Royal Coal Corp.
(Formerly Amalfi Capital Corporation)

Management's Discussion and Analysis
For the year ended December 31, 2010

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This Management's Discussion and Analysis ("MD&A") provides a review of the results of operations of Royal Coal Corp. ("Royal Coal" or the "Company"), formerly Amalfi Capital Corporation ("Amalfi"), and should be read in conjunction with the audited consolidated financial statements and related notes for the years ended December 31, 2010 and the audited consolidated financial statements for the year ended December 31, 2009 for the Company's operating unit, CDR Minerals Inc., which was renamed Royal Coal Limited in conjunction with the three-corner amalgamation with Amalfi (or the reverse takeover) on August 12, 2010. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All dollar figures included therein and in the following MD&A are quoted in United States dollars unless otherwise specified. The following MD&A is prepared as of April 27, 2011. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com or at the Company's website, www.royalcoal.com.

Cautionary Note on Forward-Looking Statements

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

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

OVERALL PERFORMANCE

Company Highlights

- Royal Coal Ltd. (formerly CDR Minerals Inc.) ("RCL") was formed in 2007 and was originally focused on the exploration and development of nickel mineral prospects in the Province of Quebec. In the summer of 2007, RCL entered into a property option agreement with 9157-2222 Quebec Inc. granting RCL the option to acquire a 100% interest in certain mining claim blocks located in the Province of Quebec, Canada (the "Quebec Properties"). In 2008 and 2009, an exploration program comprised of reconnaissance mapping, line cutting, UTEM survey, detail mapping and sampling, IP magnetic survey and airborne geophysical survey and diamond drilling.

- In the summer of 2008, RCL shifted its focus to the exploration and operation of coal properties in Central Appalachia ("CAPP") which includes parts of West Virginia, Virginia, Kentucky, Ohio, and Tennessee and on October 23, 2008, the Company acquired the Sid Mining Project in Hazard, Kentucky.

- On September 30, 2009, the Company acquired the Big Branch Project in Hazard, Kentucky and obtained financing for the acquisition and operation of the project. The Company issued a secured convertible debenture to the property vendor for $5,000,000, and Juno Special Situations Corporation ("Juno"), a company that at the time held over 20% of the outstanding common shares of RCL, which entered into a note purchase agreement for $5,300,000 with an arm's length party (the "Juno Lender") to each of Juno and RCL.

- In October 2009, the Company started producing coal at its Big Branch Project.

- On August 12, 2010, Amalfi Capital Corp. ("Amalfi"), a Capital Pool Company listed on the TSX Venture Exchange, CDR Coal Limited, a wholly-owned subsidiary of Amalfi ("CDR Coal") and RCL completed a three-cornered amalgamation whereby RCL amalgamated with CDR Coal and Amalfi issued one common share for each common share of RCL outstanding (the

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

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

- In each of March, September and October of 2010, the Company obtained $1,000,000 of additional financing ($3,000,000 total) from Juno, through the Juno Lender, to support the Company's operations.

- On November 26, 2010, the Company entered into a coal purchase agreement with Sandstorm Metals & Energy (US) Inc. ("Sandstorm Energy"), a subsidiary of Sandstorm Metals & Energy Ltd. (TSXV:SND) pursuant to which Sandstorm Energy would acquire 18% of the first six million tons of coal produced, and thereafter 12% of the life of mine coal produced from the Big Branch Project and the Sid Mining Project. Sandstorm Energy made an upfront payment of US$11 million in January 2011, plus Sandstorm Energy is required to pay ongoing fixed payments of US$55/ton, subject to certain adjustments as set out in the coal purchase agreement. The Company provided certain production level guarantees, including that Sandstorm Energy will receive minimum cash flows of US$2 million in calendar year 2011 and minimum cash flows of US$2.5 million in each of calendar years 2012, 2013, 2014 and 2015 as a result of the further sale of the coal purchased from the Company.

- The Company entered into a separate royalty agreement with Sandstorm Energy pursuant to which, in exchange for an upfront payment by Sandstorm Energy of US$3 million which was paid on December 17, 2010. The Company will pay Sandstorm Energy a royalty equal to 2.7% of revenue from the above Big Branch Project and the Sid Mining Project until Sandstorm has been paid an aggregate amount of US$4.5 million, and thereafter 1.35% of revenue from the above Mines.

- On December 20, 2010, the Company entered into a letter of intent to acquire a group of eight coal properties in eastern Kentucky (the "Kentucky Acquisition"). Completion of the Kentucky Acquisition is subject to a number of conditions, including the satisfactory completion of the Company's due diligence review. As of the date of this MD&A, the Company's due diligence review has not been completed and the Company has not determined whether it will proceed with the Kentucky Acquisition or whether the proposed transaction can be completed on favorable terms.

- On December 22, 2010, the Company entered into a letter of intent to acquire 80% ownership of a coal and unloading terminal located on the Big Sandy River in Catlettsburg, in eastern Kentucky (the "Big Sandy River Acquisition"). The proposed Big Sandy River Acquisition would include the purchase of the equipment used to operate the river terminal (the "River Terminal"), which is currently in operation. The total purchase price is $8,250,000. The Company would also have an option to purchase the remaining 20% of the River Terminal for a price to be negotiated with the vendor. Completion of the Big Sandy River Acquisition is subject to a number of conditions, including the satisfactory completion of the Company's due diligence review. As of the date of this MD&A, the Company's due diligence review and has not been completed and the Company has not determined whether it will proceed with the Big Sandy River Acquisition or whether the proposed transaction can be completed on favorable terms.

