

# **Royal Coal Corp.**

## **Condensed Interim Financial Statements**

**September 30, 2022**

(expressed in Canadian dollars)

(unaudited)

# Royal Coal Corp.

## Consolidated Statements of Financial Position

(expressed in Canadian dollars)  
(unaudited)

	Notes	As at September 30, 2022 \$	As at December 31, 2021 (note 11) \$
<b>Assets</b>			
Cash		233,667	20,282
Receivables		21,974	1,955
Non-refundable default judgment payment	6	295,000	-
Exploration and evaluation	4	137,500	-
		<u>688,141</u>	<u>22,237</u>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities		13,616	7,697
Due to a related party	5	21,934	32,831
Default judgment payable	6	39,235,451	33,293,579
		<u>39,271,001</u>	<u>33,334,107</u>
<b>Shareholders' deficit</b>			
Share capital	7	56,179,650	53,322,661
Contributed surplus		3,394,835	3,269,005
Deficit		(98,157,345)	(89,903,536)
		<u>(38,582,861)</u>	<u>(33,311,871)</u>
<b>Total liabilities and shareholders' deficit</b>		<u>688,141</u>	<u>22,237</u>

Going concern 2

Approved by the Board:

Nicholas Konkin  
Director

Chris Irwin  
Director



# Royal Coal Corp.

## Statements of Cash Flows

(expressed in Canadian dollars)  
(unaudited)

	Notes	2022 \$	9 months ended September 30, 2021 \$ (note 11)
<b>Cash provided by (used in) :</b>			
<b>Operating activities</b>			
Loss		(4,793,254)	(2,669,595)
Item not affecting cash			
Foreign exchange loss		1,531,792	-
Interest not paid	5	3,125,967	2,645,201
Changes in non-cash operating working capital			
Receivables		(20,019)	(1,660)
Accounts payable and accrued liabilities		5,917	(22,680)
		<u>(149,597)</u>	<u>(48,734)</u>
<b>Financing activities</b>			
Advances from related parties		(10,897)	547
Private placement		495,000	-
Share issue costs		(48,000)	-
		<u>436,103</u>	<u>547</u>
<b>Investing activities</b>			
Exploration and evaluation		(75,000)	-
		<u>211,507</u>	<u>(48,188)</u>
<b>Net change in period</b>		211,507	(48,188)
<b>Effect of exchange rate changes on cash</b>		1,878	-
<b>Cash, beginning of period</b>		20,282	58,365
<b>Cash, end of period</b>		<u>233,667</u>	<u>10,178</u>
<b>Non-cash transaction</b>			
Issue of common shares for debt			
Settlement of debt		-	290,984
Option payment		62,500	-
Non-refundable default judgment payment		295,000	-
<b>Supplementary information</b>			
Interest paid		-	-
Income taxes paid		-	-

# Royal Coal Corp.

## Notes to Condensed Interim Financial Statements

### September 30, 2022

(expressed in Canadian 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 a mineral exploration company does not generate revenue. As September 30, 2022, the Company had a working capital deficit of \$38,582,800 (December 31, 2021 - \$33,311,870) and for the 9 months ended September 30, 2022, the Company incurred a loss of \$4,793,254 (2021 - \$2,669,595) and a cashflow deficit from operations of \$149,597 (2021 - \$48,734). The working capital deficit, losses and cashflow deficit from operations limit the Company's ability to fund its operations and the acquisition, exploration and development of its mineral properties.

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 fund its operations and the acquisition, exploration and development of its mineral properties. The Company is actively seeking to raise the necessary equity financing, however, there can be no assurance that additional equity financing will be available.

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

These condensed interim 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 condensed interim 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 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 financial statements are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2021.

These condensed interim 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, 2021.

These condensed interim financial statements were approved and authorized for issue by the Board of Directors on November 29, 2022.

##### Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency. See note 11, *Change in functional and presentation currency*.

#### 4. Exploration and evaluation

On September 26, 2022, the Company was granted an option to acquire a 100% interest in Poissons Blanc, a nickel-copper-cobalt property comprised of 32 mineral claims covering approximately 1,792 hectares in the Saguenay Mining district in the Province of Quebec.

In order to complete the acquisition of Poissons Blanc, the Company must make option payments, issue common shares and incur exploration expenditures, as follows:

	Option payments		Common shares		Exploration expenditures
	US\$	C\$	Number	Fair value C\$	US\$
July 29, 2022 (paid and issued)	12,600	58,000	1,250,000	62,500	–
April 15, 2023	25,000	50,000	1,250,000	–	400,000
April 15, 2024	25,000	50,000	1,250,000	–	400,000
April 15, 2025	500,000	500,000	1,250,000	–	400,000
		(note)			
	562,600	658,000	5,000,000	62,500	1,200,000

Note: The Company has the option to pay the C\$500,000 by issuing common shares based on the 20-day weighted average trading price per common share.

Upon completion of the Option, the Company will grant a 5% net smelter royalty (“NSR”). The Company will have the option to reduce the NSR to 2.5% by making a payment of \$2,000,000 within 3 years from the date of issuance of the NSR.

