Colonial Coal International Corp.
(An Exploration Stage Company)

Consolidated Financial Statements
Year Ended July 31, 2017 and 2016

(Expressed in Canadian dollars)

November 15, 2017

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, 2017 and July 31, 2016 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.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

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, 2017 and July 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Colonial Coal International Corp.
Consolidated Statements of Financial Position
As at July 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Note	2017 $	2016 $
Assets			
Current assets			
Cash and cash equivalents		6,371,293	1,177,590
Short term investments		88,038	88,038
Receivables and prepaids	4	120,165	41,206
		6,579,496	1,306,834
Coal properties and deferred exploration	6	10,979,331	11,008,197
Reclamation deposits		222,300	222,300
Equipment		11,748	11,432
Deferred acquisition costs	7	1	1
		11,213,380	11,241,930
		17,792,876	12,548,764
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		260,190	196,780
Due to related parties	10	28,601	21,836
		288,791	218,616
Equity Attributable to Shareholders			
Share capital	8	32,070,801	27,193,476
Contributed surplus		8,202,631	5,992,500
Deficit		(22,769,347)	(20,855,828)
		17,504,085	12,330,148
		17,792,876	12,548,764

Commitments (Notes 6 and 11)

Approved by the Board of Directors

(signed) "Ian Downie" (signed) "David Austin"

Colonial Coal International Corp.
Consolidated Statements of Comprehensive Loss
For the years ended July 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Note	2017 $	2016 $
Expenses			
Amortization		3,633	4,036
Business investigation	7	5,282	17,107
Consulting	10	155,996	137,971
Director's fees	10	18,000	18,000
Filing and listing fees		17,011	21,694
Financing costs	12	(8,284)	135,270
Management fees	10	506,000	488,000
Office and administration		248,468	204,936
Professional fees	10	232,955	241,619
Shareholder communications		36,175	3,895
Share-based payments	8(c)	9,083	-
Travel and promotion		92,054	46,623
Workers compensation fees		9,974	8,350
		(1,326,347)	(1,327,501)
Other income (expense)			
Interest and dividend income		39,256	18,054
Impairment of marketable securities	5	-	(136,924)
Gain on sale of marketable securities	5	-	373,784
Relinquishment of coal license applications	6	15,140	60,875
Write-down of mineral property	6	(641,568)	(9,643)
		(587,172)	306,146
Loss for the year		(1,913,519)	(1,021,355)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Unrealized gain on marketable securities		-	236,860
Gain on sale of marketable securities		-	(373,784)
Impairment of marketable securities		-	136,924
		-	-
Comprehensive loss for the year		(1,913,519)	(1,021,355)
Basic and diluted loss per common share		(0.02)	(0.01)
Weighted average number of shares outstanding			
- Basic and diluted		122,286,550	96,808,396

Colonial Coal International Corp.
Consolidated Statements of Changes in Equity
For the years ended July 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Issued Share Capital				
	Number of Shares	**Amount**	**Contributed Surplus**	**Deficit**	**Total**
	#	**$**	**$**	**$**	**$**
Balance, July 31, 2015	96,808,396	27,193,476	5,992,500	(19,834,473)	13,351,503
Comprehensive loss for the year	-	-	-	(1,021,355)	(1,021,355)
Balance, July 31, 2016	96,808,396	27,193,476	5,992,500	(20,855,828)	12,330,148
Shares issued pursuant to private placement of units	51,952,661	6,046,859	1,746,040	-	7,792,899
Less: cash issuance costs	-	(714,526)	-	-	(714,526)
Less: finder's warrants	-	(455,008)	455,008	-	-
Share-based payments	-	-	9,083	-	9,083
Comprehensive loss for the year	-	-	-	(1,913,519)	(1,913,519)
Balance, July 31, 2017	148,761,057	32,070,801	8,202,631	(22,769,347)	17,504,085

Colonial Coal International Corp.
Consolidated Statements of Cash Flows
For the years ended July 31, 2017 and 2016
(Expressed in Canadian Dollars)

