Royal Coal Corp.

Consolidated Financial Statements - Amended

For the three and nine months ended September 30, 2010
(expressed in US dollars)
(unaudited)

ROYAL COAL CORP.
CONSOLIDATED BALANCE SHEETS
(expressed in US dollars)

As at	September 30, 2010 (unaudited)	December 31, 2009 (audited)
ASSETS		
Current		
Cash	$ 40,631	$ 800,099
Accounts receivable	760,084	243,095
Prepaid expenses and other current assets	145,082	471,047
Inventory	177,208	342,098
Quebec tax credit and mining duties refundable	106,158	130,979
Investment (note 3)	97,182	95,150
	1,326,345	2,083,278
Capital assets, net (note 4)	1,578,443	915,562
Mineral properties (notes 5 and note 11)	13,236,468	13,525,484
	$ 16,141,256	$ 16,524,324
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 14)	$ 10,966,663	$ 3,189,764
Bank loan, current portion (note 6)	264,395	-
Notes payable, current portion (note 7)	5,688,183	2,000,000
Convertible debentures, current portion (note 8)	60,000	356,813
	16,979,241	5,546,577
Asset retirement obligation (note 10)	299,658	262,579
Bank loan (note 6)	108,485	-
Notes payable (note 7)	-	860,792
Convertible debentures (note 8)	4,222,011	4,669,884
	21,609,395	11,339,832
SHAREHOLDERS' EQUITY		
Capital stock (note 9)	15,114,808	10,693,870
Shares to be issued	48,783	771,702
Warrants (note 9)	3,727,459	864,016
Contributed surplus (note 9)	2,172,241	1,602,603
Equity portion of convertible debentures (note 8)	408,333	408,333
Accumulated other comprehensive loss	(542,103)	(542,103)
Deficit	(26,397,660)	(8,613,929)
	(5,468,139)	5,184,492
	$ 16,141,256	$ 16,524,324

Qualifying transaction, nature of operations and going concern (note 1)
Commitments and subsequent events (notes 7, 15 and 16)

See accompanying notes to consolidated financial statements

Approved by the Board of Directors

Director Director

ROYAL COAL CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS, DEFICIT, OTHER COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE LOSS

(expressed in US dollars - unaudited)

	3 months ended September 30, 2010	2009	9 months ended September 30, 2010	2009
Revenues	$ 5,403,845	-	$15,754,051	-
Cost of sales	8,534,772	-	23,864,496	-
	(3,130,927)	-	(8,110,445)	-
Expenses				
Accretion on notes payable (note 7) and convertible debentures (note 8)	1,276,521	4,523	3,776,275	11,127
Amortization	2,840	1,283	18,195	3,894
Financing fees and gain on extinguishment of debt	(284,429)	144,652	1,140,358	144,652
General and administration	209,382	26,326	851,346	189,531
Interest on notes payable (note 7) and convertible debentures (note 8)	634,006	37,029	1,493,248	75,267
Management and consulting (note 12)	293,854	436,891	1,077,642	1,294,872
Professional fees	44,433	3,383	206,834	20,485
Stock-based compensation (note 9)	(197,787)	18,907	569,638	94,109
Travel	108,107	35,715	173,512	132,629
Write-off of mineral exploration properties (note 5)	-	(383)	-	33,457
	2,086,927	708,326	9,307,048	2,000,023
Loss before undernoted	(5,217,854)	(708,326)	(17,417,493)	(2,000,023)
Interest income (expense)	(32,964)	361	(10,924)	868
Foreign exchange gain (loss)	(260,574)	(105,956)	(355,314)	(95,954)
Net loss for the period	(5,511,392)	(813,921)	(17,783,731)	(2,095,109)
Unrealized foreign exchange gain (loss)	-	656,755	-	656,755
Comprehensive loss for the period	($5,511,392)	($157,166)	($17,783,731)	($1,438,354)
Basic and diluted net loss per share	($0.07)	($0.00)	($0.28)	($0.05)
Weighted average shares outstanding	77,395,681	46,155,957	63,271,418	43,838,129
Deficit				
Balance, beginning of period	$20,886,268	$2,750,935	$8,613,929	$1,469,747
Net loss for the period	5,511,392	813,921	17,783,731	2,095,109
Balance, end of period	$26,397,660	$3,564,856	$26,397,660	$3,564,856
Accumulated other comprehensive loss				
Balance, beginning of period	$542,103	($1,198,858)	$542,103	($1,198,858)
Change in foreign exchange translation	-	656,755	-	656,755
Balance, end of period	$542,103	($542,103)	$542,103	($542,103)

