

NOTICE OF MEETING AND JOINT MANAGEMENT INFORMATION CIRCULAR

WITH RESPECT TO

**THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF MERCURY
CAPITAL LIMITED TO BE HELD ON FEBRUARY 21, 2012**

AND

**THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF CANADA COAL
INC.
TO BE HELD ON FEBRUARY 21, 2012**

All information contained in this joint management information circular with respect to Canada Coal Inc. has been provided by Canada Coal Inc., and with respect to such information, Mercury Capital Limited and its directors and officers have relied on Canada Coal Inc.

All information contained in this joint management information circular with respect to Mercury Capital Limited. has been provided by Mercury Capital Limited and with respect to such information, Canada Coal Inc. and its directors and officers have relied on Mercury Capital Limited

Neither the TSX Venture Exchange Inc. nor any securities regulatory authority has in any way passed upon the merits of the Qualifying Transaction described in this information circular.

January 23, 2012

TABLE OF CONTENTS

	Page
LETTER TO SHAREHOLDERS	1
NOTICE TO SHAREHOLDERS OF MERCURY CAPITAL LIMITED.....	3
NOTICE TO SHAREHOLDERS OF CANADA COAL INC.	5
GLOSSARY OF TERMS	7
SUMMARY.....	14
THE MEETINGS	14
THE COMPANIES.....	14
THE PROPOSED TRANSACTION	15
SUMMARY OF THE TERMS OF THE AMALGAMATION AGREEMENT.....	16
RECENT FINANCINGS.....	19
CONCURRENT FINANCING	20
ARM’S LENGTH TRANSACTION	20
INTERESTS OF INSIDERS.....	20
BOARD OF DIRECTORS	20
ESTIMATED FUNDS OF THE RESULTING ISSUER	21
SELECTED PRO FORMA FINANCIAL INFORMATION OF THE RESULTING ISSUER	21
RIGHT TO DISSENT	21
LISTING AND SHARE PRICE ON THE EXCHANGE.....	21
CONDITIONAL LISTING APPROVAL.....	21
CONFLICTS OF INTEREST	22
INTERESTS OF EXPERTS	22
RISK FACTORS.....	22
INFORMATION FOR ALL SHAREHOLDERS.....	23
CURRENCY	23
FINANCIAL STATEMENT INFORMATION	23
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	23
NOTICE TO UNITED STATES SHAREHOLDERS	24
THE AMALGAMATION	25
GENERAL.....	25
BACKGROUND TO THE PROPOSED TRANSACTION AND THE AMALGAMATION	25
SECURITIES LAWS MATTERS	26
REGULATORY APPROVALS AND FILINGS	26
REPRESENTATIONS, WARRANTIES AND COVENANTS	26
CONDITIONS TO THE PROPOSED TRANSACTION.....	26
CONCURRENT FINANCING	29
CONSENTS AND APPROVALS	29
RECOMMENDATIONS OF THE MERCURY BOARD.....	29
RECOMMENDATIONS OF THE CANADA COAL BOARD	30
RIGHT TO DISSENT	30
RISK FACTORS	31
INFORMATION FOR MERCURY SHAREHOLDERS	37
APPOINTMENT AND REVOCATION OF PROXIES	37
EXERCISE OF DISCRETION BY PROXIES.....	37
ADVICE TO BENEFICIAL SHAREHOLDERS	38
QUORUM	38
VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF	39
EXECUTIVE COMPENSATION	39

TABLE OF CONTENTS

	Page
INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON	41
REGISTRAR AND TRANSFER AGENT	41
CORPORATE GOVERNANCE PRACTICES	41
AUDIT COMMITTEE	41
RELIANCE ON CERTAIN EXEMPTIONS	42
PRE-APPROVAL POLICIES AND PROCEDURES	43
EXTERNAL AUDITOR SERVICE FEES	43
EXEMPTION	43
ADDITIONAL INFORMATION	43
MATTERS TO BE ACTED ON AT THE MERCURY MEETING.....	44
1. ELECTION OF DIRECTORS	44
2. APPOINTMENT OF AUDITOR.....	46
3. APPROVAL OF MERCURY STOCK OPTION PLAN	46
4. APPROVAL OF THE AMALGAMATION	48
5. APPROVAL OF STOCK OPTION PLAN FOR THE RESULTING ISSUER.....	49
6. OTHER MATTERS TO BE BROUGHT BEFORE THE MERCURY MEETING.....	49
INFORMATION FOR CANADA COAL SHAREHOLDERS	50
APPOINTMENT AND REVOCATION OF PROXIES	50
EXERCISE OF DISCRETION BY PROXIES.....	50
BENEFICIAL SHAREHOLDERS.....	51
QUORUM	51
VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF	51
INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON	51
MATTERS TO BE ACTED ON AT THE CANADA COAL MEETING.....	53
1. ELECTION OF DIRECTORS	53
2. APPOINTMENT OF AUDITOR.....	54
3. APPROVAL OF THE AMALGAMATION	55
4. APPROVAL OF STOCK OPTION PLAN FOR THE RESULTING ISSUER.....	56
5. RATIFICATION OF THE ACTS OF THE DIRECTORS OF CANADA COAL	56
INFORMATION CONCERNING MERCURY	58
CORPORATE STRUCTURE	58
NAME AND INCORPORATION	58
GENERAL DEVELOPMENT OF THE BUSINESS.....	58
HISTORY.....	58
SELECTED CONSOLIDATED FINANCIAL INFORMATION AND MANAGEMENT’S DISCUSSION AND ANALYSIS	58
MANAGEMENT’S DISCUSSION AND ANALYSIS	58
DESCRIPTION OF SECURITIES.....	62
STOCK OPTION PLAN.....	62
PRIOR SALES	63
STOCK EXCHANGE PRICE	63
NON-ARM’S LENGTH PARTY TRANSACTIONS/ARM’S LENGTH TRANSACTION.....	64
ARM’S LENGTH TRANSACTION	64
LEGAL PROCEEDINGS	64
AUDITOR, TRANSFER AGENTS AND REGISTRARS	64
MATERIAL CONTRACTS.....	64
INFORMATION CONCERNING CANADA COAL	66
CORPORATE STRUCTURE	66
NAME AND INCORPORATION	66

TABLE OF CONTENTS

	Page
CANADA COAL SUBSIDIARIES	66
GENERAL DEVELOPMENT OF THE BUSINESS.....	66
NUNAVUT COAL PROJECT	67
SELECTED FINANCIAL INFORMATION AND MANAGEMENT’S DISCUSSION AND ANALYSIS	91
MANAGEMENT’S DISCUSSION AND ANALYSIS	91
DESCRIPTION OF SECURITIES.....	95
CONSOLIDATED CAPITALIZATION	96
PRIOR SALES	97
STOCK EXCHANGE SHARE PRICE.....	98
PRINCIPAL SHAREHOLDERS	98
EXECUTIVE COMPENSATION	99
SUMMARY COMPENSATION TABLE	99
LONG-TERM INCENTIVE PLANS - AWARDS IN MOST RECENTLY COMPLETED FINANCIAL YEAR	99
COMPENSATION OF DIRECTORS.....	100
STOCK OPTIONS, STOCK APPRECIATION RIGHTS AND RESTRICTED SHARES	100
EMPLOYMENT CONTRACTS	100
MANAGEMENT CONTRACTS	101
NON-ARM’S LENGTH PARTY TRANSACTIONS	101
INVESTOR RELATIONS AGREEMENT	101
LEGAL PROCEEDINGS	101
MATERIAL CONTRACTS.....	101
INFORMATION CONCERNING THE RESULTING ISSUER.....	102
CORPORATE STRUCTURE.....	102
NARRATIVE DESCRIPTION OF THE BUSINESS	102
STATED BUSINESS OBJECTIVES AND MILESTONES	102
EXPLORATION AND DEVELOPMENT	103
DESCRIPTION OF SECURITIES.....	103
PRO FORMA CONSOLIDATED CAPITALIZATION	103
FULLY DILUTED SHARE CAPITAL.....	104
AVAILABLE FUNDS AND PRINCIPAL PURPOSES	104
DIVIDENDS	106
PRINCIPAL SECURITYHOLDERS OF THE RESULTING ISSUER.....	106
DIRECTORS, OFFICERS AND PROMOTERS OF THE RESULTING ISSUER	106
MANAGEMENT	108
PROMOTER	110
CORPORATE CEASE TRADE ORDERS OR BANKRUPTCIES	110
PENALTIES OR SANCTIONS	111
PERSONAL BANKRUPTCIES.....	111
CONFLICTS OF INTEREST	111
OTHER REPORTING ISSUER EXPERIENCE	111
PROPOSED EXECUTIVE COMPENSATION OF THE RESULTING ISSUER	112
COMPENSATION DISCUSSION AND ANALYSIS.....	112
INDEBTEDNESS OF DIRECTORS AND OFFICERS	114
INVESTOR RELATIONS ARRANGEMENTS.....	114
OPTIONS TO PURCHASE SECURITIES	115
STOCK OPTION PLAN OF THE RESULTING ISSUER.....	115
ESCROWED SECURITIES.....	115
CANADA COAL RESULTING ISSUER ESCROW SHARES	117
ESCROW SHARES	118
SEED SHARE RESALE RESTRICTIONS	118
AUDITOR, TRANSFER AGENT AND REGISTRARS	118
AUDITOR	118

TABLE OF CONTENTS

	Page
TRANSFER AGENT AND REGISTRAR	118
GENERAL MATTERS.....	119
EXPERTS.....	119
OTHER MATERIAL FACTS.....	119
APPROVAL OF MERCURY BOARD AND CANADA COAL BOARD	119
FINANCIAL STATEMENTS.....	119
SCHEDULE "A" DISSENTING SHAREHOLDER RIGHTS	C/3
SCHEDULE "B" MERCURY CORPORATE GOVERNANCE DISCLOSURE.....	D/3
SCHEDULE "C" MERCURY AUDIT COMMITTEE CHARTER.....	E/3
SCHEDULE "D" MERCURY STOCK OPTION PLAN.....	F/3
SCHEDULE "E" AMALGAMATION AGREEMENT	G/3
SCHEDULE "F" FINANCIAL STATEMENTS FOR MERCURY.....	H/3
SCHEDULE "G" FINANCIAL STATEMENTS FOR CANADA COAL	I /3
SCHEDULE "H" PRO FORMA FINANCIAL STATEMENT OF THE RESULTING ISSUER	J /3
CONSENTS OF THE AUTHORS OF THE NUNAVUT TECHNICAL REPORT.....	
CONSENT OF COLLINS BARROW LLP	
CONSENT OF MCGOVERN HURLEY CUNNINGHAM LLP.....	
CERTIFICATE OF MERCURY CAPITAL LIMITED.....	
CERTIFICATE OF CANADA COAL INC.....	

LETTER TO SHAREHOLDERS
OF MERCURY CAPITAL LIMITED AND CANADA COAL INC.

January 23, 2012

To: Holders of Common Shares of Mercury Capital Limited (“**Mercury**”)
And to: Holders of Common Shares of Canada Coal Inc. (“**Canada Coal**”)

Holders of Common Shares of Mercury (“**Mercury Shareholders**”) are invited to attend a meeting of Mercury Shareholders to be held at 10:00 a.m. (Toronto time) on February 21, 2012 at the offices of Garfinkle Biderman LLP, Suite 801, Dundee Place, 1 Adelaide Street East, Toronto, Ontario, M5C 2V9 for the purposes of, among other things, to approve by way of a special resolution, the amalgamation of Mercury and Canada Coal (the “**Proposed Transaction**”).

Holders of Common Shares of Canada Coal (“**Canada Coal Shareholders**”) are invited to attend a meeting of Canada Coal Shareholders to be held at 11:00 a.m. (Toronto time) on February 21, 2012 at the offices of Aird & Berlis LLP, Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9 for the purposes of, among other things, to approve by way of special resolution, the Proposed Transaction.

The full details of the Proposed Transaction are set out in the accompanying management proxy and joint management information circular. Assuming approval of the Proposed Transaction by the requisite majority of Mercury Shareholders and Canada Coal Shareholders, the following is a summary of the Proposed Transaction:

1. Canada Coal and Mercury will amalgamate pursuant to the laws of the Province of Ontario to form “Canada Coal Inc.” (the “**Resulting Issuer**”);
2. upon amalgamation, each common share of Canada Coal (“**Canada Coal Common Share**”) and each common share of Mercury (“**Mercury Common Share**”) issued and outstanding on the closing date of the Proposed Transaction will be exchanged for one common share of the Resulting Issuer (“**Resulting Issuer Share**”). This will result in all former Canada Coal shareholders and all former Mercury Shareholders becoming shareholders of the Resulting Issuer;
3. upon amalgamation, the holders of subscription receipts of Canada Coal (the “**Canada Coal Subscription Receipts**”) will receive one Resulting Issuer Share and one-half of one share purchase warrant of the Resulting Issuer upon the terms and conditions described in the accompanying joint management information circular;
4. upon amalgamation, the holders of the issued and outstanding share purchase warrants of Canada Coal (the “**Canada Coal Warrants**”) and the holders of issued and outstanding share purchase warrants of Mercury (the “**Mercury Warrants**”) will receive one share purchase warrant of the Resulting Issuer, each such warrant to be exercisable on substantially the same terms and conditions attaching to the Canada Coal Warrants and the Mercury Warrants; and
5. upon amalgamation, the holders of the issued and outstanding share purchase options of Canada Coal (the “**Canada Coal Options**”) and the holders of the issued and outstanding share purchase options of Mercury (the “**Mercury Options**”) will each receive one share purchase option in the Resulting Issuer, each such option to be exercisable on substantially the same terms and conditions attaching to the Canada Coal Options and the Mercury Options.

Upon the completion of the Proposed Transaction, the Resulting Issuer will be named “Canada Coal Inc.”, the current board of directors and officers of Mercury will be replaced with board members and officers of Canada Coal and existing securityholders of Canada Coal will hold approximately 92.3% the Resulting Issuer Shares.

