A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the Provinces of British Columbia, Alberta, Manitoba and Ontario but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**1933 Act**"), or any state securities laws. Accordingly, except pursuant to exemptions from the registration requirements of the 1933 Act and applicable state securities laws, these securities may not be offered or sold within the United States. See "Plan of Distribution".*

***Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada**. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of Royal Coal Corp., at 70 York Street, Suite 1410, Toronto, Ontario M5J 1S9, Telephone (416) 861-8775, and are also available electronically at www.sedar.com.*

New Issue **January 17, 2012**

PRELIMINARY SHORT FORM PROSPECTUS

ROYAL COAL CORP.

$6,600,000
● Units

This short form prospectus qualifies the distribution (the "**Offering**") of ● units ("**Units**") of Royal Coal Corp. ("**Royal Coal**" or the "**Corporation**") at a price of $● per Unit (the "**Offering Price**"). Each Unit consists of one common share (a "**Unit Share**") in the capital of the Corporation and one common share purchase warrant (a "**Warrant**"). Each Warrant shall entitle the holder thereof to purchase one common share (a "**Warrant Share**") in the capital of the Corporation at an exercise price of $● per Warrant Share for a period of 24 months following the Closing Date (as defined herein). The Units are being offered on a best efforts basis pursuant to an agency agreement (the "**Agency Agreement**") dated January ●, 2012, between the Corporation and Cormark Securities Inc. (the "**Agent**"). The Offering Price was determined by negotiation between the Corporation and the Agent. See "**Plan of Distribution**".

The common shares ("**Common Shares**") of the Corporation are listed on the TSX Venture Exchange (the "**TSXV**") under the trading symbol "RDA". The closing price of the Common Shares on the TSXV on January 16, 2012, the last trading day before the date of this short form prospectus was $0.05. The Corporation has applied to list for trading on the TSXV the Unit Shares, the Warrant Shares, the Unit Shares comprising the Additional Securities (as defined herein), the Warrant Shares underlying the Additional Securities, the Compensation Shares (as defined herein) and the Compensation Warrant Shares (as defined herein). Listing of such securities will be subject to the Corporation fulfilling all of the listing requirements of the TSXV. See "**Plan of Distribution**".

Price: $● per Unit

	Price to the Public[(1)]	Agent's Fee[(2)]	Net Proceeds to the Corporation[(3)]
Per Unit	$●	$●	$●
Total[(4)]	$6,600,000	$330,000	$6,270,000

Notes:
(1) The Corporation will allocate $● to each Unit Share and $● to each Warrant comprising the Units.

(2) *In connection with the Offering, the Corporation has agreed to pay the Agent a cash fee equal to 5% of the gross proceeds of the Offering. As additional compensation, the Corporation will issue to the Agent compensation options (the "**Compensation Options**") entitling the Agent to purchase from the Corporation that number of units (the "**Compensation Units**") that is equal to 5% of the total number of Units sold under the Offering (including additional Units sold pursuant to the Over-Allotment option, if any) at an exercise price of $● per Compensation Unit for a period of 24 months from the Closing Date. Each Compensation Unit is comprised of one Common Share (the "**Compensation Shares**") and one Warrant (the "**Compensation Warrants**"). Each Compensation Warrant shall entitle the holder to purchase one Common Share (a "**Compensation Warrant Share**") at a price of $● per Compensation Warrant Share for a period of 24 months following the Closing Date. This prospectus qualifies the distribution of the Compensation Options.*

(3) *After deducting the Agent's fee, but before deducting the expenses of the Offering that are estimated to be $●, which expenses shall be paid by the Corporation from the net proceeds of the Offering.*

(4) *The Corporation has granted the Agent an over-allotment option (the "**Over-Allotment Option**"), exercisable in whole or in part, at any time and from time to time, in the sole discretion of the Agent, for a period of 30 days from the Closing Date, to purchase up to an additional ● Unit Shares at a price of $● per Unit Share and/or up to an additional ● Warrants at a price of $● per Warrant, or a combination thereof, (collectively the "**Additional Securities**"), solely to cover over-allotments, if any, and for market stabilization purposes (for greater clarity, a maximum of 15% in the aggregate of the number of Unit Shares and Warrants to be sold at closing may be issued in Additional Securities pursuant to the Over-Allotment Option). In respect of the Over-Allotment Option, the Corporation will pay to the Agent a fee equal to 5% of the proceeds realized on the exercise of the Over-Allotment Option being $● per additional Unit Share sold and $● per additional Warrant sold. This prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Additional Securities to be issued and sold upon exercise of the Over-Allotment Option. A person who acquires Additional Securities forming part of the Agent's over-allocation position acquires such securities under this prospectus regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. If the Agent exercises the Over-Allotment Option for the maximum number of Additional Securities, the total price to the public, Agent's fee and net proceeds to the Corporation (before payment of the expenses of the Offering) will be approximately $7,590,000, $379,500 and $7,210,500 respectively. See "**Plan of Distribution**".*

Agent's Position	**Maximum Size or Number of Securities Available**	**Exercise Period or Acquisition Date**	**Exercise Price or Average Acquisition Price**
Compensation Options	● Compensation Options	24 months from Closing Date	$● per Compensation Unit
Over-Allotment Option	● Units [(1)]	30 days from Closing Date	$● per Additional Unit

Notes:
(1) Assumes exercise of the Over-Allotment Option for the maximum number of additional Unit Shares and Warrants comprising the Additional Securities.

The distribution of securities offered hereunder must cease within 90 days after the date of the receipt for the final prospectus unless an amendment to this prospectus has been filed and a receipt has been issued therefor. In the event a receipt is issued for an amendment to the prospectus then the distribution must cease within 90 days after the date of such receipt. See "**Plan of Distribution**".

Subscriptions for Units offered hereunder will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about ●, 2012 or such other date as the Corporation and the Agent may agree (the "**Closing Date**"), but no later than ●, 2012. Confirmation of the acceptance of a subscription will be forwarded to the purchaser upon acceptance by the Agent. See "**Plan of Distribution**".

The Agent, as exclusive agent of the Corporation for the purpose of this Offering, hereby conditionally offers the Units on a best efforts basis, subject to prior sale, if, as and when issued by the Corporation and accepted by the Agent in accordance with the terms and conditions of the Agency Agreement and subject to the approval of certain legal matters by Irwin Lowy LLP, on behalf of the Corporation, and by Heenan Blaikie LLP on behalf of the Agent. See "**Plan of Distribution**".

An investment in the Units is highly speculative and involves significant risks that should be carefully considered by prospective investors before purchasing such securities. The risks outlined in this short form prospectus and in the documents incorporated by reference herein should be carefully reviewed and considered by prospective investors in connection with an investment in such securities. See "Risk Factors".

The Corporation's registered and head office is at 70 York Street, Suite 1410, Toronto, Ontario M5J 1S9.

