ROYAL COAL CORP.
(FORMERLY AMALFI CAPITAL CORPORATION)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

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This Management's Discussion and Analysis ("MD&A") provides a review of the results of operations of Royal Coal Corp. ("Royal Coal" or the "Company"), formerly Amalfi Capital Corporation ("Amalfi"), and should be read in conjunction with the unaudited consolidated financial statements and related notes for the nine months ended September 30, 2010 and the audited consolidated financial statements for the years ended December 31, 2009 and 2008 for the Company's operating unit, CDR Minerals Inc., which was renamed Royal Coal Limited in conjunction with the three-corner amalgamation with Amalfi (or the reverse takeover) on August 12, 2010. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All dollar figures included therein and in the following MD&A are quoted in United States dollars unless otherwise specified. The following MD&A is prepared as of November 29 2010 and amended on March 11, 2011. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com or at the Company's website, www.royalcoal.com.

SELECTED FINANCIAL INFORMATION

The following table provides selected consolidated financial information that should be read in conjunction with the consolidated financial statements of the Company.

Nine Months Ended:	September 30 2010	September 30 2009
Revenues	$15,754,051	-
Cost of Sales	23,864,496	-
Gross Margin	(8,110,445)	-
Net Loss	17,783,731	2,095,109
Net loss per share	$0.28	$0.05

As at:	September 30 2010	December 31 2009
Working capital	(15,652,896)	(3,463,300)
Total Assets	16,141,256	16,524,324
Long-term liabilities	4,630,154	5,793,255

(i) Working capital is current assets less current liabilities and is a non-GAAP measure used by management.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

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

COMPANY HIGHLIGHTS

- Royal Coal Corp., (the "Company") (formerly Amalfi Capital Corporation ("Amalfi")), was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on September 17, 2007. Amalfi was classified as a "Capital Pool Company" for the purposes of the policies of the TSX Venture Exchange (the "Exchange"). Amalfi completed its initial Public Offering (the "Offering") on April 29, 2008 and became listed for trading on the Exchange on May 6, 2008.

- On August 12, 2010, the Company completed a private placement resulting in gross proceeds of $5,283,851 (Can$5,510,000) from the issuance of 27,550,000 common shares purchase units at Can$0.20 each, resulting in the issuance of 27,550,000 common shares and 27,550,000 warrants, each entitling the holder to purchase one common share at Can$0.20 until August 12, 2015.

- 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 the Amalfi's Qualifying Transaction for the purposes of Policy 2.4 of the Exchange Corporate Finance Manual. Upon completion of the Amalgamation, Amalfi changed its name to Royal Coal Corp. and its shares are traded under the symbol "RDA" on the Exchange.

- Effective August 12, 2010, the members of the Board of Directors are:
    - Thomas Griffis, Chairman (appointed August 12)
    - Elia Crespo (appointed August 12)
    - John Ellis (appointed August 12)
    - Scott Hand (appointed August 12)
    - James Ladner, Chairman of Audit Committee (appointed August 12)
    - Michael Rousseau (since September 17, 2007)
    - Dino Titaro (appointed August 12)

- In October 2009, the Company started producing coal at its Big Branch property, which is one of the Company's three high quality surface coal mining operations in the U.S. Central Appalachian Basin (CAPP).

- The Company obtained additional financing from its secured creditors to support the operations through 2010 and beyond, which enables the Company to seek the additional sources of funding, such as coal pre-sales, royalty streams and equity, required to add production at Big Branch and its other properties.

- Coal production increased to over 112,000 tons in the three months ending September 30, 2010 (third quarter), from the 95,000 tons per quarter average achieved in the first two quarters of 2010.

COMPANY OUTLOOK

Since the Company began operations in October 2009, its main challenges have been to achieve targeted production levels at its Big Branch mine, near Hazard, Kentucky, and to realize adequate prices for its coal products. The Company has seen a gradual improvement in its production levels since August 2010. The Company, however, has not been able to meet its target production levels primarily because the availability of its mining fleet was below projected levels, which was due in large part to the unavailability of adequate capital since the Company acquired the Big Branch Project in September 2009. The financings in August and October 2010 assisted the Company to achieve higher production levels in the three months ended September 30, 2010 and enhanced equipment availability and productivity, which are expected to generate improved operating levels into December.

As of November 26th 2010, the Company entered into a royalty agreement in exchange for $3 million payable by December 17, 2010 and a coal purchase agreement pursuant to which $11 million will be made available to the Company for a number of purposes. Completion of the royalty agreement and coal sale agreement with Sandstorm Metals & Energy Ltd. (TSX-V:SND) ("Sandstorm") are subject to the terms noted in the subsequent events section of this MD&A and in note 16 of the consolidated financial statements for the three and nine months ended September 30, 2010. The Company believes that, by allocating approximately $2 million of this new capital to repair and expand the mining fleet for the Big Branch Mine, it will be more cost effective in reaching its projected production levels of 52,000 tons per month by February 2011, thereby generating positive cash flow from the Big Branch mine.

The Company has also seen continued price improvements for its products over the past few months, thus recovering from the lower price levels in the first half of 2010. Average prices per ton have improved from a range of $50-55/ton in early 2010 to prices in the mid $70's/ton range currently. The projected forward price curve for 2011 is well above early 2010 levels. In addition, a number of lower priced coal contracts which the Company was committed to when the Big Branch mine was purchased in 2009 will terminate in December 2010, thus allowing the Company to benefit from an improved price environment for the Company's products for at least the next 12 months.