- Coal production increased to 389,107 tons in 2010, from the 57,255 tons produced in 2009. The Coal produced was from the Big Branch Project. The Company anticipates that the Sid Mining Project will commence production in June 2011.

- Revenue increased to $21.3 million in 2010 as compared to $2.9 million in 2009. Gross losses increased to $10.6 million in 2010 as compared to $2.8 million in 2009, due primarily to excessive equipment down-time which resulted in higher repair costs and much lower production volumes.

- Interest and accretion on notes payable amounted to $8.4 million and interest and accretion amounted to $0.8 million on convertible debentures. Subsequent to December 31, 2010, the Company repaid $4.2 million on its convertible debentures and $375,000 was converted into common shares resulting in the repayment or conversion of all of the Company's convertible debentures. Also, subsequent to December 31, 2010, the Company repaid $7.95 million in principal payments to the Juno Lender, via Juno, and paid $6.4 million to retire the royalty to the Juno Lender, via Juno, resulting in the repayment of the entire loan and royalties payable to the Juno Lender, via Juno. Financing expenses should be significant in the first quarter of 2011, due to the early retirement of the royalty, and then be reduced significantly starting in the second quarter of 2011, subject to any new financings.

- On February 23, 2011, the Company completed an equity financing of special warrants raising gross proceeds of $34.5 million through a syndicate of agents led by Cormark Securities Inc. and including Haywood Securities Inc. and Northern Securities Inc. 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 $0.335 per Common Share until February 23, 2013.

- On March 31, 2011, the Company announced that its common shares began trading on the Frankfurt Stock Exchange under the symbol 'RLC'.

Company Outlook

Big Branch Project

The Company continues to operate its Big Branch mine, near Hazard, Kentucky. The Company remains focused on achieving increased production levels and realizing adequate prices for its coal products. Since the Company began operations in October 2009, its main challenges have been to achieve targeted production levels at its Big Branch mine, near Hazard, Kentucky, and to realize adequate prices for its coal products. The Company has seen a gradual improvement in its production levels since August 2010. The Company, however, has not been able to meet its target production levels primarily because the availability of its mining fleet was below projected levels, which was due in large part to the unavailability of adequate capital since the Company acquired the Big Branch Project in September 2009. The financings completed in the second half of 2010 assisted the Company to achieve higher production levels in the later months of 2010. Financings received in 2011 should enhance equipment availability and productivity, which are expected to generate improved operating levels in the second quarter of 2011.

Sid Mining Project

Currently all mining operations on the Company's Sid Mining Project, located in Perry and Breathitt Counties in Kentucky, remain idle. As of the date of this MD&A, the Company is preparing for production at the Sid Mining Project, which is currently projected to commence in June 2011.

Laurel Fork Project

The Company is not currently carrying out any production activities at its Laurel Fork Project located near Hazard, Kentucky and continues to assess whether and when to advance the project to production.

Coal Prices

The Company has also seen continued price improvements for its products over the past few months, thus recovering from the lower price levels in the first half of 2010. Average prices per ton have improved from a range of $50-55/ton in early 2010 to $65/ton year to date April 2011 and are expected to continue to improve to the mid $70's/ton range in the second half of 2011. In addition, a number of lower priced coal contracts which the Company was committed to when the Big Branch mine was purchased in 2009 terminated in December 2010, thus allowing the Company to benefit from an improved price environment for the Company's products for at least the next 12 months.

Opportunities

In the fourth quarter of 2010 and the first quarter of 2011, the Company completed equity and other financings, including a pre-sale coal arrangement. These financings may allow the Company to pursue favorable acquisition prospects to leverage potential economies of scale which will improve the future profitability and financial position of the Company.

The Company has the following opportunities that it may pursue:

1. Big Sandy River Acquisition - If the Company successfully completes its due diligence review of the Big Sandy River terminal and is able to negotiate and enter into a definitive purchase agreement on favourable terms, for an expected purchase price of approximately $8,250,000, which the Company currently intends to satisfy by the payment of cash in an amount of approximately $1,750,000 and the assumption of debt in an amount of approximately $6,150,000;

2. Kentucky New mining Leases - for the acquisition of a group of eight mining properties in Kentucky for an aggregate purchase price of approximately $6,000,000 payable on closing and a royalty capped at $9,000,000. The Company currently intends to satisfy the payment on closing using cash, if the Company is able to successfully conclude its due diligence investigation (which is currently ongoing) and a definitive purchase agreement on favourable terms;

3. Big Branch Equipment Re-financing and Additions - to acquire equipment that is presently being leased by the Company and additional equipment, in each case, to be used to expand operations at the Company's Big Branch Mine for an aggregate purchase price of approximately $8,667,000, which the Company currently intends to satisfy using a combination of cash (approximately $2,540,000) and through funds obtained from debt financing (approximately $6,127,000), if such debt financing can be obtained on favourable terms;

4. Sid Mining Project Equipment - to acquire equipment to be used to commence production at its Sid Mining Project for an aggregate purchase price of approximately $3,852,000, which the Company currently intends to satisfy using a combination of cash (approximately $1,000,000) and through funds obtained from debt financing (approximately $2,852,000), if such debt financing can be obtained on favourable terms; and

5. Load-out Acquisition - the purchase of a rail load-out facility that is currently being leased by the Company for an aggregate purchase price of approximately $5,296,000, which the Company currently intends to satisfy using a combination of cash (approximately $2,500,000) and through funds obtained from debt financing (approximately $2,796,000), if such debt financing can be obtained on favourable terms.