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ELIGIBILITY FOR INVESTMENT

In the opinion of Irwin Lowy LLP, counsel to the Corporation, and Heenan Blaikie LLP, counsel to the Agent, based on the provisions of the *Income Tax Act* (Canada) (the "**Tax Act**") and the regulations thereunder (the "**Regulations**"), and subject to the assumptions and qualifications discussed in the section below entitled "Canadian Federal Income Tax Considerations", the Unit Shares, Warrants and Warrant Shares, provided that they are listed on a designated stock exchange (as defined under the Tax Act and which includes the TSXV), if issued on the date hereof, would be qualified investments under the Tax Act and the Regulations for trusts governed by registered retirement savings plans ("**RRSPs**"), registered retirement income funds ("**RRIFs**"), deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts ("**TFSAs**") (each, a "**Deferred Plan**").

A holder of Unit Shares, Warrants or Warrant Shares will be subject to a penalty tax if the Unit Shares, Warrants or Warrant Shares are held in a TFSA, RRSP or RRIF and constitute a "prohibited investment" under the Tax Act for a TFSA, RRSP or RRIF.

The Unit Shares, Warrants and Warrant Shares will not be a "prohibited investment" for a TFSA, RRSP or RRIF provided that the holder of a TFSA or the annuitant under an RRSP or RRIF, as applicable, deals at arm's length with the Corporation and does not have a "significant interest" (within the meaning of the Tax Act) in the Corporation or a person or partnership with which the Corporation does not deal at arm's length for purposes of the Tax Act. Generally, a holder or annuitant will not have a significant interest in the Corporation unless the holder or annuitant, and/or persons not dealing at arm's length with the holder or annuitant, owns directly or indirectly 10% or more of the issued shares of any class of the capital of the Corporation or of a corporation related to the Corporation. Holders of TFSAs, RRSPs or RRIFs should consult their own tax advisors to ensure that the Unit Shares, Warrants or Warrant Shares would not be a prohibited investment in their particular circumstances.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus and the documents incorporated by reference herein constitute forward-looking statements. These statements relate to future events or the Corporation's future performance as noted in the documents incorporated by reference herein including, without limitation, the use of the proceeds of the Offering. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "could", "believe", "predict", "potential", "should" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance, achievements or events to differ materially from those anticipated, discussed or implied in such forward-looking statements. The Corporation believes the expectations reflected in such forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this short form prospectus and the documents incorporated by reference herein should be considered carefully and investors should not place undue reliance on them as the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements. These statements speak only as of the date of this short form prospectus or the particular document incorporated by reference herein. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- coal production levels and ability to meet production targets;
- capital expenditure programs and other expenditures;
- the quantity of coal measured, indicated, proved and probable reserves;
- the Corporation's areas of interest;
- projections of market prices and operating costs;
- schedules and timing of certain projects and the Corporation's strategy for growth;
- possible acquisitions;

- supply and demand for coal;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions, exploration and development; and
- treatment under governmental regulatory regimes.

These forward-looking statements involve risks and uncertainties relating to, among other things:

- competition in the mining industry;
- liabilities inherent in mineral exploration and development activities;
- uncertainties associated with the calculation of coal deposit estimates;
- uncertainties associated with properties without known mineable reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- outstanding financing covenants and related future production targets;
- incorrect assessments of the value of acquisitions;
- the ability to complete acquisitions;
- geological, technical, drilling and processing problems;
- environmental regulations, including changes thereto; and
- fluctuations in foreign exchange or interest rates and stock market volatility.

Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors contained in this short form prospectus and incorporated by reference herein. Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. The Corporation cautions that the foregoing list of important factors is not exhaustive. **The forward looking statements contained in this short form prospectus and the documents incorporated by reference herein are expressly qualified by this cautionary statement. Neither the Corporation nor the Agent undertake any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law.** See also "Forward-Looking Statements" in the AIF (as defined herein).

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

This short form prospectus contains references to United States dollars and Canadian dollars. All dollar amounts referenced, unless otherwise indicated, are Canadian dollars and United States dollars are referred to as "USD $".

On January 16, 2012, the closing exchange rate for Canadian dollars in terms of the United States dollar, as quoted by the Bank of Canada, was USD $1.00 = $1.0180 CAD.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Corporation, filed with the various securities commissions or similar authorities in the Provinces of British Columbia, Alberta, Manitoba and Ontario, are specifically incorporated by reference into, and form an integral part of, this short form prospectus:

(a) the revised annual information form dated April 29, 2011 (the "**AIF**") of the Corporation in respect of the year ended December 31, 2010;

(b) the audited financial statements of the Corporation as at and for the years ended December 31, 2010 and 2009, together with the notes thereto and the auditors' report thereon dated April 27, 2011;

(c) the management's discussion and analysis of the financial condition and results of operations of the Corporation as at and for the year ended December 31, 2010;

(d) the unaudited condensed interim consolidated financial statements of the Corporation as at and for the three and nine months ended September 30, 2011 and 2010, together with the notes thereto;

(e) the management's discussion and analysis of the financial condition and results of operations of the Corporation as at and for the three and nine months ended September 30, 2011;

(f) the material change report of the Corporation dated January 25, 2011 in respect of the Corporation's special warrant financing (the "**Special Warrant Financing**");

(g) the material change report of the Corporation dated January 25, 2011 in respect of the advance of USD $9 million to the Corporation in connection with the Coal Purchase Agreement (as defined below);

(h) the material change report of the Corporation dated February 4, 2011 in respect of the pricing of the Special Warrant Financing;

(i) the material change report of the Corporation dated February 23, 2011 in respect of the closing of the Special Warrant Financing;

(j) the material change report dated February 28, 2011 relating to repayment of indebtedness;

(k) the material change report dated April 4, 2011 relating to repayment of a royalty amount;

(l) the material change report dated April 12, 2011 relating to the issuance of a receipt for a final short form prospectus, qualifying the distribution of 138,000,000 special warrants and the listing of the shares and warrants issuable upon the exercise of the special warrants;

(m) the management information circular dated June 30, 2011 of the Corporation in connection with its annual and special meeting of shareholders held on August 24, 2011;

(n) the material change report of the Corporation dated July 29, 2011 in respect of the closing of a private placement financing of a $10,000,000 principal amount secured convertible debenture (the "**Mercuria Convertible Debenture**") issued to Mercuria Energy Group Holding SA; and

(o) the material change report of the Corporation dated December 23, 2011 in respect of the Coal Purchase Amending Agreement (as defined below).

Any documents of the type described above (other than confidential material change reports) or any other disclosure documents required to be incorporated by reference into a prospectus under National Instrument 44-101- *Short Form Prospectus Distributions*, if filed by the Corporation with the securities commissions or similar authorities in the provinces of Canada after the date of this short form prospectus and before the termination of this Offering, are deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of the Corporation at 70 York Street, Suite 1410, Toronto, Ontario M5J 1S9, Telephone (416) 861-8775 and are also available electronically at www.sedar.com.