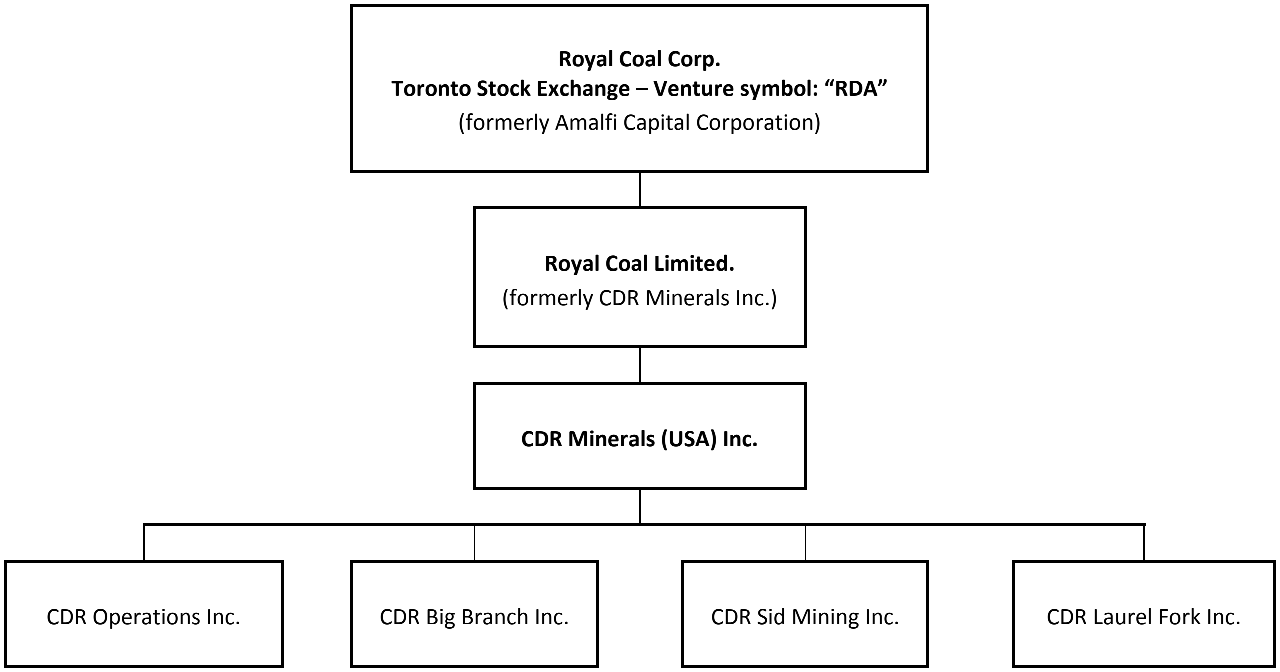
The Company also announced on November 26, 2010 that it had entered into a non-binding letter of intent with Alto Group Holdings Inc. ("Alto") pursuant to which Alto would make a $5 million investment in the Company's Sid Mining Project in exchange for a 50% joint venture interest in the project. The funds would be used to put the Sid Mining Project into production in 2011. The additional production combined with improved market prices for coal should improve the Company's operating results. The Company is also reviewing other nearby properties which could be put into production in the near to medium term.

The Company will continue to seek additional equity and other financings, including possible pre-sale coal arrangements, to allow the Company to pursue favorable acquisition prospects to leverage potential economies of scale which will improve the future profitability and financial position of the Company.

OVERVIEW AND CORPORATE STRUCTURE

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

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



MINERAL EXPLORATION AND COAL MINING PROPERTIES IN KENTUCKY, U.S.A

Royal Coal has concentrated its efforts on developing an asset base in the CAPP coal producing region of the United States the Company's principal properties are: the Big Branch Project, the Sid Mining Project; and the Laurel Fork Mining Project.

Set forth in this section are brief descriptions of the Big Branch Project, the Sid Mining Project and the Laurel Fork Project. The information in this section was, in part, summarized and/or extracted from the Big Branch Report, Sid Mining Report, and the Laurel Fork Report, respectively and from the Amalfi Capital Corp Filing Statement dated March 29, 2010. The Big Branch Report was prepared by Phillip Lucas, P.E., P.L.S., Steve Tackett, P.E. and Charles Dale, E.I. T. as the qualified persons at Summit in accordance with NI 43-101. The Sid Report was prepared by Phillip Lucas, P.E., P.L.S. and Charles Dale, E.I. T. as the qualified persons at Summit, in accordance with NI 43-101. The Laurel Fork Report was prepared by Phillip Lucas, P.E., P.L.S., Steve Tackett, P.E. and Charles Dale, E.I. T. as the qualified persons at Summit, in accordance with NI 43-101. Portions of this section are based on assumptions, qualifications and procedures which are not fully described herein. The reports anticipated operating all three projects (i.e. Big Branch Project, Sid Mining Project, and the Laurel Fork Project) in 2010, whereas only the Big Branch project operated and it operated at a much lower production level than the respective report. Reference should be made to the full text of each of the Big Branch Report, Sid Report, and Laurel Fork Report, and the Amalfi Capital Corp Filing Statement dated March 29, 2010, which are available for review on the System for Electronic Documents Analysis and Retrieval (SEDAR) at www.sedar.com.

