

Execution Version

ROYAL COAL CORP.

as Corporation

and

MERCURIA ENERGY GROUP HOLDING SA

as Holder

CONVERTIBLE DEBENTURE

July 22, 2011

TABLE OF CONTENTS

ARTICLE 1 PRINCIPAL SUM

Section 1.1	Principal Sum.	1
Section 1.2	Interest.	1
Section 1.3	Prepayments.....	1

ARTICLE 2 INTERPRETATION

Section 2.1	Definitions.	2
Section 2.2	Gender and Number.	10
Section 2.3	Headings, etc.	10
Section 2.4	Currency.....	11
Section 2.5	Certain Phrases, etc.	11
Section 2.6	Incorporation of Schedules.....	11

ARTICLE 3 SECURITY

Section 3.1	Corporation Security Documents.....	11
Section 3.2	Subsidiary Security Documents.....	11
Section 3.3	Registration of the Security.....	11
Section 3.4	After Acquired Property and Further Assurances.....	12
Section 3.5	Subordination of Security Interests.....	12

ARTICLE 4 REPRESENTATIONS AND WARRANTIES

Section 4.1	Representations and Warranties of the Corporation.....	12
Section 4.2	Representations, Warranties and Covenants of the Holder.	19
Section 4.3	Survival of Representations and Warranties.....	21

ARTICLE 5 COVENANTS

Section 5.1	Affirmative Covenants.	21
Section 5.2	Information Covenants.....	23
Section 5.3	Negative Covenants.....	23

ARTICLE 6 CONVERSION OF DEBENTURE

Section 6.1	Forced Conversion.	24
Section 6.2	Conversion of Debentures into Common Shares.	24
Section 6.3	Manner of Exercise of Right to Convert to Common Shares.	25

Section 6.4	Accrued Interest, etc.	25
Section 6.5	Adjustment of Conversion Price.....	25
Section 6.6	Rules Regarding Calculation of Adjustment of Conversion Price.....	29
Section 6.7	No Requirement to Issue Fractional Shares.....	30
Section 6.8	Certificate as to Adjustment.....	30
Section 6.9	Notice of Special Matters.....	31
Section 6.10	Corporation to Reserve Shares.....	31
Section 6.11	Restrictions on Transferability.....	31

**ARTICLE 7
CHANGE OF CONTROL**

Section 7.1	Definitions.....	31
Section 7.2	Change of Control Option.....	32
Section 7.3	Exercise of Change of Control Option.....	33

**ARTICLE 8
EVENTS OF DEFAULT**

Section 8.1	Events of Default.....	33
Section 8.2	Notice of Events of Default.....	34
Section 8.3	Consequences of an Event of Default.....	34

**ARTICLE 9
ENFORCEMENT**

Section 9.1	Remedies.....	35
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**ARTICLE 10
MISCELLANEOUS**

Section 10.1	Waiver.....	35
Section 10.2	Notices, etc.	36
Section 10.3	Severability.....	36
Section 10.4	Taxes.....	36
Section 10.5	Defeasance.....	38
Section 10.6	Successors and Assigns, etc.	38
Section 10.7	Expenses.....	38
Section 10.8	Entire Agreement.....	38
Section 10.9	Governing Law.....	38
Section 10.10	Counterparts.....	38

SCHEDULES

- SCHEDULE 2.1 Permitted Liens
- SCHEDULE 4.1(b) Subsidiaries

SCHEDULE 4.1(i)(i)(1) Mining Rights
SCHEDULE 4.1(i)(i)(2) Liens on Mining Rights
SCHEDULE 4.2(j) TSX Venture Exchange Private Placement Form
SCHEDULE 5.2(b) Information Covenants
SCHEDULE 5.3(e) Big Branch Extension
EXHIBIT "A" Sandstorm Documents

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE NOVEMBER 23, 2011.

WITHOUT THE PRIOR WRITTEN APPROVAL OF THE TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY OR UNDERLYING THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF THE TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL NOVEMBER 23, 2011.

CONVERTIBLE DEBENTURE

\$10,000,000

July 22, 2011

ARTICLE 1 PRINCIPAL SUM

Section 1.1 Principal Sum.

For value received, Royal Coal Corp. (the “**Corporation**”) having its head office at 70 York Street, Suite 1410, Toronto, Ontario M5J 1S9 shall pay to the order of MERCURIA ENERGY GROUP HOLDING SA (the “**Holder**”) the principal sum of TEN MILLION DOLLARS (\$10,000,000) in lawful money of Canada on presentation and surrender of this Debenture at the office of the Holder at 50 Rue du Rhone, Geneva 1204, Switzerland or such other place as the Holder may designate on July 22, 2013 (the “**Maturity Date**”).

Section 1.2 Interest.

The principal sum outstanding from time to time shall bear interest both before and after maturity, default and judgment from and including July 22, 2011 to the date of repayment in full at 9.00% per annum calculated and payable semi-annually in arrears, in equal instalments, on the first day of each of the months of January and July in each year commencing on January 1, 2012; provided that if, at any time, the Holder holds a first ranking Security Interest (subject only to Permitted Liens other than the Permitted Liens described in clause (b), (c) and (d) of Schedule 2.1), such rate of interest shall be reduced from 9.00% to 7.00% per annum for so long as the Holder continues to hold such first ranking Security Interest. Interest on overdue interest shall be calculated at the same rates and payable on demand.

Section 1.3 Prepayments.

This Debenture shall mature and the principal hereof shall become payable on the Maturity Date. The Corporation will not have any right to prepay or redeem all or any portion of the outstanding principal amount of the Debenture prior to the Maturity Date.

ARTICLE 2 INTERPRETATION

Section 2.1 Definitions.

As used in this Debenture, the following terms have the following meanings:

“**Affiliate**” has the meaning specified in the *Business Corporations Act* (Ontario).

“**After Acquired Property**” means the Riverway Terminal (subject to existing bank debt at the time of acquisition) and Lawrence County Properties.

“**Applicable Law**” means, at any time, with respect to any Person, property, transaction, event or other matter, as applicable, all laws, rules, statutes, regulations, treaties, orders, judgments and decrees, and all official requests, directives, rules, guidelines, orders, policies, practise and other requirements of any Governmental Entity relating or applicable at such time to such Person, property, transaction, event or other matter, and also includes any interpretation thereof by any Person having jurisdiction over it or charged with its administration or interpretation.

“**Big Branch Extension**” means the coal and surface and mineral rights located in Knott County in the Eastern Kentucky Coalfields, Kentucky, consisting of Surface Mining Permit No. 860-0500 and any related permits, as more particularly described in Schedule 5.3(e) attached hereto and forming a part hereof.

“**Big Branch Project**” means the Corporation’s interest in and to the coal and surface leases (totalling approximately 2,750 acres) comprising the Big Branch coal project located in Knott County, Kentucky, as more fully described in the Big Branch Report.

“**Big Branch Report**” means the NI 43-101 compliant technical report dated April 8, 2011 entitled “An Independent National Instrument 43-101 Report Summarizing Mineral Exploration, Development and Production Activities of the Big Branch Project Area, Knott County, Kentucky” prepared by Phillip Lucas, P.E., P.L.S. as the qualified person at Summit Engineering, Inc.

“**Business Day**” means any day of the year, other than Saturday, Sunday or other day on which banks are required or authorized to close in Toronto, Ontario.

“**Capital Stock**” means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

“**CDR Big**” means CDR Big Branch Inc., a Kentucky corporation.

“**CDR Big GSA**” means the Security Agreement of even date herewith granted by CDR Big to the Holder granting a Security Interest in CDR Big’s present and future assets in a form acceptable to the Holder.

“CDR Coty” means CDR Laurel Fork, Inc., a Kentucky corporation.

“CDR Coty GSA” means the Security Agreement of even date herewith granted by CDR Coty to the Holder granting a Security Interest in CDR Coty’s present and future assets in a form acceptable to the Holder.

“CDR Operations” means CDR Operations, Inc., a Kentucky corporation.

“CDR Operations GSA” means the Security Agreement of even date herewith granted by CDR Operations to the Holder granting a Security Interest in CDR Operations’ present and future assets in a form acceptable to the Holder.

“CDR Sid” means CDR Sid Mining, Inc., a Kentucky corporation.

“CDR Sid GSA” means the Security Agreement of even date herewith granted by CDR Sid to the Holder granting a Security Interest in CDR Sid’s present and future assets in a form acceptable to the Holder.

“CDR (USA)” means CDR Minerals (USA) Inc., a Delaware corporation.

“CDR (USA) GSA” means the Security Agreement of even date herewith granted by CDR (USA) to the Holder granting a Security Interest in CDR (USA)’s present and future assets in a form acceptable to the Holder.

“Change of Control” shall mean the occurrence of any one of the following: (i) the direct or indirect sale, transfer, conveyance, lease or other disposition, in one or a series of related transactions, of all or substantially all of the undertaking, property or assets of the Corporation and its subsidiaries, taken as a whole, to any Person or group of persons acting jointly or in concert for purposes of such transaction (other than to the Corporation and its subsidiaries); (ii) the consummation of any transaction including, without limitation, any consolidation, amalgamation, arrangement, merger, issue or acquisition of voting shares, the result of which is that any Person or group of persons acting jointly or in concert for purposes of such transaction (other than the Corporation and its subsidiaries) becomes the beneficial owner, directly or indirectly, of more than 50% of the voting shares of the Corporation, measured by voting power rather than number of shares; or (iii) any person (other than management of the Corporation) or group of shareholders shall succeed in having a sufficient number of its nominees elected to the board of directors of the Corporation such that such nominees, when added to any existing director remaining on the board of directors of the Corporation after such election who was a nominee of or is an affiliate or related person of such person or group of shareholders, will constitute a majority of the board of directors of the Corporation.

“Charlene Load Out” means the rail load out and related facilities located at 1965 Montgomery Creek Road, Vicco, Kentucky 41773 on property owned by WPP LLC and leased to CDR Operations.

“**Collateral**” means, collectively, all now owned or hereafter acquired real, personal or mixed property of the Corporation and its Subsidiaries and all types of tangible or intangible property and all proceeds and products thereof pledged to the Holder pursuant to the Security Documents.

“**Common Shares**” means the shares without nominal or par value of the Corporation designated as common shares in its articles of incorporation, as such shares exist at the commencement of business on this date; provided that in the event of a subdivision, redivision, reduction, combination, consolidation or reclassification, then, subject to adjustments, if any, having been made in accordance with the provisions of Section 6.5, “**Common Shares**” shall mean the shares resulting from the subdivision, redivision, reduction, combination, consolidation or reclassification, as the case may be.

“**Control Person**” has the meaning ascribed to such term in subsection 1(1) of the *Securities Act* (Ontario);

“**Conversion Price**” has the meaning specified in Section 6.2(1).

“**Corporation GSA**” means the general security agreement granted by the Corporation to the Holder granting a Security Interest in all of the Corporation's present and future assets in form acceptable to Holder.

“**Debenture**” means this convertible debenture.

“**Dividend Paid in the Ordinary Course**” means a dividend paid on the Common Shares in any financial year of the Corporation, whether in (i) cash, (ii) shares of the Corporation, (iii) warrants, options, or similar rights to purchase any shares of the Corporation, property or other assets of the Corporation but excluding rights, options or warrants referred to in Section 6.5(2), provided that the value of such dividend, together with all other dividends paid in such financial year, does not exceed the greater of: (i) 100% of the aggregate amount or value of dividends paid by the Corporation on the Common Shares in the 12-month period ending immediately prior to the first day of such financial year, and (ii) 50% of the consolidated net income from continuing operations of the Corporation, before any extraordinary items but after dividends payable on all shares ranking prior to or on a priority with the Common Shares with respect to the payment of dividends, for the 12-month period ending immediately prior to the first day of such financial year (such consolidated net earnings from continuing operations to be computed in accordance with generally accepted accounting principles in Canada);

“**Environmental Laws**” means collectively, all federal, state or local statute, law rule, regulation, ordinance, code, guideline or written policy or any rule of common law and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, that relate to (a) the prevention, abatement or elimination of pollution, or the protection of the environment, or of natural

resources, including the Surface Mining Control and Reclamation Act of 1977, as amended, or any equivalent state law regulating surface mining and reclamation activities pursuant to the provisions of 30 U.S.C. § 1253 applicable to mining activities or related activities (“SMCRA”); (b) the generation, handling, treatment, storage, disposal or transportation of waste materials; (c) the regulation of or exposure to Hazardous Substances, including the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. §§9601 et. Seq. (“CERCLA”), the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §§6901 et. seq. (“RCRA”), the Clean Air Act, 42 U.S.C. §§7401 et. seq., the Clean Water Act, 33 U.S.C. §§1251 et. seq., the Toxic Substances Control Act, 15 U.S.C. §§2601 et. seq., the Emergency Planning and Community Right to Know Act, 42 U.S.C. §§11001 et. seq.; and any similar Laws of the Commonwealth of Kentucky relating to the matters set forth in (a) – (c) above.

“Environmental Liabilities” means with respect to the Corporation and its Subsidiaries, any and all claims, actions, causes of action, damages, losses, liabilities, obligations, penalties, judgments, amounts paid in settlement, assessments, costs, disbursements or expenses (including attorney’s fees and costs, experts’ fees and costs, and consultants’ fees and costs) of any kind or of any nature whatsoever that are asserted by any entity, alleging liability (including liability for studies, testing or investigatory costs, cleanup costs, response costs, removal costs, remediation costs, containment costs, restoration costs, corrective action costs, closure costs, reclamation costs, property damages, business losses, personal injuries, penalties or fines) arising out of, based on or resulting from (a) the presence, release, threatened release, discharge or emission into the environment of any hazardous materials or substances existing or arising on, beneath or above the Properties and/or emanating or migrating and/or threatening to emanate or migrate from the Properties to off-site properties, (b) physical disturbance of the environment, or (c) the violation or alleged violation of any Environmental Laws.

“Event of Default” has the meaning specified in Section 8.1.

“GAAP” means generally accepted accounting principles in Canada, consistently applied, that are in effect on the date hereof.

“Guarantee” means each guarantee granted by each Royal Coal Group member of the Corporation’s Obligations hereunder, in form acceptable to the Holder.

“Governmental Entity” means (i) any international, multinational, national, federal, provincial, state, municipal, local or other governmental or public department, central bank, court, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) any subdivision or authority of any of the above, (iii) any stock exchange and (iv) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

“Hazardous Substances” means any and all dangerous substances, hazardous substances, toxic substances, hazardous wastes, special wastes, controlled wastes, oils, petroleum products and hazardous chemicals (including, without limitation, any solid, liquid, gas, odour, heat, sound, radiation and vibration) which may be harmful to human

health or the environment and which are or may be at any time regulated or controlled under Environmental Laws.