SUMMARY DESCRIPTION OF THE BUSINESS

The Corporation was incorporated under the *Business Corporations Act* (Alberta) on September 17, 2007. By articles of amendment dated January 14, 2008, the Corporation amended its articles of incorporation to delete the restrictions on share transfers. On August 12, 2010, the Corporation acquired all of the shares of CDR Minerals Inc. ("**CDR**") pursuant to an amalgamation (the "**Business Combination**") of a wholly-owned subsidiary of the Corporation and CDR to form Royal Coal Limited. In connection with the Business Combination, by articles of continuance dated August 10, 2010, the Corporation continued under the laws of the Province of Ontario from the Province of Alberta, the name of the Corporation was changed from "Amalfi Capital Corporation" to "Royal Coal Corp." and the issued and outstanding common shares of the Corporation were consolidated on the basis of one new consolidated Common Share for each two previously issued and outstanding common shares. The registered and head office of Royal Coal is located at 70 York Street, Suite 1410, Toronto, Ontario M5J 1S9.

Royal Coal is a coal exploration and production company, headquartered in Toronto, Ontario, with a regional office in Hazard, Kentucky, whose primary business focus is developing producing surface coal mining operations in the Central Appalachian coal producing region of the United States, which includes parts of West Virginia, Virginia, Kentucky, Ohio and Tennessee.

Recent Developments

Amendment to Coal Purchase Agreement and Loan Agreement

On December 22, 2011, the Corporation and certain of its subsidiaries entered into an agreement (the "**Coal Purchase Amending Agreement**") with Sandstorm Metals & Energy Ltd. and Sandstorm Metals & Energy (US) Inc. (collectively, "**Sandstorm**"), providing for certain amendments to the coal production payment agreement (the "**Coal Purchase Agreement**") dated November 26, 2010 between such parties. The amendments, described below, are conditional on and will become effective upon the completion by the Corporation of an equity financing for aggregate gross proceeds of not less than $5 million (the "**Equity Financing**") on or before January 31, 2012. If the Corporation does not complete the Equity Financing prior to the prescribed deadline, unless Sandstorm agrees otherwise, the Coal Purchase Amending Agreement will terminate automatically and the Coal Purchase Agreement shall continue in full force and effect, unamended. Completion of the Offering is intended to satisfy the condition to complete the Equity Financing.

Pursuant to the Coal Purchase Agreement, Sandstorm agreed to purchase 18% of the first six million tons of aggregate coal produced from the Corporation's Big Branch Mine and the Sid Mine and, thereafter, 12% of the life of mine coal produced from the Big Branch Mine (including a certain development extension thereof) and the Sid Mine. The Corporation also provided to Sandstorm certain production level guarantees, including that Sandstorm will receive minimum cash flows of USD $2 million in the 2011 calendar year and minimum cash flows of USD $2.5 million in each of the 2012, 2013, 2014 and 2015 calendar years from the sale by Sandstorm of coal purchased from the Corporation under the Coal Purchase Agreement. The obligations of the Corporation and its subsidiaries under the Coal Purchase Agreement are secured by all of the assets of the Corporation and its subsidiaries.

Under the Coal Purchase Amending Agreement, the parties have agreed, among other things, to the following amendments to the Coal Purchase Agreement, subject to the above-noted Equity Financing condition:

- the Corporation's obligation to deliver any amounts to satisfy the above-noted fixed percentages of coal will be deferred until January 1, 2013; and

- the Corporation agreed to pay a total of approximately USD $4.4 million to Sandstorm on or before June 30, 2013, which amount represents the unpaid portion of the amounts payable by the Corporation to Sandstorm in

respect of the Corporation's minimum cash flow guarantee for the 2011 calendar year and its USD $2.5 million minimum cash flow guarantee for the 2012 calendar year, together with interest.

The foregoing description is not a complete description of the conditional amendments set out in the Coal Purchase Amending Agreement and is qualified in its entirety by reference to the Coal Purchase Amending Agreement, which is available on SEDAR.

Subject to the foregoing conditional amendments, the Corporation's minimum cash flow guarantees of USD $2.5 million for each of the 2012, 2013, 2014 and 2015 calendar years and all other provisions of the Coal Purchase Agreement continue to remain in effect. Assuming the amendments agreed to in the Coal Purchase Amending Agreement become fully effective, the Corporation intends for the 2012 minimum cash flow guarantee to be satisfied by a USD $2.5 million cash payment by no later than June 30, 2013. The Corporation also continues to be obligated to pay to Sandstorm a 2.7% royalty on gross revenue realized from the Big Branch Mine and any development extensions thereof, and the Sid Mine.

On December 22, 2011, the Corporation also entered into a loan agreement (the "**Replacement Loan Agreement**") with Sandstorm, which agreement replaced the loan agreement dated August 12, 2011 between the Corporation and Sandstorm. The original loan agreement provided for a loan in the principal amount of USD $3 million, bearing interest at a rate of 15% per annum and maturing on December 12, 2011. The principal amount of the loan under the Replacement Loan Agreement is USD $3,177,829.21, which represents the unpaid principal and accrued interest outstanding under the previous loan agreement. No new funds were advanced or are available to the Corporation under the Replacement Loan Agreement. The principal amount outstanding under the Replacement Loan Agreement bears interest at a rate of 15% per annum. The Corporation has agreed to make payments against the principal amount and accrued interest in nine equal instalments of USD $375,000 payable on the last day of each month commencing on January 31, 2012 and ending on September 30, 2012. Thereafter all remaining unpaid principal and accrued interest thereon is due and payable on October 31, 2012. In the event the Corporation does not complete the Equity Financing on or before January 31, 2012, the first instalment under the Replacement Loan Agreement may be deferred to the date of completion of the Equity Financing, provided that such date cannot be later than February 29, 2012. If the Corporation does not complete the Equity Financing on or before February 29, 2012, all amounts outstanding under the Replacement Loan Agreement will become immediately due and payable.

Agreements for Production at Flatwoods Mine and Other Properties

The Corporation's subsidiary CDR Operations, Inc. entered into an agreement (the "**Ikerd Agreement**") with Ikerd Resources Management LLC and and Ikerd Mining LLC (collectively, "**Ikerd**") effective as of November 7, 2011. On December 28, 2011, the Corporation also entered into an agreement (the "**Novadx Agreement**") with Novadx Ventures Corp. and certain of its related parties (collectively, "**Novadx**") pursuant to which the Corporation will act as a contract miner and sell the coal under certain mining permits relating to certain real property interests (collectively, the "**Leases**"), including the Flatwoods Mine, which are held by Novadx and Ikerd in the state of Kentucky. The principal terms of the Novadx Agreement and the Ikerd Agreement are as follows:

- Subject to obtaining all necessary approvals of the TSXV, the Corporation will issue to Novadx (i) 15 million Common Shares (the "**Payment Shares**") on or before January 23, 2012, and (ii) an additional 5 million Common Shares if the average closing price on the TSXV of the Common Shares, calculated during the 30 day period commencing 150 days after the date that the Payment Shares are issued, is not greater than $0.10 per share;