See accompanying notes to consolidated financial statements

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

	3 months ended September 30, 2010	3 months ended September 30, 2009	9 months ended September 30, 2010	9 months ended September 30, 2009
Cash provided by (used in operations)				
Net loss	(5,511,392)	(813,921)	(17,783,731)	(2,095,109)
Items not involving cash:				
Accretion on notes payable and convertible debentures	1,276,521	4,538	3,776,275	11,127
Gain on extinguishment of debt	(900,000)	-	(900,000)	-
Accretion of provision for asset retirement obligation	(23,990)	-	547	-
Amortization and depletion	199,879	1,289	670,633	3,894
Unrealized foreign exchange gain (loss) on investments and convertible notes	(3,250)	-	(2,032)	-
Unrealized foreign exchange gain (loss)	(22,721)	(36,779)	(7,118)	(36,779)
Fair value of warrants for financing costs	-	144,652	-	144,652
Shares issued for broker services	-	-	48,081	-
Write-off of mineral exploration properties	-	(309)	-	33,457
Stock-based compensation	(197,787)	19,070	569,638	94,109
	(5,182,740)	(681,460)	(13,627,707)	(1,844,468)
Net change in non-cash working capital:				
Accounts receivable	(425,938)	-	(516,991)	-
Quebec tax credit and mining duties refundable	26,039	(2,678)	24,821	332,416
Prepaid expenses and other current assets	487,893	28,752	326,776	(8,088)
Inventory	563,333	-	164,890	-
Accounts payable and accrued liabilities	646,446	167,008	7,776,899	546,037
	(3,884,968)	(488,378)	(5,851,312)	(974,283)
Investing				
Purchase of term deposit	-	(411,155)	-	(411,155)
Purchase of capital assets	(350,457)	(308,686)	(962,470)	(183,509)
Mineral exploration properties	(82,336)	(1,538,432)	(82,336)	(2,949,568)
	(432,792)	(2,258,273)	(1,044,806)	(3,544,232)
Financing				
Proceeds from share issuance, net	5,397,837	868,506	6,414,200	1,217,823
Shares to be issued	-	(414,785)	-	389,040
Proceeds of notes payable, net	332,371	3,665,736	1,174,570	3,665,736
Repayment of notes payable	(1,000,000)	-	(1,000,000)	-
Proceeds of bank loan	-	-	516,609	-
Repayment of bank loan	(64,128)	-	(143,729)	-
Proceeds of convertible debentures	-	-	-	497,136
Repayment of convertible debentures	(825,000)	-	(825,000)	-
	3,841,080	4,119,457	6,136,650	5,769,735
Net change in cash	(476,880)	1,372,806	(759,468)	1,251,220
Cash, beginning of period	517,311	1,825,418	800,099	1,947,004
Cash, end of period	40,631	3,198,224	40,631	3,198,224
Supplemental cash flow information				
Interest paid	859,242	44,630	1,504,172	44,630

See accompanying notes to consolidated financial statements

1. Qualifying transaction, nature of operations and going concern

Qualifying transaction:
Royal Coal Corp. (formerly Amalfi Capital Corporation ("Amalfi")) was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on September 17, 2007 and was classified as a capital pool company as defined in Policy 2.4 of TSX Venture Exchange Inc. ("TSX-V").

On August 12, 2010, Amalfi, CDR Coal Limited, a wholly-owned subsidiary of Amalfi ("CDR Coal") and CDR Minerals Inc. ("CDR") completed a three-cornered amalgamation whereby CDR amalgamated with CDR Coal and Amalfi issued one common share for each common share of CDR outstanding ("Amalgamation"). The Amalgamation constituted Amalfi's Qualifying Transaction for the purposes of Policy 2.4 of the TSX Venture Exchange Corporate Finance Manual. Upon completion of the Amalgamation, Amalfi changed its name to Royal Coal Corp. (the "Company") and CDR changed its name to Royal Coal Limited.

Pursuant to, and concurrent with the Amalgamation, CDR:

a) issued 1,652,523 common shares which were committed to be issued prior to March 31, 2010.
b) completed a private placement of 23,425,000 units at a price of C$0.20 per unit for gross proceeds of C$4,685,000 ("Units"). Each Unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share for C$0.20 until August 12, 2015. In connection with the private placement, paid cash commissions of $226,000, issued 1,030,000 broker warrants entitling the holder to purchase one Unit for C$0.20 until August 12, 2015 and issued 125,000 common shares.
c) issued 4,125,000 Units to settle accounts payable of C$825,000. Each Unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share for C$0.20 until August 12, 2015.
d) issued 3,300,000 common shares for no additional consideration to investors who subscribed for 2,200,000 units at a price of C$0.50 per unit in January 2010. In addition, the 2,200,000 common share purchase warrants originally forming part of the units were cancelled and investors instead received 5,500,000 common share purchase warrants entitling the holder to purchase one common share for C$0.20 until August 12, 2015. Of the additional common shares and common share purchase warrants issued, Juno received 1,800,000 and 3,000,000, respectively.
e) repaid $1,000,000 of the loan due to Juno and amended the terms of the loan, whereby Juno granted an option to convert the principal amount of the loan into common shares at a conversion price equal to the greater of (i) C$0.20 and (ii) the weighted average market price of the common shares for the 20 trading days prior to the date notice is received exercising the option, exercisable at any time up until 20 days prior to March 31, 2011, the maturity date of the loan.
f) repaid $800,000 of the $5,000,000 Cheyenne convertible debenture.
g) repaid $25,000 of the $375,000 GC convertible debenture and amended the terms of the convertible debenture to provide for monthly principal payments of $5,000 commencing on August 31, 2010 and to extend the maturity date from April 1, 2010 to December 31, 2011.
h) issued 200,000 common shares as a finder's fee.

Pursuant to the Amalgamation, Amalfi:

a) consolidated its shares on the basis of one common share for each 2 common shares outstanding, resulting in 5,869,000 post-consolidation common shares outstanding.
b) issued 1,657,143 common share purchase warrants to its shareholders, on the basis of 0.28235525 common share purchase warrant for each post-consolidation common share held with each whole common share purchase warrant entitling the holder to purchase one common share for C$0.20 until August 12, 2012.

