Colonial Coal International Corp.

(An Exploration Stage Company)

Consolidated Financial Statements
Years ended July 31, 2023 and 2022

(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, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at July 31, 2023 and 2022;
- 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended July 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment indicators of coal properties and deferred expenditures (coal properties) *Refer to note 2 – Summary of significant accounting policies and note 4 – Coal properties and deferred expenditures to the consolidated financial statements.* The carrying amount of coal properties amounted to $14.6 million as at July 31, 2023. At the end of each reporting period the carrying amounts of the Company's coal properties 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 impairment, if any. Management applies judgment in evaluating if impairment indicators are considered to exist. Indicators of impairment may include (i) the period during which the entity has the right to explore in the specific area has expired during the year or will expire in the near future; (ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned; (iii) sufficient data exists to support that extracting the resources will not be technically feasible or commercially viable; and (iv) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. No impairment indicators were identified by management as at July 31, 2023.	Our approach to addressing the matter included the following procedures, among others: • Evaluated the reasonableness of management's assessment of indicators of impairment related to coal properties, which included the following: – Obtained, for a sample of mineral titles, by reference to government registries, evidence to support (i) the right to explore the area and (ii) mineral title expiration dates. – Read the Board of Directors' minutes and obtained budgets to evidence continued and planned substantive expenditure on further exploration for and evaluation of mineral resources in the specific area. – Assessed whether sufficient data exists to support that extracting the resources will not be technically feasible or commercially viable, or if other facts and circumstances suggest that the carrying amount may exceed the recoverable amount, based on evidence obtained in other areas of the audit.

Key audit matter	How our audit addressed the key audit matter
We considered this a key audit matter due to the significance of the coal properties balance and the judgment by management in its assessment of indicators of impairment related to the coal properties, which has resulted in a high degree of subjectivity in performing procedures related to the judgment applied by management.	

Other information

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

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
October 31, 2023

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

	Note	July 31, 2023 $	July 31, 2022 $
Assets			
Current assets			
Cash and cash equivalents		3,662,609	2,882,134
Short term investments		88,266	88,064
Receivables and prepaids	3	87,613	112,410
Due from related parties	7	8,272	12,089
		3,846,760	3,094,697
Coal properties and deferred expenditures	4	14,586,962	14,341,862
Reclamation deposits	4	203,200	203,200
Equipment and right-of-use asset		54,572	18,728
Deferred acquisition costs		1	1
		14,844,735	14,563,791
		18,691,495	17,658,488
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		74,110	83,615
Due to related parties	7	23,803	3,000
Lease obligations – current portion	5	44,481	7,621
		142,394	94,236
Lease obligations – non-current portion	5	4,034	-
		146,428	94,236
Equity Attributable to Shareholders			
Share capital	6	47,006,588	41,996,440
Contributed surplus		17,139,900	16,419,472
Deficit		(45,601,421)	(40,851,660)
		18,545,067	17,564,252
		18,691,495	17,658,488

Commitments (Note 8)
Events subsequent to the reporting period (Note 14)

Approved by the Board of Directors

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

Colonial Coal International Corp.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended July 31, 2023 and 2022
(Expressed in Canadian Dollars)

	Note	2023 $	2022 $
Expenses			
Amortization		48,883	81,406
Consulting	7	178,868	180,949
Director’s fees	7	24,000	24,000
Filing and listing fees		108,928	71,691
Foreign exchange loss		816	1,077
Management fees	7	602,004	608,004
Office and administration		442,343	282,989
Professional fees	7	272,552	233,831
Shareholder communications		207,153	144,847
Share-based payments	6(c)	6,440,516	7,914,659
Travel and promotion		120,636	76,753
		(8,446,699)	(9,620,206)
Other income (expense)			
Interest income		112,683	19,321
Lease finance charge		(8,695)	(6,191)
		103,988	13,130
Net loss and comprehensive loss for the year		(8,342,711)	(9,607,076)
Basic and diluted loss per common share		(0.05)	(0.05)
Weighted average number of shares outstanding			
- Basic and diluted		176,497,183	174,912,791

Colonial Coal International Corp.
Consolidated Statements of Changes in Equity
For the years ended July 31, 2023 and 2022
(Expressed in Canadian Dollars)