The estimated financial requirements of the opportunities listed are summarized below:

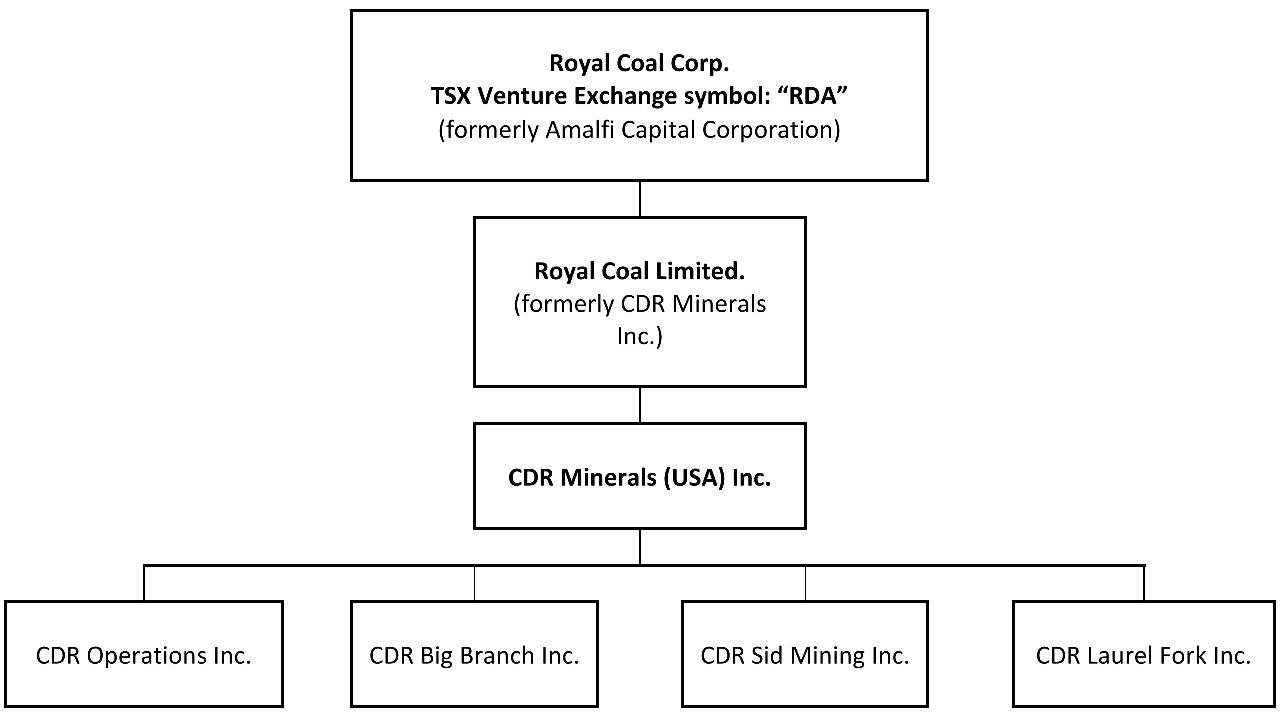
	Debt Financing	Cash	Total
1. Sandy River Acquisition	$6,500,000	$1,750,000	$8,250,000
2. Kentucky New Mining Leases	-	6,000,000	6,000,000
3. Big Branch Equipment	6,127,000	2,540,000	8,667,000
4. Sid Mining Project Equipment	2,852,000	1,000,000	3,852,000
5. Load-out Acquisition	2,796,000	2,500,000	5,296,000
	$18,275,000	$13,790,000	$32,065,000

There is no assurance that the Company will proceed with all or any of the opportunities listed, since they are subject to completing due diligence reviews and negotiating acceptable financing terms. As noted in the Short Form Prospectus dated April 8, 2011 the balance of the net proceeds from the February 2011 Special Warrant Financing was approximately $8 million as of April 4, 2011.

OVERVIEW AND CORPORATE STRUCTURE

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

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



Mineral Exploration and Coal Mining Properties in Kentucky, U.S.A

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

Set forth in this section are brief descriptions of the Big Branch Project, the Sid Mining Project and the Laurel Fork Project. The information in this section was, in part, summarized and/or extracted from the Big Branch Report, Sid Mining Report, and the Laurel Fork Report, respectively dated April 8, 2011 and from the Short Form Prospectus dated March 29, 2010. The Big Branch Report, Sid Report, and Laurel Fork Report were each dated prepared by Phillip Lucas, P.E., P.L.S as the qualified person at Summit Engineering, Inc. ("Summit") in accordance with NI 43-101. These reports replace the previous reports dated in January 2010 and referred to in the Amalfi Capital Corp. Filing Statement dated March 29, 2010. Portions of this section are based on assumptions, qualifications and procedures which are not fully described herein. Reference should be made to the full text of each of the Big Branch Report, Sid Report, and Laurel Fork Report, and the Short Form Prospectus dated April 8, 2011, which are available for review on the System for Electronic Documents Analysis and Retrieval (SEDAR) at www.sedar.com.

Estimated Reserves and Resources - Tons

	Mineral Resource Tons			Mineral Reserve Tons		
Project	Measured	Indicated	Total	Proven	Probable	Total
Big Branch	5,095,321	696,779	5,792,100	4,331,023	592,262	4,923,285
Sid Mining	2,467,000	2,662,000	5,129,000	1,589,000	1,676,000	3,265,000
	7,562,321	3,358,779	10,921,100	5,920,023	2,268,262	8,188,285

Note:
(1) The Measured and Indicated Resources are inclusive of the reported Proven and Probable Reserves.