The Board of Directors of each of Mercury and Canada Coal have unanimously approved and endorsed the foregoing transactions and recommend that the Mercury Shareholders and Canada Coal Shareholders vote in favour of the Proposed Transaction.

The accompanying joint management information circular provides a detailed description of the Proposed Transaction and other matters to come before the respective shareholders meetings. Please give this material your careful consideration, and, if you require assistance, consult your financial, income tax or other professional advisors.

Yours truly,

MERCURY CAPITAL LIMITED

“Alexander C. Logie”

Alexander C. Logie

Chief Executive Officer

CANADA COAL INC.

“R. Bruce Duncan”

R. Bruce Duncan

Chief Executive Officer

NOTICE TO SHAREHOLDERS OF MERCURY CAPITAL LIMITED

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF MERCURY CAPITAL LIMITED

Notice is hereby given that the annual and special meeting (the “**Mercury Meeting**”) of the holders of common shares of Mercury Capital Limited (“**Mercury**”) will be held at the offices of Garfinkle Biderman LLP, Suite 801, Dundee Place, 1 Adelaide Street East, Toronto, Ontario M5C 2V9 at 10:00 a.m. (Toronto time) on February 21, 2012 for the following purposes:

1. To receive the audited financial statements of Mercury for the financial year ended December 31, 2010, together with the report of the auditor thereon, and the interim unaudited financial statements of Mercury for the three and nine month period ended September 30, 2011;
2. to elect the directors of Mercury, provided that if the proposed Amalgamation Resolution (as defined below) is passed and the Proposed Transaction (as defined below) is completed, the directors of the Resulting Issuer will be the directors set out in the amalgamation agreement made between Mercury and Canada Coal Inc. (“**Canada Coal**”) dated as of November 4, 2011 (the “**Amalgamation Agreement**”);
3. to appoint Collins Barrow Toronto LLP, Chartered Accountants, as auditor of Mercury for the ensuing year and to authorize the directors of Mercury to fix their remuneration, provided that if the proposed Amalgamation Resolution is passed and the Proposed Transaction is completed, the auditor of the Resulting Issuer will be the auditors set out in the Amalgamation Agreement;
4. to consider and, if thought appropriate, pass, with or without variation, a resolution approving Mercury’s stock option plan, as more fully described in the accompanying management proxy and joint management information circular (the “**Circular**”);
5. to consider and, if thought appropriate, to pass, with or without modification, a special resolution (the “**Amalgamation Resolution**”) approving the amalgamation (the “**Proposed Transaction**”) of Mercury with Canada Coal under the *Business Corporations Act* (Ontario), substantially on the terms and conditions of the Amalgamation Agreement, as more particularly described in the accompanying Circular;
6. to consider and, if thought appropriate, pass, with or without variation, a resolution approving Mercury’s stock option plan, as the stock option plan of the issuer resulting from the amalgamation of Mercury and Canada Coal, as more fully described in the accompanying Circular; and
7. to transact such other business as may properly come before the Mercury Meeting or any adjournment or adjournments thereof.

The nature of the business to be transacted at the Mercury Meeting and the specific details regarding the Proposed Transaction are described in further detail in the accompanying Circular. All information contained in this Circular with respect to Mercury was supplied by Mercury for inclusion herein, and all information contained in this joint management information circular with respect to Canada Coal was supplied by Canada Coal for inclusion herein.

The record date for the determination of shareholders entitled to receive notice of and to vote at the Mercury Meeting is January 10, 2012 (the “**Mercury Record Date**”). Mercury Shareholders whose names have been entered in the register of shareholders at the close of business on the Mercury Record Date will be entitled to receive notice of and to vote at the Mercury Meeting or any adjournment thereof.

A shareholder may attend the Mercury Meeting in person or may be represented by proxy. A Mercury Shareholder who is unable to attend the Mercury Meeting or any adjournment thereof in person is requested to date, sign and return the accompanying form of proxy for use at the Mercury Meeting or any adjournment thereof. To be effective, the enclosed proxy must be mailed so as to reach or be deposited with Computershare Investor Services Inc., 100

University Avenue, 9th floor, Toronto, Ontario, M5J 2Y1, facsimile: (416) 263-9524, not later than forty-eight (48) hours (excluding Saturdays, Sundays and holidays) prior to the time set for the Mercury Meeting or any adjournment thereof.

Mercury Shareholders who are unable to be present personally at the Mercury Meeting are urged to sign, date and return the enclosed form of proxy in the envelope provided for that purpose. If you plan to be present personally at the Mercury Meeting, you are requested to bring the enclosed form of proxy for identification.

DATED at Toronto, Ontario this 23rd day of January,
2012.

BY ORDER OF THE BOARD OF DIRECTORS

“Alexander C. Logie”

Alexander Logie
Chief Executive Officer

NOTICE TO SHAREHOLDERS OF CANADA COAL INC.

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF CANADA COAL INC.

Notice is hereby given that the annual and special meeting (the “**Canada Coal Meeting**”) of the holders of common shares of Canada Coal Inc. (“**Canada Coal**”) will be held at the offices of Aird & Berlis LLP, Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9 at 11:00 a.m. (Toronto time) on February 21, 2012 for the following purposes:

1. To receive the audited financial statements of Canada Coal for the financial year ended September 30, 2011, together with the report of the auditor thereon;
2. to elect the directors of Canada Coal, provided that if the proposed Amalgamation Resolution (as defined below) is passed and the Proposed Transaction (as defined below) is completed, the directors of the Resulting Issuer will be the directors set out in the amalgamation agreement made between Mercury Capital Limited (“**Mercury**”) and Canada Coal dated as of November 4, 2011 (the “**Amalgamation Agreement**”);
3. to appoint McGovern, Hurley, Cunningham, LLP, Chartered Accountants, as auditor of the Canada Coal for the ensuing year and to authorize the directors of Canada Coal to fix their remuneration;
4. to consider and, if thought appropriate, to pass, with or without modification, a special resolution (the “**Amalgamation Resolution**”) approving the amalgamation (the “**Proposed Transaction**”) of Canada Coal with Mercury under the *Business Corporations Act* (Ontario), substantially upon the terms and conditions of the Amalgamation Agreement, as more fully described in the accompanying management proxy and joint management information circular (the “**Circular**”);
5. to consider and, if thought appropriate, pass, with or without variation, a resolution approving Mercury’s stock option plan, as the stock option plan of the issuer resulting from the amalgamation of Mercury and Canada Coal, as more fully described in the accompanying Circular;
6. to ratify all past actions and proceedings of the directors of Canada Coal since the date of incorporation; and
7. to transact such other business as may properly come before the Canada Coal Meeting or any adjournment or adjournments thereof.

The nature of the business to be transacted at the Canada Coal Meeting and the specific details regarding the Proposed Transaction are described in further detail in the accompanying Circular. All information contained in this Circular with respect to Canada Coal was supplied by Canada Coal for inclusion herein, and all information contained in this Circular with respect to Mercury was supplied by Mercury for inclusion herein.

The record date for the determination of shareholders entitled to receive notice of and to vote at the Canada Coal Meeting is January 10, 2012 (the “**Canada Coal Record Date**”). Canada Coal Shareholders whose names have been entered in the register of shareholders at the close of business on the Canada Coal Record Date will be entitled to receive notice of and to vote at the Canada Coal Meeting or any adjournment thereof.

A shareholder may attend the Canada Coal Meeting in person or may be represented by proxy. A Canada Coal Shareholder who is unable to attend the Canada Coal Meeting or any adjournment thereof in person is requested to date, sign and return the accompanying form of proxy for use at the Canada Coal Meeting or any adjournment thereof. To be effective, the enclosed proxy must be mailed so as to reach or be deposited with Canada Coal at 5213 Durie Road, Mississauga, Ontario, L5M 2C6, or its counsel, Aird & Berlis LLP at Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9, facsimile: (416) 863-1515, not later than forty-eight (48) hours (excluding Saturdays, Sundays and holidays) prior to the time set for the Canada Coal Meeting or any adjournment thereof.

Canada Coal Shareholders who are unable to be present personally at the Canada Coal Meeting are urged to sign, date and return the enclosed form of proxy in the envelope provided for that purpose. If you plan to be present personally at the Canada Coal Meeting, you are requested to bring the enclosed form of proxy for identification.

DATED at Toronto, Ontario this 23rd day of January,
2012.

BY ORDER OF THE BOARD OF DIRECTORS

"R. Bruce Duncan"

R. Bruce Duncan
Chief Executive Officer

GLOSSARY OF TERMS

The following is a glossary of certain general terms used in this Circular, including the summary hereof. Terms and abbreviations used in the financial statements included in, or appended to this Circular are defined separately and the terms and abbreviations defined below are not used therein, except where otherwise indicated. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

“**5200 Nunavut**” means 5200 Nunavut Ltd., a wholly owned subsidiary of Canada Coal, incorporated pursuant to the laws of Nunavut.

“**Affiliate**” means a Company that is affiliated with another Company as described below.

A Company is an “Affiliate” of another Company if:

- (a) one of them is the subsidiary of the other, or each of them is controlled by the same Person.

A Company is “controlled” by a Person if:

- (b) voting securities of the Company are held, other than by way of security only, by or for the benefit of that Person, and
- (c) the voting securities, if voted, entitle the Person to elect a majority of the directors of the Company.

A Person beneficially owns securities that are beneficially owned by:

- (d) a Company controlled by that Person, or
- (e) an Affiliate of that Person or an Affiliate of any Company controlled by that Person.

“**Agency Agreement**” means the agency agreement in respect of the Concurrent Financing entered into among Canada Coal, Mercury, Casimir Capital Ltd., Canaccord Genuity Corp., and PowerOne Capital Markets Limited, dated November 4, 2011.

“**Agents**” means the agents for the Concurrent Financing, being Casimir Capital Ltd., Canaccord Genuity Corp. and PowerOne Capital Markets Limited.

“**Amalgamation**” means the amalgamation of Mercury and Canada Coal pursuant to the terms of the Amalgamation Agreement, and otherwise in accordance with the provisions of the OBCA.

“**Amalgamation Agreement**” means the agreement entered into between Mercury and Canada Coal dated November 4, 2011 setting out the terms for the Amalgamation of Mercury and Canada Coal, a copy of which is attached as Schedule “E”.

“**Arm’s Length Transaction**” means a transaction which is not a Related Party Transaction.

“**Associate**” when used to indicate a relationship with a Person, means:

- (a) a Company of which the Person beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding securities of the Company;
- (b) any partner of the Person;

- (c) any trust or estate in which the Person has a substantial beneficial interest or in respect of which a Person serves as trustee or in a similar capacity;
- (d) in the case of a Person, who is an individual:
 - (i) that Person's spouse or child; or
 - (ii) any relative of the Person or of his spouse who has the same residence as that Person;

but

- (e) where the Exchange determines that two Persons shall, or shall not, be deemed to be Associates with respect to a member firm, member corporation or holding company of a member corporation, then such determination shall be determinative of their relationships in application of Rule D of the policies of the Exchange with respect to that member firm, member corporation or holding company.

“Associated Geosciences” means Associated Geosciences Ltd., the authors of the Nunavut Technical Report.

“Broadridge” means Broadridge Financial Solutions, Inc.

“Canada Coal” means Canada Coal Inc., a corporation incorporated under the OBCA with its head and registered office located in Toronto, Ontario.

“Canada Coal Board” means the board of directors of Canada Coal.

“Canada Coal Common Shares” means the common shares in the capital of Canada Coal.

“Canada Coal Compensation Warrants” means collectively,

- (a) the 804,000 common share purchase warrants of Canada Coal, with each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.20 per share until April 21, 2013;
- (b) the 796,000 common share purchase warrants of Canada Coal, with each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.20 per share until May 4, 2013; and
- (c) 602,000 common share purchase warrants of Canada Coal issued in connection with the Concurrent Financing, with each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.80 per share until November 4, 2014.

“Canada Coal Flow-Through Shares” means the Canada Coal Common Shares issued pursuant to the Concurrent Financing, issued as Flow-Through Shares, subject to certain conditions being met.

“Canada Coal Flow-Through Units” means the 6,500,000 units of Canada Coal issued in connection with the Concurrent Financing at a price of \$0.50 per unit, with each unit being comprised of one Canada Coal Flow-Through Share and one-half of one Canada Coal Warrant, provided that if the Release Condition is not satisfied on or before March 4, 2012, each Canada Coal Flow-Through Unit shall at such point and at no additional consideration to the holder, be comprised of one Canada Coal Flow-Through Share and one whole Canada Coal Warrant (instead of one-half of one Canada Coal Warrant).

“Canada Coal Meeting” means the annual and special meeting of Canada Coal Shareholders to be held on February 21, 2012.

“Canada Coal Notice” means the notice of the Canada Coal Meeting.

“Canada Coal Options” means, the 1,600,000 and 1,800,000 outstanding options granted by Canada Coal, as adjusted for any exercise after the date hereof, with each option entitling the holder to purchase one Canada Coal Common Share at a price of \$0.20 and \$0.50, respectively, per share in accordance with their terms.

“Canada Coal Principal Shareholders” means AlphaNorth Offshore Inc. and Sheldon Inwentash, each of which hold over 10% of the issued and outstanding Canada Coal Common Shares.

“Canada Coal Record Date” means January 10, 2012.

“Canada Coal Shareholder” means a holder of outstanding Canada Coal Common Shares as at the close of business on the Canada Coal Record Date.

