

Colonial Coal International Corp.

(An Exploration Stage Company)

Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)



November 23, 2016

Independent Auditor's Report

To the Shareholders of Colonial Coal International Corp.

We have audited the accompanying consolidated financial statements of Colonial Coal International Corp. which comprise the consolidated statements of financial position as at July 31, 2016 and July 31, 2015 and the consolidated statements of comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Colonial Coal International Corp. as at July 31, 2016 and July 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, BC, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806 www.pwc.com/ca*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Colonial Coal International Corp. to continue as a going concern.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Colonial Coal International Corp.

(An Exploration Stage Company)

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Note	July 31, 2016 \$	July 31, 2015 \$
Assets			
Current assets			
Cash		1,177,590	2,090,437
Short term investments		88,038	88,026
Receivables and prepaids	5	41,206	80,055
Marketable securities	6	-	297,719
		<u>1,306,834</u>	<u>2,556,237</u>
Coal properties and deferred exploration	7	11,008,197	10,719,973
Reclamation deposits		222,300	222,300
Equipment		11,432	9,274
Deferred acquisition costs	8	1	1
		<u>11,241,930</u>	<u>10,951,548</u>
		<u>12,548,764</u>	<u>13,507,785</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		196,780	131,204
Due to related parties	11	21,836	25,078
		<u>218,616</u>	<u>156,282</u>
Equity Attributable to Shareholders			
Share capital	9	27,193,476	27,193,476
Contributed surplus		5,992,500	5,992,500
Deficit		(20,855,828)	(19,834,473)
		<u>12,330,148</u>	<u>13,351,503</u>
		<u>12,548,764</u>	<u>13,507,785</u>

Going concern (Note 1)

Commitments (Notes 7 and 12)

Subsequent event (Note 18)

On behalf of the Board

(signed) "Ian Downie"

(signed) "David Austin"

The accompanying notes are an integral part of these consolidated financial statements.

Colonial Coal International Corp.

(An Exploration Stage Company)

Consolidated Statements of Comprehensive Loss

For the years ended July 31, 2016 and 2015

(Expressed in Canadian dollars)

	Note	2016 \$	2015 \$
Expenses			
Amortization		4,036	3,148
Business investigation	8	17,107	363,992
Consulting	11	137,971	264,431
Directors' fees	11	18,000	18,000
Filing and listing fees		21,694	37,971
Financing costs	13	135,270	-
Management fees	11	488,000	520,000
Office and administration		204,936	218,126
Professional fees	11	241,619	263,318
Salaries and benefits		-	198,333
Shareholder communications		3,895	27,500
Travel and promotion		46,623	97,439
Workers compensation fees		8,350	11,185
		<u>(1,327,501)</u>	<u>(2,023,443)</u>
Other income (expense)			
Interest and dividend income		18,054	26,793
Impairment of marketable securities		(136,924)	(309,255)
Gain on sale of marketable securities		373,784	-
Relinquishment of coal license applications		60,875	-
Write-down of mineral property		(9,643)	-
		<u>(1,021,355)</u>	<u>(2,305,905)</u>
Net loss for the year			
		<u>(1,021,355)</u>	<u>(2,305,905)</u>
Other comprehensive income (loss)			
Items that may be reclassified subsequently to profit or loss:			
Unrealized gain (loss) on marketable securities		236,860	(309,255)
Gain on sale of marketable securities		(373,784)	-
Impairment of marketable securities		136,924	309,255
		<u>-</u>	<u>-</u>
Total other comprehensive income for the year			
		<u>-</u>	<u>-</u>
Total comprehensive loss for the year			
		<u>(1,021,355)</u>	<u>(2,305,905)</u>
Basic and diluted net loss per common share			
		<u>(0.01)</u>	<u>(0.03)</u>
Weighted average number of shares outstanding			
		<u>96,808,396</u>	<u>75,779,922</u>

The accompanying notes are an integral part of these consolidated financial statements.

Colonial Coal International Corp.

