Royal Coal Corp.

Unaudited condensed interim consolidated financial statements

September 30, 2011
(expressed in US dollars)

Management's Responsibility for Unaudited Condensed Interim Consolidated Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Royal Coal Corp. (the "Company" or "Royal Coal") are the responsibility of the Board of Directors.

The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34-Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited condensed interim consolidated financial statements and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Bob Hueler
Chief Executive Officer

Jeff Lowe
Chief Financial Officer

Toronto, Canada
November 24, 2011

NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements as at September 30, 2011 have not been reviewed by the Company's auditors.

ROYAL COAL CORP.
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(unaudited)
(expressed in US dollars)

As at	Sept 30 2011	Dec 31 2010 (note 22)	Jan 1 2010 (note 22)
ASSETS			
Current			
Cash	$ 1,762,276	$ 346,882	$ 800,099
Accounts receivable	1,029,799	172,475	243,093
Prepaid expenses and other current assets	292,451	508,215	471,857
Inventory	727,903	337,030	342,098
Quebec tax credit	20,640	20,016	130,979
Deposit on capital asset purchases	2,920,000	-	-
Investment	-	-	95,150
	6,753,069	1,384,618	2,083,276
Capital assets, net (note 3)	12,021,643	1,708,895	915,562
Mineral properties (notes 4 and 15)	13,179,198	13,504,726	13,525,484
	$ 31,953,910	$ 16,598,239	$ 16,524,322
LIABILITIES			
Current			
Accounts payable and accrued liabilities	$ 2,880,693	$ 10,123,206	$ 3,189,763
Bank loan and debt obligation (note 6)	6,204,084	871,165	-
Notes payable (note 7)	-	7,627,721	2,860,792
Convertible debentures (note 8)	-	240,212	356,812
Deferred revenue (note 5)	1,667,419	-	-
Derivative financial instruments (note 10)	2,188,226	6,580,503	60,431
	12,940,422	25,442,807	6,467,798
Asset retirement obligation (note 13)	358,961	313,944	262,579
Bank loan and debt obligation (note 6)	4,631,977	4,138,195	-
Convertible debentures (note 8)	8,248,271	4,107,395	4,669,884
Deferred revenue (note 5)	9,000,000	-	-
	35,179,630	34,002,341	11,400,261
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Capital stock	38,310,502	14,947,079	10,792,037
Shares to be issued (note 11)	-	960,463	771,702
Warrants (note 11)	1,510,451	1,361,336	792,852
Contributed surplus (note 11)	2,578,486	2,217,212	1,602,603
Equity portion of convertible debenture	-	362,876	408,333
Deficit	(45,625,159)	(37,253,068)	(9,243,466)
	(3,225,720)	(17,404,102)	5,124,061
	$ 31,953,910	$ 16,598,239	$ 16,524,322

Nature of operations and going concern (note 1)
Commitments and contingencies (note 20)
See accompanying notes to unaudited condensed interim consolidated financial statements

Approved by the Board of Directors

Director   Director

ROYAL COAL CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)
(expressed in US dollars)

For the periods ended September 30	Three months 2011	Three months 2010 (note 22)	Nine months 2011	Nine months 2010 (note 22)
Revenues	$ 6,390,573	$ 5,403,845	$ 17,058,015	$ 15,754,051
Cost of sales	9,078,429	8,534,772	28,600,093	23,864,496
	(2,687,855)	(3,130,927)	(11,542,078)	(8,110,445)
Expenses				
Accretion and interest on notes payable (note 7)	-	1,711,147	3,604,824	4,686,599
Accretion and interest on convertible debentures	475,416	199,380	582,327	582,924
Accretion and interest on bank loan and debt obligation	448,742	-	1,206,703	-
Amortization	6,187	2,840	13,503	18,195
Financing fees	36,087	615,571	119,424	2,040,358
General and administration	293,162	209,382	1,014,258	851,346
Management and consulting (note 16)	903,327	293,854	2,276,856	1,077,642
Professional fees	303,986	44,433	748,724	206,834
Stock-based compensation (note 11)	-	(110,634)	-	538,318
Travel	54,981	108,107	180,131	173,512
	2,521,888	3,074,080	9,746,751	10,175,728
Loss before undernoted	(5,209,743)	(6,205,007)	(21,288,829)	(18,286,173)
Interest income (expense)	-	(32,964)	-	(10,924)
Gain (loss) on extinguishment of debt (note 7)	-	-	(3,926,188)	-
Unrealized gain on derivative financial instruments	9,242,245	(908,318)	16,391,428	(855,162)
Foreign exchange gain (loss)	519,534	(260,574)	494,854	(355,314)
Net income (loss) and comprehensive income (loss) for the period	$ 4,552,036	$ (6,506,863)	$ (8,328,735)	$ (18,607,573)
Basic net income (loss) per share	$ 0.02	$ (0.08)	$ (0.04)	$ (0.29)
Basic weighted average shares Outstanding	241,724,367	77,395,681	214,099,215	63,271,418

See accompanying notes to unaudited condensed interim consolidated financial statements.

ROYAL COAL CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(expressed in US dollars)