“Canada Coal Subscription Receipts” means the 2,100,000 subscription receipts issued by Canada Coal pursuant to the Concurrent Financing, at a price of \$0.50 per Canada Coal Subscription Receipt with each Canada Coal Subscription Receipt entitling the holder thereof to acquire one Resulting Issuer Share and one-half of one Resulting Issuer Warrant, subject to certain conditions being met, provided that if the Release Condition is not satisfied on or before March 4, 2012, each Canada Coal Subscription Receipt shall at such point and at no additional consideration to the holder, be comprised of 1.1 Resulting Issuer Shares (instead of one Resulting Issuer Share) and 0.55 Resulting Issuer Warrants (instead of one-half of one Resulting Issuer Warrant). Each Resulting Issuer Warrants issued upon conversion of the Canada Coal Subscription Receipts will entitle the holder thereof to acquire one Resulting Issuer Share at a price of \$0.80 per share until November 4, 2015. If the Release Condition is not satisfied on or before April 4, 2012, the Subscription Receipts will be cancelled and all proceeds from the sale of such subscription receipts shall be returned to the subscribers thereof.

“Canada Coal Subscription Receipt Agent” means Aird & Berlis LLP.

“Canada Coal Subscription Receipt Agreement” means the agreement governing the proceeds from the private placement of Canada Coal Subscription Receipts issued in connection with the Concurrent Financing dated November 4, 2011, made among Canada Coal, the Canada Coal Subscription Receipt Agent and Casimir Capital Ltd.

“Canada Coal Warrants” means collectively:

- (a) the 10,050,000 common share purchase warrants of Canada Coal, with each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, the Exchange or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on April 21, 2016;
- (b) the 9,950,000 common share purchase warrants of Canada Coal, with each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, the Exchange or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on May 4, 2016;
- (c) the 1,500,000 common share purchase warrants of Canada Coal, with each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, the Exchange or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on June 30, 2016; and
- (d) 3,250,000 common share purchase warrants of Canada Coal, with each whole warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.80 per share until March 4,

2014, provided that if the Release Condition is not satisfied on or before March 4, 2012, the number of common share purchase warrants of Canada Coal under this subsection (d) shall be equal to 6,500,000.

“**Certificate of Amalgamation**” means the certificate of amalgamation to be issued under the OBCA giving effect to the Amalgamation.

“**Change of Control**” includes situations where after giving effect to the contemplated transaction and as a result of such transaction: (a) any one Person holds a sufficient number of the voting shares of the company or resulting issuer to affect materially the control of a company, or (b) any combination of Persons, acting in concert by virtue of an agreement, reorganization, commitment or understanding hold in total a sufficient number of the voting shares of a company to affect materially the control of a company; where such Person or combination of Persons did not previously hold a sufficient number of voting shares to affect materially the control of a company. In the absence of evidence to the contrary, any Person or combination of Persons acting in concert by virtue of an agreement, reorganization, commitment or understanding, holding more than 20% of the voting shares of a company is deemed to materially affect the control of the company.

“**Circular**” means this management proxy and joint management information circular of Mercury and Canada Coal including the schedules hereto.

“**Closing**” means the closing of the Proposed Transaction and the filing of articles of amalgamation to effect the Amalgamation.

“**Closing Date**” means the date on which the Closing occurs, which is expected to be on or about February 23, 2012.

“**Company**” unless specifically indicated otherwise, means a corporation, unincorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual.

“**Concurrent Financing**” means the brokered private placement by Canada Coal of 2,100,000 Canada Coal Subscription Receipts at a price of \$0.50 per Canada Coal Subscription Receipt and 6,500,000 Canada Coal Flow-Through Units at a Price of \$0.50 per Flow-Through Unit for aggregate gross proceeds of \$4,300,000.

“**Control Person**” means any person or Company that holds or is one of a combination of Persons or companies that holds a sufficient number of any of the securities of an issuer so as to affect materially the control of that issuer, or that holds more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holder of those securities does not materially affect the control of the issuer.

“**CPC**” or “**Capital Pool Company**” means a corporation:

- (a) that has been incorporated or organized in a jurisdiction in Canada,
- (b) that has filed and obtained a receipt for a preliminary CPC prospectus from one or more of the securities regulatory authorities in compliance with the CPC Policy; and
- (c) in regard to which the Completion of the Qualifying Transaction has not yet occurred.

“**CPC Escrow Agreement**” means the CPC escrow agreement in form required by the CPC Policy made among Mercury, certain shareholders of Mercury and Computershare Investor Services Inc. dated the 30th day of September, 2010.

“**CPC Policy**” means Policy 2.4 – *Capital Pool Companies*, of the Exchange Corporate Finance Manual.

“**Company**” unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual.

“**Completion of the Qualifying Transaction**” means the date the Final Exchange Bulletin is issued by the Exchange.

“**Control Person**” means any person or company that holds or is one of a combination of persons or companies that holds a sufficient number of any of the securities of an issuer so as to affect materially the control of that issuer, or that holds more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holder of those securities does not materially affect the control of the issuer.

“**CSCC**” means Canadian Sovereign Coal Corp., a wholly owned subsidiary of Canada Coal, incorporated under the *Business Corporations Act* (British Columbia).

“**Dissent Right**” means the right of a shareholder to dissent to an amalgamation resolution as set out in section 185 of the OBCA, a copy of which is attached hereto as Schedule “A” of this Circular and is summarized in the section entitled “*Information for All Shareholders - Right to Dissent.*”.

“**Dissenting Shareholder**” means a Canada Coal Shareholder or a Mercury Shareholder, as the case may be, who avails themselves of their dissent rights pursuant to the provisions of section 185 of the OBCA.

“**Effective Date**” means the effective date of the Amalgamation, which shall be the date of the Certificate of Amalgamation;

“**Escrow Agent**” means Computershare Investor Services Inc.

“**Escrow Agreement**” means the escrow agreement to be entered into by the Resulting Issuer, the Escrow Agent and certain principals of the Resulting Issuer in compliance with the requirements of the Exchange, with the securities subject to such agreement to be released as determined by the Exchange.

“**Escrow Policy**” means Policy 5.4 of the Exchange Corporate Finance Manual.

“**Exchange**” or “**TSXV**” means the TSX Venture Exchange Inc.

“**Final Exchange Bulletin**” means the bulletin issued by the Exchange as to its final acceptance of the Proposed Transaction.

“**Flow-Through Share**” means a “flow-through share” as defined in the Tax Act.

“**Insider**” if used in relation to a Company, means:

- (a) a director or senior officer of the Company;
- (b) a director or senior officer of a Company that is an Insider or subsidiary of such Company;
- (c) a Person that beneficially owns or controls, directly or indirectly, voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of such Company; or
- (d) the Company itself if it holds any of its own securities.

“**IPO**” means initial public offering.

“**Issuer**” means a Company and its subsidiaries which have any of its securities listed for trading on the Exchange and, as the context requires, any applicant seeking a listing of its securities on the Exchange.

“**Letter of Intent**” means the letter of intent dated June 30, 2011 between Mercury and Canada Coal, in respect of the Proposed Transaction.

“**MD&A**” means management discussion and analysis.

“**Meetings**” means, collectively, the Mercury Meeting and the Canada Coal Meeting.

“**Mercury**” means Mercury Capital Limited, a corporation incorporated under the OBCA with its head office and registered office located in Toronto, Ontario.

“**Mercury Board**” means the board of directors of Mercury.

“**Mercury Common Shares**” means the common shares in the capital of Mercury.

“**Mercury Compensation Warrants**” means collectively:

- (a) the 159,975 outstanding agent’s options issued by Mercury each entitling the holder to purchase one Mercury Common Share at a price of \$0.20 per share until February 2, 2013, in accordance with their terms; and
- (b) the 25,000 outstanding agent’s warrants issued by Mercury each entitling the holder to purchase one Mercury Common Share at a price of \$0.20 per share until May 4, 2013, in accordance with their terms.

“**Mercury Meeting**” means the annual and special meeting of Mercury Shareholders to be held on February 21, 2012.

“**Mercury Notice**” means the notice of the Mercury Meeting.

“**Mercury Options**” means options to purchase Mercury Common Shares issued under the Mercury Stock Option Plan.

“**Mercury Record Date**” means January 10, 2012.

“**Mercury Shareholder**” means a holder of outstanding Mercury Common Shares as at the close of business on the Mercury Record Date.

“**Mercury Stock Option Plan**” means the existing stock option plan of Mercury, as may be amended from time to time.

“**NI 43-101**” means National Instrument 43-101 - *Standards for Disclosure for Mineral Projects*.

“**Non-Arm’s Length Party**” means in relation to a Company, a Promoter, officer, director, other Insider or Control Person of that Company (including an Issuer) and any Associates or Affiliates of any of such persons. In relation to an individual, means any Associate of the individual or any Company of which the individual is a Promoter, officer, director, Insider or Control Person.

“**NSR**” means net smelter return.

“**Nunavut Coal Project**” means the mineral properties of Canada Coal which are held through its two subsidiaries, CSCC and 5200 Nunavut, which comprises 2,442,627 acres located on Ellesmere Island and Axel Heiberg Island in Nunavut, consisting of 75 active licences.

“**Nunavut Technical Report**” means the technical report having an effective date of September 30, 2011 entitled “*The Nunavut Coal Project-Ellesmere Island and Axel Heiberg Island, Nunavut, Canada*” prepared by Keith McCandlish, P. Geol., P. Geo., Susan O’Donnell, P. Geol., of Associated Geosciences Ltd., Calgary, Alberta, Canada.

“**OBCA**” means the *Business Corporations Act* (Ontario), as amended from time to time, and including any regulations promulgated thereunder.

“**Person**” means an individual, as well as a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual.

“**Promoter**” shall have the meaning ascribed thereto in the *Securities Act* (Ontario).

“**Proposed Transaction**” means the business combination of Mercury and Canada Coal to be effected by way of the Amalgamation.

“**Qualifying Transaction**” means a transaction where a CPC such as Mercury acquires Significant Assets, other than cash, by way of purchase, amalgamation, merger or arrangement with another Company or by other means.

“**Related Party Transaction**” has the meaning ascribed to that term in Exchange Policy 5.9, and includes a related party transaction that is determined by the Exchange, to be a Related Party Transaction (the Exchange may deem a transaction to be a Related Party Transaction where the transaction involves Non-Arms Length Parties, or other circumstances exist which may compromise the independence of the issuer with respect to the transaction).

“**Related Parties**” means the Promoters, officers, directors, other insiders of a Company, and Associates or Affiliates thereof.

“**Release Condition**” means written confirmation of the Exchange approving the Amalgamation and the listing of the Resulting Issuer Shares on the Exchange;

“**Resulting Issuer**” means the Company existing upon the amalgamation of Mercury and Canada Coal, to be named “Canada Coal Inc.”.

“**Resulting Issuer Compensation Warrants**” means warrants exercisable for Resulting Issuer Shares, issued in exchange for the Mercury Compensation Warrants and the Canada Coal Compensation Warrants, as the case may be, upon completion of the Proposed Transaction.

“**Resulting Issuer Options**” means the outstanding options of the Resulting Issuer upon completion of the Proposed Transaction.

“**Resulting Issuer Shares**” means the common shares in the capital of the Resulting Issuer.

“**Resulting Issuer Stock Option Plan**” means the stock option plan of the Resulting Issuer, being the same as the Mercury Stock Option Plan.

“**Resulting Issuer Warrants**” means warrants exercisable for Resulting Issuer Shares, issued in exchange for the Canada Coal Warrants, and in connection with the conversion of the Canada Coal Subscription Receipts, upon completion of the Proposed Transaction.

“**Significant Assets**” means one or more assets or businesses which, when purchased, optioned or otherwise acquired by the CPC, together with any other concurrent transactions would result in the CPC meeting the initial listing requirements of the Exchange.

“**Surplus Escrow Shares**” means Resulting Issuer Shares to be held in escrow pursuant to Section 5 of Exchange Policy 5.4 - *Escrow, Vendor Consideration and Resale Restrictions*.

“**Tax Act**” means the *Income Tax Act* (Canada).

“**Value Escrow Shares**” means Resulting Issuer Shares to be held in escrow pursuant to Section 4 of Exchange Policy 5.4 - *Escrow, Vendor Consideration and Resale Restrictions*.

SUMMARY

The following is a summary of certain information relating to Mercury, Canada Coal and the Resulting Issuer, and should be read together with the more detailed information and financial data and statements contained or referred to elsewhere in this Circular. Terms with initial capital letters used in this summary are defined in the “Glossary of Terms”.

All information contained in this Circular with respect to Mercury was supplied by Mercury for inclusion herein.

All information contained in this Circular with respect to Canada Coal was supplied by Canada Coal for inclusion herein.

THE MEETINGS

The Mercury Meeting will be held on February 21, 2012 at 10:00 a.m. (Toronto time) at the offices of Garfinkle Biderman LLP, Suite 801, Dundee Place, 1 Adelaide Street East, Toronto, Ontario, M5C 2V9. The Mercury Meeting will be held for the purposes mentioned in the Mercury Notice attached hereto. The matters to be considered at the Mercury Meeting include, among others, the Amalgamation.

The Canada Coal Meeting will be held on February 21, 2012 at 11:00 a.m. (Toronto time) at the offices of Aird & Berlis LLP, Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9. The Canada Coal Meeting will be held for the purposes mentioned in the Canada Coal Notice attached hereto. The matters to be considered at the Canada Coal Meeting include, among others, the Amalgamation.

THE COMPANIES

Mercury Capital Limited

Mercury is a “Capital Pool Company” within the meaning of the policies of the Exchange. Mercury was incorporated on July 22, 2010 and was listed on the Exchange on February 2, 2011. Mercury does not have any operations, and has no assets other than cash. Mercury’s business is to identify and evaluate businesses and assets with a view to completing a Qualifying Transaction. See “*Information Concerning Mercury – General Development of the Business*”.

Canada Coal Inc.

Canada Coal is a privately owned Ontario company which currently has 38,000,000 common shares issued and outstanding. Canada Coal’s mineral interests are held through its two wholly-owned subsidiaries CSCC and 5200 Nunavut. Canada Coal’s principal mineral property is the Nunavut Coal Project, which is located on Ellesmere and Axel Heiberg Islands, Nunavut Territory, Canada. The project consists of 75 active coal exploration licences geographically distributed as nine discrete exploration areas occupying a total of area of 2,442,627 acres.

