Royal Coal Corp.
(formerly Amalfi Capital Corporation)

Consolidated Financial Statements
December 31, 2010 and December 31, 2009
(expressed in US dollars)

Collins Barrow
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Royal Coal Corp.

We have audited the accompanying consolidated financial statements of Royal Coal Corp. which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, deficit, other comprehensive loss and accumulated other comprehensive loss and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Royal Coal Corp. as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes the material uncertainties that may cast significant doubt about Royal Coal Corp's ability to continue as a going concern.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
April 27, 2011
Toronto, Ontario

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

As at December 31	2010	2009
ASSETS		
Current		
Cash	$ 346,882	$ 800,099
Accounts receivable	172,475	243,093
Prepaid expenses and other current assets	508,215	471,857
Inventory (note 3)	190,830	342,098
Quebec tax credit and refundable mining duties	20,016	130,979
Investment (note 4)	-	95,150
	1,238,418	2,083,276
Capital assets, net (note 5)	1,708,895	915,562
Mineral properties (notes 6 and note 14)	13,504,726	13,525,484
	$ 16,452,039	$ 16,524,322
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 10,123,206	$ 3,189,763
Bank loan and debt obligation, current portion (note 7)	871,165	-
Notes payable, current portion (note 8)	4,057,191	2,000,000
Convertible debentures, current portion (note 9)	240,212	356,812
	15,291,774	5,546,575
Asset retirement obligation (note 12)	313,944	262,579
Bank loan and debt obligation (note 7)	4,138,195	-
Notes payable (note 8)	3,570,530	860,792
Convertible debentures (note 9)	4,107,394	4,669,884
	27,421,837	11,339,830
SHAREHOLDERS' DEFICIENCY		
Capital stock (note 10)	14,848,912	10,693,870
Shares to be issued (note 10)	960,463	771,702
Warrants (note 10)	3,801,473	864,016
Contributed surplus (note 10)	2,217,212	1,602,603
Equity portion of convertible debentures (note 9)	362,876	408,333
Accumulated other comprehensive loss	(542,103)	(542,103)
Deficit	(32,618,631)	(8,613,929)
	(10,969,798)	5,184,492
	$ 16,452,039	$ 16,524,322

Nature of operations, going concern and qualifying transaction (note 1)
Commitments, contingencies and subsequent events (notes 6, 19 and 20)
See accompanying notes to consolidated financial statements

Approved by the Board of Directors	“A. Thomas Griffis”	“Elia Crespo”
	Director	Director

ROYAL COAL CORP.

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

(expressed in US dollars)

For the years ended December 31	2010	2009
Revenues	$21,254,670	$ 2,891,301
Cost of sales	31,897,028	5,692,672
	(10,642,358)	(2,801,371)
Expenses		
Accretion and interest on notes payable (note 8)	8,410,222	912,045
Accretion and interest on convertible debentures (note	820,535	333,073
Accretion and interest on bank loan and debt obligation (note 7)	244,778	-
Amortization	20,023	2,783
Financing fees	501,422	173,882
General and administration	793,972	141,561
Management and consulting (note 15)	2,143,445	1,802,550
Professional fees	315,795	147,869
Stock-based compensation (note 10)	614,609	713,196
Travel	197,992	183,972
Write-off of mineral exploration properties (note 6)	-	33,458
	14,062,793	4,444,389
Loss before undernoted	(24,705,151)	(7,245,760)
Gain on extinguishment of note payable (note 8)	920,035	-
Loss on sale of investment (note 4)	(49,010)	-
Foreign exchange loss	(170,576)	(48,033)
Loss before income taxes	(24,004,702)	(7,293,793)
Future tax recovery (note 13)	-	149,611
Net loss for the year	(24,004,702)	(7,144,182)
Unrealized foreign exchange gain	-	656,755
Comprehensive loss for the year	($24,004,702)	($6,487,427)
Basic and diluted net loss per share	($0.34)	($0.15)
Weighted average shares outstanding	71,084,590	46,593,511
Deficit		
Balance, beginning of year	($8,613,929)	($1,469,747)
Net loss for the year	(24,004,702)	(7,144,182)
Balance, end of year	($32,618,631)	($8,613,929)
Accumulated other comprehensive loss		
Balance, beginning of year	($542,103)	($1,198,858)
Change in foreign exchange translation	-	656,755
Balance, end of year	($542,103)	($542,103)

See accompanying notes to consolidated financial statements

ROYAL COAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in US dollars)

For the years ended December 31	2010	2009
Cash provided by (used in operations)		
Net loss	($24,004,702)	($7,144,182)
Items not involving cash:		
Accretion of notes payable	8,410,222	781,924
Accretion of convertible debentures	218,217	-
Accretion of debt obligation	83,290	-
Accretion of provision for asset retirement obligation	51,365	14,055
Amortization and depletion	1,087,803	140,030
Gain on extinguishment of debt	(920,035)	-
Unrealized foreign exchange	(32,969)	642,411
Loss on sale of investments	49,010	-
Shares issued for consulting services	127,702	-
Stock-based compensation	614,609	713,196
Warrants issued for financing fees	-	143,469
Write-off of mineral exploration properties	-	36,710
Future income taxes	-	(149,611)
	(14,315,488)	(4,821,998)
Net change in non-cash working capital:		
Accounts receivable	70,618	(235,477)
Quebec tax credit and mining duties refundable	110,963	264,251
Prepaid expenses and other current assets	(36,358)	(428,649)
Inventory	151,268	(342,908)
Accounts payable and accrued liabilities	6,756,171	2,796,115
	(7,262,826)	(2,768,666)
Investing		
Purchase of capital assets	(1,241,109)	(670,888)
Mineral exploration property additions	(57,988)	(3,759,248)
Sale of investment in shares	49,010	-
	(1,250,087)	(4,430,136)
Financing		
Cash received from amalgamation transaction	721,218	-
Proceeds from share issuance	4,874,174	1,779,038
Proceeds of notes payable, net	3,000,000	4,662,532
Repayment of notes payable	(4,563,476)	-
Proceeds of bank loan	516,609	-
Repayment of bank loan	(204,761)	-
Proceeds of debt obligations	4,697,797	-
Repayment of debt obligation	(131,865)	-
Proceeds of convertible debentures	-	427,460
Repayment of convertible debentures	(850,000)	(729,862)
	8,059,696	6,139,168
Net change in cash	(453,217)	(1,059,634)
Cash, beginning of year	800,099	1,859,733
Cash, end of year	$346,882	$800,099
Supplemental cash flow information (note 11)		
Interest paid	$1,668,403	$241,649

See accompanying notes to consolidated financial statements

1. Nature of operations, going concern and qualifying transaction

Nature of operations:
Royal Coal Corp.'s (the "Company") (formerly Amalfi Capital Corporation ("Amalfi")) principal business is the acquisition and development of high quality coal mining operations in the Central Appalachian Basin of the United States and base metal exploration in Quebec. The Company was in the exploration stage until September 30, 2009 when it acquired and commenced coal mining operations at the Big Branch property near Hazard, Kentucky.

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

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

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

The Company has not yet demonstrated profitable production at the Big Branch property or other properties and additional funding is required to finance its operations and the exploration of this and other mineral resource properties. There is significant doubt as to the Company's ability to continue as a going concern. The Company is actively seeking to raise the necessary capital to meet its funding requirements. Although the Company has been successful in raising funds to date and subsequent to December 31, 2010 (note 20), 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.