1. Qualifying transaction, nature of operations and going concern (continued)

c) Issued 55,678,484 common shares to acquire a 100% interest in CDR on the basis of one common share Amalfi for each CDR common share outstanding.
d) replaced its outstanding stock options by issuing 580,000 stock options entitling the holder to acquire one common share for C$0.20 until November 30, 2012.
e) issued 9,794,600 stock options, 5,866,262 common share purchase warrants and 518,446 broker warrants on the same terms to replace each of stock options, common share purchase warrants and broker warrants of the Company outstanding.
f) issued $4,200,000 principal amount convertible notes and $350,000 principal amount convertible notes, which shall be convertible on the same terms and conditions as CDR's convertible notes.

After giving effect to a consolidation of the outstanding common shares of Amalfi and the Qualifying Transaction, the Company had 94,250,007 common shares issued and outstanding.

The Amalgamation was accounted for as a transaction that was not a business combination, in accordance with Abstract 10 of the Emerging Issues Committee.

Nature of operations:
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 its Big Branch property near Hazard, Kentucky.

The Company has not yet determined whether its 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 obtain capital for the exploration and development of its mineral property interests.

Going concern:
These financial statements have been prepared in accordance with Canadian generally accepted 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.

1. Qualifying transaction, nature of operations and going concern (continued)

The Company has not yet demonstrated profitable production at its Big Branch property and additional funding is required to finance its operations and the exploration of mineral resource properties. There is substantial 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 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 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

These unaudited interim financial statements of the Company have been prepared using accounting policies that are consistent with the policies used in preparing the Company's annual financial statements. Generally accepted accounting principles for interim financial statements do not conform in all respects to the disclosures required for annual financial statements, and accordingly, these unaudited interim financial statements should be read in conjunction with the annual financial statements.

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. Production costs include direct labour, benefits, direct materials and other direct production costs, including depletion and amortization. Given the significant costs in the first year of operations, the inventory costs exceeded the net realizable value and as such, the inventory has been written down to its net realizable value at December 31, 2009 and September 30, 2010.

Future accounting changes:
On January 1, 2011, the Company will adopt CICA Handbook Section 1582, "Business Combinations", which will replace Section 1581, "Business Combinations". The new standard establishes standards for the recognition and measurement of identifiable assets acquired, liabilities assumed, non-controlling interest in the acquiree and goodwill acquired in a business combination.

On January 1, 2011, the Company will adopt CICA Handbook Sections 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests", which together will replace section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

(expressed in US dollars - unaudited)

2.Significant accounting policies (continued)

The Company is in the process of evaluating the requirements of the new standards.

International Financial Reporting Standards ("IFRS"):
In February 2008, the CICA Accounting Standards Board confirmed that the changeover to IFRS from Canadian generally accepted accounting principles will be required for publicly accountable enterprises, effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will report interim and annual financial statements in accordance with IFRS commencing with the interim financial statements for the 3 months ending March 31, 2011. The transition date of January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. Investment

The Company owns 50,000 common shares of Royal Nickel Corporation, a Canadian private company, related by virtue of common directors, which is mainly engaged in the business of nickel mining. The investment cost of C$100,000 is translated to US$97,182 at the closing rate on the date of the balance sheet (refer to Note 16 Subsequent Events).

4. Capital assets

	September 30, 2010 $	December 31, 2009 $
Mining equipment	1,754,975	877,966
Accumulated amortization	304,205	27,404
	1,450,770	850,562
Automobiles	118,500	43,500
Accumulated amortization	16,772	1,717
	101,728	41,783
Office furniture & equipment	37,717	27,256
Accumulated amortization	11,772	4,039
	25,945	23,217
	1,578,443	915,562

(expressed in US dollars - unaudited)

5. Mineral properties

	Dec. 31, 2009	Acquisitions & ARO*	Exploration	Depletion***	Foreign Exchange	Sep. 30, 2010
	$	$	$	$	$	$
Quebec nickel properties						
Grenville	1,509,961	(20,686)	-	-	-	1,489,275
Haut Plateau	1,045,321	(50,332)	-	-	-	994,989
Lac Pegma	3,974	-	-	-	-	3,974
	2,559,256	(71,018)	-	-	-	2,488,238
US coal properties						
SID	2,700,843	-	-	-	-	2,700,843
Laurel Fork (Coty)	279,743	-	-	-	-	279,743
Big Branch	7,985,642	153,354	-	(371,352)	-	7,767,644
	10,966,228	1553,354	-	(371,352)	-	10,748,230
	13,525,484	82,335	-	(371,352)	-	13,236,468

	Dec. 31 2008	Acquisitions & ARO*	Exploration	Depletion***	Foreign Exchange**	Dec. 31 2009
	$	$	$	$	$	$
Quebec nickel properties						
Grenville	1,004,771	-	360,778	-	144,412	1,509,961
Haut Plateau	520,858	-	449,602	-	74,861	1,045,321
Lac Pegma	3,474	-	-	-	500	3,974
	1,529,103	-	810,380	-	219,772	2,559,256
US coal properties						
SID	2,080,498	304,708	-	-	315,638	2,700,844
Laurel Fork (Coty)	166,815	92,716	-	-	20,211	279,742
Candle Ridge	-	23,017	13,693	(36,710)	-	-
Big Branch*	-	8,046,162	22,500	(83,020)	-	7,985,642
	2,247,313	8,466,603	36,193	(119,730)	335,849	10,966,228
	3,776,416	8,466,603	846,573	(119,730)	555,624	13,525,484

* Included in the 2009 acquisition value of Big Branch is the estimated asset retirement obligation (note 10)
** The foreign exchange adjustments recognize the impact of the October 1, 2009 change in functional currency from Canadian dollars (CAD) to United States dollars (USD).
*** Depletion is included in cost of sales

(expressed in US dollars - unaudited)

6. Bank loan

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, 2010, $372,880 is outstanding, of which $264,395 is due within 12 months.