	2017 $	2016 $
Cash flows (used in) provided by		
Operating activities		
Loss for the year	(1,913,519)	(1,021,355)
Items not affecting cash		
Amortization	3,633	4,036
Gain on sale of marketable securities	-	(373,784)
Impairment of marketable securities	-	136,924
Interest and dividend income	(39,256)	(18,054)
Share-based payments	9,083	-
Write-down of mineral property	641,568	9,643
	(1,298,491)	(1,262,590)
Interest and dividends received	27,530	19,012
Net change in non-cash working capital items:		
Receivables and prepaids	(13,592)	37,879
Accounts payable and accrued liabilities	(27,693)	80,666
Due to related parties	6,765	(3,242)
	(1,305,481)	(1,128,275)
Investing activities		
Deferred exploration costs	(575,240)	(409,642)
B.C. Mining Exploration Tax Credits	-	96,685
Proceeds from sale of marketable securities	-	534,579
Purchase of equipment	(3,949)	(6,194)
	(579,189)	215,428
Financing activities		
Issuance of shares and warrants	7,792,899	-
Share issuance costs	(714,526)	-
	7,078,373	-
Increase (decrease) in cash and cash equivalents	5,193,703	(912,847)
Cash and cash equivalents, beginning of the year	1,177,590	2,090,437
Cash and cash equivalents, end of the year	6,371,293	1,177,590

Supplemental cash flow information (Note 13)

(Expressed in Canadian Dollars)

1 Organization and nature of operations

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".

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.

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, 2017.

These financial statements were approved by the board of directors for use on November 15, 2017.

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:

		% Equity Interest as at	
Name	**Country of Incorporation**	**July 31, 2017**	**July 31, 2016**
Colonial Coal Corporation	Canada	100%	100%
0735513 B.C. Ltd.	Canada	100%	100%
Watson Island Development Corporation	Canada	100%	100%
Tuya Energy Inc.	Canada	100%	100%

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

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.

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.

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, 2017 and 2016, potentially dilutive common shares totalling 34,446,467 (2016 – 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 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. Any reversal of previously recorded impairment would require management to exercise judgement and to use estimates.

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.

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.

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 8 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.

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.

(Expressed in Canadian Dollars)

4 Receivables and prepaids

	July 31, 2017 $	July 31, 2016 $
GST recoverable	30,924	17,663
B.C. Mining Exploration Tax Credit	50,551	-
Prepaid expenses and other	38,690	23,543
	120,165	41,206

5 Marketable securities

	July 31, 2017 $	July 31, 2016 $
Portfolio investments in securities of public companies		
Acquisition cost	-	1,216,534
Impairment of marketable securities	-	(1,055,739)
Gain on sale of marketable securities	-	373,784
Proceeds from sale of marketable securities	-	(534,579)
Carrying value	-	-

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 impairment of $136,924 due to a significant or prolonged decrease in the fair value of the public company interests. As at July 31, 2017 the company has no investments in marketable securities.

6 Coal properties and deferred exploration (Schedule 1)

	July 31, 2017 $	July 31, 2016 $
Huguenot property, B.C.	10,270,702	10,141,349
Flatbed property, B.C.	708,629	247,134
Tuya River property, B.C.	-	619,714
	10,979,331	11,008,197

a) The Company owns a 100% interest in seventeen coal licenses covering an area of 9,531 hectares and commonly referred to as the Huguenot property located in the Liard Mining Division, northeastern British Columbia. 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 eight coal licenses covering 9,607 hectares and commonly referred to as the Flatbed property located in the Liard Mining Division, northeastern British Columbia. During the year ended July 31, 2017 the Company was granted one coal license and relinquished a further 2 coal license applications covering 435 hectares and was reimbursed $13,090 for the two relinquished applications plus a portion of the original applied-for area (of the granted coal license) that was eventually classified by Government as Coal Reserve. The Flatbed property is subject to a 1.5% production royalty, 1.35% of which is payable to certain directors of the Company.

(Expressed in Canadian Dollars)

c) The Company owns a 100% interest in four coal licenses covering an area of 998 hectares and commonly referred to the Tuya River property located in northwestern British Columbia. The Tuya River property is subject to a 1.5% production royalty, payable to a director of the Company. During the year ended July 31, 2017 the Company determined that there were indicators of impairment on the property and that the property was impaired. The main indicator of impairment related to the international market for thermal coal. Accordingly, the Company wrote-off the Tuya River property and charged $641,568 to the statement of comprehensive loss.