Qualifying transaction:
The Company 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").

1. Nature of operations, going concern and qualifying transaction (continued)

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. and CDR changed its name to Royal Coal Limited. The accounting parent company in this transaction was CDR. Accordingly, these financial statements represent the continued operations of CDR.

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.
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 Special Situations Corp. ("Juno"), a related company by virtue of a common officer and director, 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 20 days prior to March 31, 2011, the maturity date of the loan (note 8).
f) repaid $800,000 of the $5,000,000 Cheyenne convertible debenture (note 9).
g) repaid C$25,000 of the C$375,000 Global Capital convertible debenture and amended the terms of the convertible debenture to provide for monthly principal payments of C$5,000 commencing on August 31, 2010 and to extend the maturity date from April 1, 2010 to December 31, 2011 (note 9).
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.
c) issued 55,678,484 common shares to acquire a 100% interest in CDR on the basis of one common share of 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.

1. Nature of operations, going concern and qualifying transaction (continued)

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 88,381,007 common shares issued and outstanding.

The Amalgamation was accounted for as a transaction that did not constitute a business combination, in accordance with EIC 10. Accordingly, the issuance of shares for the net monetary assets of Amalfi with consideration, net of transaction costs was added to share capital.

Current assets acquired	$873,232
Less: Current liabilities	(107,173)
Net assets acquired	$766,059

2. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in US dollars, except those amounts denoted C$ which are in Canadian dollars.

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

Change in functional and reporting currency
Effective October 1, 2009, the Company changed its functional currency from the Canadian dollar to the US dollar. The change coincides with the acquisition and start up of the Big Branch coal mining property located near Hazard, Kentucky. The sale of the Company's production and substantially all of its production costs are incurred in US dollars. The acquisition of the Company's USA-based mining properties was financed primarily with notes payable in US dollars. The Company determined that its change in focus to USA-based operations, combined with financing its operations with US dollar notes payable required the change in functional currency to US dollars. Going forward, proceeds from Canadian dollar equity financings will be considered secondary to cash generated from operations in US dollars.

(expressed in US dollars)

2. Significant accounting policies (continued)

Effective October 1, 2009, the Company also changed its reporting currency from the Canadian dollar to the US dollar. The change in reporting currency is to better reflect the Company's business activities and to improve financial statement users' ability to compare the Company's financial results with other publicly traded businesses in the coal mining industry. Prior to October 1, 2009, the Company reported its annual and quarterly consolidated balance sheets and the related consolidated statements of operations and cash flows in the Canadian dollar. In making the change in reporting currency, the Company followed the recommendations of the Abstract 130 of the Emerging Issues Committee ("EIC-130"), "Translation Method When the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency". In accordance with EIC-130, the financial statements for all years presented have been translated into the new reporting currency using the current rate method. Under this method, the statements of operations and cash flows for each year have been translated into the reporting currency using the average exchange rates prevailing during each reporting year (2009 - C$1.00 = US$0.8757). All assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheet dates (2009 - C$1.00 = US$0.9515). Shareholders' equity balances on December 31, 2007 have been translated at C$1.00 = US$1.0120, the exchange rate on that date, and shareholders' equity transactions since December 31, 2007 have been translated using the rates of exchange in effect as of the dates of the various capital transactions. All resulting exchange differences arising from the translation are included as a separate component of other comprehensive loss. For the year ended December 31, 2009, a gain due to the foreign currency translation adjustment in the amount of $656,755 was recorded as other comprehensive loss and is included in the consolidated balance sheet in accumulated other comprehensive loss

Financial instruments

All financial instruments are classified into one of the following five categories: held-for-trading assets or liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in net income or loss in the period in which they arise. Available-for-sale financial instruments that have a quoted price in an active market are measured at fair value with revaluation gains and losses included in accumulated other comprehensive income until the instruments are derecognized or impaired. Available-for-sale financial instruments that have no quoted market price in an active market are measured at cost. Loans and receivables, investments held-to-maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company has made the following classifications:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Investment	Available-for-sale
Accounts payable and accrued liabilities	Other liabilities
Bank loan and debt obligation	Other liabilities
Convertible debentures	Other liabilities
Notes payable	Other liabilities

Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition. Costs related to the modification or extinguishment of debt are included in net loss.

2. Significant accounting policies (continued)

On June 1, 2009, the Company adopted amendments to CICA Handbook Section 3862, "Financial Instruments - Disclosures" which included amendments for additional disclosures about fair value measurements of financial instruments and enhanced liquidity risk disclosure. The additional fair value measurement disclosures include the classification of financial instrument fair values in a hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. The most significant estimates and assumptions include those related to the economic lives and cash flows of mineral properties and capital assets, collectability of accounts receivable, measurement of net realizable value of inventory, measurement of the asset retirement obligation, accretion of long term debt, equity portion of convertible debt, measurement of stock-based compensation and warrants. Actual results could differ from those estimates.

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. Stripping costs incurred during the production phase of a mine are treated as variable production costs and as a result are included in the cost of the inventory produced during the year that the stripping costs are incurred.

Mineral properties

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

When a property is placed into production, deferred costs are amortized on the units-of-production basis in relation to the proven and probable reserves estimated on the related property.

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

2. Significant accounting policies (continued)

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

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

Long-lived assets
Long-lived assets, which comprise mineral properties and capital assets, are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If the sum of the undiscounted future cash flows expected from use and residual value is less than carrying amount, the long-lived asset is considered impaired. An impairment loss is measured as the amount by which the carrying value of the long-lived assets exceeds its fair value.

Asset retirement obligations
The Company recognizes the fair value of the liabilities related to statutory, contractual or legal obligations associated with the retirement of mineral properties in the year in which it is incurred when a reasonable estimate of fair value can be made, in which case the carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company's estimates of such costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures.

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

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

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

Stock-based compensation
The Company accounts for stock-based compensation using the fair value based method. The fair value of stock-based compensation is determined by using the Black-Scholes option pricing model. The fair value of stock options awarded to employees or directors is recognized as stock-based compensation expense over the option vesting period with an offsetting credit charged to contributed surplus. The applicable contributed surplus is transferred to share capital if and when the stock options are exercised. Any consideration paid on the exercise of stock options is credited to capital stock.

2. Significant accounting policies (continued)

Other stock-based payments
The Corporation accounts for other stock-based payments based on the fair value of the equity instruments issued in exchange for the receipt of goods and services from non-employees by using the stock price and other measurement assumptions as at the measurement date or the fair value of the services provided, whichever is considered more reliable.

Income taxes
The Company uses the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using the substantively enacted tax rates expected to apply when these temporary differences are expected to reverse. The effect on future income tax assets and liabilities resulting from a change in tax rates is included in income in the year in which the change is substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

Flow-through shares
Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. The Emerging Issues Committee of the Canadian Institute of Chartered Accountants issued EIC-146 under which the Company is required to recognize the future income tax liability upon filing renunciation documents with the tax authorities and to treat it as a cost of issuing the flow-through shares.

If the Company has sufficient unused tax losses and deductions to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, the tax benefits of such losses are recorded as future income tax recoveries to the extent that the future income tax liabilities relating to the issuance of flow-through shares are expected to reverse in the loss carry forward period.