7. Notes payable

The Company received loan proceeds of $5,300,000 in 2009 and additional loan proceeds of $1,000,000 in March, 2010 and $1,000,000 in September, 2010 from a company related by virtue of a common officer and director ('Related Company'). Waiver fees of $150,000 and $300,000 were converted into additional notes payable in April 2010 and July 2010 respectively. $1,000,000 of the loan was repaid in August 2010 from the proceeds of the private placement. 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. All fees and interest charges imposed by the unrelated lender are charged by the Related Company to the Company.

	September 30, 2010 $	December 31, 2009 $
Loan proceeds	7,750,000	5,300,000
Repayments	(1,000,000)	-
Transaction costs		
Cash	(711,008)	(637,468)
5,171,312 common shares	(2,419,013)	(2,419,013)
	3,619,979	2,243,519
Add accretion to date	2,968,204	617,273
Gain on extinguishment of debt	(900,000)	-
Less current portion	(5,688,183)	(2,000,000)
	-	860,792

The value of the debt will be accreted to $12,500,000, representing the loan outstanding of $6,750,000 and the Royalty of $5,750,000 outlined below. The Company agreed to additional Notice and Amendment agreements, and Waiver agreements dated February 4, 2010, March 15, 2010, May 7, 2010, June 3, 2010, July 23, 2010, August 31, 2010 and September 9, 2010 which modified certain terms of the notes payable at September 30, 2010.

The resulting terms are summarized as follows:

Maturity date: March 31, 2011

Interest:

a) Effective July 1, 2010 the interest rate was increased from 18% to 23% per annum, payable monthly in arrears until note redemptions are reinstated in January 2011, at which time the rate will revert back to 18%.
b) Effective July 1, 2010 the aggregate royalty commitment outstanding incurs interest charged at 5% per annum, payable monthly in arrears.

Additional compensation:

a) 5,000,000 common shares of the Company valued at $2,339,013;
b) a royalty of $2.00 per short ton of coal mined, subject to a minimum of $150,000 per month commencing January 1, 2010, up to an aggregate maximum of $5,750,000 and the Company agrees to make any required

payment to ensure that the aggregate royalties paid by January 31, 2012 shall be $5,750,000 (“Royalty”);

c) a royalty of $0.50 per short ton of coal mined for the life of the mines.
d) an additional 171,312 common shares of the Company valued at $80,000 were issued to an agent; a waiver fee of $150,000 was incurred in February and satisfied by the issuance on March 31, 2010 of equivalent notes payable.
e) a waiver fee of $300,000 was incurred in March 2010 and included in accounts payable at June 30, 2010. The fee was satisfied by the issuance on July 23, 2010 of equivalent notes payable and increased the royalty commitment by $300,000.
f) a financing and waiver fee incurred May 7, 2010 of $1,000,000, was exchanged for the cancellation of a royalty commitment of $1,000,000. This fee is payable to the agent by installments of $300,000 on September 30, 2010, $350,000 on December 31, 2010 and $350,000 on March 31, 2011.
g) An excess borrowing base fee of $125,000 was incurred on July 23, 2010 to compensate the third party lender for security risk in excess of the security pledged.
h) On September 9, 2010 a financing and waiver fee of $125,000 and an excess borrowing base fee of $97,581 were incurred to compensate the third party lender for security risk associated with modified covenants and borrowing in excess of the security pledged.
i) The Company has the option to borrow an additional $1,000,000 under the same terms pursuant to the September 9, 2010 waiver and amendment agreement.

Security A general security agreement over all of the assets of the Company.

Repayment: Payments of $1,000,000 on the completion of an equity financing transaction, which was paid in August 2010, and the greater of $250,000 and the 50% of the earnings before interest, taxes, depreciation and amortization (’EBITDA’) of the second preceding month, on the first business day of each of January, February and March 2011 and the remaining outstanding balance of on March 31, 2011. The aggregate maximum $2.00 per short ton royalty amount must be paid by March 31, 2011 (subsequently extended to January 31, 2012).

Redemption requirement: In the event the Company disposes of equipment, vehicles, contracts (including forward sales of production contracts) for cash proceeds of up to $1,000,000 per year, at least 25% of such cash proceeds are used to repay the notes.

Redemption option: The related company granted the Company an option to convert the principal amount of the notes payable at a conversion price equal to the greater of (i) C$0.20 and (ii) the weighted average market price for the 20 trading days prior to the date notice is received exercising the option. The option is exercisable at any time up until 20 days prior to the maturity date of the notes payable, which is March 31, 2011.

(expressed in US dollars - unaudited)

7.Notes payable (continued)

Until the notes are repaid, the Company will comply with the following financial covenants (See further revisions in Note 16 Subsequent events):

a) commencing with the quarter ending September 30, 2010, to maintain its Fixed Charge Coverage of (i) 0.57 for the quarter ended September 30, 2010, (ii) 0.61 for the quarter ended December 31, 2010, (iii) 0.79 for the quarter ended March 31, 2011, (iv) 0.68 for the quarter ended June 30, 2011, (v) 0.81 for the quarter ended September 30, 2011, (vi) 0.68 for the quarter ended December 31, 2011 and (vii) 1.1 for each quarter thereafter.
b) maintain a gross 30-day production rate greater than (i) an average of 65,000 tons per month from October to December 2010 and (ii) 65,000 tons per month in January, 2011, and for each calendar month thereafter, in each case tested monthly in arrears on the 5th day following the end of each such calendar month."