Cash Flow Forecast from Coal Reserves – estimated at April 8, 2011

Big Branch Project

	2011	2012	2013	2014	Total
Projected Coal Production	517,000	732,000	732,000	732,000	**2,713,000**
Estimated Coal Sales Price	$73.93	$86.43	$87.12	$87.12	**$84.42**
Estimated Revenue	$38,222,000	$63,267,000	$63,772,000	$63,772,000	**$229,033,000**
Unlevered free cash flow	$1,294,000	$9,026,000	$9,360,000	$10,219,000	**$29,899,000**
NPV at 10% Discount Rate					**$22,648,000**

Sid Mining Project

	2011	2012	2013	2014	Total
Projected Coal Production	204,000	540,000	765,000	815,000	**2,324,000**
Estimated Coal Sales Price	$78.37	$91.21	$90.33	$89.93	**$89.35**
Estimated Revenue	$16,000,000	$49,253,000	$69,106,000	$73,291,000	**$207,650,000**
Unlevered free cash flow	$205,000	$7,129,000	$8,624,000	$10,607,000	**$26,565,000**
NPV at 10% Discount Rate					**$19,803,000**

Total of Two Projects

	2011	2012	2013	2014	Total
Projected Coal Production	721,000	1,272,000	1,497,000	1,547,000	**5,037,000**
Estimated Coal Sales Price	$75.20	$88.46	$88.76	$88.60	**$86.70**
Estimated Revenue	$54,222,000	$112,520,000	$132,878,000	$137,063,000	**$436,683,000**
Unlevered free cash flow	$1,499,000	$16,155,000	$17,984,000	$20,826,000	**$56,464,000**
NPV at 10% Discount Rate					**$42,451,000**

Notes:

(1) Production and Coal Sales Prices are from pro forma information provided by Royal Coal Corp. to Summit Engineering. Production and sales are measured tons (tons refer to a short ton, which equals 2,000 pounds).

(2) Royalty Rates are from existing leases.

(3) A 10% Discount Rate is used for Net Present Value Estimates.

(4) The Net Present Value estimates for the Coal Reserves mined from 2010 through 2014 as noted above and in the respective NI 43-101 reports would change with revised assumptions regarding estimates of production levels and timing.

Big Branch Project

On September 30, 2009, RCL completed the acquisition of certain assets and commenced the Big Branch Project, being certain coal and surface leases and in addition was named operator under DSMRE permit 860-0393 (the "Big Branch Permit"). An amendment to permit 860-0393 is currently proceeding and estimated to be issued by the end of 2011. The Big Branch Project is located proximate to Hazard, Kentucky and has the necessary permits for initial production. The Big Branch Project is bounded to the north by Troublesome Creek, to the south by the town of Amburgey near Elklick Fork of Lotts Creek, to the east by Kentucky Route 1231, and to the west by Clear Creek and Walter's Branch. The project area is located within Knott County, Kentucky, primarily in the Carrie USGS quadrangle map. The seams to be evaluated include the Hazard #5A, Hazard #7, Hazard #8, Hindman (Hazard#9), Skyline (Hazard #10), and the Hazard #11 seams. The total project area covers approximately 2750 acres. Property lines of the Big Branch Project have already been surveyed.

Sid Mining Project

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

The Sid Mining Project covers approximately 850 acres and lies within the drainage areas of Cam Johnson Branch and Bowling Creek of the Middle Fork of the Kentucky River, lying in Perry and Breathitt Counties, Kentucky. The seams include the Fireclay (Hazard No. 4), Haddix, Hazard No. 5A, Hazard No. 7, Hazard No. 8, and Hindman (Hazard No. 9). The current permitted area of the Sid Mining Project is 406.38 acres, with a pending amendment of 330 acres, which increases the total to 850 acres.

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

Laurel Fork Project

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

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

On December 12, 2008, Royal Coal entered into coal and surface leases with a local property owner (the "Gayheart Leases"), which gave it the right to surface mine certain parcels of property located in Knott County, KY, located within the Laurel Fork AOI. RCL is obligated to pay certain minimum royalties under these agreements. The specifics of these payments as well as other terms of the agreements are summarized in the NI 43-101 report dated April 8, 2011 and filed on www.sedar.com. Royal Coal made a one-time payment of $125,000 for this right. Negotiation is on-going for other properties that also lie within the wider Laurel Fork AOI.

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

OVERALL PERFORMANCE

FINANCIAL REVIEW

For the year ended December 31, 2010 the Company recorded a net loss of $24.0 million or $0.34 loss per share compared to a net loss of $7.1 million or $0.15 per share for the year ended December 31, 2009. Mining activity began at the Big Branch property in the fourth quarter of 2009.

The Company has an interest in nickel properties in Quebec, Canada and Coal properties in Kentucky, United States of America.

The company has an option to purchase a 100% interest in the Grenville and Haute Plateau nickel properties located in Quebec. During 2010, the company was required to pay C$300,000 and issue 400,000 common shares on the option. These payments were made subsequent to December 31, 2010 in a 'shares for debt' transaction.

The main operations of the Company are with its coal properties and the details in the financial review below are related to the coal properties.

Selected Annual Information

Summary of Annual Financial Information

DESCRIPTION	31 Dec 2010	31 Dec 2009	31 Dec 2008
	$	$	$
Revenues	21,254,670	2,891,301	-
Net loss for the year	(24,004,702)	(7,144,182)	(879,519)
Basic & diluted loss per share	(0.34)	(0.15)	(0.02)
Total assets	16,452,039	16,524,322	6,550,808
Total long term financial liabilities	12,130,063	5,793,255	-
Cash dividends	-	-	-

Result of Operations

Revenue

Revenue increased to $21.3 million in 2010 as compared to $2.9 million in 2009. The Big Branch mine began operations in October 2009. Revenues are recognized at the point of shipment of coal either at the mine site when trucked directly to customers or at the load-out facility where trains are typically loaded with 8,000 to 12,500 tons of coal. Prices are negotiated based on a specific shipment or a contract for a committed volume of coal, at a specified quality level, that can be shipped over one to three months, or longer. The majority of the Company's coal is classified as CSX-BSK, BTU of 12,500 and less than 1% sulphur. The Company's average selling prices reflect a higher mix of lower priced coal sales tied to sales contracts entered into when market prices were lower and Royal Coal's production volumes were expected to be higher. Lower than expected production volumes in 2010 reduced the opportunity to sell coal at higher prices.