2. Significant accounting policies (continued)

Foreign currency translation
The majority of the Company's business is transacted through its fully integrated foreign operations in US dollars and accordingly, the consolidated financial statements have been measured and expressed in US dollars. The Company's Canadian-based operations are transacted primarily in Canadian dollars . The Company uses the temporal method to translate the Canadian operating results into US dollars. Under this method, monetary assets and liabilities denominated in currencies other than the US dollar are translated into US dollars at the exchange rates prevailing at the balance sheet date; non-monetary assets denominated in foreign currencies are translated using the exchange rate at the transaction date; all revenue and expense items are translated at the exchange rate at the transaction date. Foreign exchange gains and losses are included in the reported loss and unrealized gains and losses due to movements in exchange rates on cash balances held in foreign currencies are shown separately on the consolidated statements of cash flows. Prior to October 1, 2009, the Canadian dollar was determined to be the measurement currency of the Company and its subsidiaries. As such, the Company's USA operations were translated into Canadian dollars using the temporal method for prior reporting purposes. For reporting purposes, the consolidated operations for the nine months ended September 30, 2009 were translated into US dollars using the current rate method whereby all assets and liabilities were translated into US dollars at the exchange rate prevailing at the balance sheet dates; all revenue and expense items were translated at the average rate of exchange for the period; and the resulting translation adjustment was recorded as a currency translation adjustment, a separate component of accumulated other comprehensive income. Equity transactions after December 31, 2007 denominated in Canadian dollars were translated to US dollars at the exchange rate prevailing on the transaction date.

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

Accounting changes

Future accounting changes:

The Company did not elect the early adoption of the following standards:

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.

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)

2. Significant accounting policies (continued)

Accounting changes (continued)

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. Inventory

Given the significant costs in the first fifteen months of operations, the inventory costs exceeded the net realizable value and as such, the inventory has been written down by $157,000 (2009 - $852,000) to its net realizable value of $190,830 at December 31, 2010 (2009 - $342,098).

4. Investment

The Company disposed of 50,000 common shares of Royal Nickel Corporation, related by virtue of common directors, which is mainly engaged in the business of nickel exploration. The disposal of the investment resulted in a loss on disposal of $49,010 and a realized foreign exchange gain of $2,870.

5. Capital assets

	December 31, 2010 $	December 31, 2009 $
Mining equipment	2,005,657	877,966
Accumulated amortization	(435,356)	(27,404)
	1,570,301	850,562
Automobiles	138,500	43,500
Accumulated amortization	(32,917)	(1,717)
	105,583	41,783
Office furniture & equipment	45,995	27,256
Accumulated amortization	(12,984)	(4,039)
	33,011	23,217
	1,708,895	915,562

Amortization expense recorded for the year ended December 31, 2010 was $447,776 (2009 - $34,652).

(expressed in US dollars)

6. Mineral properties

	Dec. 31, 2009	Acquisitions & ARO	Exploration	Depletion***	Dec. 31, 2010
	$	$	$	$	$
Quebec nickel properties					
Grenville	1,509,961	114,240	-	-	1,624,201
Haut Plateau	1,045,321	84,594	-	-	1,129,915
Lac Pegma	3,974	-	-		3,974
	2,559,256	198,834	-	-	2,758,090
US coal properties					
SID	2,700,843	166,327	-	-	2,864,170
Laurel Fork (Coty)	279,743	90,532	-	-	370,275
Big Branch	7,985,642	166,577	-	(640,028)	7,512,192
	10,966,228	420,436	-	(640,028)	10,746,636
	13,525,484	619,270	-	(640,028)	13,504,726

	Dec. 31 2008	Acquisitions & ARO*	Exploration	Write-off & 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	3,475	-	-	-	499	3,974
	1,529,104	-	810,380	-	219,772	2,559,256
US coal properties						
SID	2,080,498	304,708	-	-	315,637	2,700,843
Laurel Fork (Coty)	166,815	92,716	-	-	20,212	279,743
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
	3,776,417	8,466,603	846,573	(119,730)	555,621	13,525,484

*Included in the 2009 acquisition value of Big Branch is the estimated asset retirement obligation (note 11)
** 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

Credit on duties refundable for loss and refundable tax credit for resources
The Company is entitled to a credit on duties refundable for loss under the Quebec Mining Duties Act. This credit on duties refundable for loss on mineral exploration expenses incurred in the Province of Quebec at the rate of 12% has been applied against the costs incurred.

(expressed in US dollars)

6. Mineral properties (continued)

Also, the Company is entitled to the refundable tax credit for resources for mineral companies on qualified expenditures incurred in the Province of Quebec. The refundable tax credit for resources may reach 35% or 38.75% of qualified expenditures incurred. This tax credit has been applied against the costs incurred.

As at December 31, 2010, Grenville and Haut Plateau include $328,571 and $163,251 (2009 - $349,257 and $213,583) in cumulative Quebec mining duties refundable and tax credits.

Quebec Nickel Properties
The Company has an option to purchase a 100% interest in the Grenville and Haute Plateau properties located in Quebec. In order to purchase its interest, the Company must make payments and issue common shares, as follows:

	Payments US$	**Payments C$**	**Common shares**
Paid to date	350,000	125,000	2,000,000
July 16, 2010 (deferred from July 16, 2009)(i)	-	*100,000*	*200,000*
July 16, 2010(i)	-	*200,000*	*200,000*
July 16, 2011	-	200,000	400,000
July 16, 2012	-	200,000	400,000
July 16, 2013	-	400,000	400,000
July 16, 2014	-	400,000	-
July 16, 2015	-	400,000	-
July 16, 2016	-	2,525,000	-
	350,000	4,650,000	3,600,000

(i) Per an agreement in December 2010, these payments are to be settled in January 2011 with the issuance of 1,511,111 common shares.

In the event that the Company becomes owner of the 100% interest and the properties are in commercial production, the Optioner is entitled to a 3% Net Smelter Royalty (“NSR”) and the Company has the right to buy back one-half of the NSR at any time for a one time payment of C$5,000,000**.**

USA Coal Properties
<u>Sid</u>
On October 23, 2008, the Company purchased from Sid Mining LLC (the “Seller”) certain coal and lease agreements and a surface mining permit (the “acquired assets”) located in Hazard, Kentucky (the “Sid” property) for the aggregate cost of $1,700,000. The acquired assets include 9 lease agreements with production royalties between $0.50 and $3.00 per ton. Annual minimum advance royalties to be applied against the production royalties range between $300 and $3,000. Pursuant to a Memorandum of Understanding (the “MOU”) dated August 14, 2008, the Company issued 170,000 common shares in consideration for agency fees to PKM Holdings LLC (‘PKM”) and agreed to issue 550,841 common shares in consideration for $271,720 in finder’s fees to PKM. Under the purchase agreement, the Company shall pay a two percent override (the “Overriding Royalty”) from sales of coal mined or extracted from the properties and leases. In the event that the Company has not commenced mining operations within 90 days of the date the permit amendment is approved, the Company shall pay the seller an advance royalty of $2,000 per month until mining operations begin. The mine is scheduled to be in production in 2011.

(expressed in US dollars)

6. Mineral Properties (continued)

On October 23, 2008, the Company entered into a lease agreement with B&M Coals, LLC (the "lessor"), expiring on October 13, 2013. Under the agreement, the Company paid to the lessor a recoupable royalty of $5,000, due each year end thereafter without regard to the quantity of coal produced during any lease year. On the 25th of the month following the month coal is mined, the Company shall pay to the lessor $2.50 or 6% of the in-pit price, whichever is greater, for each and every 2,000 pounds of coal mined and removed.