For the periods ended September 30	Three months 2011	Three months 2010 (note 22)	Nine months 2011	Nine months 2010 (note 22)
Cash provided by (used in operations)				
Net income (loss)	$ 4,552,036	$ (6,506,863)	$ (8,328,735)	$ (18,607,573)
Items not involving cash:				
Accretion of notes payable	-	1,253,034	3,604,824	3,695,084
Accretion of convertible debentures	475,416	23,487	582,327	81,191
Accretion of debt obligation	448,742	-	1,206,703	-
Accretion of provision for asset retirement obligation	15,681	(23,990)	45,017	547
Amortization and depletion	671,162	199,879	1,345,766	670,633
Deferred revenue	(113,678)	-	(332,581)	-
Change in fair value of derivative financial instruments	(9,242,245)	908,318	(16,391,428)	855,162
Shares issued for broker services	-	-	-	48,081
Loss on extinguishment of debt	-	(900,000)	3,926,188	(900,000)
Unrealized foreign exchange	-	(25,971)	-	(9,150)
Stock based compensation	-	(110,634)	-	538,318
Net change in non-cash working capital:	(3,192,887)	(5,182,740)	(14,341,918)	(13,627,707)
Accounts receivable	(143,673)	(425,938)	(857,324)	(516,991)
Quebec tax credit and mining duties	-	26,039	(625)	24,821
Prepaid expenses and other current assets	525,498	487,893	215,764	326,776
Inventory	(114,869)	563,333	(390,873)	164,890
Accounts payable and accrued liabilities	310,877	646,446	(7,242,513)	7,776,899
	(2,615,053)	(3,884,968)	(22,617,489)	(5,851,312)
Investing				
Purchase of capital assets	(6,191,482)	(350,457)	(11,282,415)	(962,470)
Deposit on capital asset purchases	(1,360,000)	-	(2,920,000)	-
Mining exploration property additions	4,501	(82,336)	(50,571)	(82,336)
	(7,546,981)	(432,792)	(14,252,986)	(1,044,806)
Financing				
Proceeds from share issuance	-	5,397,837	32,521,855	6,414,200
Proceeds from exercise of warrants	-	-	327,404	-
Proceeds of notes payable	-	332,371	-	1,174,570
Repayment of notes payable	-	(1,000,000)	(15,158,733)	(1,000,000)
Proceeds of deferred revenue	-	-	11,000,000	516,609
Proceeds of bank loan, net	2,231,906	(64,128)	4,619,999	(143,729)
Proceeds from convertible debentures	9,179,234	(825,000)	4,975,343	(825,000)
	11,411,140	3,841,080	38,285,869	6,136,650
Net change in cash	1,249,106	(476,880)	1,415,395	(759,468)
Cash, beginning of period	513,171	517,311	346,882	800,099
Cash, end of period	$ 1,762,277	$ 40,631	$ 1,762,277	$ 40,631
Supplemental cash flow information (note 12)				
Interest paid	$ 52,691	$ 859,242	$ 578,165	$ 1,504,172

See accompanying notes to unaudited condensed interim consolidated financial statements

ROYAL COAL CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY
(unaudited)
(expressed in US dollars)

	Capital Stock	Shares to Be Issued	Warrants	Contributed Surplus	Equity Portion of Debentures	Deficit	Total
Balance, January 1, 2010	**$ 10,792,037**	**$ 771,702**	**$ 792,852**	**$ 1,602,603**	**$ 408,333**	**$ (9,243,466)**	**$ 5,124,061**
Issuance of common shares	8,013,165	(722,919)	-	-	-	-	7,290,246
Fair value of broker warrants issued	(86,919)	-	86,919	-	-	-	-
Fair value of warrants issued	(2,776,524)	-	453,108	-	-	-	(2,323,416)
Share issue costs	(728,784)	-	-	-	-	-	(728,784)
Issuance of stock options	-	-	-	538,318	-	-	538,318
Net loss and comprehensive loss	-	-	-	-	-	(18,607,573)	(18,607,573)
Balance, September 30, 2010	**$ 15,292,975**	**$ 48,783**	**$ 1,332,879**	**$ 2,140,921**	**$ 408,333**	**$ (27,851,039)**	**$ (8,707,148)**
Balance, December 31, 2010	**$ 14,947,079**	**$ 960,463**	**$ 1,510,451**	**$ 2,217,212**	**$ 362,876**	**$ (37,296,424)**	**$ (17,298,343)**
Shares to be issued	960,463	(960,463)	-	-	-	-	-
Issuance of common shares	34,917,708	-	-	-	-	-	34,917,708
Fair value of warrants issued	(9,697,506)						(9,697,506)
Fair value of broker warrants issued	(1,307,790)	-	-	-	-	-	(1,307,790)
Special warrants issue costs	(2,372,159)	-	-	-	-	-	(2,372,159)
Exercise of warrants	610,478	-	-	-	-	-	610,478
Conversion/repayment of debentures	252,230	-	-	361,274	(362,876)	-	250,628
Net loss and comprehensive loss	-	-	-	-	-	(8,328,735)	(8,328,735)
Balance, September 30, 2011	**$ 38,310,502**	**$ -**	**$ 1,510,451**	**$ 2,578,486**	**$ -**	**$ (45,625,159)**	**$ (3,225,720)**

1. Nature of operations, going concern and qualifying transaction

Nature of operations:

Royal Coal Corp. (the "Company") (formerly Amalfi Capital Corporation ("Amalfi")) was incorporated on September 17, 2007 in Alberta, Canada. On August 10, 2010, the Company filed Articles of Continuance to become an Ontario corporation. The Company's head office is located at 70 York St., Suite 1410, Toronto, ON M5J 1S9.

The Company's principal business is the acquisition and development of high quality coal mining operations in the Central Appalachian Basin of the United States and base metal exploration in Quebec. The Company was in the exploration stage until September 30, 2009 when it acquired and commenced coal mining operations at the Big Branch property near Hazard, Kentucky.

The Company has not yet determined whether it's other coal properties or the Quebec mineral property interest contains reserves that are economically recoverable. The recoverability of amounts shown for mineral property interests is dependent upon the ability of the Company to obtain financing to complete the exploration and development of its mineral property interests, the existence of economically recoverable reserves and future profitable production, or alternatively, upon the Company's ability to recover its costs through a disposition of its mineral property interests. The amounts shown for mineral resource properties do not necessarily represent present or future value. Changes in future conditions could require a material change in the amount recorded for mineral property interests.

The Company is exposed to commodity price risk with respect to coal and base metal prices. A significant decline in coal and base metal prices may affect the Company's ability to achieve profitability and obtain capital for the exploration and development of its mineral property interests.

Going concern:

These financial statements have been prepared in accordance with accounting principles on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

The Company has not yet demonstrated profitable production at the Big Branch property or other properties and additional funding is required to finance its operations and the exploration of this and other mineral resource properties. There is significant doubt as to the Company's ability to continue as a going concern. The Company is actively seeking to raise the necessary capital to meet its funding requirements. Although the Company has been successful in raising funds to date, there can be no assurance that additional funding will be available in the future. As such, these unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These unaudited condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. Significant accounting policies

The unaudited condensed interim consolidated financial statements are expressed in US dollars, except those amounts denoted C$ which are in Canadian dollars.

Conversion to International Financial Reporting Standards ("IFRS")

IFRS replaced the Canadian generally accepted accounting principles ("Canadian GAAP") for publicly accountable enterprises, including the Company, effective for fiscal years beginning on or after January 1, 2011.

The Company's March 31, 2011 financial statements were the first unaudited condensed interim consolidated financial statements to be presented in accordance with IFRS. IFRS 1 First-Time Adoption of IFRS ("IFRS 1") has been applied and the impact of the transition from Canadian GAAP to IFRS is explained in note 22. These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). They do not include all of the information required for full annual financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these unaudited condensed interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2010 (note 22) for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1).