	Issued Share Capital				
	Number of Shares #	**Amount $**	**Contributed Surplus $**	**Deficit $**	**Total $**
Balance, July 31, 2021	**174,368,051**	**41,068,019**	**8,916,034**	**(31,244,584)**	**18,739,469**
Shares issued pursuant to exercise of options	1,370,000	517,200	-	-	517,200
Transfer value on exercise of options	-	411,221	(411,221)	-	-
Share-based payments	-	-	7,914,659	-	7,914,659
Comprehensive loss for the year	-	-	-	(9,607,076)	(9,607,076)
Balance, July 31, 2022	**175,738,051**	**41,996,440**	**16,419,472**	**(40,851,660)**	**17,564,252**
Shares issued pursuant to exercise of options	2,471,180	2,883,010	-	-	2,883,010
Transfer value on exercise of options	-	2,127,138	(2,127,138)	-	-
Transfer value of options cancelled	-	-	(3,592,950)	3,592,950	-
Share-based payments	-	-	6,440,516	-	6,440,516
Comprehensive loss for the year	-	-	-	(8,342,711)	(8,342,711)
Balance, July 31, 2023	**178,209,231**	**47,006,588**	**17,139,900**	**(45,601,421)**	**18,545,067**

Colonial Coal International Corp.
Consolidated Statements of Cash Flows
For the years ended July 31, 2023 and 2022
(Expressed in Canadian Dollars)

	2023 $	2022 $
Cash flows (used in) provided by		
Operating activities		
Loss for the year	(8,342,711)	(9,607,076)
Items not affecting cash		
Amortization	48,883	81,406
Share-based payments	6,440,516	7,914,659
Interest income	(112,683)	(19,321)
Lease finance charge	8,695	6,191
	(1,957,300)	(1,624,141)
Interest received	112,683	19,880
Net change in non-cash working capital items:		
Receivables and prepaids	24,797	(31,264)
Accounts payable and accrued liabilities	(19,715)	(27,836)
Due from related parties	3,817	1,785
Due to related parties	20,803	(12,089)
	(1,814,915)	(1,673,665)
Investing activities		
Purchase of equipment	-	(14,947)
Deferred costs	(337,403)	(454,100)
B.C Mining Exploration Tax Credits	102,513	-
Short-term investments	(202)	-
	(235,092)	(469,047)
Financing activities		
Exercise of options	2,883,010	517,200
Lease payments	(52,528)	(86,551)
	2,830,482	430,649
Increase (decrease) in cash and cash equivalents	780,475	(1,712,063)
Cash and cash equivalents, beginning of the year	2,882,134	4,594,197
Cash and cash equivalents, end of the year	3,662,609	2,882,134

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 as issued by the International Accounting Standards Board ("IFRS").

These financial statements were approved by the board of directors for use on October 31, 2023.

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, 2023**	**July 31, 2022**
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 maintaining its interest in its coal properties until a decision to develop, sell or abandon the properties is made, or the properties are considered to be impaired in value.. 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 are not intended to represent present or future values.

Once the technical feasibility and commercial viability of the extraction of mineral reserves or resources from a particular coal property has been determined, the coal property and its related deferred expenditures are reclassified to mineral property development costs within property, plant and equipment. The coal property and its related deferred expenditures are also tested for impairment before the assets are transferred to property, plant and equipment. .

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 year ended July 31, 2023, potentially dilutive common shares totalling 14,088,820 (2022 – 12,000,000) were not included in the calculation of basic and diluted loss per share as the effect would have been anti-dilutive.

Accounting policy judgments and key sources of estimation uncertainty

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.

<u>Assessment of impairment indicators of coal properties and deferred expenditures</u>

The Company's coal properties and deferred expenditures are reviewed at each reporting date to determine whether there is any indication that those assets are impaired in accordance with IFRS 6 – Exploration for and evaluation of mineral resources.

Management applies judgment in evaluating if impairment indicators are considered to exist. Indicators of impairment may include (i) the period during which the entity has the right to explore in the specific area has expired during the year or will expire in the near future; (ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned; (iii) sufficient data exists to support that extracting the resources will not be technically feasible or commercially viable; and (iv) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Management has assessed its coal properties and deferred expenditures as at July 31, 2023 and has determined there are no indicators of impairment.

<u>Share-based compensation</u>

Estimating the fair value of granted stock options requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected rate of forfeitures, expected life, price volatility, interest rate and dividend yield. Changes in the input assumptions can significantly affect the fair value estimate of the Company's earnings and reserves.

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(c).

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

(Expressed in Canadian Dollars)

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.