<u>Laurel Fork</u>
During 2008, the Company incurred expenditures to acquire certain proximate coal and surface leases located in Knott County, Kentucky. Under the lease agreements, the Company must pay production royalties between $1.00 and $3.50 per ton and must make minimum advance royalties and annual lease payments that range between $500 and $48,000. Royalty rates will begin on tracts only after a permit is obtained and mining begins. In certain tracts a minimum royalty rate will apply regardless of whether a property has yet been permitted.

Acquisition of Big Branch mineral property interest
On September 30, 2009, the Company acquired assets which consisted of a leasehold interest and estate, mineral and other rights, assignment of purchase contracts and mining equipment with respect to the Big Branch coal property located in Kentucky, as follows:

	$
Asset acquired	
Mineral resource property	7,741,577
Equipment	300,000
	8,041,577
Consideration	
Cash	1,877,009
Application of non-refundable deposit	500,000
Secured convertible note	
Debt portion	4,613,160
Equity portion	386,840
Transaction costs	
Cash	150,000
Finder's fee of 1,101,682 common shares to be issued (notes 10 and 14)	514,468
	8,041,577

The Company issued a secured convertible note for $5,000,000, which was allocated between debt and equity. The fair value of the debt of $4,613,160 was determined by discounting the future interest and principal payments using a discount rate of 18% and the residual amount of $394,091 was allocated to equity. The details of the convertible note and changes are described in note 9.

(expressed in US dollars)

7. Bank loan and debt obligation

	December 31, 2010 $	**December 31, 2009 $**
Bank loan, January 2010 (i)	309,044	-
Debt obligation, December 2010 (ii)	66,333	-
Royalty agreement, October 2010 (iii)	1,597,997	-
Royalty agreement, December 2010 (iv)	3,035,986	-
	5,009,360	-
Less current portion	(871,165)	-
	4,138,195	-

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

2011	$2,539,174
2012	3,875,787
2013	1,404,598
2014	-
Total	$7,819,559

(i) The Company received loan proceeds in January 2010 of $516,609 to finance mining equipment acquired and leased. The loan is repayable at $23,005 per month for 24 months and bears interest at 6.5% per annum. The loan is unsecured. At December 31, 2010 $309,444 is outstanding, of which $286,419 is due within 12 months.

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

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

(expressed in US dollars)

7. Bank loan and debt obligation (continued)

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

8. Notes payable

	December 31, 2010	**December 31, 2009**
	$	**$**
Note payable to related company	7,627,721	2,860,792
Less current portion	(4,057,191)	(2,000,000)
	3,570,530	860,792

The Company received loan proceeds of $5,300,000 in 2009 and additional loan proceeds of $1,000,000 in March, 2010, $1,000,000 in September 2010, and $1,000,000 in October 2010 from a company related by virtue of a common officer and director ('Related Company') and issued the following notes to satisfy waiver requirements: $150,000 in April 2010; $300,000 in July 2010; and $200,000 in October 2010. $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, except that the Company issued the Related Party 5,000,000 common shares to provide security for the notes payable. All fees and interest charges imposed by the unrelated lender are charged by the Related Company to the Company.

The value of the debt, using the effective interest rate of 170% (2009 – 178%) will be accreted to $17,900,000, representing the loan proceeds of $8,950,000 and the Royalty of $8,950,000 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, September 9, 2010, October 29, 2010 and December 31 2010 which modified certain terms after all amendments of the notes payable at December 31, 2010. The resulting terms after all amendments 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.

8. Notes payable (continued)

Additional compensation:

a) 5,000,000 common shares of the Company;
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 $8,950,000 and the Company agrees to make any required payment to ensure that the aggregate royalties paid by January 31, 2012 shall be $8,950,000 ("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. 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 of $1,000,000, was agreed to May 7, 2010 in exchange, upon payment, for the cancellation of a corresponding royalty commitment of $1,000,000. $650,000 of this fee was outstanding at December 31, 2010 and payable on or before 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, borrowing an additional $1,000,000, and borrowing in excess of the security pledged.
i) On October 29, 2010 the Company exercised the option to borrow an additional $1,000,000 under the same terms pursuant to the September 9, 2010 waiver and amendment agreement; agreed to an over-advance fee payable from the proceeds; and agreed to a financing and waiver fee of $300,000, payable with $100,000 cash and $200,000 in notes payable with a corresponding $200,000 increase in the royalty commitment. The fees were incurred to compensate the third party lender for security risk associated with modified covenants and borrowing an additional $1,000,000.
j) Effective December 31, 2010 a financing and waiver fee of $250,000 was incurred to compensate the third party lender for security risk associated with waiving covenants not achieved by the Company.

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

(expressed in US dollars)

8. Notes payable (continued)

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 on March 31, 2011. The aggregate maximum $2.00 per short ton royalty amount must be paid by January 31, 2012.

Future undiscounted scheduled repayments by year are as follows:

2011	$10,813,225
2012	4,076,419
Total	$14,889,644

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 20 days prior to the maturity date of the notes payable, which is March 31, 2011.

Until the notes are repaid, the Company will comply with the following financial covenants:

a) The Company will maintain a monthly average gross selling price for coal shipped, of greater than or equal to (i) US$63 per ton in each month of January, February and March 2011, and (ii) US$69 per ton in the month of April 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) The Company will not permit its Fixed Charge Coverage to be below (i) (1.7) for the Fiscal Quarter ending March 31, 2011, (ii) (0.1) for the Fiscal Quarter ending June 30, 2011, and (iii) 1.1 for the Fiscal Quarter ending September 30, 2011 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) The Company will achieve a gross 30-day Production Rate greater than or equal to (i) 48,000 tons in January, 2011, (ii) 50,000 tons in February, 2011, (iii) 55,000 tons in March, 2011, and (iv) 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.

(d) The amendments of the notes payable throughout the year were evaluated in accordance with EIC 88 to determine if there was an extinguishment or modification of the notes payable. The amendments on July 23, 2010 represented an extinguishment of the notes payable and a gain of $920,035 was recorded in the statement of operations.

Subsequent to year-end, the loan balance was paid off with the proceeds received from advances from Sandstorm Energy and the closing of an equity financing (note 20).

(expressed in US dollars)

9. Convertible debentures

	December 31, 2010		December 31, 2009	
	Debt portion of convertible debentures $	Equity portion of convertible debentures $	Debt portion of convertible debentures $	Equity portion of convertible debentures $
Global Capital (i)	240,212	1,602	356,812	21,493
Cheyenne (ii)	4,107,394	361,274	4,669,884	386,840
	4,347,606	362,876	5,026,696	408,333
Less current portion	240,212	-	356,812	-
	4,107,394	362,876	4,669,884	408,333

Accretion expense in the year ending December 31, 2010 due to the convertible debentures is $218,217 (2009 - $164,651).

(i) Global Capital Convertible Debentures

On June 26, 2008, the Company issued a C$750,000 12% secured convertible debenture ("Debenture") that was scheduled to mature on December 26, 2009. The Debenture was secured by the general security agreement over the assets of the Company and are convertible into common shares at the holder's option at any time prior to maturity. The price of conversion shall be the lesser of:

a) C$0.50 per common share;
b) The common share pricing of the Company's next lowest priced equity and/or convertible debt financing; or
c) 25% discount to the Initial Public Offering ("IPO") price, if there is not a corresponding equity offering of common shares of the Company at the date of the IPO, then 25% discount to the most recent equity financing prior to the IPO.