(An Exploration Stage Company)

Consolidated Statements of Changes in Equity

For the years ended July 31, 2016 and 2015

(Expressed in Canadian dollars)

	Issued Share Capital		Contributed Surplus	Deficit	Total
	Number of Shares #	Amount \$			
Balance at August 1, 2015	96,808,396	27,193,476	5,992,500	(19,834,473)	13,351,503
Total comprehensive loss for the year	-	-	-	(1,021,355)	(1,021,355)
Balance at July 31, 2016	96,808,396	27,193,476	5,992,500	(20,855,828)	12,330,148
Balance at August 1, 2014	65,091,896	24,021,826	5,992,500	(17,528,568)	12,485,758
Shares issued to acquire Tuya Energy Inc. ("Tuya")	31,716,500	3,171,650	-	-	3,171,650
Total comprehensive loss for the year	-	-	-	(2,305,905)	(2,305,905)
Balance at July 31, 2015	96,808,396	27,193,476	5,992,500	(19,834,473)	13,351,503

The accompanying notes are an integral part of these consolidated financial statements.

Colonial Coal International Corp.

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

For the years ended July 31, 2016 and 2015

(Expressed in Canadian dollars)

	2016 \$	2015 \$
Cash flows (used in) from operating activities		
Net loss for the year	(1,021,355)	(2,305,905)
Adjustments for:		
Amortization	4,036	3,148
Gain on sale of marketable securities	(373,784)	-
Impairment of marketable securities	136,924	309,255
Interest and dividend income	(18,054)	(26,793)
Write-down of mineral property	9,643	-
	(1,262,590)	(2,020,295)
Interest and dividends received	19,012	26,576
Changes in non-cash operating working capital		
Change in receivables and prepaids	37,879	13,199
Change in accounts payable and accrued liabilities	80,666	2,760
Change in due to related parties	(3,242)	51,335
	(1,128,275)	(1,926,425)
Cash flows (used in) from investing activities		
Deferred exploration costs	(409,642)	(617,315)
B.C. Mining Exploration Tax Credits	96,685	144,453
Proceeds from sale of marketable securities	534,579	-
Purchase of equipment	(6,194)	-
	215,428	(472,862)
Cash flows (used in) from financing activities		
Cash acquired on acquisition of Tuya, net of transaction costs incurred	-	1,609,270
Decrease in cash	(912,847)	(790,017)
Cash - Beginning of the year	2,090,437	2,880,454
Cash - End of the year	1,177,590	2,090,437

Supplemental cash flow information (Note 14)

The accompanying notes are an integral part of these consolidated financial statements.

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

1 Organization, nature of operations and going concern

Colonial Coal International Corp. (the “Company”) was incorporated pursuant to the Business Corporations Act of Alberta on August 1, 2007. The Company’s corporate head office is located at Suite 200 – 595 Howe Street, Vancouver, British Columbia, Canada. The Company is listed for trading on the TSX Venture Exchange (the “Exchange”) under the symbol “CAD”.

On March 31, 2015, the Company completed the acquisition of all of the common shares of Tuya Energy Inc. (“Tuya”), a private company with five directors in common, pursuant to a court approved plan of arrangement under the *Business Corporations Act* (British Columbia) (the “Arrangement”). Upon completion of the Arrangement, each common share of Tuya was exchanged for 0.5 of a common share of the Company with the result that the former shareholders of the Company and former shareholders of Tuya held approximately 67% and 33%, respectively, of the total issued and outstanding shares of the Company.

The Company’s principal activities include the acquisition, exploration and development of coal properties located in Canada. The Company is also pursuing the acquisition of Watson Island, located just outside of Prince Rupert, British Columbia, for the purpose of developing a seaport terminal and supporting industrial park.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months.

The Company has incurred losses since inception and expects to incur further losses in the development of its business and at July 31, 2016, the Company had working capital of \$1,088,218. At that date, the Company also had an accumulated deficit of \$20,855,828 which has been funded primarily by the issuance of equity. The Company is dependent upon share issuances to provide the funding necessary to meet its general operating expenses and will require additional financing to continue to explore its coal properties. The recoverability of amounts shown as coal properties and deferred exploration is dependent upon the discovery of economically recoverable reserves, the Company’s ability to obtain financing to develop the properties, and the ultimate realization of profits through future production or sale of the properties. These factors may cast significant doubt upon the Company’s ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company’s ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to meet its general operating expenses and to continue to explore its coal properties. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. These financial statements do not reflect the adjustments to the carrying values of the assets and liabilities, the reported expenses and the statements of financial position classifications that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

2 Summary of significant accounting policies

Statement of compliance

The Company's consolidated financial statements, including comparatives, have been prepared in accordance with and using accounting policies in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee, effective for the Company's reporting for the year ended July 31, 2016.