3 Receivables and prepaids

	July 31, 2023 $	July 31, 2022 $
GST recoverable	9,601	35,146
Prepaid expenses and other	78,012	77,264
	87,613	112,410

(Expressed in Canadian Dollars)

4 Coal properties and deferred expenditures

	Huguenot $	Flatbed $	Total $
Balance, July 31, 2021	11,479,426	2,401,854	13,881,280
Field programs	42,014	3,948	45,962
Consultants and contractors	101,529	15,359	116,888
Licenses and fees	129,145	112,610	241,755
Project administration	43,633	12,344	55,977
	316,321	144,261	460,582
Balance, July 31, 2022	11,795,747	2,546,115	14,341,862
Field programs	4,171	8,022	12,193
Consultants and contractors	33,911	13,724	47,635
Licenses and fees	129,695	96,070	225,765
Project administration	41,840	20,180	62,020
B.C. mining exploration tax credits	(68,982)	(33,531)	(102,513)
	140,635	104,465	245,100
Balance, July 31, 2023	11,936,382	2,650,580	14,586,962

The Company owns a 100% interest in seventeen coal licenses 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 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 of July 31, 2023, the Company had $203,200 (July 31, 2022 - $203,200) of reclamation bonds held by the British Columbia Ministry of Energy, Mines and Low Carbon Innovation.

(Expressed in Canadian Dollars)

5 Lease obligations

The Company had an office lease agreement for a 24- month lease period from September 1, 2020 to August 31, 2022. On August 2, 2022, the Company renewed the office lease agreement for another 24-month lease period starting September 1, 2022. In accordance with IFRS 16 *Leases*, the Company recorded right-of-use assets of $84,726 and recognized lease liabilities of $84,726 on commencement of the lease. As at September 1, 2022, the Company measured the present value of its lease liabilities using a discount rate of 15.85% as determined from its incremental borrowing rate.

a) *Right-of-use assets*

A reconciliation of the Company's right-of-use assets for the years ended July 31, 2023 and 2022 is as follows:

	Total
Balance, July 31, 2021	$ 82,317
Amortization of ROU	(75,985)
Balance, July 31, 2022	6,332
Initial recognition of new lease	84,726
Amortization of ROU	(52,225)
Balance, July 31, 2023	$ 38,833

b) *Lease liabilities*

A reconciliation of the Company's lease liabilities for the years ended July 31, 2023 and 2022 is as follows:

	Total
Balance, July 31, 2021	$ 87,981
Accretion of interest	6,826
Lease payments	(87,186)
Balance, July 31, 2022	7,621
Addition of new lease	84,727
Accretion of interest	8,695
Lease payments	(52,528)
Balance, July 31, 2023	$ 48,515

	July 31, 2023	July 31, 2022
Short-term portion of lease liability	$ 44,481	$ 7,621
Long-term portion of lease liability	$ 4,034	$ -

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) Share issuance

During the year ended July 31, 2023, the Company issued 2,471,180 shares for total proceeds of $2,883,010 pursuant to exercise of 2,471,180 stock options. The Company transferred $2,127,138, the fair value of the stock options exercised, from contributed surplus to share capital.

During the year ended July 31, 2022, the Company issued 1,370,000 shares for total proceeds of $517,200 pursuant to exercise of 1,370,000 stock options. The Company transferred $411,221, the grant date fair value of the stock options exercised, from contributed surplus to share capital.

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.

The Company's stock options outstanding as of July 31, 2023 and 2022 and the changes for the years then ended are as follows:

(Expressed in Canadian Dollars)

	Number of options	Weighted Average Exercise Price $
Balance, July 31, 2021	9,000,000	0.33
Granted	4,670,000	2.29
Expired	(300,000)	0.31
Exercised	(1,370,000)	0.38
Balance, July 31, 2022	12,000,000	1.09
Granted	6,680,000	1.35
Cancelled	(2,120,000)	2.29
Exercised	(2,471,180)	1.17
Balance outstanding, July 31, 2023	14,088,820	1.02
Exercisable, July 31, 2023	13,901,320	1.01

The weighted average share price at the date of exercise of options exercised during the year ended July 31, 2023 was $1.30 (2022 - $1.28).

Options to acquire common shares outstanding on July 31, 2023 are as follows:

Grant Date	Expiry Date	Exercise Price $	Options Outstanding 31 July 2023	Options Outstanding 31 July 2022
April 5, 2018	April 5, 2028	0.31	5,230,000	5,230,000
November 29, 2019	November 29, 2029	0.35	2,100,000	2,100,000
February 7, 2022	February 7, 2032	2.29	2,550,000	4,670,000
September 26, 2022	September 26, 2032	1.50	500,000	-
February 13, 2023	February 13, 2028	1.18	250,000	-
February 14, 2023	February 14, 2033	1.11	1,348,820	-
March 3, 2023	March 3, 2033	1.57	500,000	-
March 22, 2023	March 22, 2025	2.00	300,000	-
April 4, 2023	April 4, 2033	1.67	1,310,000	-
			14,088,820	12,000,000
Weighted average remaining contractual life of options outstanding at end of year			6.82 years	7.47 years