The policies applied in these unaudited interim consolidated financial statements are based on IFRS policies effective as of June 27, 2011, the date the Board of Directors approved the unaudited interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these unaudited interim consolidated financial statements, including the transition adjustments recognized on changeover to IFRS.

These consolidated interim financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 22 discloses IFRS information for the year ended December 31, 2010 that is material to an understanding of these unaudited interim consolidated financial statements.

Basis of consolidation

The unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

Financial instruments

(a) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

2. Significant accounting policies (continued)

Financial instruments are measured on initial recognition at fair value plus, in the case of instruments other than those classified as “fair value through profit and loss”, directly attributable transaction costs.

The Company has the following non-derivative financial assets: cash, accounts receivable and accounts payable and accrued liabilities.

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. These financial instruments are measured at fair value, and changes therein are recognized in the Statement of Operations and Comprehensive Loss.

Financial assets classified as held-to-maturity and loans and receivables are measured subsequent to initial recognition at amortized cost using the effective interest method, less any impairment losses. Cash and cash equivalents are stated at fair value and include cash on account less outstanding cheques, demand deposits and short-term guaranteed investments with original maturities of three months or less.

(b) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date they originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: convertible debentures, bank loans and debt obligations, notes payable and accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Convertible debentures contain both a liability component and an equity component, represented by the conversion feature. The Company has allocated the total proceeds received between the debt and equity components of the convertible debentures using the residual method. The fair value of the equity component of the convertible debentures was valued as the proceeds less the fair value of the debt component. The fair value of the debt component is accreted to its face value through accretion expense charges over the term of the convertible debentures.

2. Significant accounting policies (continued)

(c) Derivative financial instruments

The Company has derivative financial instruments in the form of warrants and convertible debentures 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.

Other than the share purchase warrants, and the convertible debenture, the Company does not have any further relevant derivative instruments.

Inventory

Coal inventory, valued at the lower of cost and net realizable value, is measured at the average production cost for extraction and is relieved on a first-in, first-out basis. Coal inventory is valued when it is probable that the future economic benefits will flow to the Company. Production costs include direct labour, benefits, direct materials and other direct production costs, including depletion and amortization. Stripping costs incurred during the production phase of a mine are treated as variable production costs and as a result are included in the cost of the inventory produced during the year that the stripping costs are incurred.

Mineral properties

All direct costs related to the acquisition, exploration and development of mineral properties, net of related tax credits, are capitalized until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be impairment.

When the existence of economically recoverable reserves and commercial viability are established, the related mineral properties are reclassified as intangible assets or property, plant and equipment as required.

Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Mineral properties which are sold after the property reaches the production stage will have a gain or loss calculated based on the portion of that property sold. Acquisition costs and related deferred costs would be written off if specific claim blocks or areas of geological interest are disproved, sold, abandoned or management has determined there to be an impairment.

The amounts shown for mineral exploration properties represent costs incurred to date, less write-offs and do not necessarily reflect the present or future values of the particular properties. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

2. Significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Expenditure to replace a component of an item of property equipment that is accounted for separately is capitalized with the existing carrying amount of the component written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in the income statement as incurred.

Mining capital assets are amortized on a straight-line basis, over a period of 5 to 8 years. Automobiles and office furniture & equipment are amortized using the declining balance method at a rate of 30%.

Impairment of capital assets and mineral properties

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the net selling price and value in use. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the property and equipment at the date the impairment is reversed does not exceed what the cost less accumulated depreciation would have been had the impairment not been recognized.

Use of Estimates and Judgments

The preparation of the unaudited condensed interim consolidated financial statements in conformity with IFRS requires management 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, management evaluates its estimates, including those related to computing depletion, amortization, accretion, asset retirement obligation, asset impairment, stock based compensation, share based payments, 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.

2. Significant accounting policies (continued)

Management believes the 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 condensed interim consolidated financial statements.

Asset retirement obligations

In accordance with Company policies, asset retirement obligations relating to legal and constructive obligations for future site reclamation and closure of the Company's mine sites are recognized when incurred and a liability and corresponding asset are recorded at fair value. Estimated closure and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs.

The amount of any liability recognized is estimated based on the risk-adjusted costs required to settle present obligations, discounted using a pre-tax risk-free discount rate consistent with the time period of expected cash flows. When the liability is initially recorded, a corresponding asset retirement cost is recognized as an addition to mining interests and amortized using the unit of production method.

The liability for each mine site is accreted over time to reflect the unwinding of the discount. The accretion charges are recognized as a finance cost in the Consolidated Statements of Operations and Comprehensive Loss. The liability is subject to re-measurement at each reporting date based on changes in discount rates and timing or amounts of the costs to be incurred. Changes in the liability, other than accretion charges, relating to mine rehabilitation and restoration obligations are added to or deducted from the carrying value of the related asset retirement cost in the reporting period recognized. If the change results in a reduction of the obligation in excess of the carrying value of the related asset retirement cost, the excess balance is recognized as a recovery through profit or loss in the period.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

Revenue recognition

Revenue from the sale of coal is recognized on the date the product is loaded for shipment at the tipple, port or mine site according to the conditions of the contract, as this coincides with the transfer of title, the risk of ownership, the determination of the amount due under the terms of sales contracts the Company has with its customer, and when collection is reasonably assured.

Investment income is recorded on an accrual basis, as earned.

2. Significant accounting policies (continued)

Deferred revenue

Deferred revenue on the future sale of coal is recognized on the date the funds are received. The amount of deferred revenue that is included in revenue is on a pro-rata basis on the amount of tons sold and the total amount of tons estimated to be sold under the deferred revenue agreement.

Deferred revenue is included under Revenues on the Condensed Interim Statements of Operations and Comprehensive Loss.

Share-based payment transactions

Equity settled awards, including share options and warrants, are measured at fair value at the date of grant and recognized on a straight-line basis over the vesting period, based on the Company's estimate of equity-settled awards that will eventually vest, along with a corresponding increase in equity.

The fair value of share based payment transactions is determined by using the Black-Scholes option pricing model taking into consideration management's best estimate of the expected life of the option, the expected share price volatility, the risk free rate, the expected dividend yield and the estimated number of shares that will eventually vest.

Income taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences:

(i) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
(ii) temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
(iii) temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

2. Significant accounting policies (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and a valuation allowance is applied to reduce the asset to the extent that it is no longer probable that the related tax benefit will be realized.