“Instrument” means this Debenture, any of the Security Documents or any other agreement or instrument (whether now existing, presently arising or created in future) delivered by the Corporation to the Holder.

“Kentucky River Lease” means the sublease by and between Kentucky River Properties LLC, Cheyenne Resources, Inc., CDR Resources, Inc., CDR Big, and CDR USA dated September 30, 2009, and Sublease Agreement by and between Cheyenne Resources, Inc. and CDR Big dated September 30, 2009.

“Laurel Fork Project” means the Corporation’s interest in and to the coal and surface leases (totalling approximately 2,500 acres) comprising the Laurel Fork coal project located in Knott County, Kentucky, as more fully described in the Laurel Fork Report.

“Laurel Fork Report” means the NI 43-101 compliant technical report dated April 8, 2011 entitled “An Independent National Instrument 43-101 Report Summarizing Mineral Exploration, Development and Production Activities of Laurel Fork Project Area, Knott County, Kentucky” prepared by Phillip Lucas, P.E., P.L.S. as the qualified person at Summit Engineering, Inc.

“Lawrence County Properties” means the (i) area that is bounded to the north by Right Fork Georges Creek Road and Hay Branch; to the south by Scarberry Branch, Sugarplum Branch, and Yates Branch; to the east by Kentucky Highway 1760; and to the west by Nelson Branch Road and Youngs Fork and located within Lawrence County, Kentucky, primarily in the Richardson USGS quadrangle map, and (ii) three properties held by Roadway Unlimited, namely (A) mining leases adjacent to the Locust Grove property in Raney Branch, Lawrence County, (B) mining leases at 28602 Amber Lane, Catlettsburg Kentucky 41129 covering 290 acres and (C) mining leases in Wayne County West Virginia under permit # S5027 covering 280 acres.

“Lien” means (i) any mortgage, charge, pledge, hypothecation, security interest, assignment by way of security, encumbrance, lien (statutory or otherwise), hire purchase agreement, conditional sale agreement, deposit arrangement, title retention agreement or arrangement, or any other assignment, arrangement or condition that in substance secures payment or performance of an obligation, (ii) any trust arrangement, (iii) any arrangement which creates a right of set-off out of the ordinary course of business, or (iv) any agreement to grant any such rights or interests.

“Material Adverse Effect” means, when used with reference to any event or circumstance, an event or circumstance which has or could reasonably be expected to have: (i) a material adverse effect on the business, operations, properties, assets, liabilities, financial condition or prospects of the Corporation and the Royal Coal Group on a consolidated basis; or (ii) a material adverse effect on the ability of the Corporation or any of the Royal Coal Group members to perform their obligations under any of the Security Documents or any other Transaction Document to which the Corporation or any Royal Coal Group member is a party.

“Material Agreement” means any material written or oral agreement or contract with a value in excess of \$500,000 to which a Person is a party, by which such Person is bound, or to which any material assets of such Person are subject, which is not cancellable by such Person upon notice of thirty (30) days or less without liability for further payment other than nominal penalty.

“Material Properties” means the Big Branch Project, the Sid Mining Project and Charlene Load Out.

“Maturity Date” has the meaning specified in Section 1.1.

“NI 43-101” means National Instrument 43-101 – Standards of Disclosure for Mineral Projects.

“Obligations” means the aggregate of all indebtedness, obligations and liabilities of the Corporation and/or its Subsidiaries to the Holder pursuant to this Debenture and the Transaction Documents.

“Other Taxes” means present and future stamp and documentary taxes and any other excise and property taxes, charges, financial institutions duties, debits taxes and similar levies which arise from any payment made by the Corporation or a guarantor under this Debenture or under any of the Security Documents or from the execution, delivery or registration of, or otherwise with respect to, this Debenture or any of the Security Documents, in each case, including any interest, additions to tax or penalties, as applicable thereto.

“Permitted Liens” means, in respect of any Person, any one or more of the following:

- (a) any Security Interest, bond or deposit under workers’ compensation, social security or similar legislation or in connection with permitting, tenders, or expropriation proceedings or to secure public or statutory obligations, surety and appeal bonds or costs of litigation, all where required by Applicable Laws;
- (b) builders’, mechanics’, material men’s, carriers’ and warehousemen’s liens and privileges, provided the related obligations are not due or delinquent; or any Security Interest or privilege arising out of judgments or awards, which any of the Corporation or its direct or indirect Subsidiaries at the time is prosecuting an appeal or proceedings for review and with respect to which it has secured a stay of execution pending such appeal or proceedings for review; or any Security Interest for taxes, assessments or governmental charges or levies not at the time due and delinquent or the validity of which is being contested at the time by any of the Corporation or any of its Subsidiaries in good faith;
- (c) any right reserved to or vested in any municipality or governmental or other public authority by the terms of any lease, license, franchise, grant or permit held or acquired by the Corporation or any of its Subsidiaries, or by any statutory provision, to terminate the lease, license, franchise, grant or permit therewith or to

require annual or other periodic payments as a condition of the continuance thereof;

- (d) any Security Interest created or assumed by the Corporation or any of its Subsidiaries in favour of a public utility or any municipality or governmental or other public authority when required by the utility, municipality or other authority in connection with operations;
- (e) any reservations, limitations, provisos and conditions expressed in original grants from the applicable state or US federal government or agencies thereof and any reservations and exceptions contained in, or implied by statute;
- (f) any minor encumbrance, such as easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other persons, rights-of-way for sewers, electric lines, telegraph and telephone lines, oil and natural gas pipelines and other similar purposes, or zoning or other restrictions applicable to the Corporation's or any of its Subsidiaries' use of real property, that do not in the aggregate materially detract from the value of its mines or materially impair its use in the operation of the mines;
- (g) encumbrances in favour of governmental authorities securing reclamation obligations of the Corporation's or any of its Subsidiaries' mines;
- (h) all exploration, development and operating permits and bonding requirements in respect of Corporation's or any of its Subsidiaries' mines imposed by federal, state, provincial or local government requirements, including the potential application of new environmental or other restrictions, limitations and requirements imposed by such authorities on mineral exploration, development, mining and processing operations;
- (i) Purchase Money Security Interests;
- (j) various defects and deficiencies which are typical of mineral titles in Kentucky (no material defects or deficiencies being currently known by the Corporation or any of its Subsidiaries') that do not in the aggregate materially detract from the value of the Corporation's or its Subsidiaries' mines or materially impair their use in the operation of the such mines, including without limitation undivided interests therein being owned and/or controlled by third parties as a result of competing claims (i.e. none of which were created by agreement of the Corporation or any of its Subsidiaries' or affiliates);
- (k) Liens in favour of the Holder created by the Security Documents; and
- (l) Liens disclosed in Schedule 2.1 but only to the extent such Liens conform to their description in Schedule 2.1.

“Person” means an individual, partnership, corporation, joint stock company, trust, unincorporated association, joint venture or Governmental Entity or other entity.

“Premises” means any premises owned or occupied by the Corporation from time to time.

“Principal Market” means such stock exchange or quotation system on or through which the Common Shares are listed or quoted which has the highest trading volume in the calendar month immediately preceding such date, being as at the date hereof the TSX Venture Exchange;

“Properties” means the Big Branch Project, the Laurel Fork Project, the Sid Mining Project and Charlene Load Out.

“Purchase Money Security Interest” means any security interest charging property (other than real property or inventory) acquired by the Corporation or a Subsidiary, which is granted or assumed by the Corporation or a Subsidiary or which arises by operation of law in favour of the transferor concurrently with and for the purpose of the acquisition or lease of such property, in each case where (i) the principal amount secured by the security interest is not in excess of the purchase price of the property acquired, and (ii) such security interest extends only to the property acquired and its proceeds.

“Riverway Terminal” means that certain coal loading and unloading facility located at approximately milepost 7.4 on the Big Sandy River and having a street address of 16232 US Highway 23, Catlettsburg, Kentucky 41129.

“Royal Coal Group” means, collectively, RCL, CDR (USA), CDR Sid, CDR Coty, CDR Operations and CDR Big, and all existing and future, direct or indirect Subsidiaries of any of the foregoing, and all existing and future affiliates of the foregoing related to coal production, and **“Royal Coal Group member”** means any one of them.

“RCL” means Royal Coal Limited, an Ontario company.

“Sandstorm” means Sandstorm Metals & Energy (U.S.) Inc., a Delaware corporation.

“Sandstorm Documents” means the security documents listed in **Exhibit “A”**.

“Safety Laws” shall mean any federal, state or local statute, law, rule, regulation, ordinance, code, guideline or written policy or any rule of common law and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to public or employee health or safety, including, without limitation, the Occupational Safety and Health Act, 29 U.S.C. § 651 et seq. and the Federal Mine Safety and Health Act of 1977, 30 U.S.C. § 801 et seq.

“Security Documents” collectively the Corporation GSA, each Guarantee, the RCL GSA, the CDR Sid GSA, the CDR (USA) GSA, the CDR Big GSA, the CDR Coty GSA and any additional agreements, documents or instruments delivered to the Holder as security for the obligations of the Royal Coal Group or any of them to the Holder and all other documents executed and delivered in connection with any of the foregoing, including all amendments, modifications or replacements thereof and supplements thereto.

“Security Interest” means any security interest, assignment by way of security, mortgage, charge (whether fixed or floating), hypothec, pledge, lien or other encumbrance on or interest in any property or asset.

“Sid Mining Project” means the Corporation’s interest in and to the coal and surface leases (totalling approximately 850 acres) comprising the Sid Mining coal project located in Perry and Beathitt Counties, Kentucky, as more fully described in the Sid Mining Report.

“Sid Mining Report” means the NI 43-101 compliant technical report dated April 8, 2011 entitled “An Independent National Instrument 43-101 Report Summarizing Mineral Exploration, Development and Production Activities of Sid Mining, LLC, Bowling Creek and Cam Johnson Branch, Perry and Breathitt Counties, Kentucky” prepared by Phillip Lucas, P.E., P.L.S. as the qualified person at Summit Engineering, Inc.

“Subordination Agreement” means the subordination agreement dated July 22, 2011 among, the Corporation, Sandstorm and the Holder.

“Subsidiary” means any subsidiary of the Corporation as such term is defined in the *Business Corporations Act* (Ontario) from time to time and, unless otherwise qualified, all references to a **“Subsidiary”** or to **“Subsidiaries”** in this Debenture shall refer to a Subsidiary or Subsidiaries of the Corporation.

“Taxes” means all taxes, levies, imposts, deductions, charges or withholdings and all related liabilities imposed by any country (or any political subdivision or taxing authority of it), in each case, including any interest, additions to tax or penalties applicable thereto.

“Time of Expiry” means 4:30 p.m. (Toronto time) on the Maturity Date.

“Trading Day” means a day on which the Principal Market is open for the trading of securities.

“Transaction Documents” means this Debenture and the Security Documents, including all amendments, modifications or replacements thereof and all supplements thereto.

“VWAP” means the volume weighted average trading price of the Common Shares on the Principal Market, calculated by dividing the total value by the total volume of the Common Shares traded for the relevant period.

Section 2.2 Gender and Number.

Any reference in this Debenture to gender includes all genders and words importing the singular number only include the plural and vice versa.

Section 2.3 Headings, etc.

The provision of a Table of Contents, the division of this Debenture into Articles and Sections and the insertion of headings are for convenient reference only and are not to affect the interpretation of this Debenture.

Section 2.4 Currency.

All references in this Debenture to dollars, unless otherwise specifically indicated, are expressed in Canadian currency.

Section 2.5 Certain Phrases, etc.

In this Debenture (i) (y) the words “**including**” and “**includes**” mean “**including (or includes) without limitation**” and (z) the phrase “**the aggregate of**”, “**the total of**”, “**the sum of**”, or a phrase of similar meaning means “**the aggregate (or total or sum), without duplication, of**”, and (ii) in the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word “**from**” means “**from and including**” and the words “**to**” and “**until**” each mean “**to but excluding**”.

Section 2.6 Incorporation of Schedules.

The schedules attached to this Debenture shall, for all purposes of this Debenture, form an integral part of it.

**ARTICLE 3
SECURITY**

Section 3.1 Corporation Security Documents

To secure the due payment of all Obligations, and the performance by the Corporation of its Obligations contained in this Debenture, the Corporation shall execute and deliver to the Holder the Security Documents to which the Corporation is or will be a party. The Holder, and the Corporation (for itself and on behalf of the Royal Coal Group) hereby agrees, and the Holder by receipt of this Debenture agrees, that the Security Documents executed and delivered by the Corporation shall secure all the Obligations outstanding from time to time. The Security Documents executed by the Corporation shall enure to the benefit of the Holder from time to time and be subject at all times to the provisions of this Debenture.

Section 3.2 Subsidiary Security Documents

The Security Documents executed by the Royal Coal Group shall secure their respective Guarantees.

Section 3.3 Registration of the Security

The Corporation shall, and shall cause its Subsidiaries to, at its expense, register, file, record and give notice of (or cause to be registered, filed, recorded and given notice of) the Security Documents in all offices in Canada and the United States where such registration, filing, recording or giving notice is necessary for the perfection of the Security Interest constituted thereby.

Section 3.4 After Acquired Property and Further Assurances

The Corporation shall, and shall cause its Subsidiaries to, from time to time, execute and deliver all such further deeds or other instruments of conveyance, assignment, transfer, mortgage, pledge or charge as may be necessary or desirable (if any) to ensure that any additional interests in the Collateral acquired after the date hereof, to be subject to the Security Interests created pursuant to the Security Documents.

Section 3.5 Subordination of Security Interests

Any reference in this Debenture or any other Transaction Document to Liens permitted by any such Transaction Document and any right of the Corporation to create or suffer to exist Liens permitted by such Transaction Document are not intended to and do not and will not subordinate the Security Interest created hereunder to any such Lien or give priority to any Person over the Holder, except as specifically disclosed in such Transaction Document. The Holder will, upon request by the Corporation and so long as no Event of Default is continuing, enter into such agreements and instruments as the Corporation may reasonably request, in form and substance satisfactory to the Holder, acting reasonably, to subordinate the Security Interests created by the Security Documents, other than with respect After Acquired Property, to any Permitted Liens described in clauses (i) (including, without limitation, Liens in connection with the assumption of existing bank debt or replacement thereof in connection with the acquisition of the Riverway Terminal, provided (i) the principal amount secured by such Liens is not in excess of the purchase price of the Riverway Terminal, and (ii) such Lien extends only to the Riverway Terminal and its proceeds) and (l) of that definition.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES

Section 4.1 Representations and Warranties of the Corporation.