Valuation of Coal Reserves – estimated at January 20, 2010

Big Branch Project

	2010	2011	2012	2013	2014	Total
Projected Coal Production	1,057,100	1,200,000	1,200,000	1,200,000	723,304	**5,380,404**
Estimated Coal Sales Price	$67	$74	$78	$78	$78	
Estimated Revenue	$70,825,700	$88,800,000	$93,600,000	$93,600,000	$56,417,712	**$403,243,412**
Royalty Income at 6%	$5,666,056	$7,104,000	$7,488,000	$7,488,000	$4,513,417	**$32,259,473**
NPV at 15% Discount Rate	4,927,005	5,371,645	4,923,482	4,281,288	2,243,966	**21,747,386**

Sid Mining Project

	2010	2011	2012	2013	2014	2015	Total
Projected Coal Production	341,100	543,900	595,000	595,000	595,000	595,000	**3,265,000**
Estimated Coal Sales Price	$70	$74	$78	$78	$78	$78	
Estimated Revenue	$23,877,000	$40,248,600	$46,410,000	$46,410,000	$46,410,000	$46,410,000	**$249,765,600**
Royalty Income at 6%	$1,432,620	$2,414,916	$2,784,600	$2,784,600	$2,784,600	$2,784,600	**$14,985,936**
NPV at 15% Discount Rate	$1,245,757	$1,826,023	$1,830,920	$1,592,104	$1,384,438	$1,203,859	**$9,083,102**

Laurel Fork Project (Gayheart Reserves Only)

	2010	2011	2012	Total
Projected Coal Production	30,000	670,000	737,500	**1,437,500**
Estimated Coal Sales Price	$70	$74	$78	
Estimated Revenue	$2,100,000	$49,580,000	$57,525,000	**$109,205,000**
Royalty Income at 6%	$168,000	$3,966,400	$4,602,000	**$8,736,400**
NPV at 15% Discount Rate	$146,087	$2,999,168	$3,025,890	**$6,171,145**

Total Estimated NPV of Coal Reserves Associated with CDR Mine Plan: $37,001,632

Notes:

(1) Production and Coal Sales Values are from proformas provided by Royal Coal (formerly CDR Minerals Inc.) prior to January 20, 2010. Production and sales are measured tons (tons refer to a short ton, which equals 2,000 pounds).

(2) Royalty Rates are from existing leases.

(3) A 15% Discount Rate is used for Net Present Value Estimates.

(4) Since the 2010 projected coal production and estimated revenue will not be achieved by the Big Branch Project, and neither of the Sid Mining Project nor the Laurel Fork Project will operate in 2010, the Net Present Value estimates for the Coal Reserves as noted above and in the respective NI 43-101 reports would change with revised assumptions regarding estimates of production levels and timing.

Big Branch Project

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

Sid Mining Project

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

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

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

Laurel Fork Project

Royal Coal holds a central lease within the Laurel Fork mining project area of interest (the "Laurel Fork AOI"), also located proximate to Hazard, Kentucky. It is expected that the wider Laurel Fork AOI can be leased for minimal coal lease prepayments plus out of pocket expenses. The process of obtaining permits for the Laurel Fork AOI is underway.

The area covered by the Laurel Fork Report (being the entire Laurel Fork AOI) is bounded to the north by Balls Fork, to the south by State Route 80, to the east by Trace Branch, and to the west by Short Fork and Rock Lick. The Laurel Fork Project is located within Knott County, Kentucky, primarily in the Vest and Carrie USGS quadrangle maps. The seams to be evaluated include the Fireclay (Hazard #4), Hazard #5A, Hazard #7, Hazard #8, Hindman (Hazard#9), and Skyline (Hazard #10). The total project area covers approximately 2500 acres.

On December 12, 2008, Royal Coal entered into coal and surface leases with a local property owner (the "Gayheart Leases"), which gave it the right to surface mine certain parcels of property located in Knott County, KY, located within the Laurel Fork AOI. CDR is obligated to pay certain minimum royalties under these agreements. The specifics of these payments as well as other terms of the agreements are summarized below. Royal Coal made a one-time payment of $125,000 for this right.

Negotiation is on-going for other properties that also lie within the wider Laurel Fork AOI.

Surface mining permit 460-0015, owned by Lee-Paul Coal Company, exists in the extreme Southwest portion of the Laurel Fork Project but has been inactive since 1991. This permit consists of 19 acres in the Hazard #9 seam, and appears to have no value to the Laurel Fork Project.

FINANCIAL REVIEW

Three and nine Months Ended September 30, 2010 compared to the Three and Nine Months Ended September 30, 2009

For the three months ended September 30, 2010 the Company recorded a net loss of $5,511,392 or $0.07 loss per share compared to a $813,921 loss or $0.02 loss per share for the three months ended September 30, 2009, which was the last quarter before mining activity began at the Big Branch property. For the nine months ended September 30, 2010 the Company recorded a net loss of $17,783,731 or $0.28 loss per share compared to a net loss of $2,095,109 or $0.04 loss per share for the nine months ended September 30, 2009.

