

Royal Coal Corp.

Condensed Interim Consolidated Financial Statements

September 30, 2021

(expressed in US dollars)

(unaudited)

Royal Coal Corp.

Consolidated Statements of Financial Position

(expressed in US dollars)
(unaudited)

	Notes	As at September 30, 2021 \$	As at December 31, 2020 \$
Assets			
Cash		14,029	46,562
Receivables		11,300	9,976
		<u>25,329</u>	<u>56,538</u>
Liabilities			
Current			
Accounts payable and accrued liabilities		11,769	29,863
Advances payable	4	-	141,376
Due to related parties	5	26,474	110,889
Default judgment payable	6	25,557,491	23,447,239
		<u>25,595,734</u>	<u>23,729,367</u>
Shareholders' deficit			
Share capital	7	42,059,205	41,827,068
Contributed surplus		2,578,486	2,578,486
Deficit		(70,208,096)	(68,078,383)
		<u>(25,570,405)</u>	<u>(23,672,829)</u>
Total liabilities and shareholders' deficit		<u>25,329</u>	<u>56,538</u>
Going concern	2		
Approved by the Board:			
	A.T. Griffis Director	Elia Crespo Director	

Royal Coal Corp.

Consolidated Statements of Loss and Comprehensive Loss

(expressed in US dollars)

(unaudited)

	Notes	3 months ended September 30,		9 months ended September 30,	
		2021 \$	2020 \$ (Restated - note 11)	2021 \$	2020 \$ (Restated - note 11)
Expenses					
Consulting fees		-	17,132	-	17,132
Professional fees		11,225	-	14,079	-
Public company costs		2,258	75,200	5,500	113,273
General and administration		25	34	282	285
Gain on sale of subsidiary		-	(1)	-	(1)
Foreign exchange loss		562	6,169	(400)	6,169
Interest	6	703,418	629,587	2,110,252	1,888,761
		717,488	728,121	2,129,713	2,025,619
Loss and comprehensive loss		(717,488)	(728,121)	(2,129,713)	(2,025,619)
Loss per common share-basic and diluted		(0.01)	(1.46)	(0.07)	(4.07)
Weighted average number of common shares- basic and diluted		60,497,890	497,892	29,948,440	497,892

Royal Coal Corp.

Consolidated Statements of Changes in Shareholders' Deficit

(expressed in US dollars)

(unaudited)

	Share capital Common shares		Contributed surplus \$	Deficit \$ (Restated - note 11)	Total \$ (Restated - note 11)
	Number	\$			
Balance, December 31, 2020	497,892	41,827,068	2,578,486	(68,078,383)	(23,672,829)
Shares for debt	59,999,998	232,137	-	-	232,137
Loss	-	-	-	(2,129,713)	(2,129,713)
Balance, September 30, 2021	60,497,890	42,059,205	2,578,486	(70,208,096)	(25,570,405)
Balance, December 31, 2019					
As previously reported	497,892	41,827,068	2,578,486	(44,444,883)	(39,329)
Adjustment	-	-	-	(20,928,892)	(20,928,892)
Balance, December 31, 2019, as restated	497,892	41,827,068	2,578,486	(65,373,775)	(20,968,221)
Loss	-	-	-	(2,025,619)	(2,025,619)
Balance, September 30, 2020	497,892	41,827,068	2,578,486	(67,399,394)	(22,993,840)

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

Royal Coal Corp.

Consolidated Statements of Cash Flows

(expressed in US dollars)
(unaudited)

	9 months ended September 30,		
	Notes	2021	2020
		\$	\$
			(Restated - note 11)
Cash provided by (used in) :			
Operating activities			
Loss		(2,129,713)	(2,025,619)
Item not affecting cash			
Interest not paid	6	2,110,252	1,888,761
Changes in non-cash operating working capital			
Receivables		(1,324)	(3,997)
Accounts payable and accrued liabilities		(18,094)	(10,364)
		(38,878)	(151,219)
Financing activities			
Advances payable		-	135,092
Advances from related parties		436	83,616
		436	218,708
Investing activities			
Proceeds on sale of subsidiary		-	1
Net change in cash		(38,442)	67,490
Cash, beginning of period		46,562	-
Cash, end of period		8,120	67,490
Non-cash transaction			
Issue of common shares for debt		232,137	-
Supplementary information			
Interest paid		-	-
Income taxes paid		-	-

Royal Coal Corp.

Notes to Condensed Interim Consolidated Financial Statements

September 30, 2021

(expressed in US dollars)
(unaudited)

1. Nature of operations

Royal Coal Corp. (the "Company") is a public company which has been inactive since 2012. The Company is incorporated under the laws of Ontario and its registered office is located at 100 King Street West, Suite 5600 PO Box 270, Toronto, Ontario, M5X 1C9.

2. Going concern

The Company is inactive and does not generate revenue. As September 30, 2021, the Company had a working capital deficit of \$25,570,405 (December 31, 2020 - \$23,672,829) and for the 9 months ended September 30, 2021, the Company incurred a loss of \$2,129,713 (2020 (restated) - \$2,025,619). The working capital deficit and losses limit the Company's ability to identify, evaluate and acquire assets, properties or businesses, meet its existing obligations and fund its operations.

The continued operation of the Company is dependent upon the Company's ability to settle its outstanding liabilities including the default judgment payable and secure equity financing to identify, evaluate and acquire assets, properties or businesses, meet its existing obligations and fund its operations. The Company is actively seeking to raise the necessary equity financing, however, there can be no assurance that additional equity financing will be available.

The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

These uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the going concern assumption was deemed inappropriate. Such adjustments could be material.

3. Basis of presentation

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards and its interpretations adopted by the International Accounting Standards Board.