- The Corporation will make ongoing payments (the "**Novadx Override**") to Novadx in the amount of USD $2.50 per ton of coal mined by the Corporation on the Leases, up to an aggregate amount of USD $2.5 million (subject to adjustment in certain circumstances);

- In addition to the Novadx Override, the Corporation will pay to Ikerd and certain of its creditors an aggregate royalty of USD $2.75 per ton of coal mined by the Corporation on the Leases;

- The Corporation also has the right to assume Novadx's obligations under certain mining equipment leases and intends to pay to Novadx approximately USD $500,000 (the "**Equipment Equity Payment**") on the expiry of such leases in 2012 against the transfer of title to the equipment to the Corporation, which Equipment Equity Payment represents the equity value of the mining equipment;

- The Corporation also expects to purchase certain mining equipment from Novadx for a purchase price of up to USD $500,000;

- Certain lawsuits filed by Novadx against Ikerd will be settled on specified terms that have already been agreed to by the parties, which include the transfer by Ikerd to Novadx of certain coal lease interests at Ikerd's Flatwoods, Elk Creek, Buncomb and Brushy mines (the "**Settlement Leases**"); and

- Subject to applicable third party consents, Novadx will transfer the Settlement Leases, together with certain other coal leases acquired directly by Novadx near the Flatwoods Mine, to the Corporation, provided that it has received (i) a payment in the amount of USD $649,000 from Ikerd as part of the settlement, (ii) 100% of the Novadx Override, and (iii) the Equipment Equity Payment.

The Corporation commenced initial contract mining operations at the Flatwoods mine in November 2011 and at Elk Creek in December 2011.

CONSOLIDATED CAPITALIZATION

There have been no material changes in the consolidated share capitalization or in the indebtedness of the Corporation since September 30, 2011, the date of the Corporation's most recently filed financial statements. As noted above under "**Recent Developments - *Agreement for Production at Flatwoods Mine***", the Corporation has agreed to issue the Payment Shares on or before January 23, 2012. After giving effect to the Offering, assuming no exercise of the Over-Allotment Option or the Compensation Options, the Corporation anticipates that an additional ● Common Shares and ● Warrants will be issued.

DESCRIPTION OF SECURITIES BEING DISTRIBUTED

Common Shares

A description of the Common Shares is contained in the AIF, which is incorporated by reference herein, under the heading "**Authorized Share Capital**".

Warrants

The Warrants will be issued and governed by the terms of a warrant indenture (the "**Warrant Indenture**") to be entered into between the Corporation and CIBC Mellon Trust Company, as warrant agent (the "**Warrant Agent**") as of the Closing Date and will be evidenced by warrant certificates to be issued at closing. The Corporation has designated the Warrant Agent, in its Toronto office, as agent for the Warrants where the Warrants can be surrendered for exercise or exchange. **The following summary of certain provisions of the Warrant Indenture contains certain of the material attributes and characteristics of the Warrants but does not purport to be complete and is qualified in its entirety by reference to the provisions of the Warrant Indenture.**

Each Warrant will entitle the holder to purchase one Warrant Share at a price of $● until 5:00 p.m. (Toronto time) on the day that is 24 months from the Closing Date, after which time the Warrants will become null and void. The exercise price and the number of Warrant Shares issuable upon exercise are both subject to adjustment in certain circumstances as more fully described below. Under the Warrant Indenture, the Corporation will be entitled to purchase in the market, by private contract or otherwise, all or any of the Warrants then outstanding, and any Warrants so purchased will be cancelled. The exercise price for the Warrants will be payable in Canadian dollars. The Warrant Indenture will provide for adjustment in the number of Warrant Shares issuable upon the exercise of the Warrants and/or the exercise price per Warrant Share upon the occurrence of certain events, including:

(a) the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares as a stock dividend or other distribution (other than a "dividend paid in the ordinary course", as defined in the Warrant Indenture, or a distribution of Common Shares upon the exercise of the Warrants or pursuant to the exercise of director, officer or employee stock options granted under the Corporation's stock option plan);

(b) the subdivision, redivision or change of the Common Shares into a greater number of shares;

(c) the reduction, combination or consolidation of the Common Shares into a lesser number of shares;

(d) the issuance to all or substantially all of the holders of the Common Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Common Shares, or securities exchangeable for or convertible into Common Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the "current market price", as defined in the Warrant Indenture, for the Common Shares on such record date; and

(e) the issuance or distribution to all or substantially all of the holders of the Common Shares of shares of any class other than the Common Shares, rights, options or warrants to acquire Common Shares or securities exchangeable or convertible into Common Shares, of evidences of indebtedness or cash, securities or any property or other assets.

The Warrant Indenture will also provide for adjustment in the class and/or number of securities issuable upon the exercise of the Warrants and/or exercise price per security in the event of the following additional events: (i) reclassifications of the Common Shares; (ii) consolidations, amalgamations, plans of arrangement or mergers of the Corporation with or into another entity (other than consolidations, amalgamations, plans of arrangement or mergers which do not result in any reclassification of the Common Shares or a change of the Common Shares into other shares); or (iii) the transfer (other than to one of the Corporation's subsidiaries) of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another corporation or other entity.

The Corporation will also covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, it will give notice to holders of Warrants of certain stated events, including events that would result in an adjustment to the exercise price for the Warrants or the number of Warrant Shares issuable upon exercise of the Warrants, at least 14 days prior to the record date or effective date, as the case may be, of such event.

No fractional Warrant Shares will be issuable upon the exercise of any Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Warrants will not have any voting rights, the right to receive dividends and other distributions or any other rights which a holder of Common Shares would have.

The Warrants will not be exercisable in the United States nor will certificates representing the common shares issuable upon exercise of the Warrants be registered or delivered to an address in the United States, unless an exemption from registration under the U.S. Securities Act and any applicable state securities laws is available and the Corporation has received an opinion of counsel of recognized standing to such effect in form and substance reasonably satisfactory to the Corporation.

From time to time, the Corporation and the Warrant Agent, without the consent of the holders of Warrants, may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Warrants may only be made by "extraordinary resolution", which is defined in the Warrant Indenture as a resolution either (i) passed at a meeting of the holders of Warrants at which there are holders of Warrants present in person or represented by proxy representing at least 25% of the aggregate number of the then outstanding Warrants and passed by the affirmative vote of holders of Warrants representing not less than 66⅔% of the aggregate number of all the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution or (ii) adopted by an instrument in writing signed by the holders of Warrants representing not less than 66⅔% of the aggregate number of all the then outstanding Warrants.

Compensation Options

As part of the compensation paid to the Agent in respect of the Offering, the Corporation has agreed to issue Compensation Options to the Agent, entitling them to acquire that number of Compensation Units that is equal to 5% of the aggregate number of Units sold pursuant to the Offering at an exercise price of $● per Compensation Unit for a period of 24 months from the Closing Date. Each Compensation Unit consists of one Compensation Share and one Compensation Warrant. Each Compensation Warrant is exercisable to acquire one Compensation Warrant Share at a price of $● per Compensation Warrant Share for a period of 24 months from the Closing Date. This prospectus qualifies the distribution of the foregoing Compensation Options. See "**Plan of Distribution**".

