may result in enforcement action against the Company, including orders calling for the curtailment or termination of operations on the properties, or calling for corrective or remedial measures requiring considerable capital investment. Parties engaged in mineral exploration and mining activities may be subject to civil and criminal liability as a result of failure to comply with applicable laws and regulations.

Amendments to current laws, regulations and permitting requirements affecting mineral exploration and mining activities could have a material adverse impact on the Company's operations and prospects.

No Dividends

Royal Coal has not paid any dividends on its Common Shares. Any decision to pay dividends on its shares in the future will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the board of directors of the Company may consider appropriate in the circumstances.

Dependence on Key Employees

Royal Coal's future growth and its ability to develop depend, to a significant extent, on its ability to attract and retain highly qualified personnel. The Company is highly dependent on the principal members of its senior management group and the loss of their services might impede the Company's business strategy and growth. The loss of one or more key employees could have an adverse effect on the growth and profitability of Royal Coal.

Conflicts Of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other reporting companies or may have significant shareholdings in other reporting companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms.

Competition

The mineral industry is intensely competitive in all its phases. Royal Coal competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees.

Share Price Fluctuations

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered development stage companies, have experienced wide fluctuations in price which would have not necessarily been related to the operating performance, underlying asset values or prospect of such companies. There can be no assurance that continual fluctuation in share price will not occur.

OUTSTANDING SHARE DATA

As at November 24, 2011, the following were the undiluted and fully diluted common shares outstanding:

Common shares outstanding as at November 24, , 2011	241,740,671
Shares issuable on exercise of options	8,158,500
Shares issuable on exercise of warrants	117,486,212
Fully diluted shares outstanding as at November 24, , 2011	367,385,383

A summary of the Company's warrants outstanding listed by expiry date is presented below:

Exercise price	**Expiry date**	**Warrants outstanding**
$0.50	June 25, 2012(1)	833,334
$0.50	July 7, 2012(1)	50,000
$0.50	July 10, 2012(1)	30,000
$0.50	July 15, 2012(1)	2,241,111
$0.50	October 13, 2011	284,511
$0.50	October 15, 2012(1)	1,200,000
C$0.50	October 21, 2011	1,000,000
$0.50	November 2, 2011	20,300
C$0.20	August 12, 2012	1,498,323
C$0.20	August 12, 2015	32,733,633
C$0.20	December 23, 2015	315,000
C$0.25	February 23, 2013	8,280,000
C$0.335	February 23, 2013	69,000,000
		117,486,212

(i) On June 2, 2011, these warrants were extended for a period of 12 months from the original expiry date.

A summary of the Company's outstanding stock options as at September 30, 2011 is presented below:

Expiry date	Exercise Price	Weighted Average Remaining Contractual Life (years)	Options outstanding	Options exercisable	Number of Options Unvested
October 25, 2012	C$0.25	1.1	1,225,000	1,225,000	-
October 25, 2012	C$0.25	1.1	2,400,000	2,400,000	-
November 30, 2012	C$0.20	1.2	133,500	133,500	-
August 14, 2013	C$0.50	1.9	1,225,000	1,225,000	-
November 6, 2014	C$0.50	3.1	1,500,000	1,500,000	-
November 16, 2014	C$0.50	3.1	1,250,000	1,250,000	-
December 10, 2014	C$0.50	3.2	325,000	325,000	-
April 28, 2013	C$0.265	1.6	100,000	100,000	
			8,158,500	8,158,500	-

General

The Company also discloses information related to its activities on SEDAR at www.sedar.com and on its website www.royalcoal.com.

Forward-Looking Information

In the past, Royal Coal has not had and does not currently have positive cash flow from operations. Royal Coal's available cash has been used and will continue to be used, to the extent required, to fund its negative cash flow. No assurance can be given that Royal Coal will ever generate a positive cash flow from operations. Royal Coal may and is seeking additional equity or debt financing in order to fund certain of its potential acquisitions and its production targets, in each case, as and when Royal Coal determines that any such financings are available to it when needed and on terms that are favourable. However, additional financing may not be available when needed or, even, if available, the terms of such financing might not be favourable to Royal Coal.

This management discussion and analysis ("MD&A") contains "forward-looking information" that includes information relating to future events and future financial and operating performance, including management's assessment of Royal Coal's future outlook, potential financings, potential acquisitions and production. Specifically, this MD&A contains forward-looking information related to increases in production capacity as the results of additional capital expenditures and permitted mines, additional reserves that have been leased or acquired, future development of reserves or properties, potential financings and potential acquisitions. Forward-looking information should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by which, that performance or those results will be achieved. Forward-looking information is based on information available at the time it is made and/or management's good faith belief as of that time with respect to future events, and such information is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking information. Important factors that could cause these differences include but are not limited to: changes in contracted sales, the business of the Company may suffer as a result of uncertainty surrounding the coal market; the Company may be adversely affected by other economic, business, and/or competitive factors; the worldwide demand for coal; the price of coal; the price of alternative fuel sources; the supply of coal and other competitive factors; the costs to mine and transport coal; the ability to obtain new mining permits; the costs of reclamation of previously mined properties; the risks of expanding coal production; the ability to bring new mines on line on schedule; industry competition; the Company's ability to continue to execute its growth strategies; the Company's ability to secure additional financing; the Company's ability to complete planned acquisitions; and general economic conditions. These and other risks are more fully described in the Company's filings with the Canadian Securities Administrators, including its Annual Information Form for the year ended December 31, 2010, available on SEDAR at www.sedar.com. You should not put undue reliance on any forward-looking information. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward looking information, except to the extent *required by applicable securities laws. If we do update one or more forward-looking information, no inference should be drawn that we will make additional updates with respect to those or other forward-looking information."*