The proceeds from the issuance of the Debenture have been allocated between debt and equity based upon the present value of the Company's cash obligations. The debt component of the convertible debenture is accreted to the amount due at maturity, through interest expense using the effective interest method.

The fair value of the equity component was determined using the Black-Scholes option-pricing model with the following assumptions: dividend yield 0%; expected volatility 52%; risk-free interest rate 3.13%; and an expected maturity of 1.5 years. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an estimated borrowing rate to the Company of 15%.

(expressed in US dollars)

9. Convertible debentures (continued)

On October 1, 2009, the terms of a convertible secured note of C$750,000 were amended as follows:
a) The Company repaid C$375,000 of the convertible secured note.
b) The Company issued 75,000 common shares with a value of C$37,500 as a fee to the lender.
c) The lender allowed the Company to provide a guarantee of $10,600,000 for a convertible secured note in priority to their security interest.
d) The Company arranged for the loan to be guaranteed by a company related by virtue of a common officer and director.

On November 30, 2009, the terms of the remaining convertible secured note of C$375,000 were amended as follows:
a) The definition of the maturity date was changed to April 1, 2010;
b) The Company was granted the option to extend the maturity date to June 30, 2010.

On March 11, 2010, the terms of the Debenture were amended to change the definition of the maturity date to July 15, 2010.

On July 13, 2010, the terms of the convertible secured note of C$375,000 were amended as follows:
a) The Company repaid C$25,000 and provided for monthly principal payments of C$5,000 commencing on August 31, 2010;
b) The definition of the maturity date was changed to December 31, 2011.

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

(ii) Cheyenne Convertible Debentures

On the acquisition of Big Branch (note 6) the Company issued convertible notes in the amount of $5,000,000, which was allocated between debt and equity. The fair value of the debt of $4,613,160 was determined by discounting the future interest and principal payments using a discount rate of 18% and the residual amount of $386,840 was allocated to equity. The terms of the original debt are as follows:

Maturity:	April 1, 2011
Interest:	12% per annum, compounded and payable quarterly in arrears
Security:	A general security agreement over all of the assets of the Company

(expressed in US dollars)

9. Convertible debentures (continued)

Repayment:	On the earlier of April 1, 2011, the date on which there is an event of default and the date on which there is a liquidity event: any amalgamation, consolidation, statutory arrangement (involving a business combination), merger; a direct or indirect sale, transfer or other conveyance or disposition of all or substantially all of its assets; a change of control or sale or disposition or similar event which gives the right to accelerate or otherwise require payment of any indebtedness prior to the maturity date; any other event where cash proceeds are generated outside the ordinary course of business, including, but not limited to, obtaining debt or equity financing greater than $12,000,000. In the event that the Company completes an equity or debt financing less than $12,000,000, the Company shall make a required repayment equal to the net proceeds from the financing multiplied by a fraction, the denominator of which is the issued and outstanding shares on a fully diluted basis before giving effect to such financing, and the numerator of which is the number of shares that the holder would own on a fully diluted basis assuming the note were converted immediately prior to the financing.
Redemption option:	The Company has the option to redeem all or part of the convertible note at any time, without penalty or bonus. The value of this embedded derivative is not material.
Conversion option:	The holder has the option of converting outstanding principal and interest at any time into common shares of the Company at the rate of $0.50 per common share.

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 until December 31, 2011; and
c) $800,000 of the balance owing was paid upon closing the private placement and amalgamation completed in August, 2010.

The fair value of debt will be accreted to $4,200,000 (2009 - $5,000,000) due at maturity using an effective interest rate of 14.17% (2009 – 17.7%). Subsequent to year end, this loan was paid off (note 20).

James Bay

On June 29, 2009, pursuant to a proposed business combination, the Company received proceeds of a secured convertible note for $500,000. On August 26, 2009, the proposed business combination was terminated and as a result of the termination, the Company issued 1,000,000 warrants entitling the holder to purchase one common share for C$0.50 per common share until October 21, 2011. The fair value of the warrants of $143,469 (note 10), which was recorded as a financing fee, was calculated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.26%
Expected volatility	65.17%
Expected life of warrants	2 years
Expected dividend yield	Nil

In the event that the holder exercises the warrants, the Company will pay the holder a corporate finance fee of C$200,000. On December 23 2009, the Company repaid the note.

(expressed in US dollars)

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

Authorized

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

Issued

The following table represents the share capital of CDR pre amalgamation and the resultant Company post amalgamation:

	Number of shares	$
Balance, December 31, 2008	43,752,727	7,295,850
Shares issued by private placement (i)	4,354,445	1,962,658
Issuance for financing transaction costs (notes 6 and 8)	5,246,312	2,461,827
Share issue costs (i)	-	(183,620)
Fair value of warrants issued (i)	-	(648,136)
Fair value of broker warrants issued (i)	-	(45,098)
Renunciation on flow-through shares	-	(149,611)
Balance, December 31, 2009	53,353,484	10,693,870
Shares issued by private placement (ii)	2,200,000	1,054,716
Share issue costs (ii)	-	(38,353)
Fair value of warrants issued (ii) and (v)	-	(372,970)
Fair value of broker warrants issued (ii)	-	(37,220)
Shares issued for broker services (iv)	125,000	48,081
Shares issued to satisfy obligation for shares to be issued at December 31, 2009 (iii)	1,652,523	771,702
Shares issued to effect January 2010 share unit price change (v)	3,300,000	-
Cancellation of warrants issued (v)	-	372,970
Fair value of replacement warrants issued (v)	-	(752,684)
Shares issued by private placement (vi)	23,425,000	4,492,712
Shares issued to convert accounts payable (vii)	4,125,000	791,139
Fair value of warrants issued with private placement(vi)	-	(1,664,321)
Fair value of warrants issued with conversion of accounts payable (vii)	-	(293,077)
Fair value of broker warrants issued(vi)	-	(73,365)
Shares issued for finder's fee (vi)	200,000	38,358
Finder's fee (vi)	-	(38,358)
Pre amalgamation issued common shares	88,381,007	14,993,200
Shares issued to Amalfi shareholders (viii)	5,869,000	766,059
Warrants issued to Amalfi shareholders (viii)	-	(66,442)
Transaction costs of private placement and amalgamation	-	(843,905)
Balance, December 31, 2010	94,250,007	14,848,912

(expressed in US dollars)

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

(i) Between June 25, 2009 to October 15, 2009, the Company completed private placements of 4,354,445 units at a price of $0.45 per unit for gross proceeds of $1,962,658. 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 $0.50 per common share for two years from the date of closing of the respective private placement. A value of $648,136 was ascribed to these warrants based on their fair value as determined using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	1.16-1.26%
Expected volatility	63%-65.17%
Expected life of warrants	2 years
Expected dividend yield	Nil

The Company paid cash commissions of $183,620 to brokers along with 304,811 broker warrants with an exercise price of $0.50 per broker warrant exercisable for one common share with an exercise price of $0.50 per common share for two years from the date of issue. A value of $45,098 was ascribed to these broker warrants based on their fair value as determined using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	1.26-1.38%
Expected volatility	65.17%
Expected life of warrants	2 years
Expected dividend yield	Nil

(ii) On January 8, 2010 the Company completed a private placement of 2,200,000 units at a price of C$0.50 per unit for gross proceeds of $1,054,716 (C$1,000,000). 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). Refer to (v) for the impact of this adjustment.