Financial information for the past four quarters is shown below in the Summary of Quarterly Results. The Company did not prepare interim consolidated financial statements prior to becoming a reporting issuer and therefore quarterly results are only available for the Company's four most recently completed quarters.

SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

as at:	Sep-30	Jun-30	Mar-31	Dec-31
	2010	2010	2010	2009
Balance Sheet	$	$	$	$
Cash	40,631	517,311	440,844	800,099
Accounts receivable	760,084	334,146	1,116,402	243,095
Total Assets	16,141,256	17,011,808	17,160,447	16,524,324
Total Liabilities	21,609,395	22,217,388	16,925,141	11,339,832

3 months ended:	Sep-30	Jun-30	Mar-31	Dec-31
	2010	2010	2010	2009
Earnings and Cash Flow	$	$	$	$
Revenues	5,403,845	4,593,994	5,756,212	2,891,301
Cost of sales	8,534,772	6,798,168	8,531,558	5,692,672
	(3,130,927)	(2,204,174)	(2,775,346)	(2,801,371)
Net loss for the period	5,511,392	(5,760,243)	(6,512,094)	(5,198,685)
Net loss per share	$(0.07)	$(0.10)	$(0.12)	$(0.10)
Coal - Tons produced	112,393	89,532	100,183	57,255
Coal - Tons sold	97,703	87,149	109,125	50,741
Average cost per ton produced	$75.94	$75.93	$85.16	$99.43
Average price per ton sold	$55.31	$52.71	$52.75	$56.98

Revenue

Revenues are recognized at the point of shipment of coal either at the mine site when trucked directly to customers or at the load-out facility where trains are typically loaded with 8,000 to 12,500 tons of coal. Prices are negotiated based on a specific shipment or a contract for a committed volume of coal, at a specified quality level, that can be shipped over one to three months, or longer. The majority of the Company's coal is classified as CSX-BSK, BTU of 12,500 and less than 1% sulphur. The Company's average selling prices reflect a higher mix of lower priced coal sales tied to sales contracts entered into when market prices were lower and Royal Coal's production volumes were expected to be higher. Lower than expected production volumes in 2010 reduced the opportunity to sell coal at higher prices.

The Company expects the average selling price of its coal to increase in 2011, as a result of increased production, which will lower the proportion of lower priced coal in the sales mix, and due to higher market prices. CSX-BSK coal prices per ton are forecast to increase to approximately: $67.00 - December 2010; $68.05 – Q1 2011; $70.00 - Q2 2011; $72.00 - Q3 2011; $73.50 - Q4 2011. With market prices in 2011 forecast at more than $10 per ton higher than Royal Coal's 2010 year to date average price, the company expects its revenue and gross margin to improve.

Production Volumes compared to prior estimates and notes payable covenant

The Company's coal production in the three months ending September 30, 2010 was 112,393 tons, compared to the Company's 95,000 ton production covenant noted in the unaudited financial statements for the three and six months ending June 30, 2010. The production covenant in effect at December 31, 2009 included 240,000 tons for the three months ended September 30, 2010 and 300,000 for the three months ending December 31, 2010. The Company experienced difficulties maintaining equipment availability at a sufficient level to achieve the original (December 31, 2010) production targets, due to limited available capital funding. The Company evaluated its results to date, including the availability and productivity of its equipment fleet, resulting in a lower near-term production forecast and related financial targets. Based on the revised projections, the Company negotiated amendments to the note payable production covenants to 109,500 tons for the three months ending December 31, 2009 and 153,000 tons for the three months ending March 31, 2010 and 180,000 tons for the three months ending June 30, 2011. The production forecast and covenant in place at December 31, 2009 was 195,000 tons for each of the three month periods just noted.

COSTS AND EXPENSES

Costs of Sales

The cost of sales, including mine operating expenses and the load-out operating expenses, for the three and nine months ended September 30, 2010 were $8,534,772 and $23,864,496 compared to $NIL and $NIL for the same periods in 2009 when the mine was not operating.

Costs per ton produced decreased to $75.93 in the three months ending September 30, 2010 from $99.43 in the last three months of 2009 primarily due to additional costs associated with starting the mine operation in October 2009. Costs per ton are higher than expected as a result of lower production volumes attributed to lower availability of mine equipment and the growing pains associated with starting up the mine and implementing a long term efficient mine plan. The equipment availability issues relate to the shortage of capital required to maintain and enhance the equipment fleet. The Company utilized a portion of the proceeds from the August 2010 private placement to improve its fleet, which improved production in the third quarter of 2010. The Company plans to use a portion of proceeds of future fund raising to improve and expand its equipment fleet to increase efficiency and reduce its operating costs per ton.