These financial statements were approved by the board of directors for use on November 23, 2016.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for marketable securities which are measured at fair value.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries listed in the following table:

Name	Country of incorporation	% Equity Interest As at	
		July 31, 2016	July 31, 2015
Colonial Coal Corporation	Canada	100%	100%
0735513 B.C. Ltd.	Canada	100%	100%
Watson Island Development Corporation	Canada	100%	100%
Tuya Energy Inc. (1)	Canada	100%	100%

(1) Consolidated from March 31, 2015, the date of acquisition.

The results of each subsidiary will continue to be included in the consolidated financial statements of the Company until the date the Company's control over the subsidiary ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant intercompany transactions and balances have been eliminated.

Equipment

Equipment is carried at cost. Depreciation is computed over estimated useful life, calculated at the following annual rates:

Furniture	20% declining balance
Computer hardware	30% declining balance
Computer software	100% declining balance

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

Coal properties and deferred exploration

The Company is in the exploration stage and defers all expenditures related to its coal properties until such time as the properties are put into commercial production, impaired, sold or abandoned. Mineral property option proceeds and government incentives, if received, are credited against the deferred costs incurred by the Company on the property or properties being optioned. Under this method, the amounts shown as coal properties and deferred exploration represent costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted using the unit of production basis. If the properties are impaired, sold or abandoned, the expenditures will be charged to operations in the related period.

The Company reviews the capitalized costs on its properties and will recognize an impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. The recoverability of amounts shown as coal properties and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties.

Exploration costs that are not attributable to a specific property or that are incurred prior to the Company acquiring the legal rights to a property are charged to operations in the related period.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered a significant or prolonged decline in the fair value of that investment below its cost.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value adjusted for directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in income or loss excludes any interest paid on the financial liabilities.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment

At the end of each reporting period the carrying amounts of the Company's non-current non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset (or cash-generating unit) is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

Restoration, rehabilitation and environmental obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. Discount rates using a risk free rate that reflects the time value of money are used to calculate the net present value.

The timing of the actual rehabilitation expenditure is dependent on a number of facts such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

The capitalized costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit-of production method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

The Company has no material restoration, rehabilitation or environmental obligation as the disturbance to date is minimal.

Earnings per share

Basic earnings or loss per share represents the profit or loss for the period, divided by the weighted average number of common shares in issue during the period. Diluted earnings or loss per share represents the profit or loss for the period, divided by the weighted average number of common shares in issue during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive. During the years ended July 31, 2016 and 2015, potentially dilutive common shares totalling 4,845,000 (2015 – 4,845,000) were not included in the calculation of basic and diluted loss per share as the effect would have been anti-dilutive.

Use of estimates, assumptions and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Critical estimates and assumptions are made in particular with regard to assessment of impairment of the carrying value of coal properties, marketable securities and deferred acquisition costs, and the assumptions used in calculating the fair value of warrants and share-based payments.

Management reviews the carrying values of its coal properties and other deferred costs on at least an annual basis, or when an impairment indicator exists, to determine whether an impairment should be recognized. In addition, capitalized costs related to relinquished property rights are written off in the period of relinquishment. Capitalized costs in respect of the Company's coal properties may not be recoverable and there is a risk that these costs may be written down in future periods.

The Company uses the fair-value method of accounting for share-based payments related to incentive stock options and compensation warrants modified or settled. Under this method, compensation cost attributable to options and awards granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. In determining the fair value, the Company makes estimates of the expected volatility of the stock as well as an estimated risk-free interest rate and an estimated forfeiture rate. Changes to these estimates could result in the fair value of the share-based payments expense being less than or greater than the amount recorded.

Income tax

Income tax on the earnings or loss for the periods presented comprises current and deferred tax. Income tax is recognized in earnings or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase warrants are recognized as a deduction from equity, net of any tax effects.

Share-based payments

The Company has established a share incentive plan (the "Plan") for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates. The Plan is described in Note 9 b).