The Corporation represents and warrants to the Holder as follows:

- (a) **Organization, Corporate Power and Licenses.** The Corporation and each Royal Coal Group member is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and is qualified to do business in every jurisdiction in which its ownership of property or conduct of business requires it to qualify, except for jurisdictions in which the failure to so qualify has not had and could not have a Material Adverse Effect. The Corporation and each Royal Coal Group member possesses all requisite corporate power, capacity and authority and all material licenses, permits and authorizations necessary to own and operate its properties, to carry on its businesses as now conducted and presently proposed to be conducted and to carry out the transactions contemplated by each of the Transaction Documents. The copies of the Corporation's and each Royal Coal Group member's charter documents and bylaws or applicable constituent documents which have been furnished to the Holder's counsel reflect all amendments made thereto at any time prior to the date of this Debenture and are correct and complete;

- (b) **Subsidiaries; Investments.** Schedule 4.1(b) correctly sets forth the name of each Subsidiary of the Corporation, the jurisdiction of its organization or incorporation, and its outstanding securities, including all options or other rights convertible or exchangeable into securities of such Subsidiary. Each Subsidiary of the Corporation is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization or incorporation, possesses all requisite limited liability company or corporate, as the case may be, power and authority and all material licenses, permits and authorizations necessary to own its properties and to carry on its businesses as now being conducted and as presently proposed to be conducted and is qualified to do business in every jurisdiction in which its ownership of property or the conduct of business requires it to qualify, except for jurisdictions in which the failure to so qualify has not had and could not reasonably have a Material Adverse Effect. All of the outstanding membership interests or shares of Capital Stock, as the case may be, of each Subsidiary of the Corporation are validly issued, fully paid and non-assessable, and all such membership interests or shares are owned by the Corporation or another Subsidiary of the Corporation free and clear of any Security Interest other than Permitted Liens and are not subject to any option or right to purchase any such membership interests or shares of Capital Stock, except as contemplated in this Debenture. Except as set forth in Schedule 4.1(b), neither the Corporation nor any Subsidiary of the Corporation owns or holds the right to acquire any membership interests or shares of stock or any other security or interest in any other Person. Furthermore, neither the Corporation nor any Royal Coal Group member has any Liens outstanding other than Permitted Liens;
- (c) **Authorization; No Breach.** The execution, delivery and performance of each of the Transaction Documents and all other agreements and instruments contemplated hereby to which the Corporation or a Royal Coal Group member is a party has been duly authorized by the Corporation and each of the Royal Coal Group members that is a party thereto. Each of the Transaction Documents and all other agreements and instruments contemplated hereby to which the Corporation and/or each Royal Coal Group member that is a party each constitutes a legal, valid and binding obligation of the Corporation and the Royal Coal Group members, as the case may be, enforceable in accordance with its terms. Except as contemplated in this Debenture, the authorization, execution and delivery by the Corporation and each Royal Coal Group member of each of the Transaction Documents to which such entity is a party and all other agreements and instruments contemplated hereby to which the Corporation or any Royal Coal Group member is a party, the offering, sale and issuance of this Debenture, and the fulfillment of and compliance with the respective terms hereof and thereof by the Corporation and any Royal Coal Group member, as applicable, do not and shall not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default under, (iii) result in the creation of any Security Interest, charge or encumbrance upon the Corporation's or any Royal Coal Group member's Capital Stock or assets pursuant to, (iv) give any third party the right to modify, terminate or accelerate any obligation under, (v) result in a violation of, or (vi) require any authorization, consent, approval, exemption or

other action by or notice or declaration to, or filing with, any court or administrative or governmental body or agency pursuant to, the articles of incorporation, bylaws or other charter documents or resolution of the directors or the shareholders of the Corporation or any Royal Coal Group member, or any Applicable Law to which the Corporation or any of its Subsidiaries is subject, or any Material Agreement or any order, judgment or decree to which Corporation or any of its Subsidiaries is subject;

- (d) **Litigation, Etc.** There are no material actions, suits, proceedings, orders, investigations or claims pending or, to the Corporation's knowledge, threatened against or affecting the Corporation or any of its Subsidiaries (or to the Corporation's knowledge, pending or threatened against or affecting any of the officers, directors or employees of the Corporation or its Subsidiaries with respect to their respective businesses or proposed business activities that relate to or would be relevant to the Corporation), or pending or threatened by the Corporation or any of its Subsidiaries against any third party, at law or in equity, or before or by any Governmental Entity or arbitrator or mediator (including, without limitation, any actions, suit, proceedings or investigations with respect to the transactions contemplated by this Debenture). Neither the Corporation nor any of its Subsidiaries is subject to any judgment, order or decree of any court or other Governmental Entity or arbitrator or mediator;
- (e) **Governmental Consent, etc.** No permit, consent, approval or authorization of, or declaration to or filing with, any Governmental Entity is required in connection with the execution, delivery and performance by the Corporation or any Royal Coal Group member of this Debenture or the other Transaction Documents contemplated hereby, or the consummation by the Corporation or any Royal Coal Group member of any other transactions contemplated hereby or thereby, except as may have been made or obtained prior to the date of this Debenture or obtained after the closing in accordance with the terms of the Transaction Documents;
- (f) **Insurance.** Neither the Corporation nor any of its Subsidiaries is in default with respect to its obligations under any insurance policy maintained by it, and neither the Corporation nor any of its Subsidiaries has been denied coverage. The insurance coverage of the Corporation and each of its Subsidiaries is maintained by qualified insurers, as appropriate to its operations, property and assets, in such amounts and against such risks customarily carried and insured against by owners of prudent corporations of similar size engaged in similar lines of business and such insurance policies continue to be in effect;
- (g) **Compliance with Laws, Obligations, etc.** Neither the Corporation nor any of its Subsidiaries has violated any Applicable Law or any governmental regulation or requirement in any material respect and neither the Corporation nor any of its Subsidiaries has received an inquiry regarding or notice of any such violation. Except for any conflicts, defaults or violations that do not result in, individually or in the aggregate (taking into account the impact of any cross-defaults), a Material Adverse Effect, each of the Corporation and its Subsidiaries has complied with,

and is not in conflict with, or in default (including cross defaults) under or in violation of: (a) its constating documents, (b) any Applicable Law applicable to it, its business or operations or by which any of its property and assets is bound or affected, or (c) any contract to which it or its business or operations, or by which any of its property and assets, is bound or affected. Except for such matters as required as a post-closing action pursuant hereto, the Corporation and each of the Subsidiaries has or will have complied with each of its covenants and obligations hereunder. Neither the Corporation nor its Subsidiaries are aware of any pending or contemplated change to any Applicable Law that has a Material Adverse Effect. No payments or inducements were made or given, directly or indirectly, to any officials (foreign or domestic) by the Corporation or its Subsidiaries or by any of their officers, directors, employees or agents, or any associates of any of the foregoing, in connection with any opportunity, agreement, licence, permit, certificate, consent, order, approval, waiver or other authorization related to the business of the Corporation or its Subsidiaries, except for such payments or inducements that were lawful under the laws, rules and regulations of the country in which they were made. Neither the Corporation nor any Subsidiaries of the Corporation has used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity, made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds, or made any other unlawful payment. The Corporation and each of its Subsidiaries has not failed to disclose to in writing any information known to the Corporation or its Subsidiaries regarding any event or circumstance or any action taken or failed to be taken that could have a Material Adverse Effect;

- (h) **Employment and Labour.** Neither the Corporation nor its Subsidiaries had or has any collective bargaining agreements with respect to its employees. There are no current, pending or, to the knowledge of the Corporation after due inquiry, threatened strikes or lockouts at the Corporation or any Subsidiary. Neither the Corporation nor any Subsidiary is subject to any litigation, actual or, to the knowledge of the Corporation after due inquiry, threatened, relating to employment or termination of employment of employees or independent contractors, other than those claims or litigation that do not and will not, individually or in the aggregate, result in a Material Adverse Effect. The Corporation and its Subsidiaries have operated in accordance with all Applicable Laws with respect to employment and labour, including, but not limited to, employment and labour standards, occupational health and safety, employment equity, pay equity, workers' compensation, human rights and labour relations and there are no current, pending or, to the knowledge of the Corporation, threatened proceedings before any board or tribunal with respect to any of the above areas. There are no independent contract miners or operators now engaged by the Corporation or any Subsidiary;
- (i) **Material Properties.**
 - (i) the Corporation and its Subsidiaries:

- (1) have title to the Material Properties through the deeds, leases, easements, mining titles, permits, licenses, claims, concessions and like interests set out in Schedule 4.1(i)(i)(1) (the “**Mining Rights**”);
 - (2) such Mining Rights are free and clear of Liens, except Permitted Liens and Liens as set forth in Schedule 4.1(i)(i)(2) and other than Liens that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;
 - (3) to their knowledge after due inquiry, there are no conflicting mining claims that could constitute a material defect in the Corporation’s or any of its Subsidiaries’ title to any of the Mining Rights; and
 - (4) the Mining Rights constitute all rights required to conduct mining activities as the Corporation and its Subsidiaries have historically conducted their operations;
- (ii) there are no pending or, to the Corporation’s knowledge after due inquiry, threatened, suits, claims, actions, proceedings or investigations of any nature affecting the Corporation, its Subsidiaries or the Material Properties or the Mining Rights, except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;
 - (iii) the Mining Rights are in good standing, are valid and enforceable, and no material royalty is payable in respect of any of them. There are no material restrictions on the use or ability to otherwise exploit any such property rights, except as required by Applicable Law;
 - (iv) the Mining Rights are the only material prospecting, exploration, retention and/or mining licences owned or held by the Corporation or its Subsidiaries (or for their benefit) or in respect of which the Corporation or its Subsidiaries have any interest;
 - (v) neither the Corporation nor any Subsidiary has received notice from any governmental licensing authority or counterparty of any proposal or intention to withdraw, revoke, amend or terminate any of the Mining Rights;
 - (vi) all material obligations of the Corporation and the applicable Subsidiaries in respect of the Mining Rights have been complied with at all times, and the Corporation and/or its Subsidiaries, as applicable, are currently in compliance with the obligations required of it under the Mining Rights, and no action, claim, demand, dispute or liability in respect of the same is outstanding or, to the best of the knowledge of the Corporation after due inquiry, threatened;

- (vii) the Mining Rights collectively constitute all of the Mining Rights necessary to permit the Corporation and each of its Subsidiaries to lawfully conduct and operate its business in the manner it currently conducts and operates such business and to permit the Corporation and each of its Subsidiaries to own and use its assets in the manner in which it currently owns and uses such assets;
- (viii) the Corporation or the applicable Subsidiary has or has caused to be posted all deposits, letters of credit, guarantees, indemnities, trust funds, bid bonds, performance bonds, reclamation bonds and surety bonds (and all such similar undertakings) required to be posted in connection with its operations, including those necessary to secure the performance of such party's reclamation or other obligations pursuant to, in connection with or as a condition of, the Mining Rights;
- (ix) neither the Corporation or any Subsidiary has been notified in writing or otherwise by the Office of Surface Mining, U.S. Department of the Interior or the agency of any state administering the Surface Mining Control and Reclamation Act of 1977 or any comparable state statute, that it is: (i) ineligible to receive additional Mining Rights; or (ii) is under investigation to determine whether their eligibility to receive such Mining Rights should be revoked (i.e., "permit blocked"). To the knowledge of the Corporation after due inquiry, no facts exist that presently or upon the giving of notice or the lapse of time or otherwise would render the Corporation or any Subsidiary ineligible to receive surface mining permits;
- (j) **Environmental and Safety Matters.** To the knowledge of the Corporation after due inquiry, with respect to the Properties:
 - (1) the Corporation and its Subsidiaries are and have been in material compliance with all applicable Environmental Laws, except for instances of non-compliance that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;
 - (2) the Corporation and its Subsidiaries have contemporaneously reclaimed the properties subject to their mining operations in accordance with SMCRA and neither the Corporation nor any of its Subsidiaries have any obligation or requirement to treat water impacted by past or present mining operations;
 - (3) neither the Corporation nor its Subsidiaries has caused or permitted the release of any Hazardous Substances at, in, on, under or from the Properties, except in compliance in all material respects with all Environmental Laws and except for releases that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;

- (4) all Hazardous Substances handled, recycled, disposed of, treated or stored on or off site of the Properties have been handled, recycled, disposed of, treated and stored in compliance in all material respects with all Environmental Laws;
 - (5) there are no Hazardous Substances at, in, on, under or migrating from the Properties, except in compliance in all material respects with all Environmental Laws;
 - (6) neither the Corporation nor its Subsidiaries has caused or permitted the release of any Hazardous Substances on the Properties in such a manner as:
 - (A) would be reasonably likely to impose Environmental Liabilities for cleanup, natural resource damages, loss of life, personal injury, nuisance or damage to other property; or
 - (B) would be reasonably likely to result in imposition of a Lien on any of the Properties or the assets of the Corporation or its Subsidiaries,except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;
 - (7) neither the Corporation nor its Subsidiaries has contractually assumed any Environmental Liabilities or obligations of another person under or relating to Environmental Laws that in any case would reasonably be expected to have a Material Adverse Effect; and
 - (8) the Corporation and its Subsidiaries have complied and are in compliance with the Safety Laws;
- (k) **Financial and Taxation Matters.** The audited financial statements of the Corporation for the financial year ended December 31, 2010 (the "Financial Statements"): (a) present fairly, in all material respects, the financial position of the Corporation and the income statement, cash flows and changes in financial information of the Corporation for the periods specified in the Financial Statements; and (b) do not contain any untrue statement of a material fact or omit to state a material fact required to be stated under GAAP or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the Financial Statements. All taxes due and payable or required to be collected or withheld and remitted, by the Corporation and its Subsidiaries have been paid, collected or withheld and

remitted, as applicable, except where the failure to pay such taxes would not have a Material Adverse Effect;

- (l) **Ordinary Course.** To the knowledge of the Corporation, since December 31, 2010, the Corporation and its Subsidiaries have conducted, and caused their Subsidiaries to conduct, its business only in the ordinary course and (a) there has not been any event, change, effect or development (including any decision to implement such a change made by the Board of Directors of the Corporation or its Subsidiaries in respect of which senior management believes that confirmation of the Board of Directors is probable), which, individually or in the aggregate, could have a Material Adverse Effect, (b) there has not been any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any of their common shares or member interests, (c) neither the Corporation nor its Subsidiaries have engaged in any action which would violate this Section, and (d) no liability or obligation of any nature (whether absolute, accrued, contingent or otherwise) that would have a Material Adverse Effect has been incurred other than in the ordinary course of business consistent with past practice; and
- (m) **RBC Security.** The Liens granted in favour of Royal Bank of Canada and/or its affiliates, as described in Schedule 2.1, relate only to agreements and related Security Interests with respect to credit cards used by the Corporation and its Subsidiaries in an amount that does not exceed \$75,000 in the aggregate.

