Colonial Coal International Corp.

(An Exploration Stage Company)

Consolidated Financial Statements
Years ended July 31, 2021 and 2020

(Expressed in Canadian dollars)

Independent auditor's report

To the Shareholders of Colonial Coal International Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Colonial Coal International Corp. and its subsidiaries (together, the Company) as at July 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at July 31, 2021 and 2020;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Leonard Wadsworth.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
November 24, 2021

Colonial Coal International Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	July 31, 2021 $	July 31, 2020 $
Assets			
Current assets			
Cash and cash equivalents		4,594,197	6,033,490
Short term investments		88,064	88,054
Receivables and prepaids	3	81,705	446,431
		4,763,966	6,567,975
Coal properties and deferred expenditures	4	13,881,280	13,488,080
Reclamation deposits	4	203,200	203,200
Equipment and right-of-use asset		85,187	3,586
Deferred acquisition costs		1	1
		14,169,668	13,694,867
		18,933,634	20,262,842
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		75,348	87,010
Due to related parties	8	30,836	28,361
Lease obligations – current portion	5	80,782	-
		186,966	115,371
Lease obligations – non-current portion	5	7,199	-
		194,165	115,371
Equity Attributable to Shareholders			
Share capital	6	41,068,019	41,011,915
Contributed surplus		8,916,034	8,811,086
Deficit		(31,244,584)	(29,675,530)
		18,739,469	20,147,471
		18,933,634	20,262,842

Commitments (Notes 4, 5 and 8)
Subsequent events (Note 16)

Approved by the Board of Directors

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

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

Colonial Coal International Corp.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended July 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Note	2021 $	2020 $
Expenses			
Amortization		66,512	1,922
Consulting	8	130,757	242,372
Director's fees	8	24,000	24,167
Filing and listing fees		39,345	38,144
Foreign exchange loss		2,803	4,924
Management fees	8	610,004	618,337
Office and administration		136,258	209,543
Professional fees	8	191,852	278,873
Shareholder communications		188,539	235,950
Share-based payments	6(b)	130,052	594,543
Travel and promotion		73,287	83,609
		(1,593,409)	(2,332,384)
Other income (expense)			
Interest income		40,031	68,538
Lease finance charge		(15,676)	-
		24,355	68,538
Net loss and comprehensive loss for the year		(1,569,054)	(2,263,846)
Basic and diluted loss per common share		(0.01)	(0.01)
Weighted average number of shares outstanding			
- Basic and diluted		174,278,270	164,823,490

Colonial Coal International Corp.
Consolidated Statements of Changes in Equity
For the years ended July 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Issued Share Capital				
	Number of Shares #	**Amount $**	**Contributed Surplus $**	**Deficit $**	**Total $**
Balance, July 31, 2019	154,285,749	33,978,613	9,591,753	(27,411,684)	16,158,682
Shares issued pursuant to exercise of warrants	19,982,302	5,658,092	-	-	5,658,092
Transfer value on exercise of warrants	-	1,375,210	(1,375,210)	-	-
Share-based payments	-	-	594,543	-	594,543
Comprehensive loss for the year	-	-	-	(2,263,846)	(2,263,846)
Balance, July 31, 2020	174,268,051	41,011,915	8,811,086	(29,675,530)	20,147,471
Shares issued pursuant to exercise of options	100,000	31,000	-	-	31,000
Transfer value on exercise of options	-	25,104	(25,104)	-	-
Share-based payments	-	-	130,052	-	130,052
Comprehensive loss for the year	-	-	-	(1,569,054)	(1,569,054)
Balance, July 31, 2021	**174,368,051**	**41,068,019**	**8,916,034**	**(31,244,584)**	**18,739,469**