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 2010, values ascribed to the warrants and broker warrants of $372,970 and $37,220 (representing the value of 200,000 replacement broker warrants), 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

(expressed in US dollars)

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

(iii) The Company issued 1,652,523 common shares for a finder's fee on SID and Big Branch acquisitions from 2009 (note 6).

(iv) On May 28, 2010, the Company issued 125,000 common shares at a price of C$0.40 for broker services.

(v) On August 12 2010, 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

(vi) 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 1,030,300 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. Upon closing of the transaction, the Company issued 200,000 shares as a finder's fee.

(vii) 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.

(viii) On August 12, 2010, pursuant to the amalgamation, Amalfi shareholders received 5,869,000 common shares with an ascribed value of $699,617 and 1,657,143 warrants with an ascribed value of $66,442.

(expressed in US dollars)

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

Shares to be issued

	Number of shares	$
Finder's fee on SID and Big Branch acquisitions (note 6)	1,652,523	771,702
Balance at December 31, 2009	1,652,523	771,702
Issued in 2010	(1,652,523)	(771,702)
Debt settlement - Quebec mineral properties (i)	1,511,111	273,477
Debt settlement – other (i)	1,090,733	191,371
GC Global – convertible debenture conversion (ii)	500,000	80,109
Debt settlement – consulting contracts (iii)	3,000,000	415,506
Balance at December 31, 2010	6,101,844	960,463

(i) On December 23, 2010 the Company agreed to settle debts with common shares. 1,511,111 common shares to be issued valued at $273,477 settle debts related to Quebec mineral properties and 1,090,733 common shares valued at $191,371 settle debts with two other creditors.

(ii) On December 23, 2010 GC Global exercised their right pursuant to the convertible debenture to convert C$75,000 into 500,000 common shares at C$0.15 per share, resulting in shares to be issued valued at $80,109 at December 31, 2010.

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

Stock options:

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

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

	Number of options	Weighted-average exercise price - $
Balance, December 31, 2008	5,719,600	0.24
Granted (i)	4,075,000	0.44
Balance, December 31, 2009	9,794,600	0.36
Granted (ii)	580,000	0.20
Expired in 2010	(619,600)	0.25
Balance, December 31, 2010	9,755,000	0.33
Exercisable number of options	9,755,000	0.33

(expressed in US dollars)

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

(i) During 2009, the Company issued 2,000,000 stock options entitling the holder to purchase one common share at a price of C$0.50 per common share until November 6, 2014 and 1,250,000 stock options entitling the holder to holder to purchase one common share at a price of C$0.50 per common share until November 16, 2014 and 825,000 stock options entitling the holder to purchase one common share at a price of C$0.50 per common share until December 12, 2014. In respect of each grant, the stock options vest in 3 equal installments on each of the date of grant, 6 months after the date of grant and 1 year after the date of grant. The fair value of the stock options calculated on each of the grant dates using the Black-Scholes option pricing model and assumptions used are set out below:

	November 6, 2009	November 16, 2009	December 12, 2009
Fair value	C$544,000	C$326,750	C$216,150
Fair value per option	C$0.27	C$0.26	C$0.26
Risk-free interest rate	2.75%	2.63%	2.51%
Expected volatility	65.83%	65.83%	65.83%
Expected life of options	5 years	5 years	5 years
Expected dividend yield	Nil	Nil	Nil

(ii) During 2009, the Company extended the expiry date of the 100,000 stock options entitling the holder to purchase one common share at a price of C$0.25 per common share from September 30, 2009 to September 30, 2010. The fair value of the stock options of $25,770 was calculated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.20%
Expected volatility	65.17%
Expected life of options	1 year
Expected dividend yield	Nil

(iii) During 2009, the Company extended the expiry date of the 519,600 stock options entitling the holder to purchase one common share at a price of US$0.25 per common share from October 25, 2009 to October 25, 2010. The fair value of the stock options of $123,145 was calculated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.39%
Expected volatility	65.17%
Expected life of options	1 year
Expected dividend yield	Nil

(iv) On August 12, 2010, the Company replaced the outstanding Amalfi options by issuing 580,000 stock options entitling the holder to purchase one common share at a price of C$0.20 per common share. Of the options issued, 446,500 were issued to the former directors of the Company and have an expiry date of August 12, 2011 while the remaining 133,500 options expire on November 12, 2012. It was determined that the fair value of the replacement options was less than the fair value of the original options granted, thus no incremental charge was made to stock based compensation. The fair value was calculated using the Black-Scholes option pricing model with the following assumptions:

(expressed in US dollars)

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

Risk-free interest rate	2.26%
Expected volatility	63.16%
Expected life of options	1 year
Expected dividend yield	Nil

A summary of the Company's outstanding stock options as at December 31, 2010 is presented below:

Exercise price	Expiry date	Options outstanding	Options exercisable
C$0.20	August 11, 2011	446,500	446,500
C$0.25	October 25, 2012	1,225,000	1,225,000
C$0.25	October 25, 2012	2,400,000	2,400,000
C$0.20	November 30, 2012	133,500	133,500
C$0.50	August 14, 2013	1,475,000	1,475,000
C$0.50	November 6, 2014	1,500,000	1,500,000
C$0.20	November 6, 2014	500,000	500,000
C$0.50	November 16, 2014	1,250,000	1,250,000
C$0.50	December 10, 2014	825,000	825,000
		9,755,000	9,755,000

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	13,554	80,000	0.50
January broker warrants cancelled December, 2010	(13,554)	(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	1,030,300	0.20
Warrants issued to Amalfi shareholders	66,442	1,657,143	0.20
Warrants expired November 28, 2010	-	(636,362)	$1.00 –$1.25
Broker warrants expired November 28, 2010	-	(89,090)	$0.50
Broker warrants issued December 2010	37,220	200,000	0.20
Advisory warrants issued December 2010 (i)	50,348	315,000	0.20
Balance, December 31, 2010	3,801,473	41,911,699	0.25

(expressed in US dollars)

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

(i) On December 23, 2010, the Company issued 315,000 share purchase warrants in consideration for advisory services performed. Each warrant entities the holder to purchase one common share at an exercise price of C$0.20 and expires on December 23, 2015. The fair value of the warrants of $50,348 was calculated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	2.36%
Expected volatility	74.25%
Expected life of options	5 years
Expected dividend yield	Nil

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

Exercise price	**Expiry date**	**Warrants outstanding**
$0.50	June 25, 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$0.20	August 12, 2012	1,657,143
C$0.20	August 12, 2015	34,280,300
C$0.20	December 23, 2015	315,000
		41,911,699

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	614,609
Balance, December 31, 2010	2,217,212

(expressed in US dollars)

11. Non-cash transactions

	December 31, 2010 $	December 31, 2009 $
Deposit applied to purchase of capital assets	-	351,727
Convertible debenture issued for acquisition of mineral property interest	-	5,000,000
Conversion option on debentures exercised	80,109	-
Fair value of warrants issued for financing costs	160,933	143,469
Issued common shares for financing costs	86,439	2,461,827
Fair value of warrants issued to settle accounts payables	293,077	-
Issued common shares to settle accounts payable	498,062	-
Common shares to be issued for consulting contracts	415,506	-
Common shares to be issued for debt settlement	191,371	-
Common shares to be issued to settle mineral property acquisition costs	273,477	-

12. Asset retirement obligation

The Company's asset retirement obligation results from its land rehabilitation commitments on the coal mining activities on its Big Branch property. Reclamation activities that are an integral part of the Company's normal mining process are considered a cost of producing coal and are expensed as incurred. Reclamation activities that are performed outside of the normal mining process are accounted for as asset retirement obligations. Reclamation activities accounted for as asset retirement obligations primarily consist of those performed at the end of a mine's life in conjunction with the closure of the mine. At December 31, 2010 the total discounted obligation estimated to settle the asset retirement obligation using a credit adjusted risk free interest rate of 18% over the estimated life of the mine is $2,086,000. The sum of the undiscounted total cash flows anticipated to be incurred is $3,228,876. The asset retirement obligation at December 31, 2010 of $313,944 (2009 - $262,579) represents an increase in 2010 due to accretion on the obligation of $51,365.