Section 4.2 Representations, Warranties and Covenants of the Holder.

By executing this Debenture, the Holder represents, warrants, covenants and acknowledges to and with the Corporation (and acknowledges that the Corporation is relying thereon) that:

- (a) the Holder has the requisite power, authority, legal capacity and competence to execute, deliver and be bound by this Debenture, to perform all of its obligations hereunder and to undertake all actions required of the Holder hereunder, and all necessary approvals of its directors, partners, shareholders, trustees or otherwise with respect to such matters have been given or obtained;
- (b) the Holder has been duly organized and is validly existing under the laws of its jurisdiction of incorporation or formation and the laws of any other jurisdiction in which its properties or operations require qualification;
- (c) the Holder is acting as principal in purchasing this Debenture and this Debenture has been duly and validly authorized, executed and delivered by the Holder and constitutes a legal, valid and binding obligation enforceable against the Holder in accordance with the terms hereof (subject to bankruptcy, insolvency and other laws limiting the enforceability of creditors' rights and subject to the qualification that equitable remedies may only be granted in the discretion of a court of competent jurisdiction);

- (d) the execution and delivery of this Debenture, the performance and compliance with the terms hereof, and the completion of the transactions contemplated hereby will not result in any material breach of, or be in conflict with or constitute a material default under, or create a state of facts which, after notice or lapse of time, or both, would constitute a material default under any term or provision of the constating documents, by-laws or resolutions of the Holder or any Applicable Laws;
- (e) the Holder is not acting jointly or in concert with any other person or company for the purposes of acquiring securities of the Corporation;
- (f) the Holder is resident in or otherwise subject to the securities laws of a jurisdiction outside of Canada and the United States (the “**International Jurisdiction**”), and:
 - (i) the Holder is knowledgeable of, or has been independently advised as to, the applicable securities laws of the International Jurisdiction which would apply to this Debenture and the transactions contemplated herein, if there are any;
 - (ii) the Holder is purchasing the Debenture pursuant to exemptions from the prospectus and registration requirements under the applicable securities laws of the International Jurisdiction or, if such is not applicable, the Holder is permitted to purchase the Debenture under the applicable securities laws of such International Jurisdiction without the need to rely on exemptions;
 - (iii) the applicable securities laws of the International Jurisdiction do not require the Corporation to prepare and/or file any documents or be subject to ongoing reporting requirements or seek any approvals of any kind whatsoever in respect of the sale of the Debenture to the Holder from any regulatory authority of any kind whatsoever in the International Jurisdiction;
 - (iv) the purchase of this Debenture by the Holder and the transactions contemplated thereby does not trigger (i) any obligation to prepare and file a prospectus, an offering memorandum or similar document, or any other ongoing reporting requirements with respect to such purchase or otherwise, (ii) any registration or other obligation on the part of the Corporation, or (iii) the Corporation becoming subject to regulation in such jurisdiction or require the Corporation to attorn to the jurisdiction of any governmental authority or regulator in such jurisdiction or require any translation of documents by the Corporation; and
 - (v) the Holder will not sell or otherwise dispose of any Common Shares issuable pursuant to this Debenture, except in accordance with applicable Canadian securities laws.

- (g) the Holder is not, with respect to the Corporation or any of its Affiliates, a Control Person and the purchase of the Debenture and the conversion thereof and any other securities of the Corporation held by the Holder will not result in the Holder becoming a Control Person;
- (h) the Holder is not a person that beneficially owns or controls, directly or indirectly, voting shares of the Corporation carrying more than 10% of the voting rights attached to all the Corporation's outstanding voting shares;
- (i) the Holder has a head office, in the jurisdiction indicated in Section 10.2(b) and such address was not created and is not used solely for the purpose of acquiring the Debenture. The purchase by and sale to the Holder of the Debenture, and any act solicitation, conduct or negotiation directly or indirectly in furtherance of such purchase or sale has occurred only in such jurisdiction; and
- (j) the Holder agrees to complete Schedule 4.2(j), which will be filed by the Corporation with the TSX Venture Exchange.

Section 4.3 Survival of Representations and Warranties.

The representations and warranties in this Debenture and in any certificates or documents delivered to the Holder shall not merge in or be prejudiced by and shall survive any advance and shall continue in full force and effect so long as any amounts are owing by the Corporation to the Holder pursuant to this Debenture.

ARTICLE 5 COVENANTS

Section 5.1 Affirmative Covenants.

The Corporation covenants with the Holder as follows:

- (a) the Corporation shall duly and punctually pay or cause to be paid to the Holder the principal of, and interest accrued on this Debenture (including, in the case of default, interest on the amount in default) on the dates, at the places, in the currency and in the manner mentioned herein;
- (b) except as herein otherwise expressly provided, so long as this Debenture is outstanding, the Corporation shall, and shall cause each of the Subsidiaries to, at all times maintain their corporate existence, carry on and conduct their respective businesses in accordance with Applicable Law and in a reasonably proper and efficient manner;
- (c) the Corporation shall, and shall cause each of the Subsidiaries to, keep or cause to be kept proper books of account and make or cause to be made therein true and complete entries of all of its dealings and transactions in relation to its business in accordance with Canadian generally accepted accounting procedures, and at all reasonable times it shall furnish or cause to be furnished to the Holder or its duly authorized agent or attorney such information relating to its operations as the

Holder may reasonably require and such books of account shall at all reasonable times be open for inspection by the Holder or such agent or attorney in accordance with Section 5.2 below;

- (d) immediately upon acquisition or formation, the Corporation shall cause each of its future Subsidiaries to deliver a Guarantee to the Holder substantially in the form of Guarantees delivered by the Royal Coal Group on the date hereof;
- (e) the Corporation shall, and shall cause each of its Subsidiaries to, ensure that each of the Security Documents shall at all times constitute valid and perfected Security Interests on all the Collateral.
- (f) the Corporation shall, and shall cause each of its Subsidiaries to, duly and punctually perform and carry out all of the covenants and acts or things to be done by it as provided in this Debenture and all other Transaction Documents;
- (g) the Corporation shall ensure that it and each of its Subsidiaries (other than CDR Coty) shall obtain and maintain all required governmental authorizations, licenses, permits and third party approvals for development and operation of their respective assets and leasehold interests in any real property leases;
- (h) the Corporation shall, and shall cause the Royal Coal Group to, comply with all Applicable Law in all material respects;
- (i) the Corporation shall, and shall cause each of its Subsidiaries (other than CDR Coty) to, maintain policies of insurance with responsible carriers and in such amounts and covering such risks as are usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Corporation or any Subsidiary (as the case may be) operate;
- (j) on five (5) days prior written notice, the Corporation will permit, and will cause each Subsidiary, as applicable, to permit, any officer, employee, or agent of the Holder, at its expense, to visit and inspect any of the assets of any such Person, examine each such Person's books of record and accounts and discuss the affairs, finances and accounts of each such Person with such Person's officers, accountants and auditors, all upon prior written notice to the Corporation at such reasonable times during the Corporation's or any such Subsidiary's normal business hours (and in a manner so as, to the extent practicable, not to interfere with the normal business operations of the Corporation or such Subsidiary);
- (k) the Corporation shall promptly notify the Holder of the acquisition of any After Acquired Property;
- (l) the Corporation shall, and shall cause each of its Subsidiaries to, use commercially reasonable efforts to record the unrecorded leases, other than the Kentucky River Lease, constituting the Material Properties (including unrecorded leases contained in Schedule 4.1(i)(i)(1)) within 90 days of the date hereof; provided however, that nothing in this provision shall or shall be construed to

require the recordation of any lease if obtaining recordation would in any way require the Corporation to make any payments to any other party to any such lease or the amendment of the terms of the lease or if such recordation would be contrary to the terms of such lease;

- (m) the Corporation shall notify the Holder, five Business Days prior to amending, modifying or supplementing any of (i) the Sandstorm Documents; (ii) the royalty agreement dated as of November 26, 2010 among CDR SID Mining, Inc., CDR Big Branch, Inc., Royal and Sandstorm; (iii) the additional coal purchase agreement dated as of November 26, 2010 among Royal, CDR SID Mining, Inc., CDR Big Branch, Inc., Sandstorm Metals & Energy Ltd. and Sandstorm; or (iv) the coal production payment agreement dated as of November 26, 2010 among the same parties.

Section 5.2 Information Covenants.

The Corporation shall deliver, or cause to be delivered, to the Holder:

- (a) as soon as practicable, all annual and interim financial statements of the Corporation that are filed by the Corporation on the System for Electronic Document Analysis and Retrieval (SEDAR); and
- (b) as soon as practicable, upon the Holder's reasonable request and subject to applicable securities laws, such operational statistics, and any other material information related to the operations and strategy of the Corporation and its Subsidiaries as the Holder may reasonably require, including, without limitation, information of the kind set out on Schedule 5.2(b) .

Section 5.3 Negative Covenants.

So long as any amount owing under the Debenture remains unpaid, the Corporation shall not and shall not permit any of its Subsidiaries to:

- (a) remove, destroy, lease, transfer, assign, sell or otherwise dispose of any of any of the Collateral, except for (i) bona fide dispositions in the ordinary course of business at fair market value, (ii) Collateral which has no material economic value in the business of the Corporation or is obsolete, and (iii) used or surplus equipment, vehicles, contracts (including forward sales of production contracts) and other assets in the ordinary course of business and on arm's length terms;
- (b) change the nature of the Corporation's or its Subsidiaries' business as presently carried on;
- (c) engage in any transactions with Persons not dealing at arm's length (as defined in the *Income Tax Act* (Canada)) with the Corporation or any Subsidiary except in the ordinary course of, and pursuant to the reasonable requirements of, business and at prices and on terms not less favourable to the Corporation than could be obtained in a comparable arm's length transaction with another Person;

- (d) incur, create, assume or suffer to exist any Lien, on or over any of its or their assets (present or future) other than Permitted Liens;
- (e) acquire any mines, interest in surface leases and assets related or incidental thereto, other than the After Acquired Property, the Big Branch Extension or Charlene Load Out, unless the Holder has been granted a first ranking Security Interest (subject only to Permitted Liens, other than Permitted Liens in clause (b) of Schedule 2.1) over such mines, surface leases and assets; or
- (f) amend, modify or supplement (i) the Sandstorm Documents; (ii) the royalty agreement dated as of November 26, 2010 among CDR SID Mining, Inc., CDR Big Branch, Inc., Royal and Sandstorm; (iii) the additional coal purchase agreement dated as of November 26, 2010 among Royal, CDR SID Mining, Inc., CDR Big Branch, Inc., Sandstorm Metals & Energy Ltd. and Sandstorm; and (iv) the coal production payment agreement dated as of November 26, 2010 among the same parties; if, in each case, the effect of such amendment, modification or supplement is to increase the obligations of any Royal Coal Group member thereunder, impair the ability of any Royal Coal Group member to perform the obligations owed to the Holder, or otherwise affect the subordination and priority provisions in the Subordination Agreement.

ARTICLE 6 CONVERSION OF DEBENTURE

Section 6.1 Forced Conversion.

Notwithstanding anything herein to the contrary, if at any time prior to the Maturity Date, the VWAP for each of any 90 consecutive Trading Days (such period the “**Threshold Period**”) exceeds \$0.4033 (subject to adjustment as provided in Section 6.5), the Corporation may, within two (2) Trading Days after the end of any such Threshold Period, deliver a written notice to the Holder (a “**Forced Conversion Notice**”) to cause the Holder to convert all or part of the then outstanding principal amount of this Debenture without any further action required on the part of the Holder. Upon receipt of the Forced Conversion Notice, the Holder shall be entered in the books of the Corporation as at the date of conversion as the holder of the number of Common Shares into which the Debenture is convertible and, as soon as practicable, the Corporation shall deliver to the Holder a certificate or certificates for such Common Shares and, if applicable, a cheque for any amount payable under Section 6.7.

Section 6.2 Conversion of Debentures into Common Shares.

- (1) The conversion price (the “**Conversion Price**”) is \$0.2689 for each Common Share to be issued upon the conversion of this Debenture, unless such price shall have been adjusted as provided in Section 6.5, in which case the Conversion Price shall mean the price as so adjusted and in effect at such time.
- (2) Upon and subject to the provisions and conditions of this Article 6, the Holder shall have the right, at its option, at any time up until the Time of Expiry to the convert the entire principal amount of the Debenture (CAD \$10,000,000) or any portion of the principal

amount thereof into fully paid and non-assessable Common Shares at the Conversion Price.

- (3) The Holder's right of conversion pursuant to this Article 6 shall extend only to the maximum number of whole Common Shares into which the aggregate principal amount of the Debenture surrendered for conversion at any one time by the Holder may be converted in accordance with the provisions of (2). Fractional interests in Common Shares shall be adjusted for in the manner provided below.

Section 6.3 Manner of Exercise of Right to Convert to Common Shares.

- (1) The Holder may exercise its rights to convert by sending to the Corporation at its principal address a notice exercising its right to convert in accordance with the provisions of this Article 6 or Article 7. Upon receipt of the notice, the Holder shall be entered in the books of the Corporation as at the date of conversion as the holder of the number of Common Shares into which the Debenture is convertible and, as soon as practicable, the Corporation shall deliver to the Holder a certificate or certificates for such Common Shares and, if applicable, a cheque for any amount payable under Section 6.7.
- (2) Any part of a Debenture may be converted as provided herein and all references in this Debenture to conversion of Debentures shall be deemed to include conversion of such parts. The Holder of any Debenture of which part only is converted shall, upon the exercise of the Holder's right of conversion, surrender such Debenture to the Corporation, and the Corporation shall cancel the same and shall forthwith issue and deliver to the Holder a new Debenture in an aggregate principal amount equal to the unconverted part of the principal amount of the Debenture so surrendered and shall record such new Debenture or Debentures on the register.

Section 6.4 Accrued Interest, etc.

At the time of any conversion, the Holder shall be entitled to receive accrued and unpaid interest on the Debenture up to but excluding the date of its conversion. Common Shares issued upon such conversion shall rank only in respect of dividends declared in favour of shareholders of record on and after the date of conversion or such later date as the Holder becomes the holder of record of Common Shares. As of and from the applicable date, the Common Shares so issued shall, for all purposes, be and be deemed to be issued and outstanding as fully paid and non-assessable Common Shares.