7 Deferred acquisition costs

	July 31, 2017 $	July 31, 2016 $
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, 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 also the Company considered it ill-advised to post security. Consequently 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. 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, 2017, the Company incurred $5,282 (2016 - $17,107) in costs associated with the proposed acquisition of Watson Island. These costs have been expensed as business investigation costs

8 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, 2017.

b) Financings

In February 2017, the Company closed a non-brokered private placement financing through the issuance of 51,952,661 units (each a "Unit") at a price of $0.15 per Unit for gross proceeds of $7,792,899. Each Unit consists of one common share of the Company and one-half of a transferable common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one additional common share of the Company at an exercise price of $0.30 per common share up to February 3, 2020. The Company allocated a value of $1,746,040 to the warrants using the relative fair value method. The warrants are fair valued using the Black-Scholes Option Pricing Model based on the following assumptions: stock price - $0.18; exercise price - $0.30; risk free rate – 0.93%; expected life – 3 years; expected volatility - 111%; and expected dividend – $nil and the shares are valued using the share price on the closing date.

The Company also issued 3,625,136 finders' warrants entitling the holder thereof to purchase one Unit at an exercise price of $0.15 per Unit for a period of three years from the date of issue. The Company fair valued the finders' warrants at $455,008 using the Black-Scholes Option Pricing Model based on the following assumptions: stock price - $0.18; exercise price - $0.15; risk free rate – 0.93%; expected life – 3 years; expected volatility - 111%; and expected dividend – $nil.

(Expressed in Canadian Dollars)

The Company paid finders' fees and legal and other costs amounting to $714,526 in respect of this financing.

c) 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.

On May 1, 2017 the Company granted 250,000 stock options to a consultant, the options have an exercise price of $0.25 per option and expire on May 1, 2022. The options are subject to the following vesting conditions; 25% three months from grant date, 25% six months from grant date, 25% nine months from grant date and 25% one year from grant date. The options were fair valued using the Black-Scholes option pricing model and the following assumptions: dividend yield of nil, expected volatility of 108%, a risk-free interest rate of 1.02%, and an expected life of 5 years. During the year ended July 31, 2017 the Company recorded $9,083 (2016 - $nil) of share-based payments.

The Company's stock options outstanding as at July 31, 2017 and 2016 and the changes for the years then ended are as follows:

	Number of options	**Weighted Average Exercise Price $**	**Weighted Average Remaining Contractual Life (years)**
Balance, July 31, 2016 and 2015	4,845,000	0.77	4.19
Granted	250,000	0.25	
Balance, July 31, 2017	5,095,000	0.74	3.27
Unvested	(250,000)	0.25	4.75
Exercisable, July 31, 2017	4,845,000	0.77	3.19

Options to acquire common shares outstanding at July 31, 2017 are as follows:

Expiry Date	**Exercise price $**	**Remaining Life (years)**	**Options Outstanding**	**Unvested**	**Vested**
October 7, 2020	0.77	3.19	4,845,000	-	4,845,000
May 1, 2020	0.25	4.75	250,000	250,000	-
			5,095,000	250,000	4,845,000

(Expressed in Canadian Dollars)

d) Warrants

The Company's warrants outstanding as at July 31, 2017 and 2016 and the changes for the years then ended are as follows:

	Number of Warrants	Weighted Average Exercise Price $
Balance, July 31, 2016	-	-
Issued	29,601,467	0.28
Balance, July 31, 2017	29,601,467	0.28

Warrants to acquire common shares outstanding at July 31, 2017 are as follows:

Expiry Date	Exercise price $	Warrants Outstanding
February 3, 2020	0.30	25,976,331
February 3, 2020(1)	0.15	3,625,136
		29,601,467

(1) Exercisable into units comprised of one common share of the Company and one-half of a transferable common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one additional common share of the Company at an exercise price of $0.30 per common share up to February 3, 2020.