Flow-through shares

The Company finances a portion of its exploration activities through the issuance of flow-through shares. On the date of issuance of the flow-through shares, the premium relating to the proceeds received in excess of the closing market price of the Company's common shares is allocated to liabilities.

Under the terms of the flow-through common share issues, the tax attributes of the related expenditures are renounced to investors and deferred income tax expense and income tax liabilities are increased by the estimated income tax benefits renounced by the Company to the investors. The premium liability is reduced pro-rata based on the percentage of flow-through expenditures renounced in comparison to renunciations required under the terms of the flow-through share agreement. The reduction to the premium liability in the period of renunciation is recognized through profit or loss as other income.

Where the Company has unused tax benefits on loss carry forwards and tax pools in excess of book value available for deduction against which a valuation allowance has been provided, the Company reduces its valuation allowance to offset the increase in deferred tax liabilities resulting in an offsetting recovery of deferred income taxes being recognized through profit or loss in the reporting period.

Foreign currency translation

The majority of the Company's business is transacted through its fully integrated foreign operations in US dollars and accordingly, the unaudited condensed interim consolidated financial statements have been measured and expressed in US dollars. The functional currency of the Company is US dollars. The Company's Canadian-based operations are transacted primarily in Canadian dollars. The Company uses the temporal method to translate the Canadian operating results into US dollars. Under this method, monetary assets and liabilities denominated in currencies other than the US dollar are translated into US dollars at the exchange rates prevailing at the balance sheet date; non-monetary assets denominated in foreign currencies are translated using the exchange rate at the transaction date; all revenue and expense items are translated at the exchange rate at the transaction date. Foreign exchange gains and losses are included in the reported loss and unrealized gains and losses due to movements in exchange rates on cash balances held in foreign currencies are shown separately on the consolidated statements of cash flows.

2. Significant accounting policies (continued)

Basic and Diluted Loss per share

The computation of loss per share and diluted loss per share amounts are based upon the weighted average number of outstanding common shares during the year. Dilution is calculated based on the net number of common shares issued should "in the money" options, warrants and conversion rights be exercised and the proceeds used to purchase common shares at the weighted average market price in the period, using the treasury stock and if converted methods. As a result of net losses, the exercise of options, warrants and convertible debt have been excluded from the calculation of diluted loss per share given their anti dilutive nature.

Accounting changes

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.

(expressed in US dollars)

3. Capital assets

	Sept 30 2011	Dec 31 2010
Mining equipment	$ 12,954,184	$ 2,005,657
Accumulated amortization	(1,367,421)	(435,356)
	11,586,763	1,570,301
Building	97,053	-
Accumulated amortization	(809)	-
	96,244	-
Automobiles	263,053	138,500
Accumulated amortization	(66,586)	(32,917)
	196,468	105,583
Land	50,000	-
	50,000	-
Office furniture & equipment	118,655	45,995
Accumulated amortization	(26,487)	(12,984)
	92,168	33,011
	$ 12,021,643	$ 1,708,895

Amortization expense recorded for the three and nine months ended September 30, 2011 was $564,289 and $1,457,973 respectively (September 30, 2010 - $98,697 and $299,589).

(expressed in US dollars)

4. Mineral properties

	Dec 31 2010	Acquisitions & ARO	Depletion*	Sept 30 2011
Quebec nickel properties				
Grenville	$ 1,624,201	$ 5,299	$ -	$ 1,629,500
Haut Plateau	1,129,915	9,128	-	1,139,043
Lac Pegma	3,974	-	-	3,974
	2,758,090	14,427	-	2,772,517
US coal properties				
SID	2,864,170	50,179	-	2,914,349
Laurel Fork (Coty)	370,275	3,000	-	373,275
Big Branch	7,512,191	6,300	(399,434)	7,119,057
	10,746,636	59,479	(399,434)	10,406,680
	$ 13,504,726	$ 73,906	$ (399,434)	$ 13,179,198

	Jan 1 2010	Acquisitions & ARO	Depletion*	Dec 31 2010
Quebec nickel properties				
Grenville	$ 1,509,961	$ 114,240	$ -	$ 1,624,201
Haut Plateau	1,045,321	84,594	-	1,129,915
Lac Pegma	3,974	-	-	3,974
	2,559,256	198,834	-	2,758,090
US coal properties				
SID	2,700,843	163,327	-	2,864,170
Laurel Fork (Coty)	279,743	90,532	-	370,275
Big Branch	7,985,642	166,577	(640,028)	7,512,192
	10,966,228	420,436	(640,028)	10,746,636
	$ 13,525,484	$ 619,270	$ (640,028)	$ 13,504,726

* Depletion is included in cost of sales

(expressed in US dollars)

5. Deferred revenue

At September 30, 2011 the Company had the following deferred revenue:

		Sept 30 2011		Dec 31 2010
Upfront deposit	$	10,667,419	$	-
Current portion of deferred revenue		(1,667,419)		-
Long-term portion of deferred revenue	$	9,000,000	$	-

On November 26, 2010, the Company entered into a Coal Production Payment Agreement and an Additional Coal Purchase Agreement with Sandstorm Metals and Energy (US) Inc. (Sandstorm) whereby Sandstorm has the right to make an advance payment of $11,000,000, to receive the right to 18% of coal from the Big Branch (up to 6,000,000 tons), Red Oak (up to 700,000 tons) and Sid Mines (up to 5,500,000 tons) at $55.00 per ton.

On January 7, 2011 and January 25, 2011, Sandstorm advanced $2,000,000 and $9,000,000, respectively of the upfront coal purchase payments. After 1,080,000 tons have been delivered, Sandstorm's right to purchase coal is reduced from 18% to 12% for the coal produced thereafter.

The Company has provided Sandstorm with a guarantee that Sandstorm will receive minimum cash flows of $2,000,000 in 2011, $2,500,000 in 2012, $2,500,000 in 2013, $2,500,000 in 2013 and $2,500,000 in 2014.

Deferred revenue is included under Revenues on the Condensed Interim Statements of Operations and Comprehensive Loss.

(expressed in US dollars)

6. 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.

6. Bank loan and debt obligation (continued)

(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.

(expressed in US dollars)

7. Notes payable

		Sept 30 2011		Dec 31 2010
Note payable to related company	$	-	$	7,627,721
Less current portion		-		(7,627,721)
	$	-	$	-

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. 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.