Section 6.5 Adjustment of Conversion Price

The Conversion Price will be subject to adjustment from time to time in the events and in the manner provided as follows:

- (1) If and whenever at any time after the date hereof, and prior to the Time of Expiry, the Corporation:
 - (i) issues Common Shares or securities exchangeable for or convertible into Common Shares to the holders of all or substantially all the Common Shares as a share dividend or other dividend;

- (ii) subdivides its outstanding Common Shares into a greater number of Common Shares; or
- (iii) consolidates its outstanding Common Shares into a smaller number of Common Shares,

(any of such events in clauses (i), (ii) and (iii) of this subsection being called a “**Share Reorganization**”), then the Conversion Price shall be adjusted effective immediately after the effective date or record date for the happening of a Share Reorganization, as the case may be, at which the holders of Common Shares are determined for the purpose of the Share Reorganization so that it shall equal the price determined by multiplying the Conversion Price in effect immediately prior to such effective date or record date by a fraction, the numerator of which will be the number of Common Shares outstanding on such effective date or record date before giving effect to such Share Reorganization and the denominator of which will be the number of Common Shares outstanding immediately after giving effect to such Share Reorganization (including, in the case where securities exchangeable for or convertible into Common Shares are distributed, the number of Common Shares that would have been outstanding had all such securities been exchanged for or converted into Common Shares on such effective date or record date).

- (2) If and whenever at any time after the date hereof, and prior to the Time of Expiry, the Corporation fixes a record date for the issue of rights, options or warrants to all or substantially all the holders of Common Shares (the “**Rights**”) under which such holders are entitled, during a period expiring not more than forty-five (45) days after the date of such issue (the “**Rights Period**”), to subscribe for or purchase Common Shares (or securities convertible or exchangeable for Common Shares) at a price per Common Share to the holder (or at an exchange or conversion price per Common Share during the Rights Period to the holder in the case of securities exchangeable for or convertible into Common Shares) of less than 95% of the price (the “**Current Market Price**”) which is equal to the weighted average trading price for the period of 20 Trading Days ending three days prior to such record date (any of such events being called a “**Rights Offering**”), then the Conversion Price shall be adjusted effective immediately after the end of the Rights Period so that it shall equal the price determined by multiplying the Conversion Price in effect on such record date by a fraction:

- (i) the numerator of which will be the aggregate of:
 - (1) the total number of Common Shares outstanding as of the record date for the Rights Offering; plus
 - (2) a number determined by dividing (a) the product of the number of Common Shares issued or subscribed for during the Rights Period upon the exercise of the rights, warrants or options under the Rights Offering and the price at which such Common Shares are offered (or the aggregate conversion or exchange price of the convertible or exchangeable securities so offered) by (b) the

Current Market Price of the Common Shares as of the record date for the Rights Offering, and

- (ii) the denominator of which will be the number of Common Shares outstanding on such record date plus the number of Common Shares (or securities convertible or exchangeable for Common Shares) actually issued or subscribed for during the Rights Period upon exercise of the rights, warrants or options under the Rights Offering.

If the Holder has exercised the right to convert Common Shares in accordance with this Article 6 during the period beginning immediately after the record date for a Rights Offering and ending on the last day of the Rights Period for the Rights Offering the Holder will, in addition to the Common Shares to which the Holder would otherwise be entitled upon such conversion, be entitled to that number of additional Common Shares equal to the difference, if any, between the Common Shares received on such conversion and the Common Shares that would have been received if the Conversion Price as adjusted for such Rights Offering pursuant to this subsection had applied when the Holder exercised the right to convert; provided that the provisions of Section 6.7 will be applicable to any fractional interest in a Common Share to which such Holder might otherwise be entitled under the foregoing provisions of this subsection. Such additional Common Shares will be deemed to have been issued to the Holder immediately following the end of the Rights Period and a certificate for such additional Common Shares will be delivered to the Holder within five Business Days following the end of the Rights Period.

- (3) If and whenever at any time after the date hereof and prior to the Time of Expiry, the Corporation fixes a record date for the making of distribution (by way of dividend or otherwise) to the holders of all or substantially all the Common Shares of (i) securities of the Corporation, including rights, options or warrants to acquire securities of the Corporation or any of its property or assets and including evidences of indebtedness or (ii) any property or other assets, including cash or evidences of indebtedness, and if such issuance or distribution does not constitute a Dividend Paid in the Ordinary Course, a Share Reorganization or a Rights Offering (any of such non-excluded events being called a “**Special Distribution**”), then the Conversion Price shall be adjusted effective immediately after such record date so that it shall equal the price determined by multiplying the Conversion Price in effect on such record date by a fraction:
 - (i) the numerator of which will be:
 - (1) the product of the number of Common Shares outstanding on such record date and the Current Market Price of the Common Shares on such record date; less
 - (2) the excess, if any, of (a) the fair market value, as determined by the board of directors of the Corporation (whose determination will be conclusive but subject to Principal Market approval), to the holders of Common Shares of such securities (including, rights, options or warrants) or evidence of indebtedness or property or other assets so distributed in the Special Distribution; and

- (ii) the denominator of which will be the product of the number of Common Shares outstanding on such record date and the Current Market Price of the Common Shares on such record date.

To the extent that any Special Distribution is not so made, the Conversion Price will be readjusted effective immediately to the Conversion Price which would then be in effect based upon such securities or property or other assets as actually distributed.

- (4) If and whenever at any time after the date hereof, and prior to the Time of Expiry, there is a reclassification of the Common Shares at any time outstanding or change of the Common Shares into other securities or other capital reorganization (other than a Share Reorganization), or a consolidation, amalgamation, arrangement or merger of the Corporation with or into any other corporation or any other entity, or a transfer of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another corporation or to another entity in which the holders of Common Shares are entitled to receive shares, other securities or other property (any of such events being called a “**Capital Reorganization**”), if the Holder exercises the right to convert this Debenture into Common Shares after the effective date of such Capital Reorganization, the Holder will be entitled to receive, and will accept for the same aggregate consideration in lieu of the number of Common Shares to which the Holder was previously entitled upon such conversion, the aggregate number of shares, other securities or other property which the Holder would have been entitled to receive as a result of such Capital Reorganization if, on the effective date thereof, the Holder had been the registered holder of the number of Common Shares to which the Holder was previously entitled upon conversion subject to adjustment thereafter in accordance with provisions the same, as nearly as possible, as those contained in this Article 6. The Corporation will take all steps necessary to ensure that, on a Capital Reorganization, the Holder will receive the aggregate number of shares, other securities or other property to which it is entitled as a result of the Capital Reorganization. Appropriate adjustments will be made as a result of any such Capital Reorganization in the application of the provisions set forth in this Article 6 with respect to the rights and interests thereafter of the Holder to the end that the provisions set forth in this Article 6 will thereafter correspondingly be made applicable as nearly as may reasonably be in relation to any shares, other securities or other property thereafter deliverable upon the conversion of this Debenture.
- (5) If the purchase price provided for in any rights, options or warrants (the “**Rights Offering Price**”) referred to in Section 6.5(2) or Section 6.5(3) is decreased, the Conversion Price will forthwith be changed so as to decrease the Conversion Price to the Conversion Price that would have been obtained if the adjustment to the Conversion Price made under such subsections, as the case may be, with respect to such rights, options or warrants had been made on the basis of the Rights Offering Price as so decreased, provided that the terms of this subsection will not apply to any decrease in the Rights Offering Price resulting from terms in any such rights, options or warrants designed to prevent dilution except to the extent that the resulting decrease in the Conversion Price under this subsection would be greater than the decrease, if any, in the Conversion Price to be made under the terms of this section by virtue of the occurrence of the event giving rise to such decrease in the Rights Offering Price.

- (6) For the purpose of calculating the number of Common Shares outstanding, Common Shares owned by or for the benefit of the Corporation shall not be counted.
- (7) If the Corporation takes any other action affecting the Common Shares, other than a Share Reorganization, a Rights Offering, a Special Distribution, a Capital Reorganization or a decrease in a Rights Offering Price, which in the opinion of the board of directors of the Corporation would materially adversely affect the rights of the Holder, subject to the approval of the Principal Market, the Conversion Price shall be adjusted in such manner and at such time as determined in good faith by the board of directors to be equitable in the circumstances.
- (8) In any case in which this section requires that an adjustment become effective immediately after a record date for an event referred to herein, if this Debenture is converted after such record date and before the occurrence of such event the Corporation may defer, until the occurrence of such event, issuing to the Holder the additional Common Shares issuable upon such conversion by reason of the adjustment required by such event; provided, however, that the Corporation shall deliver to the Holder an appropriate instrument evidencing such Holder's right to receive such additional Common Shares upon the occurrence of such event and the right to receive any dividends made on such additional Common Shares declared in favour of holders of record of Common Shares on and after the date of Conversion or such later date on which such Holder would, but for the provisions of this subsection, have become the holder of record of such additional Common Shares.

Section 6.6 Rules Regarding Calculation of Adjustment of Conversion Price

For the purposes of Section 6.5:

- (1) The adjustments provided for in Section 6.5 are cumulative and will be computed to the nearest one tenth of one cent and will be made successively whenever an event referred to therein occurs, subject to the remaining provisions of this section.
- (2) No adjustment in the Conversion Price will be required unless such adjustment would result in a change of at least 1% in the prevailing Conversion Price; provided, however, that any adjustments which, except for the provisions of this subsection would otherwise have been required to be made, will be carried forward and taken into account in any subsequent adjustment.
- (3) No adjustment in the Conversion Price will be required upon the issuance from time to time of Common Shares pursuant to the Corporation's stock option plan, as such plan may be replaced, supplemented or further amended from time to time. In addition, for greater certainty, no adjustment in the Conversion Price upon an event referred to in Section 6.5 will be required upon the distribution from time to time of Common Shares or other securities by way of private placement or by way of prospectus which is made to the public in general.
- (4) No adjustment in the Conversion Price will be made in respect of any event described in Section 6.5 if the Holder is entitled to participate in such event on the same terms, *mutatis*

mutandis, as if they had converted this Debenture prior to or on the effective date or record date of such event. Any such participation will be subject to the prior consent of the Principal Market.

- (5) If at any time a dispute arises with respect to adjustments provided for in Section 6.5, subject to the prior written consent of the Principal Market, if applicable, such dispute will be conclusively determined by the Corporation's auditors, or if they are unable or unwilling to act, by such other firm of independent chartered accountants which meet the criteria of Part 2 of National Instrument 52-108 – *Auditor Oversight* as may be selected by the board of directors of the Corporation, and any such determination will be binding upon the Corporation, the Holder and shareholders of the Corporation. Such auditors or accountants will be given access to all necessary records of the Corporation.
- (6) If the Corporation sets a record date to determine the holders of Common Shares for the purpose of entitling them to receive any dividend or sets a record date to take any other action and thereafter and before the dividend to such shareholders of any such dividend or the taking of any other action, legally abandons its plan to pay or deliver such dividend or take such other action, then no adjustment in the Conversion Price shall be made.
- (7) In the absence of a resolution of the board of directors of the Corporation fixing a record date for a Special Distribution or Rights Offering, the Corporation shall be deemed to have fixed as a record date therefor the date on which the Special Distribution or Rights Offering is effected.

Section 6.7 No Requirement to Issue Fractional Shares.

The Corporation shall not be required to issue fractional Common Shares upon the conversion of the Debenture into Common Shares. If any fractional interest in a Common Share would, except for the provisions of this Article 6, be deliverable upon the conversion of the Debenture, the Corporation shall, in lieu of delivering any certificate of fractional interest, satisfy the fractional interest by paying to the Holder an amount of lawful money of Canada equal (computed to the nearest whole cent, and one-half of a cent being rounded up) to the principal amount of the Debenture remaining outstanding after so much of the principal amount as may be converted into a whole number of Common Shares has been so converted.

Section 6.8 Certificate as to Adjustment.

The Corporation shall, from time to time immediately after the occurrence of any event which requires an adjustment or re-adjustment as provided in Section 6.5, deliver a Certificate of the Corporation to the Holder specifying the nature of the event requiring the same and the amount of the necessary adjustment and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based, which certificate and the amount of the adjustment specified therein shall be verified by an opinion of a firm of chartered accountants (who may be the Corporation's Auditors) appointed by the Corporation and acceptable to the Holder and, when approved by the Corporation, shall be conclusive and binding on all parties in interest. When so approved, the Corporation shall, except in respect of any subdivision, redivision, reduction, combination or consolidation of the Common Shares, forthwith give notice to the Holder in the manner specified in Section 10.2 specifying the event

requiring such adjustment or readjustment and the results thereof, including the resulting Conversion Price.

Section 6.9 Notice of Special Matters.

The Corporation shall give notice to the Holder, in the manner provided in Article 9, of its intention to fix a record date for any event mentioned in Section 6.5 which may give rise to an adjustment in the number of Common Shares which may be acquired pursuant to Section 6.1, and, in each case, the notice shall specify the particulars of the event and the record date and the effective date for the event; provided that the Corporation shall only be required to specify in the notice such particulars of the event as shall have been fixed and determined on the date on which such notice is given. Such notice shall be given not less than 14 days prior to the applicable record date.

Section 6.10 Corporation to Reserve Shares.

The Corporation shall at all times reserve and keep available out of its authorized Common Shares and solely for the purpose of conversion as in this Article 6 provided, and conditionally allot to the Holder, such number of Common Shares as shall then be issuable upon the conversion. The Corporation covenants with the Holder that all Common Shares which shall be so issuable shall be duly and validly issued as fully-paid and non-assessable.

Section 6.11 Restrictions on Transferability

The Holder of this Debenture hereby acknowledges that any Common Shares issued upon conversion of this Debenture prior to November 23, 2011 shall be stamped or imprinted with a legend in substantially the following form:

**“UNLESS PERMITTED UNDER SECURITIES LEGISLATION,
THE HOLDER OF THIS SECURITY MUST NOT TRADE THE
SECURITY BEFORE NOVEMBER 23, 2011.**

**WITHOUT THE PRIOR WRITTEN APPROVAL OF THE TSX
VENTURE EXCHANGE AND COMPLIANCE WITH ALL
APPLICABLE SECURITIES LEGISLATION, THE SECURITIES
REPRESENTED BY OR UNDERLYING THIS CERTIFICATE
MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR
OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF
THE TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA
OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT
UNTIL NOVEMBER 23, 2011. ”**

**ARTICLE 7
CHANGE OF CONTROL**

Section 7.1 Definitions.