Numerous historical inferred and in-situ coal resource estimates have been reported for the Nunavut Coal Project. These historic coal resources estimates no longer conform with best practices in coal resource estimation, and are not NI 43-101 compliant; further mapping, trenching/sampling and drilling will be required to develop an appropriate resource estimate.

Historical Inferred and In-Situ Coal Resource Estimates - Non-Compliant with NI 43-101

Author	Area	Inferred Coal Resource (M tonnes)	Rank
Bustin ⁽¹⁾	Fosheim Peninsula	21,000	High volatile bituminous to lignite
Bustin ⁽¹⁾	East Axel Heiberg	9,000	High volatile bituminous to lignite
Gulf ⁽²⁾	Fosheim Peninsula	5,616	High volatile bituminous to lignite
Petro-Canada ⁽¹⁾	Fosheim Peninsula	21,900	High volatile bituminous to lignite
Petro-Canada ⁽³⁾	Vesle Fiord	4,000	Sub-bituminous 'A' to lignite
Petro-Canada ⁽³⁾	Strathcona Fiord	10,100	Sub-bituminous 'A' to lignite
Petro-Canada ⁽¹⁾	Stenkul Fiord	750,000	Lignite
Kalkreuth ⁽⁴⁾	Bache Peninsula	100	Lignite

Notes:

- (1) Coal seams > 1 m thick used for estimation over outcrop area to a depth of 200 m
- (2) Coal seams > 1 m thick used for estimation over outcrop area to a depth of 500 m
- (3) Coal seams >1 m thick used for estimation over outcrop area to a total depth of section
- (4) Coal seams > 1 m thick used for estimation over outcrop area to a depth of 300 m

Associated Geosciences was retained to prepare a NI 43-101 compliant technical report on the Nunavut Coal Project. Associated Geosciences recommends a two phase work program in the order of \$16.2 million including contingencies for the Nunavut Coal Project. Phase 1, with estimated costs of \$3,775,000, will consist of reconnaissance including mapping and sampling. Phase 2 with estimated costs of \$12,400,000, is contingent on the results of Phase 1 and will primarily be focused on drilling and resource delineation. The aim of the work program will be to prioritize target areas and identify a NI 43-101 compliant resource estimate within the project area if possible. Appropriate archaeological studies, paleontological studies, cultural studies, community consultation, and program permitting will need to be conducted prior to commencement of the exploration program. The Phase II work program will only proceed if Canada Coal is satisfied with the results of the Phase I work Program.

See “*Information Concerning Canada Coal – Nunavut Coal Project*”.

Resulting Issuer

It is anticipated that upon completion of the Proposed Transaction, the principal business of the Resulting Issuer will be that of a junior mining issuer, focused on mineral exploration and development. See “*Information Concerning the Resulting Issuer*”.

THE PROPOSED TRANSACTION

Mercury has entered into the Amalgamation Agreement with Canada Coal pursuant to which Mercury and Canada Coal will amalgamate, subject to certain conditions. The Proposed Transaction will constitute a reverse take-over of Mercury, as the former shareholders of Canada Coal will own a substantial majority of the outstanding shares of the Resulting Issuer. All of the members of the board of directors of the Resulting Issuer will be designees of Canada Coal.

SUMMARY OF THE TERMS OF THE AMALGAMATION AGREEMENT

Mercury and Canada Coal have entered into the Amalgamation Agreement pursuant to which they have agreed, subject to receipt of their respective shareholders' approval, to amalgamate to form the Resulting Issuer.

The Completion of the Qualifying Transaction contemplated by the Amalgamation Agreement is subject to certain conditions, as found in the Amalgamation Agreement. A copy of the Amalgamation Agreement is attached to this Circular as Schedule "E".

Details of the Amalgamation

The Amalgamation Agreement provides that Mercury and Canada Coal will amalgamate and continue as the Resulting Issuer. The name of the Resulting Issuer shall be "**Canada Coal Inc.**"

Pursuant to the terms of the Amalgamation Agreement, on the Effective Date:

- (a) each one Canada Coal Common Share (excluding the Canada Coal Flow-Through Shares), other than those held by a Dissenting Shareholder, shall be exchanged for one fully-paid and non-assessable Resulting Issuer Share;
- (b) each one Canada Coal Flow-Through Share, other than those held by a Dissenting Shareholder, shall be exchanged for one fully-paid and non-assessable flow-through Resulting Issuer Share;
- (c) each one Mercury Common Share, other than those held by a Dissenting Shareholder, shall be exchanged for one fully-paid and non-assessable Resulting Issuer Share;
- (d) each one Canada Coal Warrant shall be exchanged and replaced by one Resulting Issuer Warrant having the same terms and conditions as the respective Canada Coal Warrant;
- (e) each one Canada Coal Compensation Warrant shall be exchanged and replaced by one Resulting Issuer Compensation Warrant having the same terms and conditions as the respective Canada Coal Compensation Warrant;
- (f) each one Canada Coal Option shall be replaced with one Resulting Issuer Option having the same terms and conditions as the respective Canada Coal Option;
- (g) each one Mercury Compensation Warrant shall be exchanged and replaced by one Resulting Issuer Compensation Warrant having the same terms and conditions as the respective Mercury Compensation Warrant;
- (h) each one Mercury Option shall be replaced with one Resulting Issuer Option having the same terms and conditions as the respective Mercury Option;
- (i) each Canada Coal Subscription Receipt shall be exchanged for one fully-paid and non-assessable Resulting Issuer Share and one-half of one Resulting Issuer Warrant, provided that if the Release Condition is not satisfied on or before March 4, 2012, each Canada Coal Subscription Receipt shall instead be exchanged for 1.1 fully-paid and non-assessable Resulting Issuer Shares and 0.55 Resulting Issuer Warrants; and
- (j) the aggregate stated capital of the Resulting Issuer Shares shall be an amount equal to the aggregate paid up capital for purposes of the Tax Act of the Mercury Common Shares and the Canada Coal Common Shares immediately prior to the Amalgamation, and such stated capital shall be allocated on an equal basis to each Resulting Issuer Share issued on the Amalgamation.

No fractional shares or other securities will be issued by Resulting Issuer and no cash will be paid in lieu thereof. Any fraction of a security resulting from the application of the above provisions will be rounded down to the nearest whole number.

Completion of the Amalgamation is subject to several mutual conditions, including the following:

- (a) the Amalgamation shall have been approved by the Mercury Shareholders in accordance with the provisions of the OBCA;
- (b) the Amalgamation shall have been approved by the Canada Coal Shareholders in accordance with the provisions of the OBCA;
- (c) Canada Coal shall have completed the Concurrent Financing for minimum gross proceeds of \$4,300,000;
- (d) there shall not exist any prohibition at law against the completion of the Amalgamation;
- (e) the Resulting Issuer Stock Option Plan shall be in a form satisfactory to each of Canada Coal and Mercury;
- (f) the parties shall have received the conditional approval of the Exchange, approving the Amalgamation as the Qualifying Transaction of Mercury, approving the listing of the Resulting Issuer Shares issued and outstanding on the Effective Date and the Resulting Issuer Shares issuable pursuant to the Amalgamation upon exercise of any securities of Resulting Issuer convertible or exercisable into Resulting Issuer Shares, as well as conditionally approving the Resulting Issuer Stock Option Plan, subject to the usual conditions;
- (g) Resulting Issuer, upon completion of the Amalgamation, shall meet the initial listing requirements of the Exchange and the Exchange shall have, prior to the Effective Date, issued its conditional approval of the transactions contemplated herein including:
 - (i) the Amalgamation as a Qualifying Transaction of Mercury;
 - (ii) the listing on the Exchange, on or following the Effective Date, of the Resulting Issuer Shares: (i) to be issued pursuant to the Amalgamation as of the Effective Date; (ii) issuable upon exercise of the Resulting Issuer Options granted under the Resulting Issuer Stock Option Plan; and (iii) issuable upon exercise of the Resulting Issuer Compensation Warrants and the Resulting Issuer Warrants;
 - (iii) the issuance by Resulting Issuer of the Resulting Issuer Options on the terms and conditions of the Resulting Issuer Stock Option Plan and the issuance of the Resulting Issuer Compensation Warrants and the Resulting Issuer Warrants;
- (h) the Escrow Agreement shall have been entered into with terms satisfactory to the parties thereto (including the Exchange);
- (i) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement, including, without limitation the Amalgamation;
- (j) all consents, orders and approvals, including, without limitation, regulatory approvals, required or necessary or desirable for the completion of the transactions provided for in this Agreement shall have been obtained or received from the Person having jurisdiction in the circumstances, all on terms satisfactory to each of the parties hereto, acting reasonably; and
- (k) the Amalgamation Agreement shall not have been terminated.

Completion of the Amalgamation is subject to several conditions for the benefit of Mercury, which conditions can be waived by Mercury at its discretion, including the following:

- (a) each of the acts and undertakings of Canada Coal to be performed on or before the Closing Date pursuant to the terms of this Agreement shall have been duly performed by Canada Coal;

- (b) no material adverse change in the business, affairs, assets, financial condition or operations of Canada Coal shall have occurred between the date hereof and the Closing Date;
- (c) except as affected by the transactions contemplated herein, the representations and warranties of Canada Coal shall be true in all material respects on the Closing Date with the same effect as though such representations and warranties had been made at and as of such time, and Mercury shall have received a certificate to such effect, dated the Closing Date, from a senior officer of Canada Coal, acceptable to Mercury, to the best of his knowledge having made reasonable inquiry;
- (d) the covenants of Canada Coal shall have been complied with, and Mercury shall have received a certificate to such effect, dated the Closing Date, of a senior officer of Canada Coal;
- (e) Canada Coal shall have furnished Mercury with:
 - (i) certified copies of the resolutions passed by the board of directors of Canada Coal approving this Agreement and the consummation of the transactions contemplated herein;
 - (ii) a certified copy of the Canada Coal Special Resolution and the resolution approving the Resulting Issuer Stock Option Plan as passed by the Canada Coal Shareholders;
 - (iii) a bring down certificate of an officer of Canada Coal confirming the representations and warranties of Canada Coal;
 - (iv) a certificate of an officer of Canada Coal stating the number of issued and outstanding Canada Coal Shares;
 - (v) a favourable legal opinion of counsel to Canada Coal, addressed to the Mercury Shareholders, Mercury and its counsel in form and substance acceptable to counsel to Mercury, acting reasonably;
- (f) holders of not more than 2.5% of the issued and outstanding Canada Coal Common Shares shall have exercised, and not withdrawn, their dissent rights with respect to the Amalgamation pursuant to the OBCA;
- (g) since the date of this Agreement, no action, suit or proceeding shall have been taken before or by any Person against Canada Coal (whether or not purportedly on behalf of Canada Coal) that would, if successful, have a material adverse effect on Canada Coal, in the sole discretion of Mercury, acting reasonably; and
- (h) all other necessary corporate action shall have been taken by Canada Coal to permit the consummation of the Amalgamation and the transactions contemplated herein, including the Private Placement.

Completion of the Amalgamation is subject to several conditions for the benefit of Canada Coal, which conditions can be waived by Canada Coal at its discretion, including the following:

- (a) each of the acts and undertakings of Mercury to be performed on or before the Closing Date pursuant to the terms of this Agreement shall have been duly performed by Mercury;
- (b) no material adverse change in the business, affairs, assets or operations of Mercury shall have occurred between the date hereof and the Closing Date;
- (c) except as affected by the transactions contemplated herein, the representations and warranties of Mercury shall be true in all material respects on the Closing Date with the same effect as though such representations and warranties had been made at and as of such date and Canada Coal shall have received a certificate to that effect, dated the Closing Date, from a senior officer of Mercury acceptable to Canada Coal, to the best of his knowledge, having made reasonable inquiry;

- (d) the covenants of Mercury shall have been complied with and Canada Coal shall have received a certificate of an officer of Mercury to such effect, dated the Closing Date, of a senior officer of Mercury;
- (e) Mercury shall have furnished Canada Coal with:
 - (i) certified copies of the resolutions passed by the board of directors of Mercury approving this Agreement and the consummation of the transactions contemplated herein;
 - (ii) certified copies of the Mercury Special Resolution and the resolution approving the Resulting Issuer Stock Option Plan as passed by the Mercury Shareholders at the Mercury Meeting;
 - (iii) a bring down certificate of an officer of Mercury confirming the representations and warranties of Mercury;
 - (iv) a certificate of the Mercury's transfer agent stating the number of issued and outstanding Mercury Shares;
 - (v) a favourable legal opinion of counsel to Mercury, addressed to the Canada Coal Shareholders, Canada Coal and its counsel in form and substance acceptable to counsel to Canada Coal, acting reasonably,
- (f) the holders of not more than 2.5% of the issued and outstanding Mercury Common Shares shall have exercised, and not withdrawn, their dissent rights with respect to the Amalgamation pursuant to the OBCA;
- (g) since the date of this Agreement, no action, suit or proceeding shall have been taken before or by any Person against Mercury (whether or not purportedly on behalf of Mercury) that would, if successful, have a material adverse effect on Mercury, in the sole discretion of Canada Coal, acting reasonably; and
- (h) all other necessary corporate action shall have been taken by Mercury to permit the consummation of the Amalgamation and the transactions contemplated herein.

A copy of the Amalgamation Agreement is attached as Schedule "E" hereto.

RECENT FINANCINGS

Between April and June 2011, Canada Coal conducted a series of equity financings wherein it issued 21,500,000 units at a price of \$0.20 per unit, with each unit being comprised of one Canada Coal Common Share and one Canada Coal Warrant, for aggregate gross proceeds of \$4,300,000. Each Canada Coal Warrant issued in connection with such financings entitled the holder to purchase one Canada Coal Common Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, the Exchange or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on the date that is five years after the date of issuance.