8. Convertible debentures

	Sept 30, 2011		Dec 31, 2010	
	Debt	**Equity**	**Debt**	**Equity**
Global Capital (i)	$ -	$ -	$ 240,212	$ 1,602
Cheyenne (ii)	-	-	4,107,394	361,274
Mercuria (iii)	8,248,271	495,667		
	8,248,271	495,667	4,347,606	362,876
Less current portion	-	-	(240,212)	-
	$ 8,248,271	$ 495,667	$ 4,107,394	$ 362,876

Accretion expense in the nine months ended September 30, 2011 due to the convertible debentures is $328,018 (year ended December 31, 2010 - $218,217).

(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 the Company, secured by second ranking security over all assets of the Company and its subsidiaries and first security over certain future assets of the Company 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. Upon issuance, 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.

9. Financial Instruments

The Company's financial assets and liabilities that are measured at fair value are measured in accordance with the fair value hierarchy. The fair value hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial asset and liabilities. The fair value hierarchy has the following levels:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Fair Values
The Company's financial assets and liabilities consist of cash, accounts receivable**,** accounts payable and accrued liabilities, bank loan and debt obligation, convertible debentures, notes payable and derivative financial instruments.

Cash and derivative financial instruments are stated at fair value. The carrying value of accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments.

Non-derivative financial instruments
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of consumer debt obligations, the market rate of interest is determined by the risk adjusted market rate.

The table below details the assets and liabilities measured at fair value at September 30, 2011:

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	$ 1,762,276	$ -	$ -	$ 1,762,276
Financial liabilities				
Derivative financial instruments	-	(2,188,226)	-	(2,188,226)
	$ 1,762,276	$ (2,188,226)	$ -	$ (425,950)

10. Derivative financial liabilities

(a) (i) The Company issued 1,000,000 warrants on August 29, 2009 at a price of C$0.50 per share, exercisable for a period of 2 years. The fair value of the warrants, measured using the Black-Scholes valuation model at September 30, 2011 was $nil and at December 31, 2010 was $0.025 per warrant.

(ii) The Company issued 34,280,300 warrants on August 12, 2010 at a price of C$0.20 per share, exercisable for a period of 5 years. 1,463,334 warrants were exercised during the period. The fair value of the remaining warrants, measured using the Black-Scholes valuation model at September 30, 2011 was $0.035 and at December 31, 2010 was $0.181 per warrant.

(iii) The Company issued 1,657,143 warrants on August 12, 2010 at a price of C$0.20 per share, exercisable for a period of 2 years. 158,820 warrants were exercised during the period. The fair value of the remaining warrants, measured using the Black-Scholes valuation model at September 30, 2011 was $0.007 and at December 31, 2010 was $0.131 per warrant.

(iv) The Company issued 315,000 warrants on December 23, 2010 at a price of C$0.20 per share, exercisable for a period of 5 years. The fair value of the warrants, measured using the Black-Scholes valuation model at September 30, 2011 was $0.038 and at December 31, 2010 was $0.185 per warrant.

(v) The Company issued 69,000,000 warrants on April 8, 2011 at a price of C$0.335 per share, exercisable for a period of 2 years. The fair value of the warrants, measured using the Black-Scholes valuation model at September 30, 2011 was $0.007 and at April 8, 2011 was $0.131 per warrant.

(vi) The Company issued 8,280,000 special broker warrants on February 23, 2011 at a price of C$0.20 per share, exercisable for a period of 2 years. The fair value of the warrants, measured using the Black-Scholes valuation model at September 30, 2011 was $0.010 and at February 23, 2010 was $0.155 per warrant.

As the warrants have an exercise price in Canadian dollars which is different to the functional currency of the Company (US Dollars), the warrants are 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.

(b) The Mercuria Convertible Debenture (note 8 (iii)) 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. Upon issuance, the equity component was estimated at $1,541,410 (C$1,457,874) less costs of $51,288. The fair value of the equity component as at September 30, 2011 was estimated using the Black-Scholes valuation model at $495,667.

(expressed in US dollars)

11. Capital stock, stock options, warrants and contributed surplus

a) Capital Stock

Authorized

Unlimited common shares
Unlimited number of special shares, issuable in series

Issued

The following table represents the share capital of the Company:

	Number of Common shares		
Balance, December 31, 2010	94,250,007	$	14,947,079
Debt settlement - Quebec mineral properties (i)	1,511,111		273,477
Debt settlement – other (i)	1,090,733		191,371
GC Global – convertible debenture conversion (ii)	2,166,666		332,339
Debt settlement – consulting contracts (iii)	3,000,000		436,464
Exercise of warrants (iv)	1,722,154		610,478
Exercise of special warrants (v)	138,000,000		21,519,295
Balance, September 30, 2011	241,740,671	$	38,310,502

(i) On December 23, 2010 the Company agreed to settle debts through the issuance of common shares. 1,511,111 common shares were valued at $273,477 settle debts related to Quebec mineral properties and 1,090,733 common shares valued at $191,371 to settle debts with two other creditors. The commons shares were issued in January 2011.

(ii) On December 23, 2010 GC Global exercised their right pursuant to the convertible debenture to convert C$75,000 into 500,000 common shares at C$0.15 per share, resulting in shares to be issued valued at $80,109. The common shares were issued in January 2011. Between January 7, 2011 and February 25, GC Global exercised their right pursuant to the convertible debenture to convert C$325,000 into 1,666,666 common shares at C$0.15 per share, resulting in shares to be issued valued at $252,230.

(iii) On January 11, 2011, the Company settled a consulting contract, with common shares, with a company controlled by a former executive of the Company. 3,000,000 common shares were issued valued at $415,506 to settle debts related to the acquisition of Kentucky mineral properties and other consulting services. The common shares were issued in January 2011.

(iv) During the period, 1,722,154 warrants were exercised at C$0.20.

(expressed in US dollars)

11. Capital stock, stock options, warrants and contributed surplus (continued)

(v) 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. Each Unit consists of one common share of the Company and one-half of one common share purchase warrant. Each Warrant entitles the holder to acquire one common share at a price of C$0.335 per common share until February 23, 2013.

b) Special Warrants

	Number of Special Warrants		
Balance, December 31, 2010	Nil	$	Nil
Issued by private placement (i)	138,000,000		34,896,750
Fair value of broker warrants issued (ii)	-		(1,284,097)
Share issue costs	-		(2,372,159)
Exercise of warrants	(138,000,000)		(31,240,494)
Balance, September 30, 2011	-	$	-

(i) 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 (see note 11(a)).

(ii) 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.