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)

13. Income taxes

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

	2010 $	2009 $
Non-capital losses	8,680,000	2,428,000
Mineral exploration resource pools and other	(86,000)	(173,000)
Valuation allowance	(8,594,000)	(2,255,000)
	-	-

Due to the uncertainty surrounding the realization of income tax assets in future years, the Company has provided a valuation allowance against its future income tax assets.

Provision for Income Taxes

The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates of 31.0% (2009 – 33.0%) were the following:

	2010 $	2009 $
Expected tax recovery at statutory rates	(7,226,423)	(2,406,952)
Increase (decrease) resulting from:		
Stock-based compensation and other non-deductible expenses	(4,032)	498,106
Accretion on notes payable, convertible debentures and debt obligation	1,575,458	-
Share issuance costs	(24,285)	(36,219)
Difference in tax rates, foreign exchange and other	(646,674)	(98,177)
Increase in valuation allowance	(6,325,956)	1,893,631
Income tax expense (recovery)	-	149,611

Canadian tax losses carried forward

The Company has $2,437,598 (2009 - $2,163,000) in Canadian federal and provincial resource tax pools which may be deducted in the calculation of taxable income in future years. These pools can be carried forward indefinitely. In addition, the Company has Canadian non-capital losses, which may be deducted in the calculation of taxable income in future years, that will expire, if not utilized, as follows:

	2010 $
Year of expiry	
2027	141,000
2028	219,000
2029	1,607,000
2030	4,493,000
	6,460,000

(expressed in US dollars)

13. Income taxes (continued)

US tax losses carried forward

The Company's US subsidiaries have $10,727,000 (2009 - $10,718,000) federal and state resource tax pools which may be deducted in the calculation of taxable income in future years. These pools can be carried forward indefinitely. In addition, the Company has US non-capital losses, which may be deducted in the calculation of taxable income in future years, that will expire, if not utilized, as follows:

	2010 **$**
Year of expiry	
2028	765,000
2029	4,286,000
2030	14,021,000
	19,072,000

14. 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:

	December 31, 2010 $	December 31, 2009 $
Mineral exploration properties by geographic area		
Quebec, Canada	2,758,090	2,559,288
Kentucky, USA	10,746,636	10,966,196
	13,504,726	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 $5,953 and net book value of $2,624 at December 31, 2010.

15. Related party transactions and related balances

For the years ended December 31, 2010 and 2009, the Company:

a) Paid administration fees of $244,668 for the year ended December 31, 2010 (Year ended December 31, 2009 - $222,766) of which $147,193 (December 31, 2009 - $34,254) 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 (Year ended December 31, 2009 - $42,806) to a company related by virtue of common directors. These amounts are included in management and consulting expense.

15. Related party transactions and related balances (continued)

c) Issued 1,652,523 common shares for the year ended December 31, 2010 (Year ended 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 $771,702 is included in mineral property interests.

d) The details of the transactions with Juno are detailed in note 8.

e) As of December 31, 2010, included in accounts payable are $650,000 (2009 - $nil) in fees, $660,671 (2009 - $223,437) in interest payable and $210,853 (2009 - $113,123) in royalties that are payable to Juno.

f) The loan detailed in 12(d) was from a company related by virtue of a common officer and director (the "related lender") who received the loan proceeds from an unrelated lender for the sole purpose of lending the funds to the Company based on the same terms provided by the unrelated lender to the related lender. The related lender also guaranteed the loan for the Company and as compensation received a royalty, at a rate of $0.50 per ton, of $188,229 for the year ended December 31, 2010 (Year ended December 31, 2009 - $113,120) and $211,010 (December 31, 2009 - $113,120) is included in accounts payable and accrued liabilities.

g) The Company received proceeds of a Debt Obligation of $750,000 in October 2010 from a related party by virtue of a common officer and director as part of the total Debt Obligation Proceeds of $1,500,000. Effective December 1, 2010 the related party reduced its interest in the Debt Obligation to $495,000 by selling $255,000 of the obligation to unrelated parties. Interest expense incurred on the Debt Obligation owed to the related party was $51,613 in 2010, of which $16,500 was payable as at December 31, 2010.

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

16. Economic dependence

In 2010, one customer accounted for 57% (2009 – two customers accounted for 73%) of the Company's revenues. The loss of this customer could have a material adverse affect on the Company's results of operations and financial condition.

17. Capital Disclosures

Capital of the Company consists of the components of shareholders' deficiency totaling ($10,969,798) (2009 – equity of $5,184,492). 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 year ended December 31, 2010.

The Company is subject to externally imposed capital requirements pursuant to notes payable and convertible debenture agreements. At year end, the Company was in compliance with the covenants.

18. Financial instruments and risk management

Fair value:
Fair value represents the amount at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity and is best evidenced by a quoted market price, if one exists. Fair values estimates are based on quoted market values and other valuation methods. The carrying value approximates and fair value of the Company's financial instruments other than the debt to a related party as such debt cannot be valued with sufficient reliability.
In 2009, an investment in a private company was held and classified as available-for-sale. The investment is carried at its acquisition cost as its fair value is not readily determinable. 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.

Credit risk:
Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations The Company's exposure to credit risk includes cash and accounts receivable. The Company reduces its credit risk by maintaining its primary bank accounts at large international financial institutions. The Company assesses its credit risk based on general market knowledge and specific information obtained through its business relationships with each of its customer. The maximum exposure to credit risk is equal to the carrying value of cash and accounts receivables. Accounts receivable that are past due total $63,447 as of December 31, 2010 (2009 - $nil). The Company's sales to one customer accounts for 79% of the Company's accounts receivable.

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 17 to the consolidated financial statements.

(expressed in US dollars)

18. Financial instruments and risk management (continued)

At December 31, 2010, the Company had current assets of $1,238,418, including cash of $346,882, (December 31, 2009 - $2,083,276 and $800,099, respectively) available to pay current liabilities of $15,358,937 (December 31, 2009 - $5,546,575). The following are the maturities, including the accretion on the notes payable and convertible debentures, and excluding interest payments, 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 twelve months ending December 31, 2011, December 31, 2012 and December 31, 2013:

	Payments Required/Settlement Expected		
	2011	2012	2013
	$	$	$
Accounts payable and accrued liabilities	10,123,206	-	-
Bank loan and debt obligation	2,539,174	3,875,787	1,404,598
Notes payable	10,813,225	4,076,419	-
Convertible debentures	250,000	4,200,000	-
	23,725,605	12,152,206	1,404,598

In January 2011 the Company received $11,000,000 pursuant to a coal purchase agreement and in February 2011 the Company completed an equity financing for gross proceeds of C$34,500,000 (Note 20). The Company used a portion of the proceeds to pay past due payables, retire the notes payable, and pay the convertible debenture due in 2012 (Note 20).