In the three month period ending September 30, 2010, the amendments to the notes payable resulted in an extinguishment of debt in accordance with EIC 88.

8. Convertible debentures

	September 30, 2010		**December 31, 2009**	
	Convertible debentures $	**Equity portion of convertible debentures $**	**Convertible Debentures $**	**Equity portion of convertible debentures $**
Global Capital ("GC")	330,418	21,493	356,813	21,493
Cheyenne	3,951,593	386,840	4,669,884	386,840
	4,282,011	408,333	5,026,697	408,333
Less current portion	60,000	-	356,813	-
	4,222,011	408,333	4,669,884	408,333

Accretion expense in the nine months ending September 30, 2010 due to the convertible debentures is $81,191.

<u>Cheyenne Convertible Debentures</u>
On July 29, 2010, the Company amended the loan agreement with Cheyenne resulting in the following changes:

a) The maturity date was changed from April 1, 2011 to January 31, 2012;
b) Payment of accrued interest of $300,000 previously due on or before July 1st was deferred to be payable on December 31, 2011; and
c) $800,000 of the balance owing was paid upon closing the private placement an amalgamation completed in August, 2010.

<u>GC</u>
On March 11, 2010, the terms of the Debenture were amended to extend the maturity date from April 1, 2010 to July 15, 2010. On July 13, 2010, the Company amended the loan agreement with GC resulting in the following changes:

a) The maturity date was changed from July 15, 2010 to December 31, 2011;
b) Payments against the principal of $25,000 was made upon completion of the amalgamation transaction in August, 2010 and $5,000 per month will be made beginning August 31, 2010 and continuing until the maturity date;

(expressed in US dollars - unaudited)

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

Authorized

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

Issued

Share capital consists of the following issued and outstanding common shares:

	Number of shares	$
Balance, December 31, 2008	43,752,727	7,295,850
Shares issued by private placement	4,354,445	1,962,658
Issuance for financing transaction costs	5,246,312	2,461,827
Share issue costs	-	(183,620)
Fair value of warrants issued	-	(648,136)
Fair value of broker warrants issued	-	(45,098)
Renunciation on flow-through shares	-	(149,611)
Balance, December 31, 2009	53,353,484	10,693,870
Shares issued by private placement in January 2010	2,200,000	1,054,716
Share issue costs	-	(38,353)
Fair value of warrants issued in January 2010	-	(372,970)
Fair value of broker warrants issued	-	(13,554)
Shares issued to satisfy obligation for shares to be issued at December 31, 2009	1,652,523	822,100
Shares issued for broker services	125,000	48,081
Shares issued to effect January 2010 share unit price change	3,300,000	-
Cancellation of warrants issued in January	-	372,970
Fair value of replacement warrants issued in January	-	(752,684)
Shares issued by private placement August	23,425,000	4,492,712
Shares issued to convert accounts payable August	4,125,000	791,139
Fair value of warrants issued with private placement in August		(1,664,321)
Fair value of warrants issued with conversion of accounts payable		(293,077)
Fair value of broker warrants issued August		(73,365)
Shares issued for finder's fee	200,000	38,358
Finder's fee		(38,358)
Shares issued to Amalfi shareholders	5,869,000	766,059
Warrants issued to Amalfi shareholders		(66,442)
Transaction costs of private placement and amalgamation		(652,073)
Balance, September 30, 2010	94,250,007	15,114,808

(expressed in US dollars - unaudited)

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

On January 8, 2010 the Company completed a private placement completes a private placement of 2,200,000 units at a price of C$0.50 per unit for gross proceeds of C$1,100,000 (US$1,054,716). Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one common share at a price of C$0.50 per common share until January 6, 2012 or January 8, 2012. The private placement agreement includes a unit price protection clause which requires additional units to be issued to reflect a lower unit price in the event that C$0.50 exceeds the unit price of the private placement closing in conjunction with the amalgamation (note 1).

The Company paid cash commissions of $38,353 to brokers, along with 80,000 broker warrants with an exercise price of C$0.50 per broker warrant and each such broker warrant exercisable for one common share with an exercise price of C$0.50 per common share until January 8, 2012.

In January, values ascribed to the warrants and broker warrants of $372,970 and $13,554, respectively, were based on their fair value as determined using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	1.31 - 1.38%
Expected volatility	63.16%
Expected life of warrants	2 years
Expected dividend yield	Nil

On August 12, 2010, the Company completed a private placement of $4,492,712 in net proceeds, representing an aggregate of 23,425,000 units (the "Units") at a price of C$0.20 per unit (the "Private Placement"). Each Company Unit is comprised of one common share and one common share purchase warrant ("Warrant"). Each whole Warrant will entitle the holder to purchase one common share of the Company at a price of C$0.20 for a period of five years from the closing of the Private Placement. The aggregate of 23,425,000 Warrants issued had an ascribed value of $1,664,321. Pursuant to the terms of the Private Placement, the Company issued an aggregate of 1,030,000 broker warrants with an ascribed value of $73,365, each exercisable to purchase one Unit at C$0.20 for a period of 60 months from the closing of the Private Placement.