The fair value of all stock options granted is recorded as a charge to operations or deferred exploration costs and a credit to contributed surplus under the graded attribution method. The fair value, as adjusted for the estimated forfeiture rate, is measured and is recognized over the vesting period. The Company's stock options are subject to graded vesting and thus each tranche in the award is considered a separate grant, with a different vesting date and fair value for purposes of recognizing share-based payment expense. Prior to the vesting date, the then-current fair value of stock options granted to consultants is recognized as share-based payment expense from the date of grant to the reporting date and credited to contributed surplus. Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

3 Accounting standards issued but not yet applied

The following new standards have been issued but not yet applied:

- a) IFRS 9, *Financial Instruments*, was issued in July 2014 and replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 was developed in phases by the IASB. As a result there are a number of transition options and requirements in relation to earlier versions of IFRS 9 prior to the mandatory effective date of IFRS 9 in its entirety. IFRS 9 is mandatory for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for classification and measurement of financial assets and financial liabilities; impairment methodology for financial instruments; and general hedge accounting. IFRS 9 has specific requirements for whether debt instruments are accounted for at amortized cost, fair value through other comprehensive income or fair value through profit or loss. IFRS 9 requires equity instruments to be measured at fair value through profit or loss unless an irrevocable election is made for use of fair value through other comprehensive income which results in changes in fair value not being recycled to the income statement. The Company has not adopted IFRS 9 and has not completed its assessment of the impact of this standard.
- b) IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 and establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The required adoption date for IFRS 15 is the annual period beginning on or after January 1, 2018, with early adoption permitted. The Company has not completed its assessment of the impact of this standard.

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

- c) IFRS 16, *Leases*, was issued in January 2016 and eliminates the classification of leases as either operating or finance leases for a lessee. Instead all leases are capitalized by recognizing the present value of lease payments and recognizing an asset and a financial liability representing an obligation to make future lease payments. The principles in IFRS 16 provide a more consistent approach to acquiring the use of an asset whether by leasing or purchasing an asset.

The new leasing standard is applicable to all entities and will supersede current lease accounting standards under IFRS. IFRS 16 is mandatory for annual periods beginning on or after January 1, 2019. The Company has not adopted IFRS 16 and has not completed its assessment of the impact of this standard.

4 Acquisition of Tuya

On March 31, 2015, the Company completed the Arrangement and acquired all of the issued and outstanding shares of Tuya. The Company issued 31,716,500 common shares to the former Tuya shareholders pursuant to the Arrangement. Each shareholder of Tuya received 0.5 of a common share of the Company for each common share of Tuya held.

Tuya's results of operations have been included from March 31, 2015, the date the Arrangement was completed. For accounting purposes, the Arrangement was treated as a purchase of assets and the common shares of the Company were allocated a fair value of \$0.10 per common share, based on the Company's trading price at the time of closing.

Consideration Paid	\$
Fair value of 31,716,500 common shares issued by Company	3,171,650
Elimination of pre-existing relationship	(350,367)
Transaction costs incurred by Company	295,166
	<hr/>
Aggregate consideration paid	3,116,449

The purchase price was allocated as follows:	\$
Cash	1,904,436
Short-term investments	22,026
Receivables	44,218
Marketable securities	537,496
Coal properties and deferred exploration	604,255
Reclamation deposits	19,100
Equipment	2,396
Accounts payable and accrued liabilities	(15,378)
Due to related parties	(2,100)
	<hr/>
Net assets acquired	3,116,449

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

5 Receivables and prepaids

	July 31, 2016 \$	July 31, 2015 \$
B.C. Mining Exploration Tax Credits	-	27,034
GST recoverable	17,663	21,400
Prepaid expenses and other	23,543	31,621
	<u>41,206</u>	<u>80,055</u>

6 Marketable securities

	July 31, 2016 \$	July 31, 2015 \$
Portfolio investments in securities of public companies		
Acquisition cost	1,216,534	1,216,534
Impairment of marketable securities	(1,055,739)	(918,815)
Gain on sale of marketable securities	373,784	-
Proceeds from sale of marketable securities	(534,579)	-
Carrying value	<u>-</u>	<u>297,719</u>

During the year ended July 31, 2016 the Company sold all of its marketable securities for proceeds of \$534,579 and realized a gain on sale of marketable securities of \$373,784. Prior to the sale, the Company had recognized an impairment loss of \$136,924 (2015 - \$309,255) due to a significant or prolonged decrease in the fair value of various public company interests. As at July 31, 2016, the Company has no investments in marketable securities of public companies.