PRIOR SALES

The following table summarizes the issuances by the Corporation of Common Shares and securities convertible into Common Shares during the 12 month period prior to the date of this prospectus.

Date of Issuance	Description of Transaction	Number and Type of Securities Issued	Price per Security
January 4, 2011	Debenture Conversion	500,000 Common Shares	$0.15
January 12, 2011	Debenture Conversion	500,000 Common Shares	$0.15
January 12, 2011	Warrant Exercise	46,587 Common Shares	$0.20
January 12, 2011	Warrant Exercise	60,000 Common Shares	$0.20
January 13, 2011	Warrant Exercise	250,000 Common Shares	$0.20
January 19, 2011	Warrant Exercise	105,000 Common Shares	$0.20
January 19, 2011	Debenture Conversion	500,000 Common Shares	$0.15
January 21, 2011	Warrant Exercise	15,000 Common Shares	$0.20
January 25, 2011	Debt Settlement	3,000,000 Common Shares	$0.35
January 25, 2011	Debt Settlement	400,000 Common Shares	$0.18
January 25, 2011	Debt Settlement	1,111,111 Common Shares	$0.18
January 25, 2011	Debt Settlement	150,000 Common Shares	$0.18
January 25, 2011	Debt Settlement	940,733 Common Shares	$0.18
January 25, 2011	Debenture Conversion	666,666 Common Shares	$0.15
January 25, 2011	Warrant Exercise	1,000,000 Common Shares	$0.20
February 2, 2011	Warrant Exercise	28,235 Common Shares	$0.20
February 3, 2011	Warrant Exercise	33,334 Common Shares	$0.20
February 10, 2011	Warrant Exercise	62,822 Common Shares	$0.20
February 23, 2011	Issuance of special warrants	138,000,000 special warrants[(1)]	$0.25
February 23, 2011	Issuance of special broker warrants	8,280,000 special broker warrants[(2)]	$0.25
April 8, 2011	Exercise of special warrants	138,000,000 Common Shares[(1)]	$0.25

Date of Issuance	Description of Transaction	Number and Type of Securities Issued	Price per Security
April 8, 2011	Exercise of special warrants	69,000,000 warrants[(1)]	$0.335
April 8, 2011	Exercise of special broker warrants	8,280,000 compensation options[(2)]	$0.25
May 3, 2011	Exercise of warrants	21,176 Common Shares	$0.20
July 16, 2011	Exercise of warrants	100,000 Common Shares	$0.20
July 23, 2011	Issuance of convertible debt	Convertible Debenture in the principal amount of $10,000,000, convertible into up to 37,188,545 Common Shares	$0.2689 per Common Share

Notes:

*(1) On February 23, 2011, the Corporation completed a private placement (the "**Special Warrant Financing**") through a syndicate of agents pursuant to which it issued 138,000,000 special warrants (the "**Special Warrants**") at a price of $0.25 per Special Warrant, for aggregate gross proceeds to the Corporation of $34,500,000. In accordance with the terms of the Special Warrants, on April 9, 2011, the Corporation issued 138,000,000 Common Shares and 69,000,000 warrants to the holders of Special Warrants for no additional consideration upon the automatic exercise of the Special Warrants. Each warrant entitles the holder to acquire one Common Share at a price of $0.335 until February 23, 2013.*

(2) As partial compensation to the agents under the Special Warrant Financing, the Corporation issued 8,280,000 special broker warrants ("Special Broker Warrants"). On April 9, 2011, the Corporation issued, for no additional consideration, 8,280,000 compensation options (the "Compensation Options")to the agents, each entitling the holder to purchase one Common Share and one-half of one warrant at an exercise price of C$0.25 per Compensation Unit until February 23, 2013. Each warrant entitles the holder to acquire one Common Share at a price of C$0.335 until February 23, 2013.

Trading Price and Volume

The Common Shares are listed for trading on the TSXV under the symbol "RDA". The following table sets forth the price range and trading volumes for the Common Shares on the TSXV as reported by the TSXV for the periods indicated:

Date	High ($)	Low ($)	Trading Volume
2011			
January	0.36	0.25	21,788,404
February	0.34	0.21	12,721,697
March	0.31	0.24	3,978,801
April	0.30	0.21	23,327,960
May	0.28	0.23	8,950,575
June	0.24	0.17	11,554,460
July	0.21	0.18	4,087,021
August	0.20	0.11	13,794,566
September	0.12	0.06	16,261,043
October	0.08	0.06	6,850,523
November	0.09	0.04	20,107,208
December	0.05	0.03	20,497,130
2012			
January[(1)]	0.07	0.045	8,973,157

Notes:

(1) From January 1 to January 16, 2012.

USE OF PROCEEDS

The net proceeds to the Corporation from the Offering, assuming no exercise of the Over-Allotment Option, are estimated to be $6,270,000 after deducting the Agent's fee of $330,000, but before deducting the estimated expenses

of the Offering of approximately $●. The net proceeds of the Offering will be used by the Corporation in the following manner:

- capital expenditures and operating expenses for the expansion of operations under the Settlement Leases (approximately $1,500,000);
- bonding at the Corporation's Big Branch Mine and Charlene load-out facility (approximately $1,700,000);
- accounts payable (approximately $1,250,000); and
- working capital purposes (approximately $1,820,000).

The use of the net proceeds of the Offering by the Corporation described above is consistent with the accomplishment of the Corporation's stated business objective of developing and maintaining producing surface coal mining operations in the Central Appalachian coal producing region of the United States. In order for the Corporation to accomplish its current business objectives, it must complete the Equity Financing on or before January 31, 2012, unless Sandstorm agrees otherwise. As discussed above, if the Corporation does not do so on or prior to such date, unless Sandstorm agrees otherwise, the Coal Purchase Amending Agreement will terminate and the amendments set out therein will not take effect. In addition, if the Corporation does not complete the Equity Financing on or prior to February 29, 2012, all amounts outstanding under the Replacement Loan Agreement will become immediately due and payable. If one or both of the foregoing deadlines are not met, the Corporation will likely have to reconsider the manner in which it allocates the net proceeds from the Offering. Except as described above, there are no other particular significant events or milestones that must occur for the business objectives of the Corporation to be accomplished.

While the Corporation believes that it has the skills and resources necessary to accomplish its stated business objectives, participation in the development of coal mining operations has a number of inherent risks. See the risk factors described under "**Risk Factors**" herein and in the AIF for factors that may impact the timing and success of the Corporation's operations and business objectives.

Pending expenditure, the Corporation may invest the proceeds of the Offering in short term investments or bank deposits.