In connection with these financings, Canada Coal paid commissions of \$240,000 and issued to finders a total of 1,600,000 Canada Coal Compensation Warrants with each Canada Coal Compensation Warrant exercisable for two years from the date of issuance at an exercise price of \$0.20.

In May of 2011, Mercury completed a non-brokered private placement financing by issuing 750,000 Mercury Common Shares at a price of \$0.20 per Mercury Common Share for gross proceeds of \$150,000. In connection with the financing, Mercury paid cash commissions of \$15,000, and issued Mercury Compensation Warrants to purchase 25,000 Mercury Common Shares at an exercise price of \$0.20 per Mercury Common Share exercisable until May 4, 2013.

CONCURRENT FINANCING

On November 4, 2011, Canada Coal completed the Concurrent Financing, which consisted of a brokered private placement of 6,500,000 Canada Coal Flow-Through Units at a price of \$0.50 per Canada Coal Flow Through Unit and 2,100,000 Canada Coal Subscription Receipts at a price of \$0.50 per Canada Coal Subscription Receipt, for aggregate gross proceeds of \$4,300,000.

Each Canada Coal Flow-Through Unit consisted of one Canada Coal Flow-Through Share and one half of one Canada Coal Warrant. Each Canada Coal Warrant issued in connection with the Concurrent Financing shall entitle the holder to purchase one Canada Coal Common Share at a price of \$0.80 per share until March 4, 2014. If the Release Condition is not satisfied on or before March 4, 2012, the number of Canada Coal Warrants per Canada Coal Flow-Through Unit shall be one as opposed to one-half of one.

Each Canada Coal Subscription Receipt issued in connection with the Concurrent Financing entitles the holder to acquire one Resulting Issuer Share and one-half of one Resulting Issuer Warrant upon the completion of the Amalgamation, provided that if the Release Condition is not satisfied on or before March 4, 2012, each Canada Coal Subscription Receipt shall at such point and at no additional consideration to the holder, be comprised of 1.1 Resulting Issuer Share (instead of one Resulting Issuer Share) and 0.55 Resulting Issuer Warrants (instead of one-half of one Resulting Issuer Warrant). If the Release Condition is not satisfied on or before April 4, 2012, the Canada Coal Subscription Receipts will be cancelled and all proceeds from the sale of such subscription receipts shall be returned to the subscriber thereof.

In connection with the Concurrent Financing, Canada Coal paid a cash commission of \$301,000, which represented 7% of the aggregate gross proceeds raised and issued a total of 602,000 Canada Coal Compensation Warrants to the Agents, with each compensation warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.80 per share until November 4, 2014.

ARM'S LENGTH TRANSACTION

The Control Persons of Canada Coal are not (and their Associates and Affiliates are not) Control Persons of Mercury. Accordingly, Canada Coal and the Principal Shareholders are not Non-Arm's Length Parties to Mercury.

INTERESTS OF INSIDERS

Except as disclosed herein, no Insider, Promoter or Control Person of Mercury and no Associate or Affiliate of the same, has any interest in the Proposed Transaction other than that which arises from their holding of Mercury Common Shares.

BOARD OF DIRECTORS

Upon completion of the Proposed Transaction, the board of directors of the Resulting Issuer will consist of six members and will be comprised of the following individuals:

Name	Resident Canadian
R. Bruce Duncan	Yes
Senator Michael MacDonald	Yes
Abraham Jonker	No
Thomas A. Fenton	Yes
E. Richard Klue	Yes
William F. Lindqvist	No

provided that each of them satisfy Exchange requirements. See “*Information Concerning the Resulting Issuer – Directors, Officers and Promoters of the Resulting Issuer.*”

ESTIMATED FUNDS OF THE RESULTING ISSUER

Mercury and Canada Coal estimate that, immediately following the Closing, and taking into account the expenses of the Proposed Transaction, the Resulting Issuer will have cash and cash equivalents (net of transaction costs) of approximately \$7,162,205 on hand. The principal purposes of those funds, after giving effect to the Proposed Transaction, will be used to fund a \$3,775,000 Phase I exploration program on Canada Coal’s Nunavut Coal Project, to fund existing mineral property commitments, general and administrative expenses and working capital purposes. See “*Information Concerning the Resulting Issuer – Available Funds and Principal Purposes.*”

SELECTED PRO FORMA FINANCIAL INFORMATION OF THE RESULTING ISSUER

The following table sets out certain financial information as at September 30, 2011, after giving effect to the Proposed Transaction, as if such events had occurred on September 30, 2011 for balance sheet purposes. Such information is derived from and should be read in conjunction with the pro forma financial statements and the notes thereto, attached hereto as Schedule “H”.

The information in the following table is derived from the unaudited financial statements of Mercury as at September 30, 2011 and the audited financial statements of Canada Coal as at September 30, 2011 and should be read in conjunction with such statements:

	Mercury September 30, 2011 (Unaudited)	Canada Coal September 30, 2011 (Audited)	Pro Forma Adjustments⁽¹⁾	Resulting Issuer Pro Forma⁽²⁾
Balance Sheet				
Current Assets	\$404,961	\$4,003,281	\$3,633,854	\$8,042,096
Current Liabilities	\$7,108	\$140,083	(\$30,672)	\$116,519
Shareholders’ Equity	\$397,853	\$3,863,198	\$3,664,526	\$7,925,577

Notes:

(1) Includes the completion of the Concurrent Financing.

RIGHT TO DISSENT

Under the OBCA, registered Canada Coal Shareholders and registered Mercury Shareholders have the right to dissent in connection with certain matters relating to the Proposed Transaction (including the proposed Amalgamation) as summarized under the section entitled “*Information for All Shareholders - Right to Dissent.*”

LISTING AND SHARE PRICE ON THE EXCHANGE

The Mercury Common Shares are currently listed on the Exchange under the trading symbol “MLC.P”. The closing trading price of the Mercury Common Shares on the Exchange on July 1, 2011 (the day immediately preceding the request of Mercury to halt trading of the Mercury Common Shares in light of the Proposed Transaction) was \$0.30. There is no public market for the shares of Canada Coal. See “*Information Concerning Mercury – Stock Exchange Price.*”

CONDITIONAL LISTING APPROVAL

As of the date of this Circular, the Exchange has issued conditional listing approval to the Proposed Transaction. Any conditional acceptance approval issued by the Exchange will be subject to Mercury fulfilling all of the requirements of the Exchange.

CONFLICTS OF INTEREST

Neither Mercury nor Canada Coal is aware of any conflicts of interest among itself, its directors and/or officers in relation to the Proposed Transaction.

INTERESTS OF EXPERTS

Neither Keith McCandlish, P. Geol., P. Geo., Susan O'Donnell, P. Geol., the authors of the Nunavut Technical Report, nor Associated Geosciences, have any interest in the Nunavut Coal Project, Canada Coal or Mercury.

RISK FACTORS

An investment in the Resulting Issuer's shares should be considered highly speculative due to the nature of Canada Coal's business. The business of the Resulting Issuer following completion of the Proposed Transaction will be subject to a number of risks encountered in the mineral exploration development and production industry such as exploration risks, financing risks, permitting risks, marketability of, and the price of coal, competition with companies with greater resources, the regulation of the coal mining industry by various levels of government and environmental regulations. For a more detailed description of these risks and others, see "*Risk Factors*"

NEITHER THE EXCHANGE NOR ANY SECURITIES REGULATORY AUTHORITY HAS IN ANY WAY PASSED UPON THE MERITS OF THE PROPOSED TRANSACTION DESCRIBED HEREIN.

INFORMATION FOR ALL SHAREHOLDERS

No person has been authorized to give any information or to make any representation with respect to the matters to be considered at the Meetings other than those contained in this Circular and, if given or made, such information or representation should not be relied upon as having been authorized. This Circular does not constitute an offer to sell, or a solicitation of an offer to acquire, any securities, or the solicitation of a proxy, by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or proxy solicitation.

All capitalized terms used in this Circular but not otherwise defined herein have the meanings set forth under “Glossary of Terms”. Information contained in this Circular is given as of the date hereof, unless otherwise specifically stated.

CURRENCY

All currency amounts expressed herein, unless otherwise indicated, are in Canadian dollars.

FINANCIAL STATEMENT INFORMATION

The audited financial statements of Mercury for the year ended December 31, 2010 have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The unaudited financial statements of Mercury for the three and nine month period ended September 30, 2010, have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial statements of Canada Coal (including the pro forma financial statements) contained in this Circular have been prepared in accordance with IFRS.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Circular may constitute forward-looking statements. These statements relate to future events of the Resulting Issuer’s future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “propose”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Mercury and Canada Coal believe that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Circular should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this Circular and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this Circular contains forward-looking statements, pertaining to the following:

- (a) activities, events or developments that management of each of Mercury and Canada Coal expects or anticipates will or may occur in the future;
- (b) future capital expenditures (including the amount and nature thereof);
- (c) business strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of the business and operations;
- (d) plans and references to the future success of the Resulting Issuer;
- (e) development of resources;
- (f) treatment under governmental regulatory and taxation regimes;
- (g) expectations regarding the Resulting Issuer’s ability to raise capital;
- (h) expenditures to be made by the Resulting Issuer to meet certain work commitments; and
- (i) work plans to be conducted by the Resulting Issuer.

With respect to forward-looking statements listed above and contained in this Circular, Mercury and Canada Coal have made assumptions regarding, among other things:

- (a) the impact of increasing competition;
- (b) anticipated results of exploration activities; and
- (c) the Resulting Issuer's ability to obtain additional financing on satisfactory terms.

The Resulting Issuer's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Circular:

- (a) uncertainties associated with estimating resources;
- (b) geological, technical, exploration and mining problems;
- (c) liabilities and risks, including environmental liabilities and risks, inherent in mining operations;
- (d) fluctuations in currency and interest rates;
- (e) incorrect assessments of the value of acquisitions;
- (f) unanticipated results of exploration activities;
- (g) competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- (h) lack of availability of additional financing and farm-in or joint venture partners;
- (i) lack of availability of necessary drilling equipment;
- (j) unpredictable weather conditions; and
- (k) the other factors referred to under the Section "*Risk Factors*" in this Circular.

Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Circular are expressly qualified by this cautionary statement. Mercury and Canada Coal do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

NOTICE TO UNITED STATES SHAREHOLDERS

The Proposed Transaction is subject to the disclosure requirements of Canada. Shareholders should be aware that these requirements may be different from those of the United States. Financial statements and pro forma and historical financial information included in this Circular have been prepared in accordance with Canadian GAAP and IFRS and are subject to Canadian auditing and auditor independence standards and thus may not be comparable to financial statements of United States companies.

The Resulting Issuer Shares are not and will not be listed for trading on any United States stock exchange.

The Proposed Transaction and required Amalgamation involve the securities of two Canadian companies and is subject to the disclosure requirements of Canada which is different from those in the United States. The securities to be issued to United States securityholders under the Proposed Transaction have not been registered under the United States Securities Act of 1933, as amended (the "**1933 Act**") and are being issued to United States securityholders in reliance on the exemption from registration set forth in Rule 802 thereof. The solicitation of proxies is not subject to the requirements of Section 14(a) of the United States Securities Exchange Act of 1934, as amended (the "**1934 Act**"). The Resulting Issuer Shares will not be listed for trading on any United States stock exchange. Accordingly, the solicitations and transactions contemplated in this Circular are made in the United States for the securities of a Canadian issuer in accordance with Canadian corporate and securities laws, and the Circular has been prepared solely in accordance with disclosure requirements applicable in Canada. Securityholders in the United States should be aware that such requirements are different than those of the United States applicable to registration statements under the 1933 Act.

The financial statements included in this Circular have been prepared in accordance with IFRS and are subject to Canadian auditing and auditor independence standards, and thus are not comparable in all respects to financial statements of United States companies. As a result, the financial statements included and incorporated by reference herein have not been reconciled to U.S. generally acceptable accounting principles as may otherwise be necessary under registration statement requirements of the 1933 Act.

Shareholders should be aware that the completion of the Amalgamation and the ownership of securities of the Resulting Issuer resulting therefrom may have tax consequences in the United States that are not described in this Circular. Shareholders that are subject to United States taxation should consult their own tax advisor concerning the United States federal, state and local income tax consequences of such matters.

The enforcement by investors of civil liabilities under the United States securities laws may be affected adversely by the fact that Mercury and Canada Coal are organized under the laws of a jurisdiction outside the United States, that certain of their officers and directors are residents of countries other than the United States, that the experts named in this Circular are residents of countries other than the United States, and that a substantial portion of the assets of Mercury and Canada Coal and such persons may be located outside the United States.

NO SECURITIES AND EXCHANGE COMMISSION OR SECURITIES REGULATORY AUTHORITY OF ANY STATE HAS PASSED ON THE ADEQUACY OR ACCURACY OF THIS INFORMATION CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

THE AMALGAMATION

Mercury Shareholders and Canada Coal Shareholders will be asked at the Mercury Meeting and Canada Coal Meeting, respectively, to approve the Amalgamation. Details regarding the Amalgamation including the background to, reasons for, details of, conditions to and effect of the Proposed Transaction are set forth in this Circular and the Schedules hereto. Mercury Shareholders and Canada Coal Shareholders are urged to read carefully the information in this Circular and the Schedules attached hereto in order to make an informed decision.

GENERAL

Pursuant to the Amalgamation Agreement, Mercury and Canada Coal have agreed to amalgamate. Securityholders of each company will receive equivalent securities in the Resulting Issuer on a 1:1 basis. The principal business of the Resulting Issuer will be exploring mineral rights in Nunavut, Canada. Its name will be “Canada Coal Inc.”.

The board of directors of the Resulting Issuer will consist of six members and will be comprised of R. Bruce Duncan, Senator Michael MacDonald, Braam Jonker, Thomas A. Fenton, E. Richard Klue and William F. Lindqvist, provided that each of them satisfy Exchange requirements. The Resulting Issuer Stock Option Plan will be the Mercury Stock Option Plan.