(expressed in US dollars)

11. Capital stock, stock options, warrants and contributed surplus (continued)

c) Shares to be Issued

	Number of shares		Amount
		$	
Balance at December 31, 2010	6,101,844		960,463
Issued in 2011	(6,101,844)		(960,463)
Balance at September 30, 2011	-	$	-

d) Stock options:

Under the Company's stock option plan, the board of Directors may from time to time at their discretion grant to the Directors, employees and consultants options to subscribe for common shares. The exercise price of each option shall be determined on the basis of market price at the date of grant. Options shall not be granted for a term exceeding five years.

Stock option transactions and the number of stock options outstanding are as follows:

	Number of options		Weighted-average exercise price
Balance, December 31, 2010	9,755,000	$	0.33
Issued	100,000		0.25
Cancelled / expired	1,696,500		0.32
Balance, September 30, 2011	8,158,500	$	0.36
Exercisable number of options	8,158,500	$	0.36

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	-

(expressed in US dollars)

11. Capital stock, stock options, warrants and contributed surplus (continued)

e) Warrants:

A summary of the Company's warrants is presented below:

	Number of warrants		Weighted-average exercise price
Balance, December 31, 2010	41,911,699	$	0.25
Warrants issued on exercise of broker warrants	16,667		0.20
Warrants issued on exercise of special broker warrants	8,280,000		0.19
Warrants issued on exercise of special warrants	69,000,000		0.32
Warrants exercised	(1,722,154)		0.21
Balance, September 30, 2011	117,486,212	$	0.28

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.

f) Special broker warrants

A summary of the Company's special broker warrants is presented below:

	Number of special warrants		Weighted-average exercise price
Balance, December 31, 2010	-	$	-
Issued from a financing	8,280,000		0.24
Exercised	(8,280,000)		0.24
Balance, September 30, 2011	-	$	-

(expressed in US dollars)

11. Capital stock, stock options, warrants and contributed surplus (continued)

g) Contributed surplus:

Balance, December 31, 2010	$	2,217,212
Repayment of equity portion of convertible debentures		361,274
Balance, September 30, 2011	$	2,578,486

12. Non-cash transactions

For the nine months ended September 30		2011		2010
Conversion option on debentures exercised	$	252,230	$	-
Fair value of warrants issued for financing costs		1,307,790		-
	$	1,560,020	$	-

13. Asset retirement obligation

The Company's asset retirement obligation results from its land rehabilitation commitments on the coal mining activities on its Big Branch property. Reclamation activities that are an integral part of the Company's normal mining process are considered a cost of producing coal and are expensed as incurred. Reclamation activities that are performed outside of the normal mining process are accounted for as asset retirement obligations. Reclamation activities accounted for as asset retirement obligations primarily consist of those performed at the end of a mine's life in conjunction with the closure of the mine. At September 30, 2011 the total discounted obligation estimated to settle the asset retirement obligation using a credit adjusted risk free interest rate of 18% over the estimated life of the mine is $2,086,000 (December 31, 2010 - $2,086,000). The sum of the undiscounted total cash flows anticipated to be incurred is $3,228,876 (December 31, 2010 - $3,228,876). The asset retirement obligation at September 30, 2011 of $358,961 (December 31, 2010 - $313,944) represents an increase in 2011 due to accretion on the obligation of $45,017.

The estimate of the obligation is subject to significant estimates by management. The ultimate costs could be materially different from the amounts estimated, dependent on changes to applicable laws and regulations, discount rates and life of the mine operation. Future changes to the obligation will be treated as a change in accounting estimate in the period in which the change is known.

(expressed in US dollars)

14. Income taxes

The estimated taxable income for the quarter ended September 30, 2011 is $Nil. Based on the level of historical taxable income it cannot be reasonably estimated at this time if it is more likely than not the Company will realize the benefits from future income tax assets or the amounts owing from future income tax liabilities. Consequently, the future recovery or loss arising from differences in tax values and accounting values has been reduced by an equivalent estimated taxable temporary difference valuation allowance.

The estimated taxable temporary difference valuation allowance will be adjusted in the period in which it is determined that it is more likely than not that some portion or all of the future tax assets or future tax liabilities will be realized.

For further information on the Company's actual losses for tax purposes, refer to the December 31, 2010 audited consolidated financial statements. The benefit of these losses and the estimated loss for the period ended have not been recognized in these financial statements.

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities are as follows:

15. Segmented information

The Company operates in one reportable segment, mining and mineral exploration, in Canada and the U.S. Financing and administrative functions are provided by the head office located in Canada. Segmented information on a geographic basis is as follows:

	Sept 30 2011	Dec 31 2010	Jan 1 2010
Mineral exploration properties by geographic area			
Quebec, Canada	$ 2,772,518	$ 2,758,090	$ 2,559,288
Kentucky, USA	10,406,680	10,746,636	10,966,196
	$ 13,179,198	$ 13,504,726	$ 13,525,484

All revenues are earned in the U.S. and all the capital assets are in the U.S.

16. Related party transactions and related balances

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 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

17. Economic dependence

In the three and nine months ended September 30, 2011, three customers accounted for 36% and 7%; 21% and 25%; and 20% and 42%, respectively of the Company’s revenues. The loss of these customers could have a material adverse affect on the Company’s results of operations and financial condition.

18. Capital Disclosures

Capital of the Company consists of the components of shareholders' equity totaling a deficit of $3,225,720 (December 31, 2010 – deficit of $17,404,102). The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to explore and develop its mineral property interests for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's management of its capital during the three and nine months ended September 30, 2011.

19. Financial instruments and risk management

Fair value:
Fair value represents the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity and is best evidenced by a quoted market price, if one exists. Fair values estimates are based on quoted market values and other valuation methods. The carrying value approximates and fair value of the Company's financial instruments other than the debt to a related party as such debt cannot be valued with sufficient reliability.

Risk disclosures:
The main risks the Company's financial instruments are exposed to are credit, liquidity, and market risk (including currency and interest rate risk) each of which is discussed below.

Credit risk:
Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations The Company's exposure to credit risk includes cash and accounts receivable. The Company reduces its credit risk by maintaining its primary bank accounts at large international financial institutions. The Company assesses its credit risk based on general market knowledge and specific information obtained through its business relationships with each of its customer. The maximum exposure to credit risk is equal to the carrying value of cash and accounts receivables. Accounts receivable that are past due total $95,851 as of September 30, 2011 (December 31, 2010 - $63,447). The Company's sales to one customer accounts for 83% of the past due accounts receivable.