7 Coal properties and deferred exploration (Schedule 1)

	July 31, 2016 \$	July 31, 2015 \$
Huguenot property, B.C. a)	10,141,349	9,967,435
Flatbed property, B.C. b)	247,134	132,848
Tuya River property, B.C. c)	619,714	610,047
Rocky Creek property, B.C. d)	-	9,643
	<u>11,008,197</u>	<u>10,719,973</u>

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

- a) During the year ended July 31, 2016, the Company rationalized its Huguenot property holdings located in the Liard Mining Division, northeastern British Columbia. The Company dropped fifteen coal licenses covering 13,362 hectares. As at July 31, 2016, the Company owns a 100% interest in seventeen coal licenses covering an area of 9,531 hectares. The Huguenot property is subject to a 1.5% production royalty, including 1.2% which is payable to certain directors of the Company.
- b) The Company owns a 100% interest in seven coal licenses covering 9,077 hectares and commonly referred to as the Flatbed property located in the Liard Mining Division, northeastern British Columbia. A further 960 hectares are under application. The Flatbed property is subject to a 1.5% production royalty, 1.35% of which is payable to certain directors of the Company. See Notes 13 and 18.
- d) During the year ended July 31, 2016, the Company rationalized the Tuya River property holdings. The Company dropped one coal license covering 1,363 hectares, relinquished 20 coal license applications covering 5,850 hectares, and modified 6 applications to relinquish a further 900 hectares. As a result the Company was reimbursed \$60,875 for past coal license application payments made and recorded a gain on relinquishment of coal license applications. As at July 31, 2016, the Company owns a 100% interest in four coal licenses covering an area of 998 hectares and has made application for an additional ten coal licenses covering an area of 2,125 hectares in respect of this property. The Tuya River property is subject to a 1.5% production royalty, payable to a director of the Company.
- d) Pursuant to the acquisition of Tuya (Note 4), the Company acquired two coal licenses comprising 2,114 hectares in the Sukunka River area of the Peace River Coalfield. During the year ended July 31, 2016, the Company made the decision to not renew these coal licenses and recorded a write-down of mineral property of \$9,643.

8 Deferred acquisition costs

	July 31, 2016	July 31, 2015
	\$	\$
Watson Island	1	1

The Company owns 100% of Watson Island Development Corporation (“WatCo”), a company formed to purchase or acquire Watson Island, located near Prince Rupert, British Columbia, for the purpose of the development of a deep sea port and industrial project. As consideration for 45% of the Company’s interest in WatCo, the Company has agreed to pay a former shareholder of WatCo 10% of the proceeds of future financings by WatCo to a maximum of \$800,000.

In July 2012, the City of Prince Rupert (“COPR”) accepted an offer from WatCo to purchase Watson Island, subject to a number of conditions. Sale conditions included the development, approval and funding of a remediation plan for the land, which is contaminated as a result of decades of pulp mill operation. It was also a requirement of the purchase that WatCo would not be obligated for any historical environmental liabilities on Watson Island beyond a proposed lump sum financial contribution to an environmental remediation plan. At the time of entering into the offer to purchase, WatCo had been, and was to continue, funding the land expense costs of Watson Island and offered to fund the planning process and to make a significant contribution to the environmental remediation plan. Other conditions included notice requirements of the local governments,

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

resolution of current court actions against the local governments by Sun Wave Forest Products Ltd. (“Sun Wave”), relating to the title to Watson Island, and historic licensing and regulatory issues.

The COPR settled with Sun Wave in August 2013 and WatCo and the COPR subsequently negotiated to settle the terms of a definitive agreement. In the course of negotiations with the COPR, WatCo eventually accepted all of the terms of the definitive agreement proposed by the COPR and the COPR then advised that it would not proceed with the sale of Watson Island to WatCo. WatCo commenced litigation in the British Columbia Supreme Court against the COPR to enforce WatCo’s rights in connection with the acquisition of Watson Island. A Certificate of Pending litigation (“CPL”) was immediately filed to prevent the land from being sold to others while the litigation is outstanding. The COPR subsequently asked the Court to remove the CPL so that it could sell the lands to a third party purchaser. The Court refused to remove the CPL, but required WatCo to post security of \$3.2 million within 21 days to keep the CPL on title. WatCo had insufficient available capital and the Company considered it ill-advised to post security and the CPL has now been removed from title. WatCo’s claim against the COPR will now be for damages only unless Watson Island remains unsold at the time of a successful judgment.