The cost of sales per ton for the fiscal year to September 30, 2010 of $78.99 includes:

- $3.80 per ton - severance, excise and reclamation taxes
- $7.34 per ton - royalties
- $25.05 per ton - equipment rental, maintenance and tires
- $14.69 per ton - fuel and lubricants
- $10.63 per ton - blasting
- $12.60 per ton - labour
- $4.80 per ton – other

$78.99 per ton – total cost of sales YTD September 30, 2010

The Company's plans to lower its average cost per ton produced include allocating a portion of the proceeds from the October 2010 royalty sale and additional notes payable issued to:

- equipment maintenance and tires and
- the acquisition of a gas well on the property, which will significantly reduce the haul distance for 20% to 30% of its rock truck fleet

Accretion on notes payable and convertible debentures

The acquisition of the Big Branch property, its start up in 2009 and continuing operations were primarily financed by a $5,000,000 convertible debenture issued to the property vendor bearing interest at 12% per annum and $5,300,000 in notes payable bearing interest at 18% per annum, plus a royalty interest commitment equal to the value of notes issued ($5,300,000). (Refer to the notes to the interim and annual Consolidated Financial Statements at September 30, 2010 and December 31, 2009, respectively, for additional information). The accretion expense, which includes the royalty interest, was $1,276,521 and $3,776,275 for the three and nine months ended September 30, 2010 compared to $4,523 and $11,127 in the same periods of 2009.

Financing fees and gain on extinguishment of debt

Financing fees and (gain) on extinguishment of debt were ($284,429) and $1,140,358 for the three and nine months ended September 30, 2010 compared to $144,652 and $144,652 in the same periods of 2009. The financing fees resulted primarily from negotiating various waivers and amendments related to the covenants pertaining to the notes payable and from issuing additional notes payable totaling $1,000,000 in March and April and another $1,000,000 issued in September. More specifically, the covenant related to monthly production volumes was either waived or renegotiated four times YTD 2010. $270,000 of the financing fees for the nine months ended September 30, 2010 are attributed to approximately $1,500,000 in advances received against future coal sales. The ($284,429) in financing fees and (gain) on extinguishment of debt during the three months ended September 30, 2010 was due a revaluation of the fair market value of the notes payable during the period resulting in an adjustment of approximately $900,000.

General and administrative expenses

General and administrative expenses for the three and nine months ended September 30, 2010 were $209,382 and $851,346 compared to $26,326 and $189,531 for the same period during 2009. The significant increase is attributed to the start up of the Hazard Kentucky office upon completing the purchase of the Big Branch property in September 2009. Significant year to date September 2010 G&A expenses include salaries ($273,000), utilities, phone and internet ($97,000), insurance ($56,000), office supplies expenses ($73,000), rent ($16,000), and administration and management services in Toronto provided by a company related by a common director ($182,000).

Management and consulting

Management and consulting expenses for the three and nine months ended September 30, 2010 were $293,854 and $1,077,642 compared to $436,891 and $1,294,872 for the same period during 2009. Approximately $320,000 of the year to date increase in expenses is attributed to additional of staff, including the CEO and CFO (hired in November and December, 2009, respectively). Engineering and other consulting costs decreased by about $100,000 in the nine month period.

Interest on notes payable and convertible debentures

Interest on notes payable and convertible debentures for the three and nine months ended September 30, 2010 were $634,006 and $1,493,248 compared to $37,029 and $75,267 for the same period in 2009. The increase is attributed to the financing of the acquisition of the Big Branch property (refer to Financing Fees above).

Other expenses

Professional fees, travel expenses, and stock-based compensation expenses for the three and nine months ended September 30, 2010 increase significantly over the same period last year due to the addition of the CEO and CFO, more travel from to the Kentucky mine sites and increased auditing and investor relations consulting fees attributed to the private placements and Toronto Stock Exchange Venture listing.

Foreign exchange loss (gain)

Foreign exchange loss (gain) for the three and nine months ended September 30, 2010 were $260,574 and $355,314 compared to ($105,956) and ($95,954) for the same period in 2009. The foreign exchange losses result from holding net Canadian dollar denominated liabilities while the Canadian dollar strengthens against the United States dollar, and from the timing of conversions of Canadian dollars obtained via the private placements. These gains and losses are a result of fluctuations in the US and Canadian dollar, and any exchange gain or loss that arises on translation is included in the determination of net loss for the period.

Administration costs compared to estimates in the Filing Statement

The Company's filing statement dated March 29, 2010 included an estimate of $331,000 per month in administration costs. The chart below compares the administrative costs to the corresponding expense category reported on the financial statements for the three months ended September 30, 2010. Compared to the filing statement estimates, the increase in insurance expense results from an enhanced directors and officers insurance policy; the website design and content development increased the investor relations expense; and travel increased to support the private placement and other fund raising and operational activities. The timing of the private placement resulted in the deferral of consulting and management expenses until 2011, when the Company will develop its other properties.

Administration Costs	Quarterly Expense per Filing Statement	Q3 - Sep. 30 Actual
Insurance	6,000	19,263
Investor relations	33,000	54,617
Management, Consulting & General	879,000	429,356
Professional Fees	45,000	44,433
Travel	30,000	108,107
	993,000	655,776

INCOME AND RESOURCE TAXES

The Company is subject to income taxes in Canada and the United States of America. Operating losses in 2009 and 2010 may create the opportunity to apply these losses against taxable income in future years. A valuation allowance has been recorded to reduce to nil the net benefit recorded in the financial statements related to future income tax assets. The valuation allowance is deemed necessary as a result of the uncertainty associated with the ultimate realization of these tax assets.

The Company is subject to assessment by Canadian and American authorities, which may interpret tax legislation in a manner different from the Company. These differences may affect the final amount or the timing of the payment of taxes. When such differences arise the Company makes provision for such items based on management's best estimate of the final outcome of these matters.