## 5. Due to related party

The amount due to a related party is unsecured, non-interest bearing and due on demand:

	As at September 30, 2022 \$	As at December 31, 2021 \$
Company controlled by a director	21,914	32,831

## 6. Default judgment payable

	\$
Balance, December 31, 2021	33,293,579
Interest	3,125,967
Foreign exchange adjustment to September 1, 2022	1,281,533
Foreign exchange loss	1,534,372
Balance, September 30, 2022	39,235,451

On September 26, 2022, the Company entered into a settlement agreement (“Settlement Agreement”) to settle the default judgment payable. In exchange for release of the default judgment payable (“Release”), the Company agreed to issue of 7,004,485 common shares, with 5,900,000 common shares with a fair value of \$295,000 (recorded as non-refundable default judgment payment on the consolidated statement of financial position) issued on execution of the Settlement Agreement and 1,104,485 common shares to be issued upon completion of a financing. The Release shall only be effective and binding upon delivery of the total 7,004,485 common shares.

## 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, 2021	60,497,890	53,322,661
Foreign exchange adjustment to September 1, 2022	–	2,052,489
Private placement of common shares	9,900,000	495,000
Share issue costs	–	(48,000)
Option payment (note 4)	1,250,000	62,500
Settlement of default judgment payable (note 6)	5,900,000	295,000
Balance, September 30, 2022	77,547,890	56,179,650

### Private placement of common shares

On September 15, 2022, the Company completed a private placement of 9,900,000 common shares at a price of \$0.05 per

common share for gross proceeds of \$495,000. In connection with the private placement, the Company paid a commission of \$40,500.

## **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.

### *Accounts payable and accrued liabilities, due to related parties and default judgment payable*

The fair value of 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 amount 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 default judgment payable is denominated in US dollars. The Company estimates that if the exchange rate between United States dollars and Canadian dollars as at September 30, 2022 had changed by 1%, with all other variables held constant, the foreign exchange gain (loss) would have decreased or increased by \$392,355.

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, 2022, 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, 2022.

### **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. The Company incurred professional fees of \$8,137 (2021 - \$3,224) for legal services provided by a law firm with a partner who is a director of the Company. There was no other compensation for key management personnel in the 9 months ended September 30, 2022 and September 30, 2021.

The Company considers its directors and officers to be key management personnel. Transactions with key management personnel are set out as follows:

	<b>9 months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Consulting fees</b>		
Company controlled by a director and officer	50,000	–
<b>Professional fees/share issue costs</b>		
A law firm with a partner who is a director	27,445	9,455

Amounts due to a related party is disclosed in note 5.

## **11. Change in functional and presentation currency**

Considering that the Company completed a Canadian dollar private placement and acquired an option to acquire a Canadian mineral property and future financings and expenditure will be denominated in Canadian dollars, effective September 1, 2022, the Company changed its functional currency from US dollars to Canadian dollars. The effect of the change in functional currency is accounted for prospectively. On September 1, 2022, the statement of financial position was translated from US dollars into Canadian dollars at the exchange rate on September 1, 2022.

Effective September 1, 2022, the Company changed its presentation currency from the US dollar to the Canadian dollar. The change in presentation currency is to better reflect the Company's business activities. This change has been applied retrospectively as if the new presentation currency had always been the Company's presentation currency.

For comparative purposes, the statements of financial position as at December 31, 2021 and September 1, 2022 include adjustments to reflect the change in presentation currency from US dollars to Canadian dollars. The amounts previously



reported in US dollars have been translated into Canadian dollars using exchange rate of \$1.3166 at September 1, 2022, \$1.2678 at December 31, 2021 and \$1.2732 at December 31, 2020. The effect of the translation is as follows:

	As at September 1, 2022		As at December 31, 2021	
	As reported US\$	Translated C\$	As reported US\$	Translated C\$
<b>Assets</b>				
Current				
Cash	50,298	66,222	15,998	20,282
Receivables	1,772	2,330	1,542	1,955
	<u>52,070</u>	<u>68,552</u>	<u>17,540</u>	<u>22,237</u>
<b>Liabilities</b>				
Current				
Accounts payable and accrued liabilities	53,700	70,699	6,072	7,698
Due to a related party	33,936	44,680	25,896	32,831
Default judgment payable	28,361,780	37,341,120	26,260,908	33,293,579
	<u>28,449,416</u>	<u>37,456,499</u>	<u>26,292,876</u>	<u>33,334,108</u>
<b>Shareholders' deficit</b>				
Share capital	42,059,205	55,375,149	42,059,205	53,322,661
Contributed surplus	2,578,486	3,394,834	2,578,486	3,269,005
Deficit	(73,035,037)	(96,157,930)	(70,913,027)	(89,903,536)
	<u>(28,397,346)</u>	<u>(37,387,947)</u>	<u>(26,275,336)</u>	<u>(33,311,871)</u>
	52,070	68,552	17,540	22,237

For comparative purposes, the statements of loss and comprehensive loss for the 3 months and 9 months ended September 30, 2021 include adjustments to reflect the change in presentation currency from US dollars to Canadian dollars. The amounts previously reported in US dollars have been translated into Canadian dollars at the average annual exchange rate of \$1.2535 for the 3 months and 9 months ended September 30, 2021. The effect of the translation is as follows:

	3 months ended September 30, 2021		9 months ended September 30, 2021	
	As reported US\$	Translated C\$	As reported US\$	Translated C\$
<b>Expenses</b>				
Professional fees	11,225	17,047	14,079	17,648
Consulting fees		-	-	-
Public company costs	2,258	2,830	5,500	6,894
General and administration	25	31	282	353
Foreign exchange loss (gain)	562	704	(400)	(501)
Interest	703,418	881,734	2,110,252	2,645,201
	<u>717,488</u>	<u>899,372</u>	<u>2,129,713</u>	<u>2,669,595</u>
<b>Loss and comprehensive loss</b>	<u>(717,488)</u>	<u>(899,372)</u>	<u>(2,129,713)</u>	<u>(2,669,595)</u>