Colonial Coal International Corp.
Consolidated Statements of Cash Flows
For the years ended July 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021 $	2020 $
Cash flows (used in) provided by		
Operating activities		
Loss for the year	(1,569,054)	(2,263,846)
Items not affecting cash		
Amortization	66,512	1,922
Share-based payments	130,052	594,543
Interest income	(40,031)	(68,538)
Lease finance charge	15,676	-
	(1,396,845)	(1,735,919)
Interest received	46,527	66,990
Net change in non-cash working capital items:		
Receivables and prepaids	(17,485)	(12,164)
Accounts payable and accrued liabilities	(15,058)	(26,690)
Due to related parties	2,475	2,001
	(1,380,336)	(1,705,782)
Investing activities		
Deferred costs	(458,144)	(584,175)
B.C Mining Exploration Tax Credits	444,045	85,464
	(14,099)	(498,711)
Financing activities		
Exercise of options	31,000	-
Exercise of warrants	-	5,658,092
Lease payments	(75,808)	-
	(44,808)	5,658,092
(Decrease) increase in cash and cash equivalents	(1,439,293)	3,453,599
Cash and cash equivalents, beginning of the year	6,033,490	2,579,891
Cash and cash equivalents, end of the year	4,594,197	6,033,490

Supplemental cash flow information (Note 9)

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").

In March 2020, the World Health Organization declared COVID-19 a global pandemic. The continuation of the COVID-19 pandemic in 2021 has resulted in social and economic disruption and other conditions affecting worldwide coal prices. Impacts to the Company, if any, are not determinable at this date, however any impacts could be material to the Company's forecasted exploration and development work and the Company's financial position, results of operation and cash flows.

These financial statements were approved by the board of directors for use on November 23, 2021.

These consolidated financial statements have been prepared using the following accounting policies:

Financial assets and liabilities

a) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Investments in equity instruments are required to be measured by default at FVTPL (but there is an irrevocable option for each equity instrument to present fair value changes in other comprehensive income). Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification under IFRS 9:

	Classification IFRS 9
Cash and cash equivalents	Amortized Cost
Short-term investments	Amortized Cost
Receivables	Amortized Cost
Reclamation deposits	Amortized Cost
Accounts payable and accrued liabilities	Amortized Cost
Due to related parties	Amortized Cost

b) Measurement

Financial assets at FVTOCI
Elected investments in equity instruments at FVTOCI are initially recognized at fair value. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

c) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss and comprehensive loss as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(Expressed in Canadian Dollars)

d) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of net (loss) income. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

e) Lease obligations

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement date of a lease.

Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention.

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, 2021**	**July 31, 2020**
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 is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through power over the investee. All significant intercompany transactions and balances have been eliminated.

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments held in the form of money market investments and certificates of deposit with investment terms with initial maturity of 90 days or less and that allow for penalty free redemption after one month.

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

Right-of-use assets are depreciated straight-line, over the term of the lease

Coal properties and deferred expenditures

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 expenditure 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. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development 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.

Impairment

At the end of each reporting period the carrying amounts of the Company's long-lived 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 of disposal 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, 2021 and 2020, potentially dilutive common shares totalling 9,000,000 (2020 – 12,845,000) 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.

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.

The Company must use judgments when determining if there are any indicators of impairment on the coal properties.

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 6 b).

The fair value of all stock options granted is recorded as a charge to operations or deferred expenditure costs and a credit to contributed surplus under the graded attribution method. The fair value is measured and is recognized over the vesting period, adjusted for the estimated forfeiture rate. 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.

BC Mining Exploration Tax Credits

The Company applies for British Columbia Mining Exploration Tax Credits which are available based on 30% of qualifying mining exploration expenses. The Company recognizes these as receivable after a Notice of Assessment is received or a Canada Revenue Agency audit has been completed. The amount of the BC Mining Exploration Tax Credit is recorded as a reduction of deferred expenditure costs.

(Expressed in Canadian Dollars)

3 Receivables and prepaids

	July 31, 2021 $	July 31, 2020 $
GST recoverable	23,355	25,531
Prepaid expenses and other	58,350	45,195
BC Mining Exploration Tax Credit	-	375,705
	81,705	446,431

4 Coal properties and deferred expenditures (Schedule 1)

	July 31, 2021 $	July 31, 2020 $
Huguenot property, B.C.	11,479,426	11,207,194
Flatbed property, B.C.	2,401,854	2,280,886
	13,881,280	13,488,080

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.