(expressed in US dollars)

19. Financial instruments and risk management (continued)

Liquidity risk:
Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure as outlined in note 18 to the unaudited condensed interim consolidated financial statements.

At September 30, 2011, the Company had current assets of $6,753,069, including cash of $1,762,276, (December 31, 2010 - $1,384,618 and $346,882, respectively) available to pay current liabilities (less derivative financial instruments of $2,188,226) of $10,752,196 (December 31, 2010 - $18,862,304). The following are the maturities, excluding interest payments reflecting undiscounted future cash disbursements of the Company's financial liabilities based on twelve months ending September 30, 2012, September 30, 2013 and September 30, 2014:

As at September 30	2012	2013	2014
Accounts payable and accrued liabilities	$ 2,880,693	$ -	$ -
Bank loan and debt obligation	6,204,084	3,869,502	762,475
	$ 9,084,777	$ 3,869,502	$ 762,475

Market risk:
Market risk is the risk of loss that may arise from changes in market factors, such as foreign exchange rates and interest rates.

(a) Foreign currency risk

The Company operates in Canada and the US giving rise to market risks from changes in foreign exchange rates. The Company periodically monitors foreign exchange rates, though it has not entered into any financial arrangements to hedge or protect the Company from unfavourable changes in foreign exchange rates. A ten percent (10%) fluctuation in the foreign exchange rate, based on the Company's foreign denominated financial instruments as of September 30, 2011, would result in a foreign exchange gain in the case of a decrease in the exchange rates or a loss in the case of an increase in the rates of approximately $830,000 (December 31, 2010 - $150,000).

(b) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash is invested in high grade, highly liquid instruments and as such the Company manages its exposure to potential interest rate fluctuations to short term. The Company's short and long term debt have fixed interest rates, thereby minimizing the Company's exposure to cash flow interest rate risk.

20. Commitments and contingencies

a) 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, 2011. 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.

b) 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

22. 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 was 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.

(expressed in US dollars)

22. Conversion to IFRS (continued)

(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 wa 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.

(expressed in US dollars)

22. Conversion to IFRS (continued)

(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.

(expressed in US dollars)

22. Conversion to IFRS (continued)

(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)

(expressed in US dollars)

22. Conversion to IFRS (continued)

(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)	$ -

22. Conversion to IFRS (continued)

(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	$ (844,429)	$ (4,140,366)

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)

(expressed in US dollars)

22. Conversion to IFRS (continued)

(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)

(v) Presentation

Certain amounts in the unaudited condensed interim statements of financial position, statements of loss and comprehensive loss and statements of cash flows have been reclassified to conform to the presentation adopted under IFRS.

(expressed in US dollars)

22. Conversion to IFRS (continued)

(vi) Reconciliation between IFRS and Canadian GAAP

The January 1, 2010 Canadian GAAP balance sheet has been reconciled to IFRS as follows:

	Canadian GAAP	Notes	Effect on Transition To IFRS	IFRS
	ASSETS			
Current				
Cash	$ 800,099		$	$ 800,099
Accounts receivable	243,093			243,093
Prepaid expenses and other current assets	471,857			471,857
Inventory	342,098			342,098
Quebec tax credit and refundable mining duties	130,979			130,979
Investment	95,150			95,150
	2,083,276			2,083,276
Capital assets, net	915,562			915,562
Mineral properties	13,525,484			13,525,484
	$ 16,524,322		$	$ 16,524,322
	LIABILITIES			
Current				
Accounts payable and accrued liabilities	$ 3,189,763		$	$ 3,189,763
Notes payable	2,000,000	(h)	860,792	2,860,792
Convertible debentures	356,812			356,812
Derivative financial liabilities	-	(g)	60,431	60,431
	5,546,575		921,223	6,467,798
Asset retirement obligation	262,579			262,579
Notes payable	860,792	(h)	(860,792)	-
Convertible debentures	4,669,884			4,669,884
	11,339,830		60,431	11,400,261
	SHAREHOLDERS' DEFICIENCY			
Capital stock	10,693,870	(e)	98,167	10,792,037
Shares to be issued	771,702			771,702
Warrants	864,016	(g)	(71,164)	792,852
Contributed surplus	1,602,603			1,602,603
Equity portion of convertible debentures	408,333			408,333
Accumulated other comprehensive loss	(542,103)	(i)	542,103	-
Deficit	(8,613,929)	(e,g,i)	(629,537)	(9,243,466)
	5,184,492		(60,431)	5,124,061
	$ 16,524,322		$	$ 16,524,322

(expressed in US dollars)

22. Conversion to IFRS (continued)

(vi) Reconciliation between IFRS and Canadian GAAP (continued)

The September 30, 2010 Canadian GAAP balance sheet has been reconciled to IFRS as follows:

	Canadian GAAP	Notes	Effect on Transition To IFRS	IFRS
	ASSETS			
Current				
Cash	$ 40,631		$	$ 40,631
Accounts receivable	760,084			760,084
Prepaid expenses and other current assets	145,082			145,082
Inventory	177,208			177,208
Quebec tax credit and refundable mining duties	106,158			106,158
Investment	97,182			97,182
	1,326,345			1,326,345
Capital assets, net	1,578,443			1,578,443
Mineral properties	13,236,468			13,236,468
	$ 16,141,256		$	$ 16,141,256
	LIABILITIES			
Current				
Accounts payable and accrued liabilities	$ 10,966,663		$	$ 10,966,663
Bank loan and debt obligation	264,395			264,395
Notes payable	5,688,183			5,688,183
Convertible debentures	60,000			60,000
Derivative financial liabilities	-	(g)	3,239,009	3,239,009
	16,979,241		3,239,009	20,218,250
Asset retirement obligation	299,658			299,658
Bank loan and debt obligation	108,485			108,485
Convertible debentures	4,222,011			4,222,011
	21,609,395		3,239,009	24,848,404
	SHAREHOLDERS' DEFICIENCY			
Capital stock	15,114,808	(e)	98,167	15,212,975
Shares to be issued	48,783			48,783
Warrants	3,727,459	(g)	(2,394,580)	1,332,879
Contributed surplus	2,172,241	(f)	(31,320)	2,140,921
Equity portion of convertible debentures	408,333			408,333
Accumulated other comprehensive loss	(542,103)	(i)	542,103	-
Deficit	(26,397,660)	(e,f,g)	(1,453,379)	(27,851,039)
	(5,468,139)		(3,239,009)	(8,707,148)
	$ 16,141,256		$	$ 16,141,256

(expressed in US dollars)