Upon the completion of the Proposed Transaction, the Resulting Issuer will have approximately 43,449,750 Resulting Issuer Shares issued and outstanding on a non-diluted basis. See “*Information Concerning the Resulting Issuer - Pro Forma Capitalization*”. The Resulting Issuer is also anticipated to have cash and cash equivalents of approximately \$7,162,205 on hand to pursue its business objectives as set out under the heading “*Information Concerning the Resulting Issuer - Narrative Description of the Business*.”

BACKGROUND TO THE PROPOSED TRANSACTION AND THE AMALGAMATION

Mercury is a “capital pool company” within the meaning of the policies of the Exchange. It does not have any operations, and has no assets other than cash. Mercury’s business is to identify and evaluate businesses and assets with a view to completing a “Qualifying Transaction” under the policies of the Exchange.

Canada Coal is a privately owned Ontario company that holds, through two subsidiary companies, interests in the Nunavut Coal Project which is comprised of an aggregate of 2,442,627 acres consisting of 75 coal licences located on Ellesmere Island and Axel Hieberg Island in Nunavut.

On June 30, 2011, Canada Coal and Mercury entered into the Letter of Intent setting out the basic terms of the business combination between the two parties. Mercury and Canada Coal have agreed that the transaction would be most efficiently accomplished by way of an amalgamation between the two parties (the Amalgamation) under section 174 of the OBCA. As of November 4, 2011, Mercury and Canada Coal entered into the Amalgamation Agreement which replaced the Letter of Intent and sets out the specific terms of the Proposed Transaction.

SECURITIES LAWS MATTERS

It is anticipated that these issuances of securities by the Resulting Issuer pursuant to the Proposed Transaction will be exempt from the prospectus requirements of applicable securities laws. Resulting Issuer Shares so issued will generally be “freely tradable” (other than as a result of any “control person” restrictions which may arise by virtue of ownership thereof and subject to customary restrictions of general application) under applicable Canadian securities laws and that some of the Resulting Issuer Shares will be subject to escrow requirements and seed share sale restrictions in accordance with Exchange policies. See “*Information Concerning the Resulting Issuer - Escrowed Securities*”.

REGULATORY APPROVALS AND FILINGS

Neither Mercury nor Canada Coal, as applicable, are aware of any material licences or regulatory permits that it holds which might be adversely affected by the Proposed Transaction or which must be obtained or of any other action by any federal, provincial, state or foreign government or administrative or regulatory agency that would be required to be obtained prior to the completion of the Proposed Transaction, other than the requirements of the Exchange.

REPRESENTATIONS, WARRANTIES AND COVENANTS

The Amalgamation Agreement contains representation and warranties made by each of Mercury and Canada Coal in respect of the respective assets, liabilities, financial position, business and operations of Mercury and Canada Coal. Canada Coal also provided covenants in favour of Mercury which governs the conduct of the operations and affairs of Canada Coal prior to closing.

CONDITIONS TO THE PROPOSED TRANSACTION

The Amalgamation Agreement contains certain conditions to the obligations of Mercury and Canada Coal to complete the Proposed Transaction. Unless all of such conditions are satisfied or waived by the party or parties for whose benefit such conditions exist, the Proposed Transaction will not be completed. The following is a summary of the significant conditions contained in the Amalgamation Agreement:

Completion of the Amalgamation is subject to several mutual conditions, including the following:

- (a) the Amalgamation shall have been approved by the Mercury Shareholders in accordance with the provisions of the OBCA;
- (b) the Amalgamation shall have been approved by the Canada Coal Shareholders in accordance with the provisions of the OBCA;
- (c) there shall not exist any prohibition at law against the completion of the Amalgamation;
- (d) the Resulting Issuer Stock Option Plan shall be in a form satisfactory to each of Canada Coal and Mercury;
- (e) the parties shall have received the conditional approval of the Exchange, approving the Amalgamation as the Qualifying Transaction of Mercury, approving the listing of the Resulting Issuer Shares issued and outstanding on the Effective Date and the Resulting Issuer Shares issuable pursuant to the Amalgamation upon exercise of any securities of Resulting Issuer convertible or exercisable into Resulting Issuer Shares, as well as conditionally approving the Resulting Issuer Stock Option Plan, subject to the usual conditions;

- (f) Resulting Issuer, upon completion of the Amalgamation, shall meet the initial listing requirements of the Exchange and the Exchange shall have, prior to the Effective Date, issued its conditional approval of the transactions contemplated herein including:
 - (i) the Amalgamation as a Qualifying Transaction of Mercury;
 - (ii) the listing on the Exchange, on or following the Effective Date, of the Resulting Issuer Shares: (i) to be issued pursuant to the Amalgamation as of the Effective Date; (ii) issuable upon exercise of the Resulting Issuer Options granted under the Resulting Issuer Stock Option Plan; and (iii) issuable upon exercise of the Resulting Issuer Compensation Warrants and the Resulting Issuer Warrants;
 - (iii) the issuance by Resulting Issuer of the Resulting Issuer Options on the terms and conditions of the Resulting Issuer Stock Option Plan and the issuance of the Resulting Issuer Compensation Warrants and the Resulting Issuer Warrants;
- (g) the Escrow Agreement shall have been entered into with terms satisfactory to the parties thereto (including the Exchange);
- (h) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement, including, without limitation the Amalgamation;
- (i) all consents, orders and approvals, including, without limitation, regulatory approvals, required or necessary or desirable for the completion of the transactions provided for in this Agreement shall have been obtained or received from the Person having jurisdiction in the circumstances, all on terms satisfactory to each of the parties hereto, acting reasonably; and
- (j) the Amalgamation Agreement shall not have been terminated.

Completion of the Amalgamation is subject to several conditions for the benefit of Mercury, which conditions can be waived by Mercury at its discretion, including the following:

- (i) each of the acts and undertakings of Canada Coal to be performed on or before the Closing Date pursuant to the terms of this Agreement shall have been duly performed by Canada Coal;
- (j) no material adverse change in the business, affairs, assets financial condition or operations of Canada Coal shall have occurred between the date hereof and the Closing Date;
- (k) except as affected by the transactions contemplated herein, the representations and warranties of Canada Coal shall be true in all material respects on the Closing Date with the same effect as though such representations and warranties had been made at and as of such time, and Mercury shall have received a certificate to such effect, dated the Closing Date, from a senior officer of Canada Coal, acceptable to Mercury, to the best of his knowledge having made reasonable inquiry;
- (l) the covenants of Canada Coal shall have been complied with, and Mercury shall have received a certificate to such effect, dated the Closing Date, of a senior officer of Canada Coal;
- (m) Canada Coal shall have furnished Mercury with:
 - (i) certified copies of the resolutions passed by the board of directors of Canada Coal approving this Agreement and the consummation of the transactions contemplated herein;
 - (ii) a certified copy of the Canada Coal Special Resolution and the resolution approving the Resulting Issuer Stock Option Plan as passed by the Canada Coal Shareholders;
 - (iii) a bring down certificate of an officer of Canada Coal confirming the representations and warranties of Canada Coal;

- (iv) a certificate of an officer of Canada Coal stating the number of issued and outstanding Canada Coal Shares;
- (v) a favourable legal opinion of counsel to Canada Coal, addressed to the Mercury Shareholders, Mercury and its counsel in form and substance acceptable to counsel to Mercury, acting reasonably;
- (n) holders of not more than 2.5% of the issued and outstanding Canada Coal Common Shares shall have exercised, and not withdrawn, their dissent rights with respect to the Amalgamation pursuant to the OBCA;
- (o) since the date of this Agreement, no action, suit or proceeding shall have been taken before or by any Person against Canada Coal (whether or not purportedly on behalf of Canada Coal) that would, if successful, have a material adverse effect on Canada Coal, in the sole discretion of Mercury, acting reasonably; and
- (p) all other necessary corporate action shall have been taken by Canada Coal to permit the consummation of the Amalgamation and the transactions contemplated herein, including the Private Placement.

Completion of the Amalgamation is subject to several conditions for the benefit of Canada Coal, which conditions can be waived by Canada Coal at its discretion, including the following:

- (q) each of the acts and undertakings of Mercury to be performed on or before the Closing Date pursuant to the terms of this Agreement shall have been duly performed by Mercury;
- (r) no material adverse change in the business, affairs, assets or operations of Mercury shall have occurred between the date hereof and the Closing Date;
- (s) except as affected by the transactions contemplated herein, the representations and warranties of Mercury shall be true in all material respects on the Closing Date with the same effect as though such representations and warranties had been made at and as of such date and Canada Coal shall have received a certificate to that effect, dated the Closing Date, from a senior officer of Mercury acceptable to Canada Coal, to the best of his knowledge, having made reasonable inquiry;
- (t) the covenants of Mercury shall have been complied with and Canada Coal shall have received a certificate of an officer of Mercury to such effect, dated the Closing Date, of a senior officer of Mercury;
- (u) Mercury shall have furnished Canada Coal with:
 - (i) certified copies of the resolutions passed by the board of directors of Mercury approving this Agreement and the consummation of the transactions contemplated herein;
 - (ii) certified copies of the Mercury Special Resolution and the resolution approving the Resulting Issuer Stock Option Plan as passed by the Mercury Shareholders at the Mercury Meeting;
 - (iii) a bring down certificate of an officer of Mercury confirming the representations and warranties of Mercury;
 - (iv) a certificate of the Mercury's transfer agent stating the number of issued and outstanding Mercury Shares;
 - (v) a favourable legal opinion of counsel to Mercury, addressed to the Canada Coal Shareholders, Canada Coal and its counsel in form and substance acceptable to counsel to Canada Coal, acting reasonably,

- (v) the holders of not more than 2.5% of the issued and outstanding Mercury Common Shares shall have exercised, and not withdrawn, their dissent rights with respect to the Amalgamation pursuant to the OBCA;
- (w) since the date of this Agreement, no action, suit or proceeding shall have been taken before or by any Person against Mercury (whether or not purportedly on behalf of Mercury) that would, if successful, have a material adverse effect on Mercury, in the sole discretion of Canada Coal, acting reasonably; and
- (x) all other necessary corporate action shall have been taken by Mercury to permit the consummation of the Amalgamation and the transactions contemplated herein.

A copy of the Amalgamation Agreement is attached as Schedule "E" hereto.

CONCURRENT FINANCING

On November 4, 2011, Canada Coal completed the Concurrent Financing, which consisted of a brokered private placement of 6,500,000 Canada Coal Flow-Through Units at a price of \$0.50 per Canada Coal Flow Through Unit and 2,100,000 Canada Coal Subscription Receipts at a price of \$0.50 per Canada Coal Subscription Receipt, for aggregate gross proceeds of \$4,300,000.

Each Canada Coal Flow-Through Unit consisted of one Canada Coal Flow-Through Share and one half of one Canada Coal Warrant. Each Canada Coal Warrant issued in connection with the Concurrent Financing shall entitle the holder to purchase one Canada Coal Common Share at a price of \$0.80 per share until March 4, 2014. If the Release Condition is not satisfied on or before March 4, 2012, the number of Canada Coal Warrants per Canada Coal Flow-Through Unit shall be one as opposed to one-half of one.

Each Canada Coal Subscription Receipt issued in connection with the Concurrent Financing entitles the holder to acquire one Resulting Issuer Share and one-half of one Resulting Issuer Warrant upon the completion of the Amalgamation, provided that if the Release Condition is not satisfied on or before March 4, 2012, each Canada Coal Subscription Receipt shall at such point and at no additional consideration to the holder, be comprised of 1.1 Resulting Issuer Share (instead of one Resulting Issuer Share) and 0.55 Resulting Issuer Warrants (instead of one-half of one Resulting Issuer Warrant). If the Release Condition is not satisfied on or before April 4, 2012, the Canada Coal Subscription Receipts will be cancelled and all proceeds from the sale of such subscription receipts shall be returned to the subscriber thereof.

In connection with the Concurrent Financing, Canada Coal paid a commission of \$301,000, which represented 7% of the aggregate gross proceeds raised and issued a total of 602,000 Canada Coal Compensation Warrants to the Agents, with each compensation warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.80 per share until November 4, 2014.

CONSENTS AND APPROVALS

Management of Mercury and Canada Coal believe that all material consents, rulings, approvals and assurances required for the completion of the Proposed Transaction will be obtained prior to the Closing Date in the normal course upon application therefore; however, there can be no assurance that all of the conditions to the Proposed Transaction will be fulfilled prior to the anticipated Closing Date. The fulfillment of certain of the conditions may be waived by Mercury and/or Canada Coal.

RECOMMENDATIONS OF THE MERCURY BOARD

The Mercury Board unanimously determined that the Proposed Transaction is in the best interests of Mercury and the Mercury Shareholders. Accordingly, the Mercury Board unanimously recommends that the Mercury Shareholders vote FOR the resolution approving the Amalgamation and all other matters to be considered at the Mercury Meeting.

The members of the Mercury Board and the officers of Mercury hold or control an aggregate of 750,000 Mercury Common Shares representing 22.39% of the Mercury Common Shares outstanding (on a non-diluted basis) as at the

date hereof. See “*Information for Mercury Shareholders- Interest of Certain Persons in Matters to be Acted Upon.*” Each of the members of the Mercury Board and the officers of Mercury have indicated that they intend to vote all of their Mercury Common Shares in favour of the Proposed Transaction and all other matters to be considered at the Mercury Meeting.

RECOMMENDATIONS OF THE CANADA COAL BOARD

The Canada Coal Board unanimously determined that the Proposed Transaction is in the best interests of Canada Coal and the Canada Coal Shareholders. Accordingly, the Canada Coal Board unanimously recommends that the Canada Coal Shareholders vote FOR the resolution approving the Amalgamation and all other underlying matters to be considered at the Canada Coal Meeting.