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

(a) Foreign currency risk

The Company operates in Canada and the US giving rise to market risks from changes in foreign exchange rates. The Company periodically monitors foreign exchange rates, though it has not entered into any financial arrangements to hedge or protect the Company from unfavourable changes in foreign exchange rates. A ten percent (10%) fluctuation in the foreign exchange rate, based on the Company's foreign denominated financial instruments as of December 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 $150,000 (December 31, 2009 - $66,000).

(b) Interest rate risk

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

19. Commitments and contingencies

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

b) On December 20, 2010, the company signed a Letter of Intent to acquire a group of eight properties consisting of approximately 14,000 acres with the majority being surface mineable coal deposits located in Eastern Kentucky ("the Property"). The Property is privately owned and the total purchase price is $6,000,000 payable on closing and a royalty capped at $9,000,000. The Company has provided a non-refundable deposit of $100,000 for a 45-day option to complete final due diligence and enter a definitive purchase agreement.

c) On December 22, 2010, the company signed a Letter of Intent to acquire 80 percent ownership of a coal loading and unloading terminal located on the Big Sandy River in Catlettsburg, Eastern Kentucky (the "River Terminal"). The purchase includes the equipment used to operate the River Terminal, which is currently in operation and has the capacity to load over 100,000 tons per month. The total purchase price shall be the payment of $8,250,000 of the seller's bank debt. The Company shall have an option to purchase the remaining 20% of the River Terminal for a price to be negotiated with the vendor.

d) On December 23, 2010, the company entered into agreements to issue an aggregate of 2,201,844 common shares of the company with an aggregate value of $396,332 in exchange for the cancellation of $396,332 in outstanding trade payables. In addition, the company agreed to amend the terms and conditions of 80,000 issued and outstanding common share purchase warrants (the "Broker Warrants") and issue an additional 120,000 common share purchase warrants (the "Additional Warrants") of the Company. These amendments to the Broker Warrants and the issuance of the Additional Warrants are being made pursuant to compensation arrangements with an arm's length party who acted as agent to the Company's subsidiary, Royal Coal Limited (formerly, CDR Minerals Inc.), in connection with a private placement financing in January 2010. The Broker Warrants currently entitle the holder to purchase one common share of the Company at an exercise price of C$0.50 per share until January 8, 2012. In accordance with the foregoing, the Company will: (i) amend the exercise price of the Broker Warrants to C$0.20 per share; (ii) amend the expiry date of the Warrants to August 12, 2015; and (iii) issue, for no additional consideration, the Additional Warrants, each being exercisable at a price of C$0.20 per share until August 12, 2015. The Company also announced that it will issue 315,000 common share purchase warrants (the "Compensation Warrants") of the Company to an arm's length party, in consideration for advisory services performed by such party for the Company in connection with various matters, including its recently announced royalty arrangements. Each Compensation Warrant entitles the holder to purchase one common share of the Company at a price of C$0.20 per share until December 23, 2015. These transactions are all subject to and conditional upon the approval of the TSX Venture Exchange.

19. Commitments and contingencies (continued)

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

20. Subsequent events

a) On January 7, 2011 and January 25, 2011, in accordance with the royalty and coal purchase agreements dated November 26, 2010 with Sandstorm Energy, Sandstorm Energy advanced $2,000,000 and $9,000,000, respectively of the upfront coal purchase payment committed to Royal Coal.

b) On January 25, 2011 and February 25, 2011, the Company repaid $4,000,000 and $3,950,000, respectively, of the principal amount outstanding under the note purchase agreement dated September 30, 2009 (as subsequently amended from time to time, the "Purchase Agreement") (note 8). Juno received all amounts loaned to the Company pursuant to the Purchase Agreement from an unrelated lender for the sole purpose of re-lending the funds to the Company on the same terms provided by the third party lender. Juno has made a corresponding $4,000,000 and $3,950,000 principal repayments to the third party lender. As a result, the principal amount of the notes is reduced to zero. The aggregate remaining amount payable to Juno under the royalty agreement dated September 30, 2009, which provides for a $2.00 per ton royalty, was reduced to $6,359,504 as at February 25, 2011. On March 31, 2011 this royalty obligation was retired in full (Note 20(f) below).

20. Subsequent events (continued)

c) On February 23, 2011, the company completed an equity financing (the "Offering") of special warrants (the "Special Warrants") raising gross proceeds of C$34,500,000. Upon the exercise or deemed exercise thereof, each Special Warrant will entitle the holder thereof to receive one unit (a "Unit") without payment of any additional consideration. Each Unit will consist of one common share of the Company (a "Common Share") and one-half of one Common Share purchase warrant (each whole warrant a "Warrant"). Each Warrant will entitle the holder to acquire one Common Share at a price of C$0.335 per Common Share for a period of two years following the date of closing of the Offering, subject to an adjustment. The Special Warrants and, unless qualified by a final prospectus as described below, the Common Shares and Warrants to be issued upon exercise thereof, are subject to a four-month hold period under applicable Canadian securities laws which expires on June 24, 2011. The Corporation will use its commercially reasonable best efforts to file a prospectus qualifying the distribution of the Common Shares and Warrants and to have a receipt for a final prospectus issued by the applicable securities commissions in Canada on or before the date which is 60 days following the closing of the Offering (the "Clearance Date"). In the event that the Corporation has not received a receipt for a final prospectus on or before the Clearance Date, the exercise period of the Warrants will be extended from two years to five years from the date of closing of the Offering. The net proceeds of the Offering will be used to fund asset acquisitions, capital expenditures to expand operations, debt repayment and for general corporate and working capital purposes. Share issue costs include a cash commission equal to 6.0% of the gross proceeds from the Offering as consideration for services rendered in connection with the Offering.

   The Corporation also issued special broker warrants ("Special Broker Warrants") entitling the holder to acquire, for no additional consideration, compensation options (the "Compensation Options") entitling the Agents to purchase from the Corporation an aggregate number of units (the "Compensation Units"), each consisting of one Common Share and one-half of one Warrant (the "Compensation Warrants"), equal to 6.0% of the total number of Special Warrants sold under the Offering at an exercise price of C$0.25 per Compensation Unit for a period of 24 months from the date of closing of the Offering. Each whole Compensation Warrant shall be exercisable to acquire one additional Common Share (a "Compensation Warrant Share") at a price of C$0.335 per Compensation Warrant Share for a period of 24 months from the Closing Date.

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

e) Between January 7, 2011 and February 25, 2011, the Company issued 2,166,666 common shares at a deemed issue price of C$0.15 per share upon the conversion by GC Global Capital Corp. of the entire C$325,000 outstanding principal amount of the convertible debenture dated June 26, 2008, all in accordance with the terms of the debenture. No principal remains outstanding under the debenture.

f) On March 31, 2011 the Company retired its obligation to pay a $2.00 per ton royalty, a component of its notes payable, by paying to Juno $6,476,704, inclusive of a $200,000 waiver fee. The payment reduced the future notes payable amount owing to zero. Juno used the full amount of the payment to repay an arm's length lender.

g) On January 11, 2011, the Company settled a consulting contract with a company controlled by a former executive of the Company through the issuance of 3,000,000 common shares.

21. Comparative figures

Certain comparative figures have been modified to conform with the current year's financial statement presentation.