On April 4, 2023, the Company granted 1,560,000 stock options to employees and consultants. The options are exercisable for a period of ten years at a price of $1.67 per share. The stock options vested at the grant date. The fair value of the stock options granted was $2,000,960 ($1.28 per option) and is recorded in the consolidated statements of loss and comprehensive loss. During the year ended July 31, 2023, 250,000 options were exercised. Fair value of the options exercised, $320,667, was transferred from contributed surplus to share capital.

On March 22, 2023, the Company granted 300,000 stock options to three consultants. The options are exercisable for a period of two years at a price of $2.00 per share. The stock options vested at the grant date. The fair value of the stock options granted was $254,724 ($0.85 per option) and is recorded in the consolidated statements of loss and comprehensive loss.

(Expressed in Canadian Dollars)

On March 3, 2023, the Company granted 500,000 stock options to two consultants. The options are exercisable for a period of ten years at a price of $1.57 per share. The stock options are vested at the grant date. The fair value of the stock options granted was $574,314 ($1.15 per option) and is recorded in the consolidated statements of loss and comprehensive loss.

On February 14, 2023, the Company granted 3,570,000 stock options to consultants and employees The options are exercisable for a period of ten years at a price of $1.11 per share. The stock options vested at the grant date. The fair value of the stock options granted was $2,903,526 ($0.81 per option) and is recorded in the consolidated statements of loss and comprehensive loss. During the year ended July 31, 2023, 2,221,180 options were exercised. Fair value of the options exercised, $1,806,471, was transferred from contributed surplus to share capital.

On February 13, 2023, the Company granted to Adelaide Capital Markets Inc. (“Adelaide”) incentive stock options to purchase 250,000 common shares of the Company exercisable for a period of five years at a price of $1.18 per share. The stock option will vest in stages over a 12-month period with one-quarter vesting in every three month interval. The fair value of the stock options at grant date was $209,744 ($0.84 per option), and $147,112 is amortized in the consolidated statements of loss and comprehensive loss for the year ended July 31, 2023.

On September 26, 2022, the Company granted to two consultants 500,000 stock options, exercisable at $1.50 per share for a term of 10 years. These options vested on the date of grant. The fair value of the stock options granted was $559,879 ($1.12 per option) and is recorded in the consolidated statements of loss and comprehensive loss.

On February 7, 2022, the Company granted to directors, officers, employees and consultants 4,670,000 stock options, exercisable at $2.29 per share for a term of 10 years. These options vested on the date of grant. The fair value of the stock options granted was $7,914,659 ($1.70 per option) and is recorded in the consolidated statements of loss and comprehensive loss. On April 3, 2023, 2,120,000 options were cancelled. Fair value of the options cancelled, $3,592,950, was transferred from contributed surplus to deficit.

The fair value of the stock options granted was determined using the Black-Scholes option price modelling with the following assumptions:

	Year ended July 31, 2023	Year ended July 31, 2022
Average stock price ($)	1.35	2.29
Average exercise price ($)	1.35	2.29
Average risk-free interest rate (%)	3.16	1.68
Expected life (years)	4.87	5.0
Expected volatility (%)	94.16	98
Expected dividends ($)	Nil	Nil

7 Related party transactions

(Expressed in Canadian Dollars)

Related party transactions are in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. Amounts due to or from related parties are non-interest bearing and unsecured.

As at July 31, 2023, $23,803 (July 31, 2022 - $3,000) was due to, and $8,272 (July 31, 2022 - $12,089) was due from related parties of the Company:

	July 31, 2023	July 31, 2022
Due to related parties		
COO	$ 20,803	$ -
Director	3,000	3,000
	$ 23,803	$ 3,000
Due from related parties		
CEO	$ 3,194	$ 3,194
Consultant, son of CEO	5,078	8,895
	$ 8,272	$ 12,089

During the years ended July 31, 2023 and 2022, the Company entered into the following transactions with related parties:

	Year ended July 31, 2023	Year ended July 31, 2022
Management fee – CEO	$ 265,000	$ 268,000
Management fee – COO	235,004	238,000
Management fee – Directors	102,000	102,000
Consulting fee – Son of CEO	77,000	80,000
Professional fee – former CFO	-	22,500
Professional fee – CFO	102,000	61,000
Directors' fees	24,000	24,000
Share-based compensation (Note 6c) - Nil (2022 – 1,700,000) options were granted to directors and officers	-	2,881,500
Share-based compensation (Note 6c) - 1,000,000 (2022 – 500,000) options were granted to son of CEO*	1,048,000	847,500
Share-based compensation (Note 6c) - 500,000 (2022 – 500,000) options were granted to son and daughter of COO*	406,500	847,500
	$ 2,259,504	$ 5,372,000

*Certain comparative information for the year ended July 31, 2023 has been restated to include share-based compensation relating to options granted to the son and daughter of CEO and COO. Those options granted in the fiscal year ended July 31, 2022 were cancelled in the fiscal year ended July 31, 2023.