As used in this Article 7, the following terms have the following meanings:

“**Change of Control Conversion Price**” means the price for each Common Share determined in accordance with the following formula:

$$CP / (1 + (IP * c / t))$$

Where:

- (i) “**CP**” means the Conversion Price in effect immediately prior to the Change of Control Period;
- (ii) “**IP**” means 0.20;
- (iii) “**c**” means the number of days from and including the date the Change of Control occurs to but excluding the Maturity Date; and
- (iv) “**t**” means the number of days from and including July 22, 2011 to but excluding the Maturity Date;

provided, that the Change of Control Conversion Price as determined in accordance with the foregoing shall not be less than \$0.2241 per Common Share (subject to any adjustments in accordance with the provisions of Section 6.5).

“**Change of Control Exercise Notice**” means a written notice given by the Holder to the Corporation prior to the expiry of the Change of Control Period stating either that (i) the Holder requires the Corporation to purchase this Debenture in accordance with Section 7.2(a), or (ii) the Holder requires the Corporation to convert this Debenture in accordance with Section 7.2(b), pursuant to the Change of Control Option.

“**Change of Control Notice**” means a written notice given by the Corporation to the Holder stating that there has been a Change of Control and specifying the circumstances surrounding such event.

“**Change of Control Period**” means the period commencing on the occurrence of a Change of Control and ending at 4:30 p.m. (Toronto time) on the date that is the later of 60 days from (i) the occurrence of a Change of Control, and (ii) the date of the Change of Control Notice.

Section 7.2 Change of Control Option.

Following the occurrence of a Change of Control, the Corporation shall promptly deliver to the Holder a Change of Control Notice and the Holder shall at its option (the “**Change of Control Option**”) have the right to require the Corporation to either:

- (a) purchase this Debenture at a purchase price equal to 105% of the outstanding principal amount hereof plus accrued and unpaid interest, if any, on this Debenture up to, but excluding, the date of acquisition by the Corporation of this Debenture (the “**Purchase Price**”); or

- (b) convert the entire outstanding principal amount of the Debenture into fully paid and non-assessable Common Shares at the Change of Control Conversion Price.

Section 7.3 Exercise of Change of Control Option.

The Change of Control Option may be exercised by the Holder by providing a Change of Control Exercise Notice to the Corporation at any time during the Change of Control Exercise Period. If the holder so by provides a Change of Control Exercise Notice to the Corporation, (i) the Corporation shall either pay to the Holder by certified cheque or wire transfer, such sums of money as may be sufficient to pay the aggregate Purchase Price for this Debenture within 10 Business Days of the date of the Change of Control Exercise Notice, or (ii) the provisions of Article 6 shall apply in respect of a conversion of this Debenture, as applicable.

ARTICLE 8 EVENTS OF DEFAULT

Section 8.1 Events of Default.

The occurrence of any of the following events shall constitute an “**Event of Default**” under this Debenture:

- (a) Failure by the Corporation to pay when due the principal of, or any premium (if any) on, this Debenture;
- (b) Failure by the Corporation, continuing for 10 Business Days, to pay interest on this Debenture when such amounts become due and payable;
- (c) If any representation or warranty made or deemed to be made by the Corporation or any of its Subsidiaries in this Debenture, any Transaction Document or in any certificate furnished in connection therewith is found to be false or incorrect in any material respect in any way so as to make it materially misleading when made or deemed to be made and such failure remains unremedied for thirty days;
- (d) If the Corporation or any of its Subsidiaries fails to perform, observe or comply with any other term, covenant or agreement contained in this Debenture (other than with respect to Section 5.3) or any other Transaction Document and such failure remains unremedied for thirty days;
- (e) If the Corporation or any of its Subsidiaries fails to perform, observe or comply with the covenants contained in Section 5.3;
- (f) If Corporation or any of its Subsidiaries fails to pay the principal of, or premium or interest on, (i) any of its debt (other than debt under this Debenture) which is outstanding in an aggregate principal amount exceeding \$500,000 or (ii) any obligations owed to Sandstorm Metals & Energy (U.S.) Inc. and/or its affiliates, in each case, when such amount becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure continues after the applicable grace period, if any, specified in the agreement or instrument relating to the debt without waiver of failure by the

holder of the debt; or any other event occurs or condition exists and continues after the applicable grace period, if any, specified in any agreement or instrument relating to any such debt without waiver by the holder of the debt, if its effect is to accelerate, or permit the acceleration of the debt; or any such debt shall be declared to be due and payable prior to its stated maturity and the declaration has not been rescinded by the holder of the debt;

- (g) If any judgment or order for the payment of money in excess of \$500,000 is rendered against the Corporation or any of its Subsidiaries and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order, or (ii) there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or
- (h) The occurrence of any transaction (including any expropriation) as a result of which the Corporation ceases to beneficially own, directly or indirectly, at least a majority interest in any of the Material Properties (other than Charlene Load Out);
- (i) If the Corporation or any of its Subsidiaries (i) becomes insolvent or generally not able to pay its debts as they become due, (ii) admits in writing its inability to pay its debts generally or makes a general assignment for the benefit of creditors, (iii) institutes or has instituted against it any proceeding seeking (x) to adjudicate it a bankrupt or insolvent, (y) liquidation, winding-up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors including any plan of compromise or arrangement or other proceeding under corporate law involving or affecting its creditors, or (z) the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its properties and assets, and in the case of any such proceeding instituted against it (but not instituted by it), either the proceeding remains undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including the entry of an order for relief against it or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its properties and assets) occurs, or (iv) takes any corporate action to authorize any of the above actions.

Section 8.2 Notice of Events of Default

If an Event of Default shall occur the Corporation shall, within five Business Days after it becomes aware of the occurrence of such Event of Default, give notice thereof to the Holder. Where notice of the occurrence of an Event of Default has been given and the Event of Default is thereafter cured, notice that the Event of Default is no longer continuing shall be given by the Corporation to the Holder within five Business Days after the Corporation becomes aware that the Event of Default has been cured.

Section 8.3 Consequences of an Event of Default.

If any Event of Default has occurred and is continuing, the Holder may in its discretion by notice in writing to the Corporation declare the principal amount of the Debenture and any other

monies payable hereunder to be due and payable and the same shall forthwith become immediately due and payable to the Holder, and the Holder may require the Corporation to purchase this Debenture at a purchase price equal to 105% of the unpaid principal amount of this Debenture plus accrued and unpaid interest, if any, on this Debenture up to, but excluding, the date of acquisition by the Corporation of this Debenture. Notwithstanding the foregoing, if an Event of Default specified in Section 8.1(i) occurs and is continuing, then 105% of the unpaid principal amount of this Debenture plus any accrued and unpaid interest on this Debenture, if any, shall automatically become and be immediately due and payable without any declaration or other act on the part of the Holder being required.

ARTICLE 9 ENFORCEMENT

Section 9.1 Remedies.

If any Event of Default has occurred the Holder may enforce its rights under this Debenture by any of the following remedies in its sole discretion:

- (a) institute proceedings in any court of competent jurisdiction for the appointment of a receiver (which term as used in this Debenture includes a receiver and manager) of all or any part of the property of the Corporation;
- (b) file such proofs of claim or other documents as may be necessary or desirable to have its claim lodged in any bankruptcy, winding-up, liquidation, dissolution or other proceedings (voluntary or involuntary) relating to the Corporation;
- (c) commence legal action to enforce payment or performance of any or all of the Obligations; and
- (d) any other remedy or proceeding authorized or permitted hereby or by law or equity.

Such remedies may be exercised from time to time separately or in combination and are in addition to, and not in substitution for, any other rights of the Holder however created. The Holder shall not be bound to exercise any right or remedy, and the exercise of rights and remedies shall be without prejudice to the rights of the Holder in respect of the Obligations including the right to claim for any deficiency.

ARTICLE 10 MISCELLANEOUS

Section 10.1 Waiver.

- (1) No amendment or waiver of any provision of this Debenture, nor consent to any departure by the Corporation or any other Person from such provisions, is effective unless in writing and approved by the Holder. Any amendment, waiver or consent is effective only in the specific instance and for the specific purpose for which it was given.

- (2) No failure on the part of the Holder to exercise, and no delay in exercising, any right under this Debenture shall operate as a waiver of such right; nor shall any single or partial exercise of any right under this Debenture preclude any other or further exercise of such right or the exercise of any other right.

Section 10.2 Notices, etc.

Any notice, direction or other communication to be given under this Debenture shall, except as otherwise permitted, be in writing and given by delivering it or sending it by facsimile or other similar form of recorded communication addressed:

- (a) to the Corporation at:
70 York Street, Suite 1410
Toronto, Ontario M5J 1S9

Attention: Tom Griffis
Facsimile: (416) 867-9320

- (b) to the Holder at:
50 Rue du Rhone
Geneva 1204
Switzerland

Attention: Ruirui Wang
Facsimile: +41 22 594 7010

Any such communication shall be deemed to have been validly and effectively given if (i) personally delivered, on the date of such delivery if such date is a Business Day and such delivery was made prior to 4:00 p.m. (Toronto time), otherwise on the next Business Day, (ii) transmitted by facsimile or similar means of recorded communication on the Business Day following the date of transmission. Any party may change its address for service from time to time by notice given in accordance with the foregoing and any subsequent notice shall be sent to the party at its changed address.

Section 10.3 Severability.

If any provision of this Debenture is deemed by any court of competent jurisdiction to be invalid or void, the remaining provisions shall remain in full force and effect.

Section 10.4 Taxes.

- (1) All payments to the Holder by the Corporation under this Debenture, including the issuance of Common Shares in connection with the conversion of all or any portion of the principal amount, shall be made free and clear of and without deduction or withholding for any and all Taxes imposed by Canada or the United States of America (or any political subdivision or taxing authority of it), unless such Taxes are required by applicable law to be deducted or withheld. If the Corporation shall be required by applicable law to deduct or withhold any such Taxes from or in respect of any amount payable under this Debenture, including the issuance of Common Shares in connection

with the conversion of all or any portion of the principal amount, (i) the amount payable shall be increased (and for greater certainty, in the case of interest, the amount of interest shall be increased) as may be necessary so that after making all required deductions or withholdings (including deductions or withholdings applicable to any additional amounts paid under this Section 10.4(1), the Holder receives an amount equal to the amount they would have received, or the number of Common Shares that would have been issued, if no such deduction or withholding had been made, (ii) the Corporation shall make such deductions or withholdings, and (iii) the Corporation shall immediately pay the full amount required to be remitted to the relevant Governmental Entity in accordance with Applicable Law.

- (2) The Corporation agrees to immediately pay any Other Taxes.
- (3) The Corporation shall indemnify the Holder for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable by the Holder under this Section 10.4) paid by the Holder in connection with any payment hereunder (including the issuance of Common Shares) and any liability (including penalties, interest and expenses) arising from or with respect to such Taxes and Other Taxes, whether or not they were correctly or legally asserted, excluding taxes imposed on the Holder's net income, capital taxes or receipts and franchise taxes. The Corporation will not be required to indemnify the Holder for any Taxes or Other Taxes imposed by reason of the Holder being connected with Canada otherwise than merely by lending money to the Borrower pursuant to this Agreement. Payment under this indemnification will be made within 30 days from the date the Holder makes written demand for it. A certificate as to the amount of such Taxes and Other Taxes submitted to the Corporation by the Holder is conclusive evidence, absent manifest error, of the amount due from the Corporation to the Holder.
- (4) If the Holder is entitled to claim a refund or able to apply for or otherwise take advantage of any tax credit, tax deduction or similar benefit by reason of any withholding or deduction made by the Corporation in respect of a payment made by it under this Agreement, which payment shall have been increased pursuant to Section 10.4(1), then the Holder will, at the expense of the Corporation, use commercial best efforts to obtain the refund, credit, deduction or benefit and upon credit or receipt of it will pay to the Corporation, the amount (if any) not exceeding the increased amount paid by the Corporation, as equals the net after-tax value to the Holder of that part of the refund, credit, deduction or benefit as it considers is allocatable to such withholding or deduction having regard to all of its dealings giving rise to similar credits, deductions or benefits in relation to the same tax period and to the cost of obtaining the same.
- (5) The Guarantor will furnish to the Secured Creditor the original or a certified copy of a receipt evidencing payment of any Taxes or Other Taxes made by the Guarantor within 30 days after the date of any payment of such Taxes or Other Taxes.
- (6) Notwithstanding Section 10.5, the provisions of this Section 10.4 survive the termination of this Debenture.

Section 10.5 Defeasance.

Subject to Section 10.4, provided that if the Corporation, its successors or assigns or any of them, make or cause to be made due payment or performance of all Obligations, then everything in this Debenture shall be absolutely null and void and the Holder shall on request and at the expense of the Corporation at that time surrender this Debenture to the Corporation and discharge all Security Interests created by the Security Agreements.

Section 10.6 Successors and Assigns, etc.

This Debenture may be assigned by the Holder with the consent of the Corporation, not to be unreasonably withheld, provided that no such consent shall be required after an Event of Default. This Debenture and all its provisions shall enure to the benefit of the Holder, its successors and assigns and shall be binding upon the Corporation, its successors and assigns. The Holder is the person entitled to receive the money payable hereunder and to give a discharge hereof. Presentment, notice of dishonour, protest and notice of protest hereof are hereby waived.

Section 10.7 Expenses.

All reasonable legal and accounting expenses incurred by the Holder, the Corporation and its shareholders and employees in connection with the transactions contemplated in this Debenture shall be paid by the Corporation.

Section 10.8 Entire Agreement.

There are no representations, agreements, warranties, conditions, covenants or terms, express or implied, collateral or otherwise, affecting this Debenture or the Corporation's obligations and liabilities hereunder other than expressly stated or referred to herein.

Section 10.9 Governing Law.

This Debenture shall be governed by and interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Section 10.10 Counterparts.

This Debenture may be executed in any number of counterparts and all such counterparts taken together shall be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF the parties have executed this Debenture.

ROYAL COAL CORP.