FINANCIAL POSITION AND LIQUIDITY

Operating Cash Flow

Three and Nine Months Ended September 30, 2010 compared to the Three and Nine Months Ended September 30, 2009

The Company's operations generated losses of $5,511,392 and $17,783,731 for the three and nine months ended September 30, 2010, while the cash used in operations was $3,884,968 and $5,851,312 for the same periods. At September 30, 2010 the Company had cash available of $40,631 (December 31, 2009 - $800,099) and current assets of $1,326,345 (December 31, 2009 - $2,083,278) compared to accounts payable and accrued liabilities of $10,966,663 (December 30, 2009 - $3,189,764).

The Company's operations have not generated sufficient cash flow in 2010 to sustain its business. Consequently the Company has managed its cash flow by negotiating deferred payment terms on past due balances with vendors, entered into coal pre-sale agreements, and obtained additional funding from its secured creditors.

Investing Activities

Three and Nine Months Ended September 30, 2010 compared to the Three and Nine Months Ended September 30, 2009

Capital expenditures for the three and nine months ended September 30, 2010 amounted to $432,792 and $1,044,806 mainly for mining equipment used at the Big Branch property. For the same period for 2009, capital expenditures of $2,258,273 and $3,544,232 were mainly for investments coal mining property in Kentucky.

Financing Activities

Three and Nine Months Ended September 30, 2010 compared to the Three and Nine Months Ended September 30, 2009

During the three and nine months ended September 30, 2010, financing activities were $3,841,080 and $6,136,650. For the same period in 2009 the proceeds were $4,119,457 and $5,769,735. During the three and nine months ended September 30, 2010, net proceeds of the private placements were partially applied to redeem $1,000,000 in notes payable and $825,000 in convertible debentures in August 2010. Proceeds from the issuance of notes payable were $332,371 and $1,174,570 during the three and nine months ended September 30, 2010. In January 2010 the Company borrowed $516,609 from a Kentucky bank to finance the acquisition of mining equipment. During the three months ending September 30, 2009 the Company issued convertible debentures valued at $497,136 to finance operations.

Cash Resources and Liquidity

Three and Nine Months Ended September 30, 2010 compared to the Three and Nine Months Ended September 30, 2009

At September 30, 2010 the Company had cash available of $40,631 (December 31, 2009 - $800,099) and current assets of $1,326,345 (December 31, 2009 - $2,083,278) compared to accounts payable and accrued liabilities of $10,966,663 (December 31, 2009 - $3,189,764). The Company continues to negotiate with suppliers for payment deferrals related to past due items arising prior to the August 2010 private placement. The Company obtained additional funding in October 2010 by selling a royalty stream for $1,500,000 and issuing $1,000,000 in notes payable, increasing the amounts owed under the existing notes payable and related agreements. The Company depends on existing suppliers and executives to continue to provide goods and services while they are owed significant amounts that are long past due under the original payment terms.

The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing to support the business until production volumes increase to levels that generate revenue in excess of the costs incurred.

SUBSEQUENT EVENTS

Issuance of second $1,000,000 of Notes Payable

On November 1, 2010 the Company announced that it had completed the previously announced issuance of notes to Juno Special Situations Corporation ("Juno") in the aggregate principal amount of US$2,000,000 for an aggregate purchase price of US$2,000,000, all pursuant to the terms of the note purchase agreement dated September 30, 2009 (as subsequently amended from time to time, the "Purchase Agreement") between the Company and Juno. The first $1,000,000 in notes was issued as announced in the news release issued September 10, 2010. The proceeds of the note issuance will be used to fund the Company's ongoing coal mining operations. The corresponding waiver and amendment agreement included changes to certain terms as disclosed in note 16 'Subsequent events' of the consolidated financial statements for the three and nine months ended September 30, 2010. As previously announced, Juno received all amounts loaned to the Company pursuant to the Purchase Agreement from an unrelated lender (the "Third Party Lender") for the sole purpose of re-lending the funds to the Company on the same terms provided to Juno by the Third Party Lender. The Company remains a guarantor of Juno's debt obligations to the Third Party Lender, in respect of which the Company has granted a general security interest over its assets. As a result of the above note issuance, Juno will pay an over-advance fee of US$122,418 to the Third Party Lender, which amount the Company shall reimburse to Juno.

In connection with the Purchase Agreement, the Company and Juno entered into a royalty agreement dated as of September 30, 2009 providing for, among other things, the payment to Juno 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$2,000,000 as a result of the issuance of the additional notes described above. Juno is obligated to pay the Royalty Interest received from the Company over to the Third Party Lender.

The Company, Juno and the Third Party Lender have agreed to amend the note purchase agreement dated September 30, 2009 between Juno and the Third Party Lender (the "Third Party Loan") and the corresponding Purchase Agreement between the Company and Juno to waive certain covenants that were not achieved by the Company and establish updated financial and production covenants. In connection with the waiver and amendment, a cash waiver fee of US$100,000 was paid by Juno to the Third Party Lender, which amount the Company shall reimburse to Juno, plus additional notes in the amount of US$200,000 were issued by Juno to the Third Party Lender under the Third Party Loan and corresponding notes in the amount of US$200,000 were issued by the Company to Juno under the Purchase Agreement.