The accounting policies used in these condensed interim consolidated financial statements are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2020.

These condensed interim consolidated financial statements do not include certain information and disclosures normally included in annual financial statements prepared in accordance with IFRS and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2020.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on November 22, 2021.

4. Advances payable

Advances payable were unsecured, non-interest bearing and due on demand. See note 7, *Share capital, Shares for debt*.

5. Due to related parties

The amounts due to related parties are unsecured, non-interest bearing and due on demand:

	As at September 30, 2021 \$	As at December 31, 2020 \$
Companies controlled by directors and officers	26,474	72,702
A shareholder	–	38,187
	<u>26,474</u>	<u>110,889</u>

See note 7, *Share capital, Shares for debt*.

6. Default judgment payable

	\$
Balance, December 31, 2020	23,447,239
Interest	2,110,252
Balance, September 30, 2021	<u>25,557,491</u>

On July 13, 2012, a default judgment of \$10,266,882, plus pre-judgment interest from May 3, 2012 and post-judgment interest from July 13, 2012 at the statutory interest rate of 12% per annum, was entered against the Company by a Kentucky court for amounts payable pursuant to a coal production payment agreement, coal purchase agreement and royalty agreement related to the Company's former coal mining operations ("Coal Assets"). Pursuant to the default judgment, the plaintiff was entitled to possession of the Coal Assets to sell to satisfy the default judgment. On October 26, 2012 and in accordance with the default judgment, proceeds of \$1,500,000 from the sale of Coal Assets was credited to the default judgment payable. See note 12, *Restated information*.

The Company is working to settle the default judgment payable.

7. Share capital

Authorized

An unlimited number of special shares issuable in series
An unlimited number of common shares.

Issued

	Number of common shares	\$
Balance, December 31, 2020	497,892	41,827,068
Shares for debt	59,999,998	232,137
Balance, September 30, 2021	<u>60,497,890</u>	<u>42,059,205</u>

Shares for debt

On May 6, 2021, the Company amended debt settlement agreements dated October 20, 2020 and on May 19, 2021, issued 59,999,998 common shares at a price of C\$0.005 per common share to settle advances payable of \$141,376 and due to related parties of \$90,761.

8. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Receivables, accounts payable and accrued liabilities, due to related parties and default judgment payable

The fair values of receivables, accounts payable and accrued liabilities, due to related parties and default judgment payable approximates their carrying values due to the short term to maturity.

Classification of fair value of financial instruments

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amounts of observable inputs used to value the instrument:

- Level 1: quoted prices in active markets for identical assets and liabilities.
- Level 2: inputs, other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

9. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its operations and financing activities, including credit risk, liquidity risk and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from the Company's cash. The Company's limits its exposure to credit risk on its cash by holding its cash in deposits with a Canadian chartered bank.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due, other than amounts owing to related parties. The continued operation of the Company is dependent upon the Company's ability to settle its outstanding liabilities including the default judgment payable and secure equity to identify, evaluate and acquire assets, properties or businesses, meet its existing obligations and fund its operations. See note 2.

Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments.

Foreign exchange risk

Foreign exchange risk is the risk of financial loss to the Company due to a change in foreign exchange rates. The Company's cash, receivables, accounts payable and accrued liabilities and due to related parties are denominated in Canadian dollars. The Company estimates that if the exchange rate between United States dollars and Canadian dollars as at September 30, 2021 had changed by 10%, with all other variables held constant, the foreign exchange gain (loss) would have decreased or increased by \$1,500.

The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At September 30, 2021, the Company's exposure to the risk of changes in market interest rates relates to post-judgment interest on the default judgment payable. Because of the post-judgment interest rate is fixed at 12%, fluctuations in market rates do not have a significant impact on estimated fair values at September 30, 2021.

Capital management

Capital of the Company consists of share capital, contributed surplus and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can acquire a business for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors has not established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As the Company is inactive and has no revenues, its principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company intends to raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

10. Related party transactions

Compensation of key management personnel

The Company considers its directors and officers to be key management personnel. There was no compensation for key management personnel in the 9 months ended September 30, 2021 and September 30, 2020.

Amounts due to related parties are disclosed in note 5.

11. Restated information

Subsequent to December 31, 2019, the Company determined that a default judgment payable (see note 6) should be retroactively reflected in its consolidated financial statements.

The effect of adjustments to the consolidated financial statements for the 9 months ended September 30, 2020 to reflect the default judgment payable are as follows:

	As previously reported \$	Adjustments \$	As restated \$
Consolidated statement of loss and comprehensive loss			
Interest	–	1,888,761	1,888,761
Total expenses	136,858	1,888,761	2,025,619
Loss and comprehensive loss	(136,858)	(1,888,761)	(2,025,619)
Consolidated statement of changes in shareholders' deficit			
Deficit	(44,581,740)	(22,817,653)	(67,399,394)
Total shareholders' deficit	(176,187)	(22,817,653)	(22,993,840)
Consolidated statement of cash flows			
Loss	(136,857)	(1,888,761)	(2,025,619)
Item not affecting cash, interest not paid	–	(1,888,761)	(1,888,761)
Loss per common share	–	(4.07)	(4.07)

The effect of adjustments to the consolidated financial statements for the 3 months ended September 30, 2020 to reflect the default judgment payable are as follows:

	As previously reported \$	Adjustments \$	As restated \$
Consolidated statement of loss and comprehensive loss			
Interest	–	629,587	629,587
Total expenses	98,554	629,587	728,121
Loss and comprehensive loss	(98,554)	(629,587)	(728,121)
Consolidated statement of cash flows			
Loss	(98,554)	(629,587)	(728,124)
Item not affecting cash, interest not paid	–	(629,587)	(629,587)
Loss per common share	–	(1.46)	(1.46)