The Company expects the average selling price of its coal to increase in 2011, as a result of increased production of compliant coal at higher prices, and increasing market prices. The Company's average selling price in Q1 2011 is expected to be about $64.75. CSX-BSK coal prices per ton are forecast to increase to approximately: $70.00 - Q2 2011; $72.00 - Q3 2011; $73.50 - Q4 2011. With market prices in 2011 forecast at $10 to $13 per ton higher than Royal Coal's 2010 average price, the company expects its revenue and gross margin to improve.

Production Volumes

The Company's coal production in the year ended December 31, 2010 was 393,656 tons, compared to the Company's 57,255 ton production for the year ended December 31, 2009. The company anticipated an increase in production from an average of 30,000 tons per month for the first eight months of the 2010 to 65,000 per month in the fourth quarter of 2010. The Company experienced difficulties maintaining equipment availability at a sufficient level to achieve the fourth quarter of 2010 production targets, due to limited funding available to maintain and enhance the equipment. The Company evaluated its results to date, including the availability and productivity of its equipment fleet, resulting in a lower near-term production forecast and related financial targets.

The financings completed in 2011 should enhance equipment availability and productivity, which are expected to generate improved operating levels in the second quarter of 2011.

COSTS AND EXPENSES

Costs of Sales

The cost of sales, including mine operating expenses and the load-out operating expenses, for the year ended December 31, 2010 was 2010 was $31,897,028 compared to $5,692,672 for the same period in 2009. The mine began operations on September 30, 2009.

Costs per ton produced was $82.41 for the year ended December 31, 2010 a decrease from the $99.43 cost per ton for the year 2009 primarily due to additional costs associated with starting the mine operation in October 2009. Costs per ton in 2010 are higher than expected as a result of lower production volumes attributed to lower availability of mine equipment and the growing pains associated with starting up the mine and implementing a long term efficient mine plan. The equipment availability issues relate to the shortage of capital required to maintain and enhance the equipment fleet. The Company utilized a portion of the proceeds from the August 2010 private placement to improve its fleet, which improved production. The Company plans to use a portion of proceeds of the financings completed in early 2011 to improve and expand its equipment fleet to increase efficiency and reduce its operating costs per ton.

The cost of sales per ton for the year ended December 31, 2010 of $82.41 includes:

- $ 3.21 per ton - severance, excise and reclamation taxes
- $ 5.77 per ton - royalties
- $24.64 per ton - equipment rental, maintenance and tires
- $15.31 per ton - fuel and lubricants
- $10.73 per ton - blasting
- $13.16 per ton - labour
- <u>$ 9.59 per ton</u> - other

  <u>$82.41 per ton</u> - total cost of sales for the year ended December 31, 2010

The Company's plans to lower its average cost per ton produced include allocating a portion of the proceeds from the 2011 financings to equipment maintenance and tires and the addition of equipment which will increase production and decrease the fixed cost amount in the cost per ton. The acquisition of the rail load out facility which is currently being leased by the Company may also reduce the cost per ton.

Accretion and interest on notes payable

The acquisition of the Big Branch property, its start up in 2009 and continuing operations in 2010 were financed in part by $7,950,000 in notes payable bearing interest at 23% per annum, plus a royalty interest commitment equal to the value of notes issued (Refer to the Notes 8 of the Audited Consolidated Financial Statements at December 31, 2010, for additional information). The notes payable accretion and interest expense, which includes the royalty interest, was $8,410,222 for the year ended December 31, 2010 compared to $912,045 for the same period of 2009. Subsequent to December 31, 2010, the Company repaid the notes payable and royalty payable resulting in significant accretion expenses in the first quarter of 2011. The notes payable accretion expenses will be reduced to nil subsequent to the first quarter of 2011, subject to any additional financings.

Accretion and interest on convertible debentures

The acquisition of the Big Branch property was financed in part by a $5,000,000 convertible debenture issued to the property vendor bearing interest at 12% per annum. The Company previously issued convertible debentures the GC Global Capital bearing interest at 12% per annum. (Refer to Note 9 of the Audited Consolidated Financial Statements at December 31, 2010, for additional information). The accretion and interest expense on the convertible debentures was $820,535 for the year ended December 31, 2010 compared to $333,073 for the same period of 2009. In February 2011, the Company repaid the Cheyenne convertible debenture . The GC Global Capital debentures were converted to shares in January 2011 (Refer to Note 20 of the Audited Consolidated Financial Statements at December 31, 2010 for additional information).

Financing fees and gain on extinguishment of debt

Financing fees and gain on extinguishment of debt were $501,422 and $920,035, respectively for the year ended December 31, 2010 compared to $173,882 and $nil for the same period of 2009. The financing fees are attributed to approximately $1,500,000 in advances received against short term future coal sales and other fees and commissions. The $920,035 gain on extinguishment of debt was due a revaluation of the fair market value of the notes payable during the period.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2010 were $793,972 compared to $141,561 for the same period during 2009. The significant increase is attributed to the start up of the Hazard Kentucky office upon completing the purchase of the Big Branch property in September 2009. Significant G&A expenses for the year include utilities, phone and computer/internet of $132,780, insurance of $82,652, office expenses of $72,727, rent of $43,897, administration and management services in Toronto provided by a company related by a common director of $244,668 and general expenses of $217,248. The future trend for G&A expenses will be consistent or higher due to the expansion of the operations of the Company.