The members of the Canada Coal Board and the officers of Canada Coal hold or control an aggregate of 3,900,000 Canada Coal Common Shares representing approximately 10.27% of the Canada Coal Common Shares outstanding (on a non-diluted basis) as at the date hereof. See “*Information for Canada Coal Shareholders - Interests of Certain Persons in Matters to be Acted Upon.*” Each of the members of the Canada Coal Board and the officers of Canada Coal have indicated that they intend to vote all of their Canada Coal Common Shares in favour of the Proposed Transaction and all other matters to be considered at the Canada Coal Meeting.

RIGHT TO DISSENT

Under the provisions of Section 185 of the OBCA (referred to herein as the “Dissent Right”), a registered shareholder is entitled to send to the company a written objection to an amalgamation resolution. The Dissent Right is described, in summary, below. The full text of section 185 of the OBCA is attached as Schedule “A” to this Circular. These dissent rights are applicable to both Canada Coal and Mercury shareholders.

In addition to any other right a shareholder may have, when an amalgamation resolution becomes effective, a registered shareholder who complies with the dissent procedure under Section 185 of the OBCA is entitled to be paid the fair value of the common shares held by that shareholder in respect of which that shareholder dissents. Beneficial shareholders who exercise Dissent Rights must do so through their intermediary registered shareholder.

Shareholders who wish to dissent should seek legal advice, as failure to comply with the strict requirements set out in Section 185 of the OBCA may result in the loss or unavailability of any right to dissent. A shareholder may only exercise the right to dissent under Section 185 of the OBCA in respect of common shares which are registered in that shareholder’s name.

The Notice of Dissent must be sent to the companies by a dissenting shareholder before the shareholder meeting or any date to which the meeting may be postponed or adjourned. The Notice of Dissent should be delivered by registered mail to the company at the applicable address for notice described below.

After the Special Resolution is approved by the shareholders and within twenty days after the company notifies the dissenting shareholder of its intention to act upon the amalgamation resolution pursuant to Section 185(8) of the OBCA, the dissenting shareholder must send to the company written notice containing: the shareholder’s name and address, the number and class of shares in respect of which the shareholder dissent and a demand for payment of the fair value of such shares. No later than 30 days after sending such notice, the shareholder must send the company the certificates representing the shares in respect of the shareholder dissents.

No later than 7 days after the date on which the resolution is effective or the shareholder’s notice is received, the company will send the shareholder a notice with the fair value offer as determined by the directors. A corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection 185(15) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.

If the company fails to make an offer under subsection 185(15) or if a dissenting shareholder fails to accept an offer, the company may, within fifty days after the Amalgamation is effective, apply to the court to fix a fair value for the shares. If the company fails to apply to the court, a dissenting shareholder may apply to the court for the same purpose within a further period of twenty days or within such further period as the court may allow.

Any Notice of Dissent to the amalgamation resolution pursuant to Section 185 of the OBCA and accompanying dissent materials must be sent to Canada Coal c/o its solicitors, Aird & Berlis LLP, Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9, Fax no. 416-863-1515 and to Mercury c/o its solicitors, Garfinkle Biderman LLP, 1 Adelaide Street East, Suite 801, Toronto, Ontario M5C 2V9, fax no. 416-869-0547.

The above is only a summary of the dissenting shareholder provisions of the OBCA, which are detailed and complex. This summary does not purport to provide a comprehensive statement of the procedures to be followed by a dissenting shareholder who seeks payment of the fair value of the common shares held and is qualified in its entirety by reference to Section 185 of the OBCA. Any shareholder who wishes to utilize the Dissent Rights provided by the OBCA should seek individual legal advice and shareholders must strictly adhere to the dissent provisions of the OBCA, given that the failure to comply strictly with the provisions of the OBCA may prejudice the right to dissent. A full copy of Section 185 is provided in Schedule "A" attached hereto.

RISK FACTORS

The business of the Resulting Issuer will principally be the business of Canada Coal. The business currently conducted by Canada Coal and to be conducted by the Resulting Issuer, upon completion of the Proposed Transaction, is subject to a number of risks as outlined below. In evaluating the Amalgamation, Mercury Shareholders and Canada Coal Shareholders should carefully consider, in addition to the other information contained in this Circular, the risks and uncertainties described below before deciding to vote in favour of the Proposed Transaction. While this Circular has described the risks and uncertainties that management of Mercury and Canada Coal believe to be material to the Resulting Issuer's business, it is possible that other risks and uncertainties affecting the Resulting Issuer's business will arise or become material in the future.

If the Resulting Issuer is unable to address these and other potential risks and uncertainties following the completion of the Proposed Transaction, its business, financial condition or results of operations could be materially and adversely affected. In this event, the value of the Resulting Issuer Shares could decline and you could lose all or part of your investment.

The following is a description of the principal risk factors that will affect the Resulting Issuer, in order of seriousness.

Exploration and Development Risks

Mineral exploration and development involves a high degree of risk. Few properties which are explored are ultimately developed into producing mines. Success in increasing mineral resources and reserves is the result of a number of factors, including the level of geological and technical expertise, the quality of land available for exploration and other factors. Once mineralization is discovered, it may take several years of drilling and development until production is possible during which time the economic feasibility of production may change. The economics of developing mineral properties are affected by many factors including the cost of operations, variations in the grade of ore mined, fluctuations in the price of coal, fluctuations in exchange rates or other minerals produced, costs of development, infrastructure and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material.

The Resulting Issuer will or will continue to rely upon consultants and others for exploration and development expertise. Substantial expenditures are required to establish reserves through drilling, to develop mineral processes to extract the product from the resource and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that the minerals will be discovered in sufficient quantities and/or quality to justify commercial operations or that funds required for development can be obtained on a timely basis. The economics of developing mineral properties is affected by many factors including the cost of operations, variations in the grade of the resource mined, fluctuations in mineral markets, importing and exporting of minerals and environmental protection. As a result of these uncertainties, there can be no assurance that mineral exploration and development of the Resulting Issuer's properties will result in profitable commercial operations.

Mining Risks

Mining operations, including the exploration and development of mineral deposits, generally involve a high degree of risk. Hazards such as unusual or unexpected formations and other conditions such as power outages, labour disruptions, flooding, landslides, and the inability to obtain suitable machinery, equipment or labour are involved in mineral exploration, development and operation. The Resulting Issuer may become subject to liability for pollution or hazards against which it cannot insure or against which it may elect not to insure. The payment of such liabilities may have a material, adverse effect on the Resulting Issuer's financial position.

In addition, it is not unusual in mining operations to experience unexpected problems both during start up and during ongoing operations. To the extent that unexpected problems occur affecting the production in the future, the Resulting Issuer's anticipated revenues may be reduced, costs may increase and the resulting issuer's profitability and ability to continue its mining operation may be adversely affected.

Availability of Drilling Equipment and Access

Natural resource exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Resulting Issuer and may delay exploration and development activities.

Operating Risks

The activities of the Resulting Issuer will be subject to all of the hazards and risks normally incidental to exploring and developing natural resource projects. These risks and uncertainties include, but are not limited to, environmental hazards, industrial accidents, labour disputes, encountering unusual or unexpected geological formations or other geological or grade problems, unanticipated changes in metallurgical characteristics and mineral recovery, encountering unanticipated ground or water conditions, cave-ins, pit wall failures, flooding, rock bursts, periodic interruptions due to inclement or hazardous weather conditions and other acts of God or unfavourable operating conditions and losses. Should any of these risks and hazards affect the Resulting Issuer's exploration, development or mining activities, it may cause the cost of production to increase to a point where it would no longer be economic to produce mineral resources from the Resulting Issuer's reserves, require the Resulting Issuer to write-down the carrying value of one or more mineral projects, cause delays or a stoppage of mining and processing, result in the destruction of mineral properties or processing facilities, cause death or personal injury and related legal liability; any and all of which may have a material adverse effect on the Resulting Issuer. It is not always possible to fully insure against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability, result in increasing costs or the loss of its assets and a decline in the value of the Resulting Issuer's securities.

Permits and Licences

The operations of the Resulting Issuer require licences and permits from various governmental authorities. There can be no assurance that such licences and permits required to carry out exploration, development and mining operations at its projects will be granted.

Title Risks

Canada Coal's right to explore and exploit its various properties are in good standing but no assurance can be given that such rights will not be revoked, or significantly altered, to the detriment of Mercury or Canada Coal. There can also be no assurance that Canada Coal's rights will not be challenged or impugned by third parties.

Competition for New Mining Properties

Significant and increasing competition exists for mineral acquisition opportunities throughout the world. As a result of this competition, some of which is with large, more established mining companies with substantial capabilities and greater financial and technical resources than either of Mercury or Canada Coal, the Resulting Issuer may be unable to acquire rights to exploit additional attractive mining properties on terms it considers acceptable.

Conflicts of Interest

Certain of the proposed directors or officers of the Resulting Issuer may also be directors or officers of other oil companies or otherwise involved in natural resource exploration and development and situations may arise where they are in a conflict of interest with the Resulting Issuer. Conflicts of interest, if any, which arise will be subject to and governed by procedures prescribed by the OBCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has some material interest in any person who is a party to, a material contract or proposed material contract with the Resulting Issuer disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the OBCA.

Market for Securities and Volatility of Share Price

There can be no assurance that an active trading market in the Resulting Issuer's securities will be established or sustained. The market price for the Resulting Issuer's securities could be subject to wide fluctuations. Factors such as announcements of quarterly variations in operating results and acquisition or disposition of properties, as well as market conditions in the industry, may have a significant adverse impact on the market price of the securities of the Resulting Issuer. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

Payment of Dividends Unlikely

There is no assurance that the Resulting Issuer will pay dividends on its shares in the near future or ever. The Resulting Issuer will likely require all its funds to further the development of its business.

Management of Growth

Any expansion of the Resulting Issuer's business may place a significant strain on its financial, operational and managerial resources. There can be no assurance that the Resulting Issuer will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth it experiences. There can be no assurance that the Resulting Issuer will be able to manage growth successfully. Any ability of the Resulting Issuer to manage growth successfully could have a material adverse effect on the Resulting Issuer's business, financial condition and results of operations.

Reliance on Key Personnel and Consultants

There can be no assurance that any of the Resulting Issuer's employees will remain with the Resulting Issuer or that, in the future, the employees will not organize competitive businesses or accept employment with companies competitive with the Resulting Issuer.

Government Regulation and Political Risk

The Resulting Issuer's operating activities will be subject to laws and regulations governing expropriation of property, health and worker safety, employment standards, waste disposal, protection of the environment, mine development, land and water use, prospecting, mineral production, exports, taxes, the protection of endangered and protected species and other matters. While Canada Coal believes that it is in substantial compliance with all material current laws and regulations affecting its activities, future changes in applicable laws, regulations, agreements or changes in their enforcement or regulatory interpretation could result in changes in legal requirements or in the terms of existing permits and agreements applicable to the Resulting Issuer or its properties, which could have a material adverse impact on the Resulting Issuer's future operations or planned development projects. Where required, obtaining necessary permits and licences can be a complex, time consuming process and Canada Coal cannot assure whether any necessary permits will be obtainable on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining necessary permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict the Resulting Issuer from proceeding with any future exploration or development of its properties. Any failure to comply with applicable laws and regulations or permits, even if inadvertent, could result in interruption or closure of exploration, development or mining operations or material fines, penalties or other liabilities. Canada Coal's mineral properties are located in Nunavut. The Resulting Issuer's activities may be affected in varying degrees by

political stability and governmental regulations. Any changes in regulations or shifts in political attitudes in Nunavut are beyond the control of the Resulting Issuer and may adversely affect its operations.

Environmental Regulation

Environmental and safety legislation (e.g. in relation to reclamation, disposal of waste products, protection of wildlife and otherwise relating to environmental protection) may change in a manner that may require stricter or additional standards than those now in effect, a heightened degree of responsibility for companies and their directors and employees and more stringent enforcement of existing laws and regulations. There may also be unforeseen environmental liabilities resulting from mining activities, which may be costly to remedy. If the Resulting Issuer is unable to fully remedy an environmental problem, it may be required to stop or suspend operations or enter into interim compliance measures pending completion of the required remedy. The potential exposure may be significant and could have a material adverse effect on the Resulting Issuer. The Resulting Issuer has not purchased insurance for environmental risks (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) as it is not generally available at a price which the Resulting Issuer regards as reasonable.

Uninsured Risks

The business of the Resulting Issuer is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to properties of the Resulting Issuer or others, delays in mining, monetary losses and possible legal liability.

Although the Resulting Issuer may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance, if any, will not cover all the potential risks associated with a mining company's operations. The Resulting Issuer may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Resulting Issuer or to other companies in the mining industry on acceptable terms. The Resulting Issuer might also become subject to liability for pollution or other hazards which it may not be insured against or which the Resulting Issuer may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Resulting Issuer to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Inadequacy of Infrastructure

Exploration activities and any future mining, processing and development depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the operations, financial condition and results of operations of the Resulting Issuer.

Land Reclamation Expenses

It is difficult to determine the exact amounts which will be required to complete all land reclamation activities in connection with the properties in which the Resulting Issuer holds an interest. Reclamation bonds and other forms of financial assurance represent only a portion of the total amount of money that will be spent on reclamation activities over the life of a mine. Accordingly, it may be necessary to revise planned expenditures and operating plans in order to fund reclamation activities. Such costs may have a material adverse impact upon the financial condition and results of operations of the Resulting Issuer.

Shareholders' Interest may be Diluted in the Future

The Resulting Issuer will require additional funds for its planned activities. If the Resulting Issuer raises additional funding by issuing equity securities, such financing could substantially dilute the interests of the Resulting Issuer's shareholders. Sales of substantial amounts of shares, or the availability of securities for sale, could adversely affect the prevailing market prices for the Resulting Issuer's shares. A decline in the market prices of the Resulting Issuer's shares could impair the ability of the Resulting Issuer to raise additional capital through the sale of new common shares should the Resulting Issuer desire to do so.