9 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, 2017 and 2016 is as follows:

	2017 $	2016 $
Loss for the year before income taxes	(1,913,519)	(1,021,355)
Statutory tax rate	26%	26%
Income tax recovery expected at statutory rate	(498,000)	(266,000)
Impact of B.C. METC	-	(37,000)
Items on account of capital	-	36,000
Provision to return adjustments	-	2,000
Other	(155,000)	(136,000)
Change in unrecognized deferred tax assets	653,000	401,000
Income tax recovery	-	-

(Expressed in Canadian Dollars)

The significant components of the Company's deferred tax assets and liabilities as at July 31, 2017 and 2016, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	2017 **$**	**2016** **$**
Deferred income tax assets (liabilities)		
Share issue costs	164,000	4,000
Non-capital losses carried forward	5,804,000	5,440,000
Capital losses carried forward	184,000	184,000
Coal properties and deferred exploration	(133,000)	(261,000)
Other	53,000	52,000
Total unrecognized deferred income tax assets	6,072,000	5,419,000

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 $22,317,000. 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	1,295,000
2037	1,407,000
	22,317,000

In addition, the Company has certain tax pools arising from its resource related expenditures that amount to approximately $10,468,000 (2016 - $10,005,000) and which are available indefinitely to shelter deferred income from corporate income taxes.

(Expressed in Canadian Dollars)

10 Related party transactions

Related party transactions not disclosed elsewhere in the consolidated financial statements are as follows:

- During the year ended July 31, 2017 the Company incurred $76,000 (2016 - $60,000) in consulting fees for corporate development paid to Shane Austin, the son of David Austin, President and CEO of the Company. The fees paid were for corporate development of the Company.

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.

Compensation paid or payable to key management, including the Company's Chief Executive Officer, Chief Financial Officer, Chief Operating Office and directors for services provided during the years ended July 31, 2017 and 2016 was as follows:

	2017 **$**	**2016** **$**
Director's fees	18,000	18,000
Management fees	506,000	488,000
Professional fees	68,400	76,000
	592,400	582,000

The compensation paid to key management was for short-term benefits.

Amounts due to related parties at July 31, 2017 amounting to $28,601 (July 31, 2016 - $21,836) are non-interest bearing and have no specific terms of repayment.

11 Commitments

a) The Company is committed under the terms of royalty agreements in respect of its interests in coal properties (Note 6).

b) The Company is committed under the terms of an office lease agreement that expires on March 31, 2020, for rent and estimated operating costs of approximately $75,000 annually.

12 Proposed disposal of property interest

In October 2015, the Company entered into a letter agreement ("Letter Agreement") with a certain investor group (the "Investor") which provided 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 would become available to the Investor upon the successful completion of the private placement. In February 2017, the Company determined that it would not proceed with the Letter Agreement.

During the year ended July 31, 2017, the Company recorded a recovery of previously expensed financing costs in respect of the Letter Agreement of $8,284 (2016 – expenditure of $135,270).

13 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, 2017, the following transactions were excluded from the consolidated statement of cash flows:

- Deferred exploration expenditures of $93,261 included in accounts payable and accrued liabilities at July 31, 2017, less expenditures included in accounts payable and accrued liabilities at July 31, 2016 of $2,158 (net exclusion of $91,103); and,
- Deferred exploration expenditures of ($53,641) included in receivables and prepaids at July 31, 2017, less $nil at July 31, 2016 related to B.C. Mining Exploration Tax Credits (Net inclusion of $53,641)
- The issuance of 3,625,136 finders' warrants at the fair value of $455,008.

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).

14 Segment information

The Company operates in one segment – the acquisition, exploration and development of coal properties. As at July 31, 2017 and 2016, all the operations and assets were in Canada.

15 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.

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, 2017, there were no changes to the Company's policies on managing capital.

16 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. 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 has no financial instruments measured at fair value.

c) Currency risk

As at July 31, 2017, 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 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.

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.

Colonial Coal International Corp. **Schedule 1**

Consolidated Schedule of Deferred Exploration Costs
For the years ended July 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Huguenot $	Flatbed $	Tuya River $	Rocky Creek $	Total $
Balance, 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, July 31, 2016	10,141,349	247,134	619,714	-	11,008,197
Field programs	26,683	166,647	-	-	193,330
Consultants and contractors	5,024	195,773	5,919	-	206,716
Licenses and fees	87,158	63,539	19,025	-	169,722
First nations	1,590	1,590	-	-	3,180
Project administration	8,898	73,997	-	-	82,895
B.C. Mining Exploration Tax Credits	-	(50,551)	(3,090)	-	(53,641)
Advances	-	10,500	-	-	10,500
Write-down of mineral property	-	-	(641,568)	-	(641,568)
	129,353	461,495	(619,714)	-	(28,866)
Balance, July 31, 2017	10,270,702	708,629	-	-	10,979,331