

## EARLY WARNING REPORT

### THIS REPORT IS MADE UNDER PART 3 OF NATIONAL INSTRUMENT 62-103

**1. Name and Address of Offeror:**

Salida Capital LP  
2 Bloor Street West  
Suite 2700  
Toronto, Ontario  
M4W 3E2

**2. The designation and number or principal amount of securities and the Offeror's securityholding percentage in the class of securities of which the Offeror acquired ownership or control in the transaction or occurrence giving rise to the obligation to file the news release, and whether it was ownership or control that was acquired in those circumstances:**

On February 23, 2011, the Offeror, on behalf of certain investment funds and accounts managed by it (collectively, the "Funds") subscribed for 19,200,000 special warrants ("Special Warrants") of Royal Coal Corp. (the "Issuer") by way of a private placement at a price of \$0.25 per Special Warrant. Upon issuance of a receipt for a final prospectus of the Issuer by the applicable securities regulatory authorities on April 11, 2011, each Special Warrant was deemed to have been automatically exercised ("Deemed Exercise") into one unit (a "Unit") without payment of any additional consideration. Each Unit consisted of one common share of the Issuer (a "Common Share") and one-half of one Common Share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to acquire one Common Share at a price of \$0.335 per Common Share until February 23, 2013.

As a result of the Deemed Exercise of the Special Warrants, the Offeror, on behalf of the Funds, acquired 19,200,000 Common Shares and 9,600,000 Warrants on April 11, 2011. 147,000 Common Shares were subsequently disposed of by the Offeror, on behalf of the Funds, in the open market.

As at May 9, 2011, the Funds beneficially owned, and the Offeror exercised control and direction over, an aggregate of 19,053,000 Common Shares and 9,600,000 Warrants, representing approximately 11.41% of the outstanding Common Shares, calculated on a partially diluted basis based on the number of outstanding Common Shares of 241,619,495 as reported by the Issuer in its Management's Discussion and Analysis dated April 27, 2011 (the "MD&A").

**3. The designation and number or principal amount of securities and the Offeror's securityholding percentage in the class of securities immediately after the transaction or occurrence giving rise to obligation to file the news release:**

Immediately following the Deemed Exercise of the Special Warrants, the Offeror, on behalf of the Funds, acquired 19,200,000 Common Shares and 9,600,000 Warrants on April 11, 2011. 147,000 Common Shares were subsequently disposed of by the Offeror, on behalf of the Funds, in the open market.

As at May 9, 2011, the Funds beneficially owned, and the Offeror exercised control and direction over, an aggregate of 19,053,000 Common Shares and 9,600,000 Warrants, representing approximately 11.41% of the outstanding Common Shares, calculated on a partially diluted basis based on the number of outstanding Common Shares as reported by the Issuer in the MD&A.

**4. Designation and number or principal amount of securities and the percentage of outstanding securities of the class of securities referred to in Item 3 over which:**

**(a) the Offeror, either alone or together with any joint actors, has ownership and control:**

Not applicable.

**(b) the Offeror, either alone or together with any joint actors, has ownership but control is held by other persons or companies other than the offeror or any joint actor:**

Not applicable.

**(c) the Offeror, either alone or together with any joint actors, has exclusive or shared control but does not have ownership:**

As at May 9, 2011, the Funds beneficially owned, and the Offeror exercised control and direction over, an aggregate of 19,053,000 Common Shares and 9,600,000 Warrants, representing approximately 11.41% of the outstanding Common Shares, calculated on a partially diluted basis based on the number of outstanding Common Shares as reported by the Issuer in the MD&A.

**5. The name of the market in which the transaction or occurrence that gave rise to the news release took place.**

Not applicable. See Item 2 above.

- 6. The value, in Canadian dollars, of any consideration offered per security if the Offeror acquired ownership of a security in the transaction or occurrence giving rise to the obligation to file a news release.**

Not applicable. See Item 2 above.

- 7. The purpose of the Offeror and any joint actors in effecting the transaction or occurrence that gave rise to the news release, including any future intention to acquire ownership of, or control over, additional securities of the reporting issuer:**

The securities of the Issuer were indirectly acquired in the ordinary course of business, for investment purposes only and not for the purpose of exercising control or direction over the Issuer. Depending on market conditions and other factors, the Offeror, on behalf of the Funds, may from time to time acquire additional securities of the Issuer, continue to hold or dispose of some or all of the securities of the Issuer in the open market, by private agreement or otherwise.

- 8. The general nature and the material terms of any agreement, other than lending arrangements, with respect to securities of the reporting issuer entered into by the Offeror, or any joint actor, and the issuer of the securities or any other entity in connection with the transaction or occurrence giving rise to the news release, including agreements with respect to the acquisition, holding, disposition or voting of any of the securities:**

Not applicable.

- 9. Names of joint actors in connection with the disclosure required by Appendix E of National Instrument 62-103:**

Not applicable.

- 10. In the case of a transaction or occurrence that did not take place on a stock exchange or other market that represents a published market for the securities, including an issuance from treasury, the nature and value of the consideration paid by the Offeror:**

The Special Warrants were acquired at a price of \$0.25 per Special Warrant. On April 11, 2011, one Common Share and one-half of one Warrant were issued to the Funds, without payment of any additional consideration, upon the conversion of a Unit being issued upon the Deemed Exercise of a Special Warrant. See Item 2 above.

- 11. If applicable, a description of any change in any material fact set out in a previous report by the entity under the early warning requirements or Part 4 in respect of the reporting issuer's securities:**

Not applicable

**12. If applicable, a description of the exemption from securities legislation being relied on by the Offeror and the facts supporting that reliance.**

Paragraph 2.42(1)(a) of National Instrument 45-106 - *Prospectus and Registration Exemptions*.

DATED this 11<sup>th</sup> day of May, 2011.

**SALIDA CAPITAL GP LTD. as  
General Partner of SALIDA CAPITAL  
LP**

*Greg Lemaich*  
Greg Lemaich  
Vice President Corporate Operations and  
General Counsel