8 Commitments

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

9 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, 2023, the following transactions were excluded from the condensed interim consolidated statement of cash flows:

- Deferred expenditures of $645 included in accounts payable and accrued liabilities on July 31, 2023, less expenditures included in accounts payable and accrued liabilities on July 31, 2022 of $18,521 (net inclusion of $17,866).
- Right-of-use assets of $84,726 included in lease liability at initial recognition.

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, 2022, the following transactions were excluded from the consolidated statement of cash flows:

- Deferred expenditures of $18,521 included in accounts payable and accrued liabilities at July 31, 2022, less expenditures included in accounts payable and accrued liabilities at July 31, 2021 of $25,003 (net exclusion of $6,482).
- Deferred expenditures of $nil included in receivables and prepaids at July 31, 2022, less $375,705 at July 31, 2021 related to B.C. Mining Exploration Tax Credits (net exclusion of $375,705).

10 Segment information

The Company operates in one segment – the acquisition, exploration and development of coal properties. As at July 31, 2023 and 2022, all the operations and assets were in Canada.

11 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 and cash equivalents in interest-bearing bank accounts.

During the year ended July 31, 2023, there were no changes to the Company's policies on managing capital.

12 Financial Instruments

a) Classification of financial instruments

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

The Company's cash and cash equivalent, short term investments and receivables are measured at amortized cost. Accounts payable and accrued liabilities and due to/from 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, 2023, 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 arises from cash and cash equivalents, contractual cash flows of short term investments carried at amortized cost, as well as credit exposures to outstanding receivables from third parties and related parties.

Credit risk is monitored by management. All cash and cash equivalents are held with major Canadian financial institutions. The group's investments in short term investments are considered to be low risk investments. The Company manages credit risk by purchasing highly liquid, short-term investment-grade securities held at major financial institutions.

For outstanding receivables, the Company assesses the credit quality of the counterparty, taking into account its financial position, past experience and other factors. The compliance with credit limits by third parties and related parties is regulatory monitored by management.

The Company's concentration of credit risk arises from its cash and cash equivalents and short-term investments. The maximum exposure as at July 31, 2023 was $3,750,875 (July 31, 2022 - $2,970,198).

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.

(Expressed in Canadian Dollars)

13 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, 2023 and 2022 are as follows:

	2023 $	2022 $
Loss for the year before income taxes	(8,342,711)	(9,607,076)
Statutory tax rate	27%	27%
Income tax recovery expected at statutory rate	(2,253,000)	(2,594,000)
Share-based payments - options	1,739,000	2,137,000
Other	16,000	(75,000)
Change in unrecognized deferred tax assets	498,000	532,000
Income tax recovery	-	-

The significant components of the Company's deferred tax assets and liabilities as at July 31, 2023 and 2022 are as follows:

	2023 $	2022 $
Deferred income tax assets (liabilities)		
Non-capital losses carried forward	8,901,000	8,370,000
Capital losses carried forward	191,000	191,000
Coal properties and deferred expenditures	(321,000)	(286,000)
Other	104,000	102,000
Total unrecognized deferred income tax assets	8,875,000	8,377,000

As of July 31, 2023, the Company has non-capital losses for Canadian income tax purposes of approximately $32,965,000 (2022 – $30,999,000) which can be carried forward to reduce taxable income in future years. These tax losses expire at various times between 2026 and 2043. In addition, the Company has certain tax pools arising from its resource related expenditures that amount to approximately $13,400,000 (2022 - $13,281,000) and which are available indefinitely to be deducted against future income.

14 Events subsequent to the reporting period

a) Subsequent to the year ended July 31, 2023, the Company issued 268,520 shares for total proceeds of $298,057 pursuant to exercise of options at $1.11 per share.

b) On September 15, 2023, the Company granted 1,700,000 stock options to consultants and employees The options are exercisable for a period of four years at a price of $1.58 per share. The stock options vested at the grant date.