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. The Flatbed property is subject to a 1.5% production royalty, 1.35% of which is payable to certain directors of the Company.

As at July 31, 2021, the Company had $203,200 (2020 - $203,200) of reclamation bonds held by the British Columbia Ministry of Energy, Mines and Low Carbon Innovation.

5 Lease obligations

The Company recognized lease obligations with respect to the lease for right-of-use assets. The lease is for office space leased by the Company. The Company is required to make monthly payments of approximately $7,200, with the term of the lease expiring August 31, 2022. The outstanding balances as at July 31, 2021, calculated using the implied rate of 11.8%, are as follows:

	July 31, 2021 $	July 31, 2020 $
Office lease liability	87,981	-
Less: current portion	(80,782)	-
Non-current portion	7,199	-

(Expressed in Canadian Dollars)

The following is a schedule of the Company's future minimum lease payments related to the lease obligations:

		July 31, 2021 $
	2022	86,916
	2023	7,199
Total minimum lease payments		94,187
Less: imputed interest		(6,206)
Total present value of minimum lease payments		87,981
Less: current portion		(80,782)
Non-current portion		7,199

6 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.

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, 2021 and 2020 and the changes for the years then ended are as follows:

(Expressed in Canadian Dollars)

	Number of options	Weighted Average Exercise Price $	Weighted Average Remaining Contractual Life (years)
Balance, July 31, 2019	11,245,000	0.47	6.02
Granted	2,100,000	0.35	
Expired	(500,000)	0.31	
Balance, July 31, 2020	12,845,000	0.46	5.62
Granted	250,000	0.68	
Exercised	(100,000)	0.31	
Expired	(3,995,000)	0.77	
Balance outstanding and exercisable, July 31, 2021	9,000,000	0.33	7.13

Options to acquire common shares outstanding at July 31, 2021 are as follows:

Expiry Date	Exercise price $	Remaining Life (years)	Options Outstanding	Unvested	Vested
April 5, 2028[(1)]	0.31	6.68	6,650,000	-	6,650,000
November 29, 2029	0.35	8.31	2,100,000	-	2,100,000
September 15, 2030	0.68	9.13	250,000	-	250,000
			9,000,000	-	9,000,000

(1) Subsequent to July 31, 2021, 65,000 of these stock options were exercised for gross proceeds of $20,150.

During the nine months ended July 31, 2021, the Company recorded share-based payments expense of $130,052 (2020 - $594,543). The weighted average fair value of stock options granted during the year ended July 31, 2021 of $0.52 per option (2020 - $0.28 per option) was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2021	2020
Average stock price ($)	0.67	0.35
Average exercise price ($)	0.68	0.35
Average risk-free interest rate (%)	0.58	1.44
Expected life (years)	5.0	5.0
Expected volatility (%)	108	115
Expected dividends ($)	Nil	Nil

The expected volatility was calculated using the historical stock price of the Company.

(Expressed in Canadian Dollars)

7 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, 2021 and 2020 is as follows:

	2021 $	2020 $
Loss for the year before income taxes	(1,569,054)	(2,263,846)
Statutory tax rate	27%	27%
Income tax recovery expected at statutory rate	(424,000)	(611,000)
Share-based payments - options	35,000	161,000
Other	23,000	(95,000)
Change in unrecognized deferred tax assets	366,000	545,000
Income tax recovery	-	-

The significant components of the Company's deferred tax assets and liabilities as at July 31, 2021 and 2020 is as follows:

	2021 $	2020 $
Deferred income tax assets (liabilities)		
Share issue costs	-	39,000
Non-capital losses carried forward	7,902,000	7,455,000
Capital losses carried forward	191,000	191,000
Coal properties and deferred expenditures	(283,000)	(263,000)
Other	35,000	57,000
Total unrecognized deferred income tax assets	7,845,000	7,479,000

The Company has non-capital losses carried forward available to reduce future taxable income of approximately $28,985,000. 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	1,500,000
2038	1,684,000

(Expressed in Canadian Dollars)

2039	1,788,000
2040	1,721,000
2041	1,382,000
	28,985,000

In addition, the Company has certain tax pools arising from its resource related expenditures that amount to approximately $12,465,971 (2020 - $12,515,000) and which are available indefinitely to be deducted against future income.