In the past, the Corporation has not had and does not currently have positive cash flow from operations. The Corporation's available cash has been used and will continue to be used, to the extent required, to fund its negative cash flow. No assurance can be given that the Corporation will ever generate a positive cash flow from operations. If it believes it is in its best interests, the Corporation may seek additional financing in order to fund its operating or other needs, if the Corporation determines that any such financing is available to it when needed and on terms that are favourable. However, additional financing may not be available when needed or, if available, on terms that are favourable to the Corporation. See "**Risk Factors**".

While the Corporation currently intends to use the net proceeds from the Offering for the purposes set out above, it will have discretion in the actual use of the net proceeds, and may elect to use the net proceeds differently than as described above (including to fund any negative cash flow from operations), if the Corporation believes it is in its best interests to do so.

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Corporation has appointed the Agent as its exclusive agent to offer the Units for sale, on a best efforts basis, subject to the terms and conditions of the Agency Agreement. The Agent will receive a cash commission equal to 5% of the gross proceeds of the Offering. The offering price of the Units was determined by negotiation between the Corporation and the Agent. The Corporation is responsible for paying all fees and expenses incurred in connection with the Offering, which are estimated to be $●.

As additional compensation, the Corporation will issue to the Agent Compensation Options entitling the Agent to purchase from the Corporation that number of Compensation Units, each Compensation Unit consisting of one Compensation Share and one Compensation Warrant, equal to 5% of the total number of Units sold under the Offering (including additional Units sold pursuant to the Over-Allotment option, if any) at an exercise price of $● per Compensation Unit for a period of 24 months from the Closing Date. Each whole Compensation Warrant shall be exercisable to purchase one Compensation Warrant Share at a price of $● per Compensation Warrant Share for a period of 24 months from the Closing Date. This prospectus qualifies the distribution of the foregoing Compensation Options.

The Corporation has granted the Agent the Over-Allotment Option, exercisable in whole or in part, at any time and from time to time, in the sole discretion of the Agent, for a period of 30 days from the Closing Date, to purchase up to an additional ● Unit Shares at a price of $● per Unit Share and/or up to an additional ● Warrants at a price of $● per Warrant, or a combination thereof, solely to cover over-allotments, if any, and for market stabilization purposes (for greater clarity, a maximum of 15% in the aggregate of the number of Unit Shares and Warrants to be sold at closing may be issued in Additional Securities pursuant to the Over-Allotment Option). In respect of the Over-Allotment Option, the Corporation will pay to the Agent a fee equal to 5% of the proceeds realized on the exercise of the Over-Allotment Option being $● per additional Unit Share sold and $● per additional Warrant sold. This prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Additional Securities to be issued and sold upon exercise of the Over-Allotment Option. A person who acquires Additional Securities forming part of the Agent's over-allocation position acquires such securities under this prospectus regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. If the Agent exercises the Over-Allotment Option for the maximum number of Additional Securities, the total price to the public, Agent's fee and net proceeds to the Corporation (before payment of the expenses of the Offering) will be approximately $7,590,000, $379,500 and $7,210,500 respectively.

The Corporation has agreed in the Agency Agreement that, during the period ending 90 days after the Closing Date, the Corporation will not (subject to certain exceptions), without the prior consent of the Agent, such consent not to be unreasonably withheld, issue any Common Shares or any securities convertible into or exchangeable for or exercisable to acquire Common Shares except pursuant to (i) the Offering, (ii) the grant or exercise of stock options and similar issuances pursuant to the existing stock option plan of the Corporation and other existing share compensation arrangements; (iii) the terms of any outstanding convertible securities of the Corporation; or (iv) the terms of the Novadx Agreement. In addition, the Corporation will agree not to sell, transfer, dispose of, monetize or otherwise transfer any economic interest in any of its subsidiaries or business divisions until the date that is 90 days following the Closing Date unless the Corporation has received the prior consent of the Agent, such consent not to be unreasonably withheld.

The Corporation has agreed to indemnify the Agent against certain liabilities and expenses, including liabilities under applicable securities legislation in certain circumstances, or to contribute to payments the Agent may have to make in respect thereof.

Pursuant to policy statements of certain Canadian provincial securities regulators, the Agent may not, throughout the period of distribution, bid for or purchase Common Shares for its own account or for accounts over which it exercises control or direction. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. Such exceptions include a bid or purchase permitted under the by-laws and rules of applicable regulatory authorities and stock exchanges, including the Universal Market Integrity Rules for Canadian Marketplaces administered by the

Investment Industry Regulatory Organization of Canada, relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Subject to applicable laws, pursuant to the first-mentioned exception, in connection with the Offering, the Agent may over-allot or effect transactions which stabilize or maintain the market price of the Common Shares at a level above that which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

The Corporation has applied to list for trading on the TSXV the Unit Shares, the Warrant Shares, the Unit Shares comprising the Additional Securities, the Warrant Shares underlying the Additional Securities, the Compensation Shares and the Compensation Warrant Shares. Listing of such securities will be subject to the Corporation fulfilling all of the listing requirements of the TSXV.

None of the Units, the Unit Shares, the Warrants or the Additional Securities have been or will be registered under the U.S. Securities Act or any state securities laws, and may not be offered or sold within the United States or to a "U.S. person" (as defined in Regulation S under the U.S. Securities Act ("**U.S. Person**")), except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Agent has agreed that it (and the U.S. broker-dealer affiliate of the Agent which conducts offers and sales in the United States) will not offer or sell the Units, the Unit Shares or the Warrants in the United States or to U.S. Persons except in accordance with exemptions from the registration requirements under the U.S. Securities Act and applicable state securities laws. The Agency Agreement provides that the Agents, through certain of their respective U.S. broker-dealer affiliates, may arrange for institutional "accredited investors" satisfying one or more of the requirements of Rule 501(a)(1), (2), (3) and (7) of Regulation D under the U.S. Securities Act in the United States to purchase the Units directly from the Corporation pursuant to Rule 506 of Regulation D under the U.S. Securities Act and in compliance with applicable state securities laws.

Until 40 days after the commencement of this Offering, an offer or sale of the Units, Unit Shares or Warrants distributed under this Offering by any dealer (whether or not participating in this Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from such registration requirements.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Irwin Lowy LLP, counsel to the Corporation, and Heenan Blaikie LLP, counsel to the Agent, the following is, as of the date hereof, a fair summary of the principal Canadian federal income tax considerations generally applicable to a person who is, or is deemed to be, resident in Canada for purposes of the Tax Act, who acquires Units pursuant to the Offering, and who, for the purposes of the Tax Act, holds such securities as capital property and deals at arm's length and is not affiliated with the Corporation or Agent (a "**Holder**"). Unit Shares and Warrants will generally be considered to be capital property to a Holder unless the Holder either holds such securities in the course of carrying on a business of buying and selling securities or has acquired such securities in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain Holders whose Unit Shares might not otherwise be capital property may, in certain circumstances, be entitled to have such Unit Shares and all other "Canadian securities", as defined in the Tax Act, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. This election does not apply to Warrants. Holders should consult their own tax advisors regarding this election.