Management reviewed the carrying value of deferred acquisition costs as at July 31, 2014 and, in view of uncertainties, wrote down the deferred costs to a nominal amount of \$1, recognizing an impairment charge of \$3,395,512. The Company is continuing with its litigation against the COPR to enforce WatCo’s rights in connection with the acquisition.

During the year ended July 31, 2016, the Company incurred \$17,107 (2015 - \$363,992) in additional costs associated with the proposed acquisition of Watson Island. These costs have been expensed as business investigation costs.

9 Share capital

a) Authorized

An unlimited number of common shares without par value.

An unlimited number of preferred shares issuable in series without par value.

The holders of the common shares are entitled to one vote per share and are entitled to dividends, when and if declared by the directors of the Company, and to the distribution of the residual assets of the Company in the event of the liquidation, dissolution or winding-up of the Company. No dividends have ever been declared or paid as at July 31, 2016.

b) Stock options

The Company has established a stock option plan (the “Plan”) for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates. The maximum number of shares available under the Plan is limited to 10% of the issued common shares. Options granted under the Plan have a maximum term of ten years and the vesting provisions of options granted are at the discretion of the Board.

The Company’s stock options outstanding as at July 31, 2016 and July 31, 2015 are as follows:

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

	Number of options	Weighted Average Exercise price \$	Weighted Average Remaining Contractual Life (Years)
Balance – July 31, 2015	4,845,000	0.77	5.19
Balance, outstanding and exercisable – July 31, 2016	4,845,000	0.77	4.19

Options to acquire common shares outstanding at July 31, 2016 are as follows:

Number Outstanding	Exercise Price \$	Expiry Date
4,845,000	0.77	October 7, 2020

10 Income taxes

A reconciliation of the income tax provision computed at statutory rates to the reported income tax expense for the years ended July 31, 2016 and 2015 is as follows:

	2016 \$	2015 \$
Statutory tax rate	26%	26%
Loss for the year before income taxes	(1,021,355)	(2,305,905)
Income tax recovery expected at statutory rate	(266,000)	(600,000)
Effect of change in tax rates	-	-
Impact of BCMETC	(37,000)	(19,000)
Items on account of capital	36,000	40,000
Provision to return adjustments	2,000	(866,000)
Other	(136,000)	5,000
Change in unrecognized deferred tax assets	401,000	1,440,000
Income tax recovery	-	-

The significant components of the Company's deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

	July 31, 2016 \$	July 31, 2015 \$
Deferred income tax assets (liabilities)		
Share issue costs	4,000	37,000
Non-capital losses carried forward	5,624,000	5,097,000
Coal properties and deferred exploration	(261,000)	(251,000)
Other	52,000	170,000
	<hr/>	<hr/>
Total unrecognized deferred income tax assets	5,419,000	5,053,000

All deferred tax assets and liabilities are estimated to be recovered after more than twelve months.

The Company has non-capital losses carried forward available to reduce future taxable income of approximately \$21,760,000. These losses expire as follows:

Year	\$
2026	224,000
2027	83,000
2028	381,000
2029	1,131,000
2030	1,654,000
2031	1,900,000
2032	2,357,000
2033	3,180,000
2034	5,918,000
2035	2,787,000
2036	2,145,000
	<hr/>
	21,760,000

In addition, the Company has certain tax pools arising from its resource related expenditures that amount to approximately \$10,005,000 (July 31, 2015 - \$9,753,000) and which are available indefinitely to shelter deferred income from corporate income taxes.

11 Related party transactions

Related party transactions during the years ended July 31, 2016 and 2015 not disclosed elsewhere in these consolidated financial statements are as follows:

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

	2016	2015
	\$	\$
Consulting fees	60,000	45,000
Directors' fees	18,000	18,000
Management fees	488,000	520,000
Professional fees	76,000	99,500
	<u>642,000</u>	<u>682,500</u>

Amounts due to related parties at July 31, 2016 amounting to \$21,836 (July 31, 2015 - \$25,078) are non-interest bearing and have no specific terms of repayment.