8 Related party transactions

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

- During the year ended July 31, 2021 the Company incurred $81,000 (2020 - $88,000) in consulting fees 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.

Compensation paid or payable to key management, including the Company's Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and directors for services provided during the years ended July 31, 2021 and 2020 was as follows:

	2021 **$**	**2020** **$**
Director's fees	24,000	24,167
Management fees	610,004	618,337
Professional fees	47,000	50,750
Share-based payments	-	311,427
	681,004	1,004,681

Amounts due to related parties at July 31, 2021, amounting to $30,836 (July 31, 2020 - $28,361) are non-interest bearing and have no specific terms of repayment.

9 Commitments

a) The Company is committed under the terms of royalty agreements in respect of its interests in coal properties (Note 4).

10 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, 2021, the following transactions were excluded from the consolidated statement of cash flows:

- Deferred expenditures of $25,003 included in accounts payable and accrued liabilities at July 31, 2021, less expenditures included in accounts payable and accrued liabilities at July 31, 2020 of $21,607 (net inclusion of $3,396).
- Deferred expenditures of $nil included in receivables and prepaids at July 31, 2021, less $375,705 at July 31, 2020 related to B.C Mining Exploration Tax Credits (net exclusion of $375,705).

During the year ended July 31, 2020, the following transactions were excluded from the consolidated statement of cash flows:

- Deferred expenditures of $21,607 included in accounts payable and accrued liabilities at July 31, 2020, less expenditures included in accounts payable and accrue liabilities at July 31, 2019 of $4,956 (net exclusion of $16,651); and,
- Deferred expenditures of $375,705 included in receivables and prepaids at July 31, 2020, less $nil at July 31, 2019 related to B.C Mining Exploration Tax Credits (net inclusion of $375,705).

13 Segment information

The Company operates in one segment – the acquisition, exploration and development of coal properties. As at July 31, 2021, all the operations and assets were in Canada.

14 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, 2021, there were no changes to the Company's policies on managing capital.

15 Financial Instruments

a) Classification of financial instruments

The Company's financial instruments consist of cash, short term investments, receivables, reclamation deposits, accounts payable and accrued liabilities, and due to related parties.

The Company's cash, short term investments and receivables are measured at amortized cost. Accounts payable and accrued liabilities and due to related parties 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, 2021, all of the Company's cash and cash equivalents were 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.

16 Subsequent Events

Subsequent to July 31, 2021, 65,000 stock options were exercised for gross proceeds of $20,150.

Colonial Coal International Corp. **Schedule 1**

Consolidated Schedule of Deferred Exploration and Evaluation Costs
For the years ended July 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Huguenot $	Flatbed $	Total $
Balance, July 31, 2019	10,835,279	2,513,144	13,348,423
Field programs	32,342	4,765	37,107
Consultants and contractors	246,875	57,460	304,335
Licenses and fees	137,470	98,190	235,660
Public relations / First Nations	1,528	379	1,907
Project administration	12,659	9,158	21,817
B.C. Mining Exploration Tax Credits	(58,959)	(402,210)	(461,169)
	371,915	(232,258)	139,657
Balance, July 31, 2020	11,207,194	2,280,886	13,488,080
Field programs	133,735	3,852	137,587
Consultants and contractors	81,559	12,810	94,369
Licenses and fees	71,385	130,370	201,755
Public relations / First Nations	8,777	8,777	17,554
Project administration	7,662	2,613	10,275
B.C. Mining Exploration Tax Credits	(30,886)	(37,454)	(68,340)
	272,232	120,968	393,200
Balance, July 31, 2021	11,479,426	2,401,854	13,881,280