This summary is not applicable to a Holder: (i) that is a "financial institution" as defined in the Tax Act for purposes of the mark-to-market rules; (ii) that is a "specified financial institution" as defined in the Tax Act; (iii) that has made a functional currency reporting election for purposes of the Tax Act; or (iv) an investment in which would constitute a "tax shelter investment" within the meaning of the Tax Act. Such holders should consult their own tax advisors. This summary does not address the deductibility of interest by a Holder who borrowed money to acquire Units.

This summary is based upon the current provisions of the Tax Act, the Regulations, counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**") and proposed amendments to the Tax Act and the Regulations publicly announced by or on behalf of the Minister of

Finance (Canada) prior to the date hereof (the "**Proposed Amendments**"). This summary assumes that the Proposed Amendments will be enacted as proposed but does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor take into account provincial, territorial or foreign income tax considerations. No assurances can be given that the Proposed Amendments will be enacted as proposed, if at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

The Canadian federal income tax consequences to a particular Holder will vary depending on a number of factors, including the province in which a particular Holder resides, carries on business or has a permanent establishment. The following discussion of the income tax consequences is, therefore, of a general nature only and is not exhaustive of all the income tax consequences and is not intended to constitute income tax advice to any particular Holder. Accordingly, Holders should consult their own income tax advisors.

Acquisition of Units

A Holder will not realize any gain or loss upon the acquisition of a Unit. A Holder will be required to allocate on a reasonable basis the cost of the Unit between the Unit Share and Warrant in order to determine the cost of each to the Holder for purposes of the Tax Act. The Corporation intends to allocate $● of the issue price of each Unit to each Unit Share and $● to each Warrant to determine the cost of each for purposes of the Tax Act. Although the Corporation believes that its allocation is reasonable, it is not binding on the CRA or the Holder. The Holder's adjusted cost base of the Unit Share and Warrant will be determined by averaging the cost of the Unit Share and Warrant with the adjusted cost base to the Holder of all other Common Shares and warrants of the Corporation held by the Holder as capital property immediately prior to such acquisition.

Exercise of Warrants

No gain or loss will be realized by a Holder upon the exercise of a Warrant to acquire a Warrant Share. When a Warrant is exercised, the Holder's cost of the Warrant Share acquired thereby will be the aggregate of the Holder's adjusted cost base of such Warrant and the exercise price paid for the Warrant Share. The Holder's adjusted cost base of the Warrant Share so acquired will be determined by averaging such cost with the adjusted cost base to the Holder of all Common Shares held by the Holder as capital property immediately prior to such acquisition.

Disposition and Expiry of Warrants

A disposition or deemed disposition by a Holder of a Warrant (other than upon the exercise thereof) will generally give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, are greater (or less) than such Holder's adjusted cost base of the Warrant. In the event of the expiry of an unexercised Warrant, the Holder will generally realize a capital loss equal to the Holder's adjusted cost base of such Warrant. The tax treatment of capital gains and capital losses is discussed in greater detail below under "**Capital Gains and Capital Losses**".

Dividends

Dividends received or deemed to be received on the Unit Shares or Warrant Shares of the Corporation will be included in computing the Holder's income. In the case of an individual Holder, such dividends will be subject to the gross-up and dividend tax credit rules normally applicable in respect of taxable dividends received from taxable Canadian corporations (as defined in the Tax Act). A dividend will be eligible for the enhanced gross-up and dividend tax credit if the recipient is notified in writing by the Corporation, at or before the time the dividend is paid, designating the dividend as an eligible dividend. There may be limitations on the ability of the Corporation to designate dividends as eligible dividends. Dividends received or deemed to be received on the Unit Shares or Warrant Shares of the Corporation by a corporation must be included in computing its income but generally will be deductible in computing its taxable income.

A Holder that is a "private corporation" or a "subject corporation" (as defined in the Tax Act) will generally be liable to pay a 33⅓% refundable tax under Part IV of the Tax Act on dividends received or deemed to be received on the Unit Shares or Warrant Shares of the Corporation to the extent such dividends are deductible by the corporate Holder in computing taxable income for the year. This tax will generally be refunded to such corporate Holder at the rate of $1 for every $3 of taxable dividends paid while it is a private corporation.

Dispositions of Unit Shares and Warrant Shares

A disposition or deemed disposition by a Holder of Unit Shares or Warrant Shares, as the case may be, will generally give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, are greater (or less) than such Holder's adjusted cost base of such shares. The tax treatment of capital gains and capital losses is discussed in greater detail below under "**Capital Gains and Capital Losses**".

Capital Gains and Capital Losses

A Holder will generally be required to include in computing its income for the taxation year of disposition of Warrants, Unit Shares or Warrant Shares, as the case may be, one-half of any capital gain (a "**taxable capital gain**") realized in that year. Subject to and in accordance with the rules in the Tax Act, a Holder may deduct one-half of any capital loss (an "**allowable capital loss**") against taxable capital gains realized in the year of disposition. Any unused allowable capital losses may be applied to reduce net taxable capital gains realized in the three preceding taxation years or any subsequent taxation year, to the extent and under the circumstances specified in the Tax Act.

The amount of any capital loss realized on the disposition or deemed disposition of Unit Shares or Warrant Shares, as the case may be, by a Holder that is a corporation may be reduced by the amount of dividends received or deemed to have been received by it on such shares or shares substituted for such shares to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where a Holder that is a corporation is a member of a partnership or beneficiary of a trust that owns such shares or is itself a member of a partnership or a beneficiary of a trust that owns shares.

A Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) also may be liable to pay an additional refundable tax of 6⅔% on its "aggregate investment income" for the year which generally includes an amount in respect of taxable capital gains. This tax will generally be refunded to a corporate Holder at the rate of $1 for every $3 of taxable dividends paid while it is a private corporation.

Alternative Minimum Tax

Taxable dividends received or deemed to be received, and capital gains realized, by a Holder that is an individual or a trust (other than a specified trust) may result in such Holder being liable for alternative minimum tax.

Because the tax consequences of acquiring, holding or disposing of the securities offered pursuant to this prospectus may vary depending on the particular circumstances of each Holder and other factors, Holders are urged to consult with their own tax advisors to determine the particular tax consequences to them of acquiring, holding or disposing of the securities offered hereunder.

RISK FACTORS

Investment in securities of Royal Coal involves a significant degree of risk and should be considered speculative due to the nature of Royal Coal's business and the present stage of its development. Purchasers of Units should carefully consider the risk factors set out under the heading "Risk Factors" starting on page of 10 of the AIF incorporated herein by reference, as well as other risk factors relating to the Offering set out below and the other information contained in this short form prospectus and documents incorporated by reference herein, including the historical financial statements of the Corporation and the notes thereto, before making an investment decision to purchase the Units. See "**Documents Incorporated by Reference**". These risk factors include, without limitation, "*Exploration and*

Development Risks", "*Future Capital Requirements*" and "*Production and Cash Flow Risk*". Such risk factors could materially affect the Corporation's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Corporation.