On August 12, 2010, pursuant to debt settlement agreements with two trade creditors, the Company converted $791,139 into 4,125,000 Units at a price of C$0.20 per unit ("Debt Settlement"). Each Unit is comprised of one common share and one common share purchase warrant ("Warrant"). Each whole Warrant will entitle the holder to purchase one common share of the Company at a price of C$0.20 for a period of five years from the closing of the Debt Settlement. The aggregate of 4,125,000 Warrants issued had an ascribed value of $293,077.

(expressed in US dollars - unaudited)

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

On August 12, coincident with the amalgamation and pursuant to the January private placement agreement, the Company issued an additional 3,300,000 common shares, cancelled 2,200,000 common share purchase warrants valued at $372,970 and issued 5,500,000 replacement common share purchase warrants entitling the holder to purchase one common share at a price of C$0.20 per common share until August 12, 2015 with an ascribed fair value of $752,684 as determined using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	2.44%
Expected volatility	74.25%
Expected life of warrants	5 years
Expected dividend yield	Nil

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 - C$**
Balance, December 31, 2008	5,719,600	0.24
Granted in 2009	4,075,000	0.44
Balance, December 31, 2009	9,794,600	0.36
Granted on August 12	580,000	0.20
Balance, September 30, 2010	10,374,600	0.35
Exercisable number of options	9,016,266	0.33

(expressed in US dollars - unaudited)

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

A summary of the Company’s outstanding stock options as at September 30, 2010 is presented below:

Exercise price	Expiry date	Options outstanding	Options exercisable
C$0.25	September 30, 2010	100,000	100,000
$0.25	October 25, 2010	519,600	519,600
$0.25	October 25, 2012	1,225,000	1,225,000
C$0.25	October 25, 2012	2,400,000	2,400,000
C$0.50	August 14, 2013	1,475,000	1,475,000
C$0.50	November 6, 2014	1,500,000	1,000,000
C$0.20	November 6, 2014	500,000	333,333
C$0.50	November 16, 2014	1,250,000	833,333
C$0.50	December 10, 2014	825,000	550,000
C$0.20	November 30, 2012	580,000	580,000
		10,374,600	9,016,266

Warrants:

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

	Amount $	Number of warrants	Weighted-average exercise price - C$
Balance, December 31, 2008	27,313	725,452	1.17
Issued in 2009	836,703	5,659,256	0.47
Balance, December 31, 2009	864,016	6,384,708	0.55
Broker warrants issued in January 2010	13,544	80,000	0.50
Warrants issued in January 2010	372,970	2,200,000	0.50
January warrants cancelled August 12, 2010	(372,970)	(2,200,000)	0.50
Replacement warrants issued August 12, 2010	752,684	5,500,000	0.20
Warrants issued in private placement August 12, 2010	1,664,321	23,425,000	0.20
Warrants issued with accounts payable conversion August 12, 2010	293,077	4,125,000	0.20
Broker warrants issued August 12	73,365	1,030,000	0.20
Warrants issued to Amalfi shareholders	66,442	1,657,143	0.20
Balance, September 30, 2010	3,727,459	42,201,851	0.25

(expressed in US dollars - unaudited)

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

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

	Expiry date	Warrants outstanding
C$0.50	November 28, 2010	89,090
C$1.00-C$1.25	November 28, 2010	636,362
$0.50	June 25, 2011	833,334
$0.50	July 7, 2011	50,000
$0.50	July 10, 2011	30,000
$0.50	July 15, 2011	2,241,111
$0.50	October 13, 2011	284,511
$0.50	October 15, 2011	1,200,000
C$0.50	October 21, 2011	1,000,000
$0.50	November 2, 2011	20,300
C$0.50	January 8, 2012	80,000
C$0.20	August 12, 2012	1,657,143
C$0.20	August 12, 2015	34,080,000
		42,201,851

Contributed surplus:

	$
Balance, December 31, 2008	889,407
Stock-based compensation 2009	713,196
Balance, December 31, 2009	1,602,603
Stock-based compensation 2010	569,638
Balance, September 30, 2010	2,172,241

10. Asset retirement obligations

The Company's asset retirement obligations result from its land rehabilitation commitments on the coal mining activities on its Big Branch property. At December 31, 2009 the total discounted obligation estimated to settle the asset retirement obligation using a credit adjusted risk free interest rate of 18% over the estimated five year life of the mine is $2,086,000. The sum of the undiscounted total cash flows anticipated to be incurred over 5 years ending December 31, 2014 is $3,228,876. The change in the balance for the three months and nine months ended September 30, 2010 represents the accretion ($12,542 and $37,079, respectively) on the obligation (three months and nine months ended September 30, 2009 – $nil and $nil, respectively).

The estimate of the obligation is subject to significant estimates by management. The ultimate costs could be materially different from the amounts estimated, dependant 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 - unaudited)

11. 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:

	September 30, 2010 $	December 31, 2009 $
Mineral exploration properties by geographic area		
Quebec, Canada	2,488,238	2,559,265
Kentucky, USA	10,748,230	10,966,228
	13,236,468	13,525,484

All revenues are earned in the U.S. and all the capital assets are in the U.S except for office furniture and equipment with a gross value of $5,952 and net book value of $2,935 at September 30, 2010.