Management and consulting

Management and consulting expenses for the year ended December 31, 2010 were $2,143,445 compared to $1,802,550 for the same period during 2009. The future trend of Management and consulting expenses should be consistent with 2010.

Other expenses

Professional fees which include legal and accounting costs increased from $147,869 in 2009 to $315,795 for 2010. Professional fees increased in 2010 due to the RTO in August of 2010. The Company expects Professional fees to be consistent with 2010 or decrease in 2011. Travel expenses increased from $183,972 to $197,992 from 2009 to 2010. Travel expenses are expected to be consistent in 2011 with 2010.

Foreign exchange loss

Foreign exchange loss for the year ended December 31, 2010 was $170,576 compared to a gain of $48,033 for the same period in 2009. The foreign exchange loss result from holding net Canadian dollar denominated liabilities while the Canadian dollar strengthened against the United States dollar, and from the timing of conversions of Canadian dollars obtained via the private placements. These gains and losses are a result of fluctuations in the US and Canadian dollar, and any exchange gain or loss that arises on translation is included in the determination of net loss for the period.

INCOME AND RESOURCE TAXES

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

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

SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

Summary of Quarterly Financial Information

For the three months ended	$ 31 Dec 10	$ 30 Sep 10	$ 30 Jun 10	$ 31 Mar 10
Revenues	5,500,619	5,403,845	4,593,994	5,756,212
Cost of sales	8,032,530	8,534,772	6,798,168	8,531,558
Gross losses	(2,531,911)	(3,130,927)	(2,204,174)	(2,775,346)
Net loss for the period	(6,220,973)	(5,511,392)	(5,760,243)	(6,512,094)
Basic & diluted loss per share	(0.05)	(0.07)	(0.10)	(0.12)
Coal – tons produced	91,262	112,678	89,533	100,183
Coal – tons sold	93,146	97,638	87,150	109,125
Average cost per ton sold	92.33	75.94	75.93	85.16
Average price per ton sold	59.05	55.31	52.71	52.75

For the three months ended	$ 31 Dec 09	$ 30 Sep 09	$ 30 Jun 09	$ 31 Mar 09
Revenues	2,891,301	-	-	-
Cost of sales	5,692,672	-	-	-
Gross losses	(2,801,371)	-	-	-
Net (loss) for the period	(5,049,073073)	(813,921)	(682,286)	(598,902)
Basic & diluted loss per share	(0.10)	(0.02)	(0.02)	(0.01)
Coal – tons produced	57,255	-	-	-
Coal – tons sold	50,741	-	-	-
Average cost per ton produced	99.43	-	-	-
Average price per ton sold	56.98	-	-	-

Liquidity

The Company had a working capital deficit of $14,053,356 as at December 31, 2010 (compared to a working capital deficit of $3,463,299 as at December 31, 2009). Included in the working capital deficit is $10,123,206 in accounts payable, $871,165 in bank loan and debt obligation, $4,057,191 in current portion of notes payable and $240,212 in current portion of convertible debentures. The Company's operations have not generated sufficient cash flow in 2010 to sustain its business. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing to support the business until production volumes increase to levels that generate revenue in excess of the costs incurred.

In January 2011, Sandstorm Energy made an upfront payment of US$11 million on a coal purchase agreement, plus Sandstorm Energy is required to pay ongoing fixed payments of US$55/ton, subject to certain adjustments as set out in the coal purchase agreement. The Company provided certain production level guarantees, including that Sandstorm Energy will receive minimum cash flows of US$2 million in calendar year 2011 and minimum cash flows of US$2.5 million in each of calendar years 2012, 2013, 2014 and 2015 as a result of the further sale of the coal purchased from the Company.

The Company entered into a separate royalty agreement with Sandstorm Energy pursuant to which, in exchange for an upfront payment by Sandstorm Energy of US$3 million which was paid on December 17, 2010. The Company will pay Sandstorm Energy a royalty equal to 2.7% of revenue from the above Big Branch Project and the Sid Mining Project until Sandstorm has been paid an aggregate amount of US$4.5 million, and thereafter 1.35% of revenue from the above Mines.

On February 23, 2011, the Company completed an equity financing of special warrants raising gross proceeds of $34.5 million through a syndicate of agents led by Cormark Securities Inc. and including Haywood Securities Inc. and Northern Securities Inc. 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 $0.335 per Common Share until February 23, 2013.

The Company used the proceeds from the Sandstorm Energy transactions and Cormark financing to reduce its working capital deficit by making payments against accounts payable, convertible debentures and the retirement of all of the notes payable. The Company is also using the proceeds to finance its current operating losses. The Company anticipates that it will have positive monthly cash flow from the Big Branch operations by the end of the second quarter of 2011.

As detailed in the Company Outlook on Page 5 of this MD&A, the Company has opportunities for acquisitions of coal properties, equipment and a rail load out facility and will use its current capital or future financings to finance these opportunities if the Company proceeds with them.

Capital Resources

The Company does not have any capital expenditure commitments as of the date of this MD&A. Detailed on page 5 of this MD&A are potential opportunities and capital expenditures that the Company may pursue.

Subsequent events

On January 7, 2011 and January 25, 2011, in accordance with the royalty and coal purchase agreements dated November 26, 2010 with Sandstorm Metals & Energy (US) Inc. ("Sandstorm Energy"), Sandstorm Energy advanced $2,000,000 and $9,000,000, respectively of the upfront coal purchase payment committed to Royal Coal. On December 17, 2011, Sandstorm Energy completed the purchase for US$3,000,000 of the 2.7% gross royalty on all of Royal Coal's current assets (until Sandstorm Energy has been paid an aggregate amount of $4,500,000, and thereafter a 1.35% gross royalty).