22. Conversion to IFRS (continued)

(vi) Reconciliation between IFRS and Canadian GAAP (continued)

The December 31, 2010 Canadian GAAP balance sheet has been reconciled to IFRS as follows:

	Canadian GAAP	Notes	Effect on Transition To IFRS	IFRS
	ASSETS			
Current				
Cash	$ 346,882		$	$ 346,882
Accounts receivable	172,475			172,475
Prepaid expenses and other current assets	508,215			508,215
Inventory	190,830	(a)	146,200	337,030
Quebec tax credit and refundable mining duties	20,016			20,016
Investment	-			-
	1,238,418		146,200	1,384,618
Capital assets, net	1,708,895			1,708,895
Mineral properties	13,504,726			13,504,726
	$ 16,452,039		$ 146,200	$ 16,598,239
	LIABILITIES			
Current				
Accounts payable and accrued liabilities	$ 10,123,206		$	$ 10,123,206
Bank loan and debt obligation	871,165			871,165
Notes payable	4,057,191	(h)	3,570,530	7,627,721
Convertible debentures	240,212			240,212
Derivative financial liabilities	-	(g)	6,580,503	6,580,503
	15,291,774		10,151,033	25,442,807
Asset retirement obligation	313,944			313,944
Bank loan and debt obligation	4,138,195			4,138,195
Notes payable	3,570,530	(h)	(3,570,530)	-
Convertible debentures	4,107,395			4,107,395
	27,421,837		6,580,503	34,002,341
	SHAREHOLDERS' DEFICIENCY			
Capital stock	14,848,912	(e)	98,167	14,947,079
Shares to be issued	960,463			960,463
Warrants	3,801,473	(g)	(2,440,137)	1,361,336
Contributed surplus	2,217,212			2,217,212
Equity portion of convertible debentures	362,876			362,876
Accumulated other comprehensive loss	(542,103)	(i)	542,103	-
Deficit	(32,618,631)	(a,e,f,g)	(4,634,437)	(37,253,068)
	(10,969,798)		(6,434,303)	(17,404,102)
	$ 16,452,039		$ 146,200	$ 16,598,239

(expressed in US dollars)

22. Conversion to IFRS (continued)

(vi) Reconciliation between IFRS and Canadian GAAP (continued)

The Canadian GAAP interim statement of loss and comprehensive loss for the three month period ended September 30, 2010 has been reconciled to IFRS as follows:

		Canadian GAAP	Notes		Effect on Transition To IFRS		IFRS
Revenues	$	5,403,845		$		$	5,403,845
Cost of sales		8,534,772					8,534,772
		(3,130,927)					(3,130,927)
Expenses							
Accretion and interest on notes payable		1,711,147					1,711,147
Accretion and interest on convertible debt		199,380					199,380
Amortization		2,840					2,840
Financing fees		615,571					615,571
General and administration		209,382					209,382
Management and consulting		293,854					293,854
Professional fees		44,443					44,443
Stock-based compensation		(197,787)	(f)		87,153		(110,634)
Travel		108,107					108,107
		2,986,927			87,153		3,074,080
Loss before undernoted		(6,117,854)			(87,153)		(6,205,007)
Interest income		(32,964)					(32,964)
Gain on extinguishment of debt		900,000					900,000
Unrealized gain on derivative financial instruments		-	(g)		(908,318)		(908,318)
Foreign exchange loss		(260,574)					(260,574)
Net loss and comprehensive loss for the year	$	(5,511,392)		$	(995,471)	$	(6,506,863)
Basic and diluted net loss per share	$	(0.07)		$	(0.01)	$	(0.08)

(expressed in US dollars)

22. Conversion to IFRS (continued)

(vi) Reconciliation between IFRS and Canadian GAAP (continued)

The Canadian GAAP interim statement of loss and comprehensive loss for the nine month period ended September 30, 2010 has been reconciled to IFRS as follows:

		Canadian GAAP	Notes		Effect on Transition To IFRS		IFRS
Revenues	$	15,754,051		$		$	15,754,051
Cost of sales		23,864,496					23,864,496
		(8,110,445)					(8,110,445)
Expenses							
Accretion and interest on notes payable		4,686,599					4,686,599
Accretion and interest on convertible debt		582,924					582,924
Amortization		18,195					18,195
Financing fees		2,040,358					2,040,358
General and administration		851,346					851,346
Management and consulting		1,077,642					1,077,642
Professional fees		206,834					206,834
Stock-based compensation		569,638	(f)		(31,320)		538,318
Travel		173,513					173,513
		10,207,048			(31,320)		10,175,728
Loss before undernoted		(18,317,493)			31,320		(18,286,173)
Interest income		(10,924)					(10,924)
Gain on extinguishment of debt		900,000					900,000
Unrealized gain on derivative financial instruments		-	(g)		(855,162)		(855,162)
Foreign exchange loss		(355,314)					(355,314)
Net loss and comprehensive loss for the year	$	(17,783,731)		$	(823,842)	$	(18,607,573)
Basic and diluted net loss per share	$	(0.28)		$	(0.01)	$	(0.29)

(expressed in US dollars)

22. Conversion to IFRS (continued)

(vi) Reconciliation between IFRS and Canadian GAAP (continued)

The Canadian GAAP statement of loss and comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

		Canadian GAAP	Notes		Effect on Transition To IFRS		IFRS
Revenues	$	21,254,670		$		$	21,254,670
Cost of sales		31,897,028	(a)		(146,200)		31,750,828
		(10,642,358)			146,200		(10,496,158)
Expenses							
Accretion and interest on notes payable		8,410,222					8,410,222
Accretion and interest on convertible debt		820,535					820,535
Accretion and interest on bank loans and debt obligations		244,778					244,778
Amortization		20,023					20,023
Financing fees		501,422					501,422
General and administration		793,972					793,972
Management and consulting		2,143,445					2,143,445
Professional fees		315,795					315,795
Stock-based compensation		614,609					614,609
Travel		197,992					197,992
		14,062,793					14,062,793
Loss before undernoted		(24,705,152)			146,200		(24,558,952)
Gain on extinguishment of debt		920,035					920,035
Loss on sale of investment		(49,010)					(49,010)
Unrealized loss on derivative financial instruments		-	(g)		(4,151,100)		(4,151,100)
Foreign exchange loss		(170,576)					(170,576)
Net loss and comprehensive loss for the year	$	(24,004,702)		$	(4,004,900)	$	(28,009,602)
Basic and diluted net loss per share	$	(0.34)		$	(0.06)	$	(0.40)