12. Related party transactions and related balances

For the nine month period ended September 30, 2010, the Company:

a. Paid management fees of $181,731 for the nine months ended September 30, 2010 ($161,580 - nine months ending September 30, 2009) of which $72,916 (December 31, 2009 - $14,271) 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. Paid consulting fees of $nil in 2010 $41,399, nine months ending September 30, 2009) to a company related by virtue of common directors. These amounts are included in management and consulting expense.
c. Issued 1,652,523 common shares in April 2010 (December 31, 2009 - Committed to issue 1,652,523 common shares) for services rendered to a company controlled by an officer of the Company. The common share value of $822,100 (December 31, 2009 - $771,702) is included in mineral property interests. The change in value from December 31, 2009 is due to a change in foreign exchange rates.
d. The Company received loan proceeds of $2,450,000 in March, April and September; added a $300,000 waiver fee to the loan balance in July; and repaid $1,000,00 in August a company related by virtue of a common officer and director. The details of the transaction are disclosed in note 6.
e. Recorded royalty expenses, at a rate of $0.50 per ton, of $141,580 for the nine months ended September 30, 2010 (2009 - $Nil) due to a company related by virtue of a common officer and director and it is included in the $164,280 in accounts payable and accrued liabilities owing to this related company at September 30, 2010 (December 31, 2009 - $105,651).
f. Recorded accretion expenses related to the notes payable (note 7) of $3,776,275 for the nine months ended September 30, 2010 (2009 – Nil).

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.

(expressed in US dollars - unaudited)

13. Capital disclosures

Capital of the Company consists of the components of shareholders' equity. 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 nine months ended September 30, 2010.

The Company is subject to externally imposed capital requirements pursuant to notes payable and convertible debenture agreements.

14. 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. Fair values estimates are based on quoted market values and other valuation methods.

Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists. The carrying and fair values of financial assets and liabilities as at September 30, 2010 and December 31, 2009 are summarized as follows:

	September 30, 2010		**December 31, 2009**	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
	$	**$**	**$**	**$**
Cash	40,631	40,631	800,099	800,099
Accounts receivable	760,084	760,084	243,905	243,905
Accounts payable and accrued liabilities	10,966,663	10,966,663	3,189,764	3,189,764
Bank loan	372,880	372,880	-	-
Notes payable	11,660,531	5,688,183	9,653,993	2,860,792
Convertible debentures	4,282,011	4,282,011	5,026,697	5,026,697

The investment in a private company is classified as available-for-sale and is carried at its acquisition cost. The carrying value of the held-for-trading and loans and receivables financial instruments approximates fair value.

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.

(expressed in US dollars - unaudited)

14. Financial instruments and risk management (continued)

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 their credit risk based on general market knowledge and specific information obtained through its business relationships with each of customer. The maximum exposure to credit risk is equal to the carrying value of cash and accounts receivables. The Company made sales to its two major customers, as well as to five other customers in the period.

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 13 to the consolidated financial statements.

At September 30, 2010, the Company had current assets of $1,326,345, including cash of $40,631, (December 31, 2009 - $2,083,276 and $800,099, respectively) available to pay current liabilities of $16,979,241 (December 31, 2009 - $5,546,576). The following are the maturities, including the accretion on the notes payable and convertible debentures, and excluding interest payments and the option to extend repayment of a portion of notes payable to March 31, 2012, and a possible early redemption of convertible debentures subject to terms disclosed in note 8, reflecting undiscounted future cash disbursements of the Company's financial liabilities based on three months ending December 31, 2010 and twelve months ending December 31, 2011 and December 31, 2012:

	Payments Required/Settlement expected		
	2010	2011	2012
	$	$	$
Accounts payable and accrued liabilities	10,966,663	-	
Bank loan	127,645	263,808	45,655
Notes payable	600,000	8,643,750	3,509,505
Convertible debentures	15,000	4,530,000	-
	11,709,308	13,437,558	3,555,160

Market risk:
Market risk is the risk of less 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, 2010, 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 $120,000 (December 31, 2009 - $66,000).

14. Financial instruments and risk management (continued)

(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. A 1% fluctuation in the floating interest rate would affect the profitability of the Company by an immaterial amount.

15. Commitments

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. At September 30, 2010 the Company's equipment and premises lease commitments totaled $1,077,809 for the balance of 2010 and $2,095,689 for 2011. None of these commitments extend beyond 2011.

16. Subsequent events

a) Notes Payable - Notice of amendment agreements and waiver agreements

On November 1, 2010 the Company announced that it completed the notice of amendment agreements and waiver agreements ("the Agreements") to modify certain financial and production covenants of the notes payable (note 7) and issued an additional $1,000,000 in notes pursuant to the agreements announced September 10, 2010. The Agreements are with a company related by virtue of a common officer and director ('Related Company'). The terms of the Agreements are consistent with terms of corresponding agreements amongst the related company and its unrelated note holders and agent. The Agreements result in the following changes:

Additional proceeds: The Agreements resulted in an additional advance of $1,000,000 pursuant to the option included in the September 2010 waiver and amendment agreement. The $2,000,000 total of these notes mature on March 31, 2011.

Additional compensation: The Agreements resulted in a $122,418 over-advance fee payable from the proceeds and a $300,000 waiver fee, of which $100,000 is payable from the proceeds and $200,000 payable by issuance of the equivalent notes payable maturing March 31, 2011. In connection with the Purchase Agreement, the Company and Related Company entered into a royalty agreement dated as of September 30, 2009 providing for, among other things, the payment to Related Company of a US$2.00 per ton royalty interest (the "Royalty Interest"). The Royalty Interest is capped at the amount of indebtedness under the Purchase Agreement, which will be increased by US$1,000,000 as a result of the issuance in October 2010 of the additional notes described above. The Related Company is obligated to pay the Royalty Interest received from the Company over to the Third Party Lender. The Royalty Interest commitment matures January 31, 2012.