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") among the Company and Juno Special Situations Corporation ("Juno"), a related company by virtue of a common officer and director. 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 has been 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, has been reduced to $6,359,504 at February 25, 2010.

On February 23, 2011, the company completed and 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 were qualified by a final prospectus on April 8, 2011.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 Company 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 Company 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.

On February 25, 2011, the company repaid $4,200,000 to Cheyenne Resources Inc. ("Cheyenne Resources"), being the remaining principal amount outstanding under the debenture issued to Cheyenne Resources as part of the purchase price for the coal and surface leases known as the Big Branch Mine. No principal remains outstanding under the Cheyenne Resources debenture.

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.

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.

Commitments and Contractual Obligations

The Company, in connection with the acquisition of the Big Branch property, entered into an agreement to lease mining equipment for $232,677 per month for the two years ending September 29, 2011. 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 totalled $2,620,689 for 2011. None of these commitments extend beyond 2011.

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 US$6,000,000 payable on closing and a royalty capped at US$9,000,000. The Company has provided a non-refundable deposit of US$100,000 for a 45-day option to complete final due diligence and enter a definitive purchase agreement.

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.

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.

Off-Balance Sheet Arrangements

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

Related Party Transactions

Transactions with related parties are recorded at the exchange amount, which is the amount of consideration agreed upon between the parties. For the years ended December 31, 2010 and 2009, the Company:

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.

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.

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 a former officer of the Company. The common share value of $771,702 is included in mineral property interests. The change in value from December 31, 2009 is due to a change in foreign exchange rates.

The details of the transactions with Juno are detailed in note 8 to the audited consolidated financial statements.

The loan detailed in the paragraph above was from Juno, 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.

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.

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

Fourth Quarter of 2010 Results

During the fourth quarter of 2010, the Company's focus was obtaining financings that would allow the Company to improve its equipment fleet and operations and expand production capability at its current projects to move the Company towards profitability.

On November 26, 2010, the Company entered into a coal purchase agreement with Sandstorm Energy to acquire 18% of the first six million tons of coal produced, and thereafter 12% of the life of mine coal produced from the Big Branch Project and the Sid Mining Project. Sandstorm Energy made an upfront payment of US$11 million in January 2011, plus Sandstorm Energy is required to pay ongoing fixed payments of US$55/ton, subject to certain adjustments as set out in the coal purchase agreement. The Company provided certain production level guarantees, including that Sandstorm Energy will receive minimum cash flows of US$2 million in calendar year 2011 and minimum cash flows of US$2.5 million in each of calendar years 2012, 2013, 2014 and 2015 as a result of the further sale of the coal purchased from the Company.

The Company entered into a separate royalty agreement with Sandstorm Energy pursuant to which, in exchange for an upfront payment by Sandstorm Energy of US$3 million which was paid on December 17, 2010. The Company will pay Sandstorm Energy a royalty equal to 2.7% of revenue from the above Big Branch Project and the Sid Mining Project until Sandstorm has been paid an aggregate amount of US$4.5 million, and thereafter 1.35% of revenue from the above Mines.

Coal production in the fourth quarter decreased to 86,999 tons compared to 112,393 tons in the third quarter. The decrease is primarily attributed to equipment breakdowns which reduced availability. The revenue improved to $5,500,619 in the fourth quarter compared to $5,403,845 in the third quarter due to an increase in the average selling price to $59.05 per ton compared to $55.31 per ton in the preceding quarter.

During the fourth quarter, the Company had significant costs associated with its notes payable and convertible debentures. Subsequent to December 31, 2010, these notes payables and convertible debentures were repaid.

Management Reporting

Management's Responsibility for Consolidated Financial Statements

The accompanying audited consolidated financial statements for the years ended December 31, 2010 and 2009 of the Company are the responsibility of management. The audited consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. Financial information reflected in this Management's Discussion and Analysis is consistent with these financial statements.

The Company's Board of Directors has approved the information contained in the audited consolidated financial statements and this Management's Discussion and Analysis. The Board of Directors fills its responsibility regarding the financial statements mainly through its Audit Committee, which complies with the current requirements of Canadian securities legislation. The Audit Committee was established upon completion of the amalgamation on August 12, 2010 and meets at least on a quarterly basis.

Critical Accounting Estimates

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

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors including the market value of the Company's share and financial objectives of the stock-based instrument holders.

The Company used historical data to determine volatility in accordance with the Black-Scholes model; however, the future volatility is uncertain and the model has its limitations.

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

The Company's carrying value of its debt obligations and notes payable, including the estimates of the current portions, is based on estimated coal sales in future periods, which is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by disposition of the properties. The fair value of these items is subjective and is based on management's best estimate incorporating the use of internal and external expertise.

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

Changes in Accounting Policies including Initial Adoption

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

Future accounting changes:

The Company did not elect the early adoption of these 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.

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.

Impact of International Financial Reporting Standards

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

Management of IFRS implementation

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

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

(ii) *Evaluation and design phase*- This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content. The evaluation phase commenced in 2010 and the Company will continue to evaluate the impact of IFRS through to implementation.

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

Key differences in accounting policies

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

During the year ended December 31, 2010, the Company did not quantify the effects of the differences between Canadian GAAP and IFRS, but established that there will be differences related to stock-based compensation, and long term liabilities. The Company will continue to assess the impact and will provide more detail beginning with the financial statements for the three months ending March 31, 2011.