Royalty sale generates proceeds of $1,500,000

The Company also announced on November 1, 2010 that it had 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 in common shares of Royal Nickel Corporation for proceeds equal to its original cost of Can$100,000.

Coal purchase agreement

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.

<u>Royalty sale to generate $3,000,000</u>
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.

<u>Sid Mining Project letter of intent for joint venture</u>
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.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company, in connection with the acquisition of the Big Branch property, entered into an agreement to lease mining equipment for $232,677 per month for the two years ending September 29, 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.

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at the exchange amount, which is the amount of consideration agreed upon between the parties. 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, for the 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 $1,000,000 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

MANAGEMENT REPORTING

Management's Responsibility for Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements of the Company are the responsibility of management. The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. Financial information reflected in this Management's Discussion and Analysis is consistent with these financial statements.

The Company's Board of Directors has approved the information contained in the unaudited interim consolidated financial statements and this Management's Discussion and Analysis. The Board of Directors fills its responsibility regarding the financial statements mainly through its Audit Committee, which complies with the current requirements of Canadian securities legislation. The Audit Committee was established upon completion of the amalgamation on August 12, 2012 and meets at least on a quarterly basis.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates used in the preparation of the consolidated financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred expenditures, the value of stock-based compensation and the asset reclamation obligations. All of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors including the market value of the Company's share and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes model; however, the future volatility is uncertain and the model has its limitations.

The Company's recoverability of the carrying value of its mineral properties and capital assets is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by disposition of the properties. The fair value of these items is subjective and is based on management's best estimate incorporating the use of internal and external expertise.

Royal Coal is in an industry that is dependent on a number of factors, including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Royal Coal's accounts are stated using Canadian GAAP. The Company's accounting policies have not changed during 2010 and no future changes are contemplated except as may be required to conform to future changes in Canadian GAAP.

Future accounting change:

Business Combinations (Section 1582)

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", which requires that all assets and liabilities of an acquired business be recorded at fair value at acquisition. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the period after the acquisition date. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011.

Consolidations (Section 1601) and Non-Controlling Interest (Section 1602)

In January 2009, the CICA issued Handbook Section 1601, "Consolidations" ("CICA 1601"), and Section 1602, "Non-Controlling Interests" (CICA 1602"). CICA 1601 establishes standards for preparing consolidated financial statements and CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

International Financial Reporting Standards ('IFRS')

In January 2006, the CICA's Accounting Standards Board ('AcSB') formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will assess the impact of the transition to IFRS and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

Impact of International Financial Reporting Standards

For reporting periods beginning on or after January 1, 2011, the Company must comply with the AcSB that have been revised to satisfy the requirements of IFRS as issued by the International Accounting Standards Board.

Management of IFRS implementation

Royal Coal is a junior company with a small accounting staff. The Chief Financial Officer will manage the conversion and report to the Audit Committee. The implementation of IFRS consists of three phases:

(i) *Scoping and impact analysis*- Project scoping and impact analysis was initiated in July, 2010 and produced a high level view of potential differences to existing accounting and reporting policies and consequential changes to information systems and business processes.

(ii) *Evaluation and design phase*- This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft

IFRS financial statement content. The evaluation phase commenced in 2010 and the Company will continue to evaluate the impact of IFRS through to implementation.

(iii) Implementation and review phase- The implementation and review phase will commence in November 2010 and includes training programs for finance staff, execution of changes to information systems and business processes, and completing formal authorization processes to approve recommended accounting policy changes. It will culminate in the collection of financial information necessary to compile IFRS compliant financial statements, embedding of IFRS in business processes, elimination of unnecessary data collection processes and Board approval of IFRS financial statements. Implementation also involves delivery of further training to staff as systems begin to take effect.

Key differences in accounting policies

The differences between Canadian GAAP and IFRS identified to date as potentially having a significant effect on Royal Coal's financial performance and financial position are in the process of being reviewed.

During the nine months ended September 30, 2010, the Company has not quantified the effects of the differences between Canadian GAAP and IFRS, but has established that there will be differences related to stock-based compensation, and long term liabilities. The Company will continue to assess the impact and will provide more detail during the coming quarters.

The regulatory bodies that promulgate Canadian GAAP and IFRS have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on the Company's financial reports in future years. The future impact of IFRS will also depend on the particular circumstances prevailing in those years.

The summary in Table 1, should not be considered as a complete and final list of the changes that will result from the transition to IFRS as the Company intends to maintain a current and proactive approach based on changes in circumstances and no final determinations have been made. In addition, the accounting bodies responsible for issuing Canadian and IFRS accounting standards have significant ongoing projects that could impact the Company's financial statements as at 1 January 2011 and in subsequent years, including projects regarding financial instruments and joint venture accounting. In addition, there is an extractive industries project currently underway that will lead to more definitive guidance on the accounting for exploration and evaluation expenditures, although this is still in the discussion paper stage and may not be completed for some time. The Company is continuing to monitor the development of these projects and will assess their impact in the course of its transition process to IFRS.

Table 1. Summary of financial statements impact on transition from Canadian GAAP to IFRS.