Related party transactions are comprised of services rendered by directors and/or officers of the Company and companies controlled by them or persons associated with them. Related party transactions are in the ordinary course of business and are measured at the exchange amount.

Prior to the Arrangement, Tuya had advanced an aggregate \$270,000 to the Company. These advances bore interest at the rate of 12% per annum and were payable on demand. The loan was eliminated on March 31, 2015 through the acquisition of Tuya by the Company (Note 4).

The compensation paid or payable to key management, including the Company's Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and directors for services rendered during the years ended July 31, 2016 and 2015 is as follows:

	2016	2015
	\$	\$
Directors' fees	18,000	18,000
Management fees	488,000	520,000
Professional fees	76,000	99,500
	<u>582,000</u>	<u>637,500</u>

12 Commitments

The Company is committed under the terms of royalty agreements in respect of its interests in coal properties (Note 7).

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

13 Proposed private placement and disposal of property interest

The Company has entered into a letter agreement (“Letter Agreement”) with a certain investor group (the “Investor”) which provides for the terms and conditions of each of a proposed private placement of units together with the corresponding agreement by the Investor to acquire a 10% registered and beneficial ownership interest in the Company’s Flatbed property which will become available to the Investor upon the successful completion of the private placement.

In conjunction with the proposed private placement, the Company has agreed to sell 24,000,000 units at a price of \$0.10 per unit for gross proceeds of \$2,400,000. Each unit is comprised of one common share and one share purchase warrant, with each such warrant entitling the Investor to purchase an additional common share of the Company at an exercise price of \$0.20 per share for a period of two years from closing of the private placement.

Closing of the private placement is subject to a number of conditions, including receipt of all necessary corporate and regulatory approvals, inclusive of that of the Exchange.

Upon the successful completion of the entire private placement closing, the Investor has agreed to acquire a 10% registered and beneficial ownership interest both carried and then working in those certain coal licenses that together comprise the Company’s Flatbed property for cash consideration of \$5,000,000.

Subsequent to the acquisition closing, such initial carried 10% interest will be subject to straight line dilution upon the Company first funding and incurring, directly or indirectly, an aggregate of \$5,000,000 in exploration and development expenditures on the Flatbed property, at which time the parties will form a joint venture for the purpose of carrying out further development work and production on the Flatbed property. The participating interests of the parties in the joint venture shall be subject to dilution for non-contribution to costs in proportion to their respective interests on a straight line basis and with an initial deemed cost basis of \$5,000,000 (that being as to \$4,500,000 for the Company and as to \$500,000 for the Investor); provided that should the Investor’s participating interest, at any time, equal to or fall below 2%, then the Investor’s then participating interest shall be deemed to be converted into a 2% net profits interest royalty (the “NPI Royalty”). The Company may elect at any time to purchase all or a portion of the NPI Royalty from the Investor for the sum of \$12,500,000 per each 1% of the NPI Royalty.

Upon the successful completion of the acquisition of the 10% interest in the Flatbed property, however, subject to any prior suitability and filing requirements of the Exchange and all applicable securities laws and regulators, the Investor will be entitled to the immediate appointment of two members to the Company’s Board of Directors, with one member of the Company’s then Board of Directors resigning. In connection with these appointments, the Company has agreed to grant to each of the appointees a stock option to acquire up to 2,000,000 common shares at an exercise price of \$0.10 per share for a period of five years from the date of grant, with such option to vest equally over a period of twelve months. In accordance with current Exchange policy and the provisions of the Company’s stock option plan, the option price may be subject to adjustment upwards at the time of the grant so as to ensure that the option price represents the Company’s current market trading price at the time.

During the year ended July 31, 2016, the Company expensed \$135,270 of deferred financing costs in respect of the Letter Agreement.

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

14 Non-cash transactions

Investing and financing activities that do not have a direct impact on cash flows are excluded from the consolidated statements of cash flows. During the year ended July 31, 2016, the following transactions were excluded from the consolidated statement of cash flows:

- Deferred exploration expenditures of \$2,158 included in accounts payable and accrued liabilities at July 31, 2016, less expenditures included in accounts payable and accrued liabilities at July 31, 2015 of \$17,248 (net inclusion of \$15,090).