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

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

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

Key Area	Canadian GAAP (as currently applied)	IFRS	Analysis and preliminary conclusions
Property, plant and equipment ("PP&E")	PP&E is recorded at historical cost.	PP&E can be recorded using the cost (on transition to IFRS, the then fair value can be deemed to be the cost) or revaluation models.	PP&E will likely continue to be recorded at their historical costs due to the complexity and resources required to determine fair values on an annual basis.
	Depreciation is based on their useful lives after due estimation of their residual values.	Depreciation must be based on the useful lives of each significant component within PP&E.	Based on an analysis of PP&E and its significant components, the Company has determined that no change to their useful lives is warranted and, therefore, depreciation expense will continue to be calculated using the same rates under IFRS.
Mineral properties	Exploration, evaluation and development costs are capitalized when incurred. They are amortized on the basis of production or written off when the prospect is no longer deemed prospective or is abandoned.	IFRS has limited guidance with respect to these costs and currently allows exploration and evaluation costs to be either capitalized or expensed.	The existing accounting policy is likely to be maintained.
Asset retirement obligations ("ARO")	Canadian GAAP limits the definition of ARO to legal obligations.	IFRS defines ARO as legal or constructive obligations.	The broadening of this definition is unlikely to cause a significant change in the Company's current estimates.
	ARO is calculated using a current credit-adjusted, risk-free rate for upward adjustments, and the original credit-adjusted, risk-free rate for downward revisions. The original liability is not adjusted for changes in current discount rates.	ARO is calculated using a current pre-tax discount rate (which reflects current market assessment of the time value of money and the risk specific to the liability) and is revised every reporting period to reflect changes in assumptions or discount rates.	At December 31, 2010 the Company's ARO is calculated using pre-tax discount rate of 18%, which reflects current market assessment of the time value of money and the risk specific to the liability.
		IFRS requires that, on transition, the net book value of the asset related to ARO be adjusted on the basis of the ARO balance existing at inception.	The Company expects to rely on the IFRS 1 exemption which allows a company to use current estimates of future reclamation costs and current amortization rates to determine the net book value on transition to IFRS.

Impairment of long lived assets	Impairment tests of its long-term assets are considered annually based on indications of impairment. Impairment tests are generally done on the basis of undiscounted future cash flows. Write-downs to net realizable values under an impairment test are permanent changes in the carrying value of assets.	Impairment tests of "cash generating units" are considered annually in the presence of indications of impairment. Impairment tests are generally carried out using the discounted future cash flows. Write downs to net realizable values under an impairment test can be reversed if the conditions of impairment cease to exist.	Assets will continue to be grouped under the Company's mining operations, which include the coal properties in Kentucky and the exploration properties in Quebec. Management does not believe that impairment tests using discounted values on its Kentucky and Quebec properties will generate a write down. Potential significant volatility in earnings could arise as a result of the difference in the treatment of write-downs.
Stock-based compensation	Stock-based compensation is determined using fair value models (e.g. Black-Scholes) for equity-settled awards and the intrinsic model for cash-settled awards. The Company recognizes stock-based compensation on straight line method and updates the value of the options for forfeitures as they occur.	Stock-based compensation is determined using fair value models for all awards. However, upon settlement, cash-settled awards are adjusted to the value actually realized (intrinsic model). Under IFRS, stock-based compensation is amortized under the graded method only. In addition, the Company is required to update its value of options for each reporting period for expected forfeitures.	The utilization of fair value models for cash-settled awards will change the estimate of the related liability while the awards remain outstanding and create greater volatility in earnings until the awards are settled. The Company expects to record an IFRS income statement and balance sheet adjustment at January 1, 2011.
Income taxes	There is no exemption from recognizing a deferred income tax for the initial recognition of an asset or liability in a transaction that is not a business combination. The carrying amount of the asset or liability acquired is adjusted for the amount of the deferred income tax recognized. All deferred income tax assets are recognized to the extent that it is "more likely than not" that the deferred income tax assets will be realized.	A deferred income tax is not recognized if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit. A deferred tax asset is recognized if it is "probable" that it will be realized.	The Company does not expect the difference in recognition of deferred income tax to have any significant change in the future. "Probable" in this context is not defined and does not necessarily mean "more likely than not". The Company has not yet quantified the impact of this difference.

The above assessment and conclusions are based on the analysis completed by the Company as of the date of this report and may be subject to change between now and the date that the unaudited interim financial statements as at March 31, 2011 are filed.

Uncertainties and Risk Factors

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

Financing Risks

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

Credit risk

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

Fair value

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

The carrying value of cash, accounts receivables, accounts payable, accrued liabilities, bank loan, notes payable and convertible debentures approximates fair value due to the short-term nature of these financial instruments.

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

Interest rate risk

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

Commodity Prices

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

Foreign Currency Risks

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

Exploration and Development

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

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

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

Operating Hazards and Risks

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

Regulations and Mining Law

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

Environmental Factors

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

Permits and Licenses

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

Title to Assets

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

Governmental Regulation

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

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

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

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

No Dividends

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

Dependence on Key Employees

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

Conflicts Of Interest

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

Competition

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

Share Price Fluctuations

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

OUTSTANDING SHARE DATA

As at April 26, 2010, the following were the undiluted and fully diluted common shares outstanding:

Common shares outstanding as at April 26, 2011	241,619,495
Shares issuable on exercise of options	9,755,000
Shares issuable on exercise of warrants	117,624,055
Fully diluted shares outstanding as at April 26, 2011	368,998,550

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

	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
C$0.335	February 23, 2013	69,000,000
C$0.25	February 23, 2013	8,280,000
		119,191,699

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
$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

General

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