Securities of the Corporation and Dilution

The Offering Price was determined by negotiation between the Corporation and the Agent and may bear no relationship to earnings, book value or other valuation criteria. The Corporation plans to use the proceeds of the Offering to carry out its activities as described under "Use of Proceeds", but to further such activities, the Corporation may require additional funds and it is likely that, to obtain the necessary funds, the Corporation will have to sell additional securities including, but not limited to, its Common Shares or securities convertible into Common Shares, the effect of which could result in a substantial dilution of the present equity interests of the Corporation's shareholders.

Future Capital Requirements

In the past, the Corporation has not had and does not currently have positive cash flow from operations. The Corporation's available cash has been used and will continue to be used, to the extent required, to fund its negative cash flow. No assurance can be given that the Corporation will ever generate a positive cash flow from operations. As discussed above and if it believes it is in its best interests, the Corporation may seek additional financing in order to fund certain of its potential acquisitions, in each case, if the Corporation determines that any such financings are available to it when needed and on terms that are favourable. However, additional financing may not be available when needed or, even, if available the terms of such financing might not be favourable to the Corporation. Accordingly, there is significant doubt as to the Corporation's ability to continue as a going concern.

The Corporation may also have other capital or exploration funding requirements to the extent that it decides to develop other properties or make acquisitions. The Corporation may also encounter significant unanticipated liabilities or expenses. The Corporation's ability to continue its planned operations, make acquisitions and capital expenditures, and carry out exploration, development and other activities depends on its ability to generate free cash flow from its operating mines and/or contract mining operations, which is subject to certain risks and uncertainties and raise additional financing to the extent needed. The Corporation may be required to obtain additional financing in the future to fund such needs. The Corporation has historically raised capital primarily through debt and equity financing and in the future may raise capital through equity or debt financing, joint ventures or other means. Additional financing may not be available when needed or, even, if available, the terms of such financing might not be favourable to the Corporation and might involve substantial dilution to existing shareholders. Failure to raise capital when needed would have a material adverse effect on the Corporation's business, financial condition and results of operations.

Use of Proceeds

The Corporation currently intends to allocate the net proceeds of the Offering in the manner set out above under "Use of Proceeds". However, the Corporation will have discretion in the actual application of the net proceeds, and may elect to allocate the net proceeds differently from that described under "Use of Proceeds", if it believes it would be in the Corporation's best interests to do so. In particular, if the Coal Purchase Amending Agreement is terminated or the amounts owing under the Replacement Loan Agreement become due and payable in full as of March 1, 2012, the Corporation will likely have to reconsider the manner in which it allocates the net proceeds from the Offering. Shareholders may not agree with the manner in which the Corporation chooses to allocate and spend the net proceeds of the Offering. The failure by the Corporation to apply these funds effectively could have a material adverse effect on the Corporation's business.

Production and Cash Flow Risk

Pursuant to the Coal Purchase Agreement, as conditionally amended by the Coal Purchase Amending Agreement, Sandstorm is entitled to acquire 18% of the first six million tons of coal produced, and thereafter 12% of the life of mine coal produced from the Corporation's Big Branch Mine (including a certain development extension thereof) and

the Sid Mine pursuant to the terms of the Coal Purchase Agreement. The Coal Purchase Agreement includes certain production level and cash flow guarantees and provides for a general security interest in favour of Sandstorm over the assets of the Corporation. Unless otherwise waived by Sandstorm, failure to meet such guarantees would constitute an event of default under the Coal Purchase Agreement entitling Sandstorm to enforce its security interest, impose cash penalties on the Corporation and/or terminate the Coal Purchase Agreement. The Corporation did not meet the production levels set out in the Coal Purchase Agreement for the calendar year 2011 and, as a result, is required to pay USD $1,018,597 to Sandstorm with respect to the deficiency in the guaranteed minimum cash flows for such period. There is no certainty that the Corporation will be able to meet its future production or cash flow commitments and, if such commitments are not met, there is no assurance that the Corporation will be able to obtain a waiver of the resulting default under the Coal Purchase Agreement. Any breach by the Corporation of its cash flow guarantees would cause the Corporation to be forced to supply Sandstorm with an amount of coal equal to the dollar value of any cash flow deficiency. This may negatively impact the Corporation's ability to generate operating revenues and to procure sufficient positive cash flow to ensure the success of its operations.

As discussed above, if the Corporation does not complete the Equity Financing on or prior to January 31, 2012, the Coal Purchase Amending Agreement will terminate or, if not completed on or prior to February 29, 2012, all amounts outstanding under the Replacement Loan Agreement will become immediately due and payable. If either of these events occurs, unless the Corporation is able to obtain sufficient additional financing or enter into alternate agreements, the Corporation will be unable to meet its current obligations owing to Sandstorm and others. Any default under the Coal Purchase Agreement would also constitute a default under the Replacement Loan Agreement and the Mercuria Convertible Debenture, which could have a material adverse effect on the business, financial condition and results of operation of the Corporation. The Corporation may be forced to reduce or delay capital expenditures, sell assets, seek additional capital, or restructure or refinance its indebtedness.

Tax Matters

The tax treatment of the Common Shares or securities convertible into Common Shares has a material effect on the advisability of an investment in the Common Shares or securities convertible into Common Shares. See "**Certain Canadian Federal Income Tax Considerations**" herein.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation are Collins Barrow Toronto LLP, Chartered Accountants, 11 King Street West, Suite 700 Toronto, Ontario M5H 4C7.

CIBC Mellon Trust Company, through its principal offices at 600, 333 - 7th Avenue S.W., Calgary, Alberta, T2P 2Z1, is the transfer agent and registrar for the Common Shares.

INTEREST OF EXPERTS

As at the date hereof, the partners and associates of Irwin Lowy LLP, as a group, own, directly or indirectly, less than 1% of the securities of the Corporation and the partners and associates of Heenan Blaikie LLP, as a group, own, directly or indirectly, less than 1% of the securities of the Corporation.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities

legislation of the purchaser's province in which the purchaser resides for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the short form prospectus of Royal Coal Corp. (the "**Corporation**") dated January ●, 2012 qualifying the distribution of Units of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the shareholders of the Corporation on the balance sheets as at December 31, 2010 and 2009, and the statements of loss, comprehensive loss and deficit, and cash flows for the years ended December 31, 2010 and 2009. Our report is dated April 27, 2011.

Chartered Accountants
Toronto, Canada
January ●, 2012

CERTIFICATE OF THE CORPORATION

Dated: January 17, 2012

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of the Provinces of British Columbia, Alberta, Manitoba and Ontario.

ROYAL COAL CORP.

(Signed) Robert Heuler
Chief Executive Officer

(Signed) Jeff Lowe
Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

(Signed) Tom Griffis
Director

(Signed) Elia Crespo
Director

CERTIFICATE OF THE AGENT

Dated: January 17, 2012

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of the Provinces of British Columbia, Alberta, Manitoba and Ontario.

CORMARK SECURITIES INC.

(Signed) Marc Murnaghan
Managing Director