During the year ended July 31, 2015, the following transactions were excluded from the consolidated statement of cash flows:

- Deferred exploration expenditures of \$17,248 included in accounts payable and accrued liabilities at July 31, 2015, less expenditures included in accounts payable and accrued liabilities at July 31, 2014 of \$28,851 (net inclusion of \$11,603).

15 Segment information

The Company operates in one segment – the acquisition, exploration and development of coal properties. As at July 31, 2016 and 2015, all the operations and assets were in Canada.

16 Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain a flexible capital structure which optimizes the costs of capital as an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity, as well as cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may attempt to issue new shares, issue debt, option its coal properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of coal properties or other assets.

The only sources of future funds presently available to the Company are the sale of additional equity capital, selling or leasing the Company's interest in a property or entering into joint venture arrangements or other strategic alliances in which the funding sources could become entitled to an interest in the properties or the projects. The Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

The Company is not subject to any capital requirements imposed by a regulator, other than continued listing requirements of the Exchange. In order for the Company to carry out planned exploration and development and pay for administrative costs, the Company will spend its working capital and intends to raise additional amounts externally as needed.

The Company's investment policy is to invest its cash in interest-bearing bank accounts.

During the year ended July 31, 2016, there were no changes to the Company's policies on managing capital.

17 Financial instruments

a) Classification of financial instruments

The Company has designated its cash, short term investments and receivables as loans and receivables, which are measured at amortized cost. The Company's marketable securities have been designated as available for sale. Publicly held investments are reported at fair value based on quoted market prices with unrealized gains or losses reported in OCI. Accounts payable and accrued liabilities, due to related parties, and loans payable to related party are designated as other financial liabilities, which are measured at amortized cost.

b) Fair value of financial instruments

The Company classifies fair values of financial instruments within a three-level hierarchy that prioritizes the inputs to fair value measurement and reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Company's marketable securities are classified as "Level 1" financial instruments.

c) Currency risk

As at July 31, 2016, all of the Company's cash was held in Canadian dollars, the Company's functional currency. The Company has no operations in foreign jurisdictions outside of Canada at this time and as such has no currency risk associated with its operations.

d) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations.

The Company's cash is held through a major Canadian chartered bank and accordingly, the Company's exposure to credit risk is considered to be limited. Short term investments consist of a guaranteed investment certificate with a major Canadian chartered bank.

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

July 31, 2016 and 2015

(Expressed in Canadian dollars)

e) **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company manages its cash according to its operational needs and to optimize revenues from interest.

f) **Liquidity risk**

The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. See Note 1.

18 Subsequent event

Subsequent to July 31, 2016, the Company relinquished three Flatbed property coal license applications covering 960 hectares and was reimbursed \$13,090 and granted one additional coal license totaling 530 hectares.

Colonial Coal International Corp.

Schedule 1

(An Exploration Stage Company)

Consolidated Schedule of Deferred Exploration Costs

For the years ended July 31, 2016 and 2015

(Expressed in Canadian dollars)

	Huguenot property	Flatbed property	Tuya River property	Rocky Creek property	Total
	\$	\$	\$	\$	\$
Balance at July 31, 2014	9,616,396	38,063	-	-	9,654,459
Acquisition cost	-	-	604,255	-	604,255
Field programs	31,131	2,394	100	-	33,625
Consultants and contractors	152,234	47,660	4,692	758	205,344
Licenses and fees	216,527	63,539	-	8,858	288,924
Public relations and First Nations	146	146	1,000	-	1,292
Laboratory	1,800	-	-	-	1,800
Project administration	62,724	11,976	-	27	74,727
B.C. Mining Exploration Tax Credits	(113,523)	(30,930)	-	-	(144,453)
	351,039	94,785	610,047	9,643	1,065,514
Balance at July 31, 2015	9,967,435	132,848	610,047	9,643	10,719,973
Field programs	14,273	-	-	-	14,273
Consultants and contractors	72,454	34,879	14,956	-	122,289
Licenses and fees	105,338	63,689	14,970	-	183,997
Laboratory	1,050	-	-	-	1,050
Project administration	40,488	28,688	3,767	-	72,943
B.C. Mining Exploration Tax Credits	(59,689)	(12,970)	(24,026)	-	(96,685)
Write-down of mineral property	-	-	-	(9,643)	(9,643)
	173,914	114,286	9,667	(9,643)	288,224
Balance at July 31, 2016	10,141,349	247,134	619,714	-	11,008,197