By: _____
Authorized Signing Officer

**MERCURIA ENERGY GROUP
HOLDING SA**

By: _____
Authorized Signing Officer

SCHEDULE 2.1 Permitted Liens

The definition of “Permitted Liens” shall include the following:

- (a) the royalties payable pursuant to the following agreements:
 - (i) royalty agreement made as of September 30, 2009 between CDR Sid, CDR Coty and CDR Big Branch, as payors, CDR (USA), and Juno Special Situations Corporation (“**Juno**”), as payee;
 - (ii) the royalty agreements, in each case, made as of October 27, 2010 between CDR Sid, CDR Big Branch and the Corporation (collectively, the “**Payors**”), as payors, and each of the following parties, as payees:
 - (1) James Ladner,
 - (2) Marguerite Ladner,
 - (3) QSR Group Inc.,
 - (4) Quantico Capital Corp.,
 - (5) Dwayne Lashyn,
 - (6) Peter J. Martini (assigned to the Vincere Corporation pursuant to an assignment of royalty agreement dated December 1, 2010 between Peter J. Martini, the Vincere Corporation and the Payors),
 - (7) Mary Comi,
 - (8) Christine Comi,
 - (9) Kenneth Kirsh,
 - (10) Maxbet Holdings Inc., and
 - (11) Christine Cappucitti;
 - (iii) amended and restated royalty agreement made as of December 1, 2010 between the Payors, as payors, and Juno, as payee, which amends and restates the royalty agreement made as of October 13, 2010 between the Payors and Juno; and
 - (iv) the royalty agreements, in each case, made as of December 1, 2010 between the Payors, as payors, and each of the following parties, as payees:
 - (1) AVC,

- (2) Peter Schumacher,
 - (3) Felix Beurer,
 - (4) Anton Koller,
 - (5) Marc-Andre & Madelaine Girod; and
- (v) Royalties established at the time of the acquisition of the coal and surface leases and licenses held in Kentucky or other states or countries;
- (b) existing Liens as well as any extension, renewal, substitution or replacement in whole or in part in favour of Sandstorm Metals & Energy (U.S.) Inc. and/or its affiliates;
- (c) existing Liens as well as any extension, renewal, substitution or replacement in whole or in part in favour of Royal Bank of Canada, with respect to all money or amounts of the Corporation and RCL on deposit from time to time with any of Royal Bank of Canada, Royal Bank Mortgage Corporation, Royal Trust Corporation of Canada or the Royal Trust Company, provided such Liens comply with Section 4.1(m); and
- (d) Liens granted in connection with the acquisition by the Corporation or a Subsidiary of the Charlene Load Out, provided (i) the principal amount secured by such Liens is not in excess of the purchase price of the Charlene Load Out, and (ii) such Lien extends only to the Charlene Load Out and its proceeds.

SCHEDULE 4.1(b)
Subsidiaries

Name	Jurisdiction of Incorporation	Beneficial Equity/ Voting Ownership
Royal Coal Limited	Ontario	100% (direct)
CDR Minerals (USA) Inc.	Delaware	100% (indirect)
CDR Operations, Inc.	Kentucky	100% (indirect)
CDR Big Branch Inc.	Kentucky	100% (indirect)
CDR Sid Mining, Inc.	Kentucky	100% (indirect)
CDR Laurel Fork, Inc.	Kentucky	100% (indirect)

SCHEDULE 4.1(i)(i)(1)
Mining Rights

CDR Big Branch Leases:

1. That certain Coal Mining Lease Agreement by and between Charles L. Cornett, et al. and Cheyenne Resources, Inc. dated November 18, 2002 leasing property conveyed from Albert Cornett and Irene Cornett, husband and wife, to Aaron Cornett and Dallie Cornett, husband and wife, by deed dated July 14, 1962 and recorded in Deed Book 85, at page 272 in the Office of the Knott County Clerk.
2. That certain Coal Mining Lease by and between Charlie Cornett and Georgetta Cornett, husband and wife, and J. Phil Smith, individually and as Trustee for the Hillard H. Smith Heirs, and HEC Coal Company, Inc. dated January 1, 1990 and of record in Lease Book 43, at page 126 in the Office of the Knott County Clerk.
3. That certain Surface Lease Agreement by and between Keith Cornett and Sheila Cornett, his wife; Gregory Cornett and Marie Cornett, his wife; Steve Cornett and Blanche Cornett, his wife; and Sharon Dunaway and Jimmy Dunaway, her husband, and Cheyenne Resources, Inc. dated March 24, 2004 leasing property conveyed from Floyd Simpson and Dorothy Simpson, his wife, Edna Taulbee and Judson Taulbee, her husband; Okla Smith and Robert Smith, her husband; to Monroe Cornett and Charlene Cornett, his wife; Steve Cornett and Blanche Cornett, his wife; Sharon Dunaway and Jimmy Dunaway, her husband; Keith Cornett, single; by Deed dated December 4, 1981 and recorded in Deed Book 124, at page 147 in the Office of the Knott County Clerk.
4. That certain Surface Agreement by and between Rhoda Everage and Leslie Resources, Inc. dated April 8, 1996, a Memorandum of which is of record in Lease Book 48, at page 507 in the Office of the Knott County Clerk.
5. That certain Lease Agreement by and between Wilson and Olvin Jent and Red Star Coal Company dated October 30, 1991 leasing property conveyed by a Deed dated March 8, 1962 and recorded in Deed Book 86, at page 493 in the Office of the Knott County Clerk and property conveyed by a Deed dated October 13, 1959 and recorded in Deed Book 92, at page 598 in the Office of the Knott County Clerk.
6. That certain Surface Lease Agreement by and between Leslie Resources, Inc. and Cheyenne Resources, Inc. dated February 14, 2001 leasing property conveyed by a Deed dated March 19, 1998 and recorded in Deed Book 186, at page 489 in the Office of the Knott County Clerk, and Amendment to Surface Lease Agreement and Consent to Assignment dated September 30, 2009.
7. That certain Surface Lease Agreement by and between Mountain Properties, Inc. and Leslie Resources, Inc. dated October 28, 1994 leasing property conveyed from Don Patrick and Edna Patrick, his wife, to Mountain Properties, Inc. by Deed dated October 28, 1994 and recorded in Deed Book 172, at page 631 in the Office of the Knott County Clerk, and Amendment to Surface Lease Agreement and Consent to Assignment dated August 26, 2009.

8. That certain Surface Lease and Wheelage Agreement dated November 26, 2001 by and between Luther H. Mullins and Roberts Mullins, his wife and Cheyenne Resources, Inc. leasing property conveyed from Monroe Cornett and Charless Cornett, his wife, to Luther Mullins and Reberta [sic] Mullins, his wife, by Deed dated July 24, 1972 and recorded in Deed Book 95, at page 494 in the Office of the Knott County Clerk, and Amendment to Surface Lease and Wheelage Agreement and Consent to Assignment dated August 10, 2009.
9. That certain Coal Mining Lease Agreement by and between the Heirs of James Nickles, Heirs of Marbeth Slone, Heirs of Lizzie Cornett, Heirs of Maston Cornett, Heirs of Nesby Janes, Heirs of Corvan Cornett, and Heirs of Ishmael Nickles (collectively referred to as the Maston Nickles Heirs) and Cheyenne of Resources, Inc. dated April 10, 2009 and of record in Lease Book 72, at page 257 in the Office the Knott County Clerk.
10. That certain Surface Lease Agreement by and between Red Star Coal Company and Leslie Resources, Inc. dated September 28, 1994, a Memorandum of which is of record in Lease Book 46, at page 583 in the Office of the Knott County Clerk.
11. That certain Lease Agreement by and between Travis Simpson and Helen Simpson; Zelma Fugate, widow; Truman Simpson and Matilda Simpson; Ora Simpson, widow; Bertie Smith, widow; Okla Smith and Robert Smith; Floyd Simpson and Dorothy Simpson; and Edna Taulbee, widow, and Leslie Resources, Inc. dated September 30, 1991, Partial Surrender dated August 3, 1992, Addendum and Partial Release dated October 12, 1994, and Addendum to Lease dated November 15, 1997; said Addendum and Partial Release recorded in Lease Book 54, at page 317 in the Office of the Knott County Clerk and said Addendum to Lease recorded in Lease Book 54, at page 299 in the Office of the Knott County Clerk.
12. That certain Lease Agreement by and between the N.W. Simpson Heirs and Red Star Coal Company dated October 20, 1992 leasing property conveyed by Deed dated September 14, 1955 and recorded in Deed Book 80, at page 208 in the Office of the Knott County Clerk.
13. That certain Coal Lease Agreement by and between the Sally B. Simpson Heirs and Red Star Coal Company dated October 14, 1992 leasing property conveyed by Deed dated October 2, 1922 and recorded in Deed Book 42, at page 230 in the Office of the Knott County Clerk.
14. That certain Surface Lease Agreement by and between Charlie Slone and Red Star Coal Company dated November 26, 1991 leasing property conveyed by Deed dated November 13, 1991 and recorded in Deed book 159 , at page 468 in the Office of the Knott County Clerk.
15. That certain Lease Agreement by and between Arnold Ray Smith and Callie Smith, his wife, and Cheyenne Resources, Inc. dated June 4, 2001 leasing property conveyed from Charlie Slone to Arnold Ray Smith and Callie Smith, his wife, by Deed dated December 1, 1972 and recorded in Deed Book 96, at page 487 in the Office of the Knott County Clerk.
16. That certain Surface Lease Agreement by and between Rutherford and Diana Smith, his wife; Bertie Smith, widow, by and through her Power of Attorney, Rutherford Smith; Glenn Smith and Jo Smith, his wife; Darrell Smith and Ann Richmond, his wife; Julie Smith, widow; Hilda Ratliff, widow; Gena Ice and Bill Ice, her husband; Lillian Hampton and Doug Hampton, her husband; and Opal Brough, widow, and Cheyenne Resources, Inc. dated November, 2003,

leasing the property described on the map attached thereto as Exhibit "A," and Consent to Assignment of Surface Lease Agreement dated August, 2009.

17. That certain Coal Mining Lease Agreement by and between Marcia Smith Lawrence, widow; Stuart G. Smith and Tena Smith, his wife; Valerie Smith Bartley and Rick Bartley, her husband; William Dirk Smith Trust, Valerie Smith Bartley, Trustee; and Tracey Smith Weinberg and Jed Weinbert, her husband, and Cheyenne Resources, Inc. dated March 21, 2003 leasing property conveyed from David L. Singleton, Executor of the Estate of Eva I. Singleton, to Billy Miller Smith, married, and Marcia Smith Lawrence, married, by Deed dated September 21, 1990 and recorded in Deed Book 155, at page 162 in the Office of the Knott County Clerk.

18. That certain Assignment of Leases to CDR Big Branch, Inc. recorded in Book 75, Page 430, Knott County Clerk's Office.

19. Agreement and Consent to Sublease by and between Kentucky River Properties LLC, Cheyenne Resources, Inc., CDR Resources, Inc., CDR Big Branch, Inc., and CDR Minerals (USA), Inc. dated September 30, 2009, and Sublease Agreement by and between Cheyenne Resources, Inc. and CDR Big Branch, Inc. dated September 30, 2009.

CDR Sid Mining Leases:

1. That certain Lease Agreement by and between Charlene Amis and SID Mining, LLC dated September 20, 2004 leasing the property conveyed from Dan Amis and Betty Jean Amis, husband and wife, to Farmer Amis and Charlene Amis, husband and wife, by Deed dated November 8, 1962 and recorded in Deed Book 111, at page 162 in the Office of the Breathitt County Clerk, Consent and Confirmatory Lease Amendment Agreement between Charlene Amis and Sid Mining LLC dated October 17, 2008 and Short Form Lease and Amendment Agreement dated February 7, 2011 between Charlene Amis and CDR Sid Mining, Inc. recorded in Breathitt County Clerk's Office in Lease Book 35, page 741.

2. That certain Lease Agreement by and between J.M. Combs and his wife, Jessie Combs, and SID Mining, LLC dated December 29, 2004 leasing the property conveyed from Delbert Combs and Dora Combs, his wife, to J.M. Combs by Deed dated July 10, 1972 and recorded in Deed Book 124, at page 324 in the Office of the Breathitt County Clerk, Consent and Confirmatory Lease Amendment Agreement between J.M. Combs and Jessie Combs, his wife, and Sid Mining LLC dated October 17, 2008 and Short Form Lease and Amendment Agreement dated February 25, 2011 between J. M. Combs and Jessie Combs and CDR Sid Mining, Inc. recorded in Breathitt County Clerk's Office in Lease Book 35, page 746.

3. That certain Coal Lease dated February 22, 2011 between A. B. Combs and Phyllis Combs and CDR Sid Mining, Inc. and Short Form Lease dated February 22, 2011 between A. B. Combs and Phyllis Combs and CDR Sid Mining, Inc. recorded in Breathitt County Clerk's Office in Lease Book 35, page 751.

4. That certain Lease Agreement by and between Nollie Combs, widow, party of the first part (Lessor), SID Mining, LLC, party of the second party (Lessee), and Doug Terry, party of the third part, dated March 25, 2005 leasing the property conveyed from Seldon Combs, through his power of attorney, Joyce Waldroup; Pearlie Combs, single; Clara Combs, widow; Rick Combs

and Joyce Howard Combs, his wife; Vince Combs and Karen Combs, his wife; Mike Combs, single; and Larry Combs and Penny Combs, his wife; to Alfred Combs and Nollie Combs, his wife, by Deed dated June 13, 1991 and recorded in Deed Book 167, at page 52 in the Office of the Breathitt County Clerk, Consent to Assignment between Nollie Combs and Doug Terry and Sid Mining LLC dated October 17, 2008 and Short Form Lease and Amendment Agreement dated February 14, 2011 between Nollie Combs and Doug Terry and CDR Sid Mining, Inc. recorded in Breathitt County Clerk's Office in Lease Book 35, page 756.

5. That certain Lease Agreement by and between J.M Combs and his wife, Jessie Combs; Beulah Stamper and her husband, John Stamper; Flora Stamper, widow; Nannie Turner, widow; Betty Rose Cole and her husband, Abe Cole; and Arlena Turner and her husband, Silas Turner, and SID Mining, LLC dated November 1, 2004 leasing the property conveyed from Pearl Combs and Rosa Combs to Delbert Combs and wife, Dora Combs, by Deed dated April 29, 1944 and recorded in Deed Book 78, at page 463 in the Office of the Breathitt County Clerk, Consent and Confirmatory Lease Amendment Agreement between Heirs of Delbert Combs and Sid Mining LLC dated October 17, 2008 and Short Form Lease and Amendment Agreement dated February 25, 2011 between Heirs of Delbert Combs, et al., and CDR Sid Mining, Inc. recorded in Breathitt County Clerk's Office in Lease Book 35, page 761.