Repayment: The $1,000,000 additional royalty commitment is due on January 31, 2012, or earlier if the tons of coal produced are sufficient to retire the royalty commitment at the rate of $2 per ton.

Covenant changes: The Company agrees with the Agent and each Noteholder to replace or modify the financial and production covenants including the following:

a) Replace the covenant to maintain the ratio of note indebtedness to free cash flow with a covenant to achieve specified average selling prices per ton of coal. Due to year to date losses and negative cash flow, the original covenant could not be achieved. Consequently the Company agreed to will maintain a monthly average gross selling price for coal shipped, of greater than or equal to (i) US$57 per ton in the month of October 2010, (ii) US$53 per ton in the month of November 2010, (iv) US$58 per ton in the month of December 2010, (v) US$63 per ton in each month of January, February and March 2011, and (vi) US$69 per ton in the month of April 2011 l 2011 and in each month thereafter, in each case tested monthly in arrears on the 5th day following the end of each such calendar month.

b) Modified the Fixed Charge Coverage covenant to reflect revised production and financial forecasts. The revised covenant to be measured as of the end of each Fiscal Quarter commencing on the Fiscal Quarter ending December 31, 2010, and continuing on a going forward basis, the Company will not permit its Fixed Charge Coverage to be below (i) (1.7) for the Fiscal Quarter ending December 31, 2010, (ii) (0.1) for the Fiscal Quarter ending March 31, 2011, and (iii) 1.1 for the Fiscal Quarter ending June 30, 2011, and for each Fiscal Quarter thereafter, in each case tested quarterly in arrears on the 5th day following the end of each Fiscal Quarter, and will deliver an Officer's Certificate confirming such Fixed Charge Coverage for each such Fiscal Quarter on the 6th day following the end of each such Fiscal Quarter.

c) Modified the Production Rate covenant to reflect the revised production and financial forecasts to a gross 30-day Production Rate greater than or equal to (i) 26,500 tons in October, 2010, (ii) 37,000 tons in November, 2010, (iii) 46,000 tons in December, 2010, (iv) 48,000 tons in January, 2011, (v) 50,000 tons in February, 2011, (vi) 55,000 tons in March, 2011, and (vii) 60,000 tons in April, 2011 and for each calendar month thereafter, in each case tested monthly in arrears on the 5th day following the end of each such calendar month."

b) <u>Royalty sale generates proceeds of $1,500,000</u>
The Company also announced on November 1, 2010 that it entered into new royalty arrangements with third parties (the "Payees") to provide additional operating capital to the Company of US$1,500,000 (the "Royalty Proceeds"). Subject to the terms of this new royalty arrangement, the Company will pay to the Payees an aggregate royalty equal to US$1.50 for each short ton of coal mined, removed, and sold from the Company's Big Branch and Sid Mining Projects (the "Mines"), until the Payees have been paid an aggregate amount equal to two times the amount of the Royalty Proceeds received by the Company, and thereafter, US$0.60 for each short ton of coal mined, removed, and sold from the Mines. In conjunction with the royalty agreement, the Company sold its investment for proceeds equal to its original cost of Can$100,000.

c) <u>Coal purchase agreement</u>
On November 26, 2010 the Company announced that it entered into a coal purchase agreement with Sandstorm Metals & Energy Ltd. (TSX-V:SND) ("Sandstorm Energy") to acquire 18% of the first six million tons of coal produced, and thereafter 12% of the life of mine coal produced from the Company's following surface coal mining projects in Eastern Kentucky, USA:

- Big Branch Mine, an operating thermal coal mine and any development extensions thereof
- Sid Mining Project, a permitted and bonded thermal coal project expected to begin production in mid-2011.

Sandstorm Energy will be required to make an upfront payment of US$11 million plus ongoing fixed payments of US$55/ton, subject to certain adjustments as set out in the coal purchase agreement.

The Company provided certain production level guarantees, including that Sandstorm Energy will receive minimum cash flows of US$2 million in calendar year 2011 and minimum cash flows of US$2.5 million in each of calendar years 2012, 2013, 2014 and 2015 as a result of the further sale of the coal purchased from the Company.

The completion of the Sandstorm Energy coal purchase agreement remains subject to Sandstorm Energy completing an equity financing for minimum gross proceeds of US$60 million and the Company raising US$5 million via an equity offering or joint venture.

d) Royalty sale to generate $3,000,000
On November 26, 2010 the Company entered into a separate royalty agreement with Sandstorm Energy pursuant to which, in exchange for an upfront payment by Sandstorm Energy of US$3 million (to be paid by December 17, 2010), the Company will pay Sandstorm Energy a royalty equal to 2.7% of revenue from the above Mines until Sandstorm has been paid an aggregate amount of US$4.5 million, and thereafter 1.35% of revenue from the Big Branch Mine and the Sid Mining Project.

The Company will enter into a security agreement in favour of Sandstorm Energy as security for its obligations under the coal purchase agreement and royalty agreement.

e) Sid Mining Project letter of intent for joint venture
On November 26, 2010 the Company announced it had entered into a non-binding letter of intent with Alto Group Holdings Inc. pursuant to which Alto would make a US$5 million investment in the Company's Sid Mining Project in exchange for a 50% joint venture interest in the project. The funds would be used to commence coal production at the Sid Mining Project. If the transaction closes, all operations in the joint venture project would be directed and managed by the Company.