Key Area	Canadian GAAP (as currently applied)	IFRS	Analysis and preliminary conclusions
Property, plant and equipment ("PP&E")	PP&E is recorded at historical cost.	PP&E can be recorded using the cost (on transition to IFRS, the then fair value can be deemed to be the cost) or revaluation models.	PP&E will likely continue to be recorded at their historical costs due to the complexity and resources required to determine fair values on an annual basis.
	Depreciation is based on their useful lives after due estimation of their residual values.	Depreciation must be based on the useful lives of each significant component within PP&E.	Based on an analysis of PP&E and its significant components, the Company has determined that no change to their useful lives is warranted and, therefore, depreciation expense will continue to be calculated using the same rates under IFRS.

Mineral properties	Exploration, evaluation and development costs are capitalized when incurred. They are amortized on the basis of production or written off when the prospect is no longer deemed prospective or is abandoned.	IFRS has limited guidance with respect to these costs and currently allows exploration and evaluation costs to be either capitalized or expensed.	The existing accounting policy is likely to be maintained.
Asset retirement obligations ("ARO")	Canadian GAAP limits the definition of ARO to legal obligations. ARO is calculated using a current credit-adjusted, risk-free rate for upward adjustments, and the original credit-adjusted, risk-free rate for downward revisions. The original liability is not adjusted for changes in current discount rates.	IFRS defines ARO as legal or constructive obligations. ARO is calculated using a current pre-tax discount rate (which reflects current market assessment of the time value of money and the risk specific to the liability) and is revised every reporting period to reflect changes in assumptions or discount rates. IFRS requires that, on transition, the net book value of the asset related to ARO be adjusted on the basis of the ARO balance existing at inception.	The broadening of this definition is unlikely to cause a significant change in the Company's current estimates. At September 30, 2010 the Company's ARO is calculated using pre-tax discount rate of 18%, which reflects current market assessment of the time value of money and the risk specific to the liability. The Company expects to rely on the IFRS 1 exemption which allows a company to use current estimates of future reclamation costs and current amortization rates to determine the net book value on transition to IFRS.

Impairment of long lived assets	Impairment tests of its long-term assets are considered annually based on indications of impairment. Impairment tests are generally done on the basis of undiscounted future cash flows. Write-downs to net realizable values under an impairment test are permanent changes in the carrying value of assets.	Impairment tests of "cash generating units" are considered annually in the presence of indications of impairment. Impairment tests are generally carried out using the discounted future cash flows. Write downs to net realizable values under an impairment test can be reversed if the conditions of impairment cease to exist.	Assets will continue to be grouped under the Company's mining operations, which include the coal properties in Kentucky and the exploration properties in Quebec. Management does not believe that Impairment tests using discounted values on its Kentucky and Quebec properties could generate a write downs in the future. Potential significant volatility in earnings could arise as a result of the difference in the treatment of write-downs.

Stock-based compensation	Stock-based compensation is determined using fair value models (e.g. Black-Scholes) for equity-settled awards and the intrinsic model for cash-settled awards. The Company recognizes stock-based compensation on straight line method and updates the value of the options for forfeitures as they occur.	Stock-based compensation is determined using fair value models for all awards. However, upon settlement, cash-settled awards are adjusted to the value actually realized (intrinsic model). Under IFRS, stock-based compensation is amortized under the graded method only. In addition, the Company is required to update its value of options for each reporting period for expected forfeitures.	The utilization of fair value models for cash-settled awards will change the estimate of the related liability while the awards remain outstanding and create greater volatility in earnings until the awards are settled. The Company expects to record an IFRS income statement and balance sheet adjustment at January 1, 2011.
Income taxes	There is no exemption from recognizing a deferred income tax for the initial recognition of an asset or liability in a transaction that is not a business combination. The carrying amount of the asset or liability acquired is adjusted for the amount of the deferred income tax recognized. All deferred income tax assets are recognized to the extent that it is "more likely than not" that the deferred income tax assets will be realized.	A deferred income tax is not recognized if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit. A deferred tax asset is recognized if it is "probable" that it will be realized.	The Company does not expect the difference in recognition of deferred income tax to have any significant change in the future. "Probable" in this context is not defined and does not necessarily mean "more likely than not". The Company has not yet quantified the impact of this difference.

The above assessment and conclusions are based on the analysis completed by the Company as of the date of this report and may be subject to change between now and January 1, 2011.

UNCERTAINTIES AND RISK FACTORS

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

Financing Risks

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

Credit risk

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

Fair value

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

The carrying value of cash and accounts payable and accrued liabilities approximates fair value due to the short-term nature of these financial instruments.

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

Interest rate risk

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

Commodity Prices

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

Foreign Currency Risks

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

Exploration and Development

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

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

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

Operating Hazards and Risks

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

Regulations and Mining Law

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

Environmental Factors

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

Permits and Licenses

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

Title to Assets

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

Governmental Regulation

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

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

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

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

No Dividends

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

Dependence on Key Employees

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

Conflicts Of Interest

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

Competition

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

Share Price Fluctuations

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

OUTSTANDING SHARE DATA

As at November 29, 2010, the following were the undiluted and fully diluted common shares outstanding:

Common shares outstanding as at November 29, 2010	94,250,007
Shares issuable on exercise of options	10,374,600
Shares issuable on exercise of warrants	42,201,851
Fully diluted shares outstanding as at November 29, 2010	146,826,458

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

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

GENERAL

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