6. That certain Lease Agreement by and between John Deaton, Jr. and SID Mining, LLC dated May 24, 2004 leasing (a) the property conveyed from Benton Paul Deaton and Sara Ely Deaton, husband and wife, to John Deaton, Sr. and John Deaton, Jr. by Deed dated February 8, 1955, and recorded in Deed Book 110, at page 629 in the Office of the Perry County Clerk; and (b) the property conveyed from John Deaton, Sr., a single person, to John Deaton, Jr., a single person, by Deed dated September 3, 1982 and recorded in Deed Book 192, at page 255 in the Office of the Perry County Clerk, Consent to Assignment by John Deaton, Jr. dated September 22, 2008, General Warranty Deed dated May 14, 2009 from John Deaton, Jr. to B & M Coal, LLC recorded in Perry County Clerk's Office in Deed Book 345, page 695 and Short Form Lease and Amendment Agreement dated February 3, 2011 between B & M Coal, LLC and CDR Sid Mining, Inc. recorded in Perry County Clerk's Office in Lease Book 69, page 776.

7. That certain Lease Agreement by and between Bud Deaton and Fern Louise Deaton and SID Mining, LLC dated June 24, 2004 leasing the property conveyed from Johnnie Deaton, Sr. Mimie Deaton, and Johnnie Deaton, Jr. to Bud Deaton and Ruth Carolyn Deaton by Deed dated February 8, 1971 and recorded in Deed Book 158, at page 687 in the Office of the Perry County Clerk, Consent to Assignment between Bud Deaton and Fern Louise Deaton, his wife, and Sid Mining LLC dated September 29, 2008, Consent to Assignment of Lease from Heirs of Bud Deaton by Gary Deaton, Margie Deaton, Vickie Eversole, J.B. Eversole and Melissa Deaton dated October 27, 2008, and Short Form Lease and Amendment Agreement dated April 14, 2011 between Fern Deaton, Heirs of Bud Deaton, et al., and CDR Sid Mining, Inc. recorded in Perry County Clerk's Office in Lease Book 69, page 781.

8. That certain Lease Agreement by and between Green Berry Johnson and SID Mining, LLC dated November 18, 2004 leasing property conveyed from Joseph H. Johnson and Elizabeth Johnson, husband and wife, to Green Berry Johnson, by Deed dated June 27, 1949 and recorded in Deed Book 104, at page 152 in the Office of the Perry County Clerk, Consent to Assignment by Greenberry Johnson dated September 25, 2008 and Short Form Lease and Amendment

Agreement dated February 18, 2011 between Green Berry Johnson and CDR Sid Mining, Inc. recorded in Perry County Clerk's Office in Lease Book 69, page 788.

9. That certain Coal Lease by and between Cleomene Tzanetos and his wife Mary Tzanetos; Douglas Gabbard and his wife Stephanie Gabbard; and Jeanette Lawrence and SID Mining, LLC dated May 10, 2007 leasing property conveyed from Cinda Johnson, widow; Nettie Amis and her husband, Ralph Amis; Floyd Johnson and wife, Mary Johnson; Alpha Neace and her husband, Dan Neace; Sarah Neace and husband Jordan Neace; to Douglas Gabbard and wife Vesta Gabbard, by Deed dated September 2, 1947 and recorded in Deed Book 95, at page 533 in the Office of the Perry County Clerk and Consent to Assignment between Cleomene Tzanetos and Mary Tzanetos, Douglas Gabbard and Stephanie Gabbard, and Jeanette Lawrence dated October 20, 2008, with Coal Lease dated May 10, 2007 attached and recorded in Perry County Clerk's Office in Lease Book 69, page 793.

10. That certain Coal Lease by and between B & M Coal, LLC and CDR Sid Mining, Inc. dated November 14, 2008 leasing property conveyed from Michael Taylor to B & M Coal, LLC by Deed dated September 7, 2007 and recorded in Deed Book 333, at page 694 in the Office of the Perry County Clerk and Short Form Lease with B & M Coal, LLC dated December 29, 2008 recorded in Perry County Clerk's Office in Lease Book 70, Page 1.

Charlene Load Out:

That certain Sublease Agreement by and between Cheyenne Resources, Inc. and CDR Operations, Inc. dated September 30, 2009 for the property known as the "Charlene coal loading facility" that is the subject of (i) a Deed from Montgomery Coal Corporation to WPP LLC dated November 21, 2003 of record in Deed Book No. 304, at page 113 in the Office of the Perry County Clerk and (ii) a Deed to Montgomery Coal Corporation dated August 11, 1992 of record in Deed Book 237, at page 95 in the Office of the Perry County Clerk, which Sublease Agreement was assigned by Cheyenne Resources, Inc. to CDR Operations, Inc. in May 2011.

SCHEDULE 4.1(i)(i)(2)
Liens on Mining Rights

All Liens arising pursuant to the leases, agreements and instruments set out in Schedule 4.1(i)(i)(1).

SCHEDULE 4.2(j)
TSX Venture Exchange
Private Placement Form

FORM 4C
CORPORATE PLACEE REGISTRATION FORM

This Form will remain on file with the Exchange and must be completed if required under section 4(b) of Part II of Form 4B. The corporation, trust, portfolio manager or other entity (the “Placee”) need only file it on one time basis, and it will be referenced for all subsequent Private Placements in which it participates. If any of the information provided in this Form changes, the Placee must notify the Exchange prior to participating in further placements with Exchange listed Issuers. If as a result of the Private Placement, the Placee becomes an Insider of the Issuer, Insiders of the Placee are reminded that they must file a Personal Information Form (2A) or, if applicable, Declarations, with the Exchange.

1. Placee Information:

(a) Name: _____

(b) Complete Address: _____

(c) Jurisdiction of Incorporation or Creation: _____

2.

(a) Is the Placee purchasing securities as a portfolio manager: (Yes/No)? _____

(b) Is the Placee carrying on business as a portfolio manager outside of Canada: (Yes/No)? _____

3. If the answer to 2(b) above was “Yes”, the undersigned certifies that:

(a) it is purchasing securities of an Issuer on behalf of managed accounts for which it is making the investment decision to purchase the securities and has full discretion to purchase or sell securities for such accounts without requiring the client’s express consent to a transaction;

(b) it carries on the business of managing the investment portfolios of clients through discretionary authority granted by those clients (a “portfolio manager” business) in _____ [jurisdiction], and it is permitted by law to carry on a portfolio manager business in that jurisdiction;

(c) it was not created solely or primarily for the purpose of purchasing securities of the Issuer;

(d) the total asset value of the investment portfolios it manages on behalf of clients is not less than \$20,000,000; and

(e) it has no reasonable grounds to believe, that any of the directors, senior officers and other insiders of the Issuer, and the persons that carry on investor relations activities for the Issuer has a beneficial interest in any of the managed accounts for which it is purchasing.

4. If the answer to 2(a) above was “No”, please provide the names and addresses of Control Persons of the Placee:

Name *	City	Province or State	Country

* If the Control Person is not an individual, provide the name of the individual that makes the investment decisions on behalf of the Control Person.

5. Acknowledgement - Personal Information and Securities Laws

(a) “**Personal Information**” means any information about an identifiable individual, and includes information contained in sections 1, 2 and 4, as applicable, of this Form.

The undersigned hereby acknowledges and agrees that it has obtained the express written consent of each individual to:

- (i) the disclosure of Personal Information by the undersigned to the Exchange (as defined in Appendix 6B) pursuant to this Form; and
- (ii) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6B or as otherwise identified by the Exchange, from time to time.

(b) The undersigned acknowledges that it is bound by the provisions of applicable Securities Law, including provisions concerning the filing of insider reports and reports of acquisitions.

Dated and certified (if applicable), acknowledged and agreed, at _____
_____ on _____.

(Name of Purchaser - please print)

(Authorized Signature)

(Official Capacity - please print)

(Please print name of individual whose signature
appears above)

THIS IS NOT A PUBLIC DOCUMENT

SCHEDULE 5.2(b)
Information Covenants

REDACTED

SCHEDULE 5.3(e) Big Branch Extension

Red Oak Map

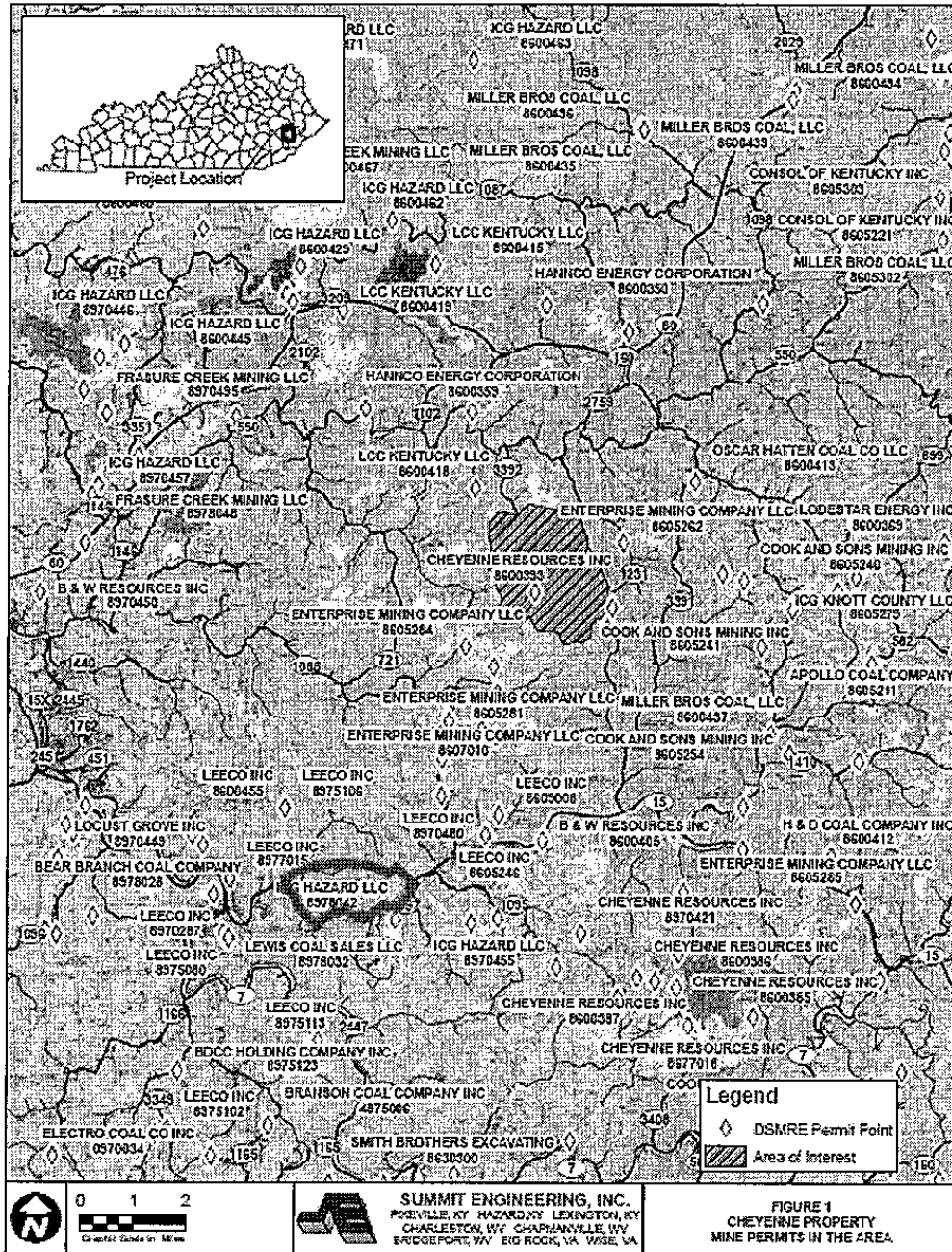


EXHIBIT "A"
Sandstorm Documents

- Security Agreement (Head) by and between Sandstorm and Royal Coal Corp. dated June 27, 2011.
- Security Agreement (Head) by and between Sandstorm and Royal Coal Limited dated June 27, 2011.
- Security Agreement (Head) by and between Sandstorm and CDR Minerals (USA) Inc. dated June 27, 2011.
- Security Agreement (Head) by and between Sandstorm and CDR Big Branch, Inc. dated June 27, 2011.
- Security Agreement (Head) by and between Sandstorm and CDR Laurel Fork, Inc. dated June 27, 2011.
- Security Agreement (Head) by and between Sandstorm and CDR Sid Mining Inc. dated June 27, 2011.
- Security Agreement (Head) by and between Sandstorm and CDR Operations, Inc. dated June 27, 2011.
- Security Agreement (Royalty) by and between Sandstorm and Royal Coal Corp. dated June 27, 2011.
- Security Agreement (Royalty) by and between Sandstorm and Royal Coal Limited dated June 27, 2011.
- Security Agreement (Royalty) by and between Sandstorm and CDR Minerals (USA) Inc. dated June 27, 2011.
- Security Agreement (Royalty) by and between Sandstorm and CDR Big Branch, Inc. dated June 27, 2011.
- Security Agreement (Royalty) by and between Sandstorm and CDR Laurel Fork, Inc. dated June 27, 2011.
- Security Agreement (Royalty) by and between Sandstorm and CDR Sid Mining Inc. dated June 27, 2011.
- Security Agreement (Royalty) by and between Sandstorm and CDR Operations, Inc. dated June 27, 2011.
- Security Agreement (Tail) by and between Sandstorm and Royal Coal Corp. dated June 27, 2011.

- Security Agreement (Tail) by and between Sandstorm and Royal Coal Limited dated June 27, 2011.
- Security Agreement (Tail) by and between Sandstorm and CDR Minerals (USA) Inc. dated June 27, 2011.
- Security Agreement (Tail) by and between Sandstorm and CDR Big Branch, Inc. dated June 27, 2011.
- Security Agreement (Tail) by and between Sandstorm and CDR Laurel Fork, Inc. dated June 27, 2011.
- Security Agreement (Tail) by and between Sandstorm and CDR Sid Mining Inc. dated June 27, 2011.
- Security Agreement (Tail) by and between Sandstorm and CDR Operations, Inc. dated June 27, 2011.
- Stock Pledge Agreement (Head) by and between Sandstorm and CDR Minerals (USA) Inc. dated June 27, 2011.
- Stock Pledge Agreement (Royalty) by and between Sandstorm and CDR Minerals (USA) Inc. dated June 27, 2011.
- Stock Pledge Agreement (Tail) by and between Sandstorm and CDR Minerals (USA) Inc. dated June 27, 2011.
- Leasehold Mortgage and Assignment (Head) by and between Sandstorm and CDR Laurel Fork, Inc. dated June 27, 2011.
- Leasehold Mortgage and Assignment (Royalty) by and between Sandstorm and CDR Laurel Fork, Inc. dated June 27, 2011.
- Leasehold Mortgage and Assignment (Tail) by and between Sandstorm and CDR Laurel Fork, Inc. dated June 27, 2011.