Approval from Government Bodies

The Resulting Issuer's acquisition of properties will be conditional upon receiving certain regulatory approvals. A substantial delay in obtaining satisfactory approvals or the imposition of unfavourable terms or conditions in the regulatory approvals could adversely affect the business, financial condition or results of operations of the Resulting Issuer.

Current Global Financial Conditions

Current global financial conditions have been subject to increased volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing by junior mining exploration and development companies has been negatively impacted by the credit market crisis, the reduction in energy prices and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of the Resulting Issuer to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Resulting Issuer. If these crises and increased levels of volatility continue, the Resulting Issuer's operations could be adversely impacted and the trading price of the Resulting Issuer's Common Shares could be adversely affected.

Global Warming Concerns May Discourage or Restrict Customers' Use of Coal

Public and government concern is growing over the increase in concentration of greenhouse gases in the atmosphere. The burning of fossil fuels, including coal, emits carbon dioxide, a greenhouse gas that is considered by some to contribute to global warming. Legislation may be enacted that restricts the burning of coal or may cause coal consumers to control the emission through investments in control technologies. Reduction of coal use by the customers of the Resulting Issuer, and any restrictions on the burning of coal, will negatively impact the Resulting Issuer's ability to extend existing contracts or to grow through new coal sales.

Potential Downward Pressure on Coal Prices

The coal industry is highly competitive, typically with numerous producers competing in each coal consuming region of the international export market. The Resulting Issuer will compete with large and small producers in certain regions. Because of significant consolidation in the coal industry, some of its competitors have significantly increased their scale and have a greater ability to influence pricing and be long-term suppliers of competitively priced coals. In addition, many of its competitors have significantly greater financial resources than the Resulting Issuer will have, which may allow them to compete more effectively than the Resulting Issuer will be able to. Competitive factors could put downward pressure on coal prices or result in the loss of customers.

Ability to Sell Coal Depends on Transportation being Available and Affordable

The Resulting Issuer will depend on rail and ship transportation to deliver coal to its distant customers. These transportation costs are a significant component of the total cost of supplying coal to these customers. Any increase in the costs of transporting its coal, whether borne by the Resulting Issuer or its customers, could adversely affect its competitive position in specific market regions and its profitability from sales in that region. Disruption of rail and port services could impair its ability to supply coal to its customers thereby resulting in lost sales and reduced profitability.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of Nunavut. Canada Coal is not aware that any claims have been made in respect of the Nunavut Coal Property; however, if a claim arose and was successful this could have an adverse effect on the Resulting Issuer and its operations

Operating Expenses Could Increase Significantly

The Resulting Issuer will be a substantial consumer of electricity, fuels and other inputs. For example, a substantial portion of its major mining equipment and processing plants will be powered by electricity that the Resulting Issuer will have to purchase from outside sources. Similarly, recent fluctuations in crude oil and natural gas prices will affect its costs of diesel fuel and natural gas, which are important inputs into the production of coal. The Resulting Issuer may not be able to pass on cost increases to its other customers, which could negatively impact its operating profits.

Commodity Price Hedging

Currently, the Resulting Issuer does not have a policy to hedge future commodity sales. If put into place, there is no assurance that a commodity hedging program designed to reduce the risk associated with fluctuations in commodity prices will be successful. Hedging may not protect adequately against declines in commodity prices. Although hedging may protect the Resulting Issuer from a decline in commodity prices, it may also prevent the Resulting Issuer from benefiting fully from price increases.

Litigation Risk

All industries are subject to legal claims, with and without merit. The Resulting Issuer may be involved from time to time in various routine legal proceedings, which include labour matters such as unfair termination claims, supplier matters and property issues incidental to its business. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding could have a material effect on financial position and results of operations.

INFORMATION FOR MERCURY SHAREHOLDERS

This Circular is furnished in connection with the solicitation of proxies by the management of Mercury for use at the Mercury Meeting to be held at the time and place and for the purposes set forth in the attached Mercury Notice. The solicitation will be primarily by mail, but proxies may also be solicited personally or by telephone by regular employees of Mercury. The cost of solicitation will be borne by Mercury.

Mercury has distributed or made available for distribution, copies of the Mercury Notice, the Circular and form of proxy to clearing agencies, securities dealers, banks and trust companies or their nominees (collectively, the “**Intermediaries**”) for distribution to Mercury Shareholders (the “**Non-registered Shareholders**”) whose shares are held by or in custody of such Intermediaries. Such Intermediaries are required to forward such documents to Non-registered Shareholders unless a Non-registered Mercury Shareholder has waived the right to receive them. The solicitation of proxies from Non-registered Shareholders will be carried out by the Intermediaries or by Mercury if the names and addresses of the Non-registered Shareholders are provided by Intermediaries. Mercury will pay the permitted fees and costs of Intermediaries incurred in connection with the distribution of these materials.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are officers and directors of Mercury. **A Mercury Shareholder has the right to appoint a person (who need not be a Mercury Shareholder) to attend and act for such Mercury Shareholder and on his, her or its behalf at the Mercury Meeting other than the persons designated in the enclosed form of proxy.** Such right may be exercised by inserting in the blank space provided for that purpose the name of the desired person or by completing another proper form of proxy and, in either case, delivering the completed and executed proxy to Mercury’s transfer agent and registrar, Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario, not later than 48 hours (excluding Saturdays, Sundays and statutory holidays) prior to commencement of the Mercury Meeting on the day of the Mercury Meeting or any adjournment thereof prior to the time of voting. A proxy must be executed by the registered Mercury Shareholder or his or her attorney duly authorized in writing or, if the Mercury Shareholder is a corporation, by an officer or attorney thereof duly authorized.

Proxies given by Mercury Shareholders for use at the Mercury Meeting may be revoked prior to their use:

- (a) by depositing an instrument in writing executed by the Mercury Shareholder or by such Mercury Shareholder’s attorney duly authorized in writing or, if the Mercury Shareholder is a corporation, under its corporate seal, by an officer or attorney thereof duly authorized indicating the capacity under which such officer or attorney is signing:
 - (i) with Mercury’s transfer agent and registrar, Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, facsimile (416) 263-9524, at any time up to and including the last business day preceding the day of the Mercury Meeting, being February 17, 2012, or any adjournment thereof at which the proxy is to be used; or
 - (ii) with the chairman of the Mercury Meeting on the day of the Mercury Meeting or any adjournment thereof; or
- (b) in any other manner permitted by law.

Unless otherwise disclosed in this Circular, no person who has been a director or an executive officer of Mercury at any time since the beginning of its last completed financial year, or who is a proposed management nominee for election as a director of Mercury or any associate of such persons has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting other than the election of directors.

The execution or exercise of a proxy does not constitute a written objection for the purpose of exercising dissent rights.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the accompanying form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the Mercury Shareholders appointing them. **In the absence of such direction, such**

shares will be voted in favour of the passing of the matters set out in the Mercury Notice. The form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Mercury Notice and with respect to other matters which may properly come before the Mercury Meeting or any adjournment thereof. At the time of the printing of this Circular, the management of Mercury knows of no such amendments, variations or other matters to come before the Mercury Meeting other than the matters referred to in the Mercury Notice. **However, if any other matters which at present are not known to the management of Mercury should properly come before the Mercury Meeting, the proxy will be voted on such matters in accordance with the best judgment of the named proxies.**

ADVICE TO BENEFICIAL SHAREHOLDERS

The information set forth in this section is of significant importance to a substantial number of Mercury Shareholders who do not hold their shares in their own name (referred to in this section as “**Beneficial Shareholders**”). Beneficial Shareholders should note that only proxies deposited by Shareholders whose names appear on the records of Mercury as the registered holders of shares can be recognized and acted upon at the Mercury Meeting. If shares are listed in an account statement provided to a Mercury Shareholder by a broker, then in almost all cases those shares will not be registered in such Mercury Shareholder’s name on the records of Mercury. Such shares will more likely be registered under the name of the Mercury Shareholder’s broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co., the registration name for The Canadian Depository for Securities Inc., which company acts as a nominee of many Canadian brokerage firms. Shares held by brokers or their nominees can only be voted for or against resolutions upon the instructions of the Beneficial Shareholder. Without specific instructions, brokers/nominees are prohibited from voting shares for their clients. The directors and officers of Mercury do not know for whose benefit the shares registered in the name of CDS & Co. are held.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of shareholders’ meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Shareholders in order to ensure that their shares are voted at the Mercury Meeting. Often the form of proxy supplied to a Beneficial Shareholder by its broker is identical to the form of proxy provided by Mercury to the registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on behalf of the Beneficial Shareholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. (referred to herein as “Broadridge”). Broadridge typically mails the voting instruction forms or proxy forms to the Beneficial Shareholders and asks the Beneficial Shareholders to return the proxy forms to Broadridge. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the Mercury Meeting. A Beneficial Shareholder receiving a proxy or voting instruction form from Broadridge cannot use that proxy to vote shares directly at the Meeting - the proxy must be returned to Broadridge well in advance of the Mercury Meeting in order to have the shares voted.

Although Beneficial Shareholders may not be recognized directly at the Mercury Meeting for the purposes of voting shares registered in the name of their broker or other intermediary, a Beneficial Shareholder may attend the Mercury Meeting as proxyholder for the registered holder and vote their shares in that capacity. Beneficial Shareholders who wish to attend the Mercury Meeting and indirectly vote their own shares as proxyholder for the registered holder should enter their own names in the blank space on the management form of proxy or voting instruction form provided to them and return the same to their broker or other intermediary (or the agent of such broker or other intermediary) in accordance with the instructions provided by such broker, intermediary or agent well in advance of the Mercury Meeting. Beneficial Shareholders should carefully follow the instructions of their intermediaries and their service companies.

All references to shareholders in this Circular and the accompanying form of proxy and Mercury Notice are to Shareholders of record unless specifically stated otherwise.

QUORUM

A quorum for the transaction of business at the Mercury Meeting is two Mercury Shareholders, or one or more proxyholders representing two Mercury Shareholders, or one Mercury Shareholder and a proxyholder representing another Mercury Shareholder, holding or representing not less than five percent (5%) of the issued and outstanding Mercury Common Shares enjoying voting rights at the Mercury Meeting.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Mercury has fixed the close of business on January 10, 2012 as the Mercury Record Date for the purposes of determining Mercury Shareholders entitled to receive the Mercury Notice and vote at the Mercury Meeting. As at the Mercury Record Date, 3,349,750 Mercury Common Shares, carrying the right to one vote per share at the Mercury Meeting, were issued and outstanding.

In accordance with the provisions of the OBCA, Mercury will prepare a list of the Mercury Shareholders on the Mercury Record Date. Each holder of such shares named on the list will be entitled to vote the shares shown opposite its name on the list at the Mercury Meeting.

To the knowledge of management, no person beneficially owns, directly or indirectly, or exercises control or direction over securities carrying more than 10% of the voting rights attached to any class of outstanding voting securities of Mercury.

EXECUTIVE COMPENSATION

For purposes of this Circular, “named executive officer” of Mercury means an individual who, at any time during the year, was (each a “**Named Executive Officer**”):

- (a) Mercury’s chief executive officer (“**CEO**”);
- (b) Mercury’s chief financial officer (“**CFO**”);
- (c) each of Mercury’s three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year and whose total compensation was, individually, more than \$150,000 for that financial year; and
- (d) each individual who would be a Named Executive Officer under paragraph (c) but for the fact that the individual was neither an executive officer of Mercury, nor acting in a similar capacity, at the end of the most recently completed financial year.

Based on the foregoing definition, during the last completed financial year of Mercury, there was one Named Executive Officer, Alexander C. Logie, Mercury’s CEO and CFO.

Compensation Discussion and Analysis

As of the date hereof, Mercury had not yet completed a Qualifying Transaction pursuant to the CPC Policy. Accordingly, the named executive officers of Mercury, have not been paid any compensation (other than a grant of incentive stock options subsequent to the financial year ended December 31, 2010), as the CPC Policy prohibits directors and officers from receiving remuneration while Mercury is a CPC.

The Board determines the allocation and terms of any stock option grants. Pursuant to Mercury’s Stock Option Plan, Mercury’s Board may grant options to the Mercury Board, executive officers other employees and consultants as incentives. The level of stock options awarded to a Named Executive Officer is determined by his position and his potential future contributions to Mercury. When granting stock options, the Mercury Board considers the amount of options which have been granted to executive officers in the past.

Summary Compensation Table

The following table sets forth the compensation paid or awarded to the Named Executive Officers during the financial year ended December 31, 2010:

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based award (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
Alexander C. Logie, CEO & CFO	2010	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Incentive Plan Awards

No incentive stock options were granted to the Named Executive Officers during the financial year ended December 31, 2010.

Pension Plan Benefits

Mercury does not have in place any deferred compensation plan or pension plan that provides for payments or benefits at, following or in connection with retirement of Named Executive Officers.

Termination and Change of Control Benefits

Mercury does not have any plan or arrangement to pay or otherwise compensate any Named Executive Officer if his employment is terminated as a result of resignation, retirement, change of control, etc., or if his responsibilities change following a change of control.

Director Compensation

No cash compensation was paid to the directors of Mercury in their capacity as directors during the financial year ended December 31, 2010. The directors of Mercury are eligible to receive options to purchase Mercury Common Shares pursuant to the terms of the Mercury Stock Option Plan, however no incentive stock options were granted to the directors of Mercury during the financial year ended December 31, 2010.

Narrative Discussion

Mercury currently does not pay Directors who are not employees or officers of Mercury for attending Directors' meetings or for serving on committees. Mercury had no arrangements, standard or otherwise, under which Mercury compensates Directors for their services as Directors, for committee participation, or for involvement in special assignments during the most recently completed financial year. None of Mercury's Directors received any cash compensation for services provided in their capacity as Directors during Mercury's most recently completed financial year.

Securities Authorized For Issuance Under Equity Compensation Plans

The following table provides information as of September 30, 2011, with respect to compensation plans under which the Mercury Common Shares are authorized for issuance, aggregated as set out below:

Plan Category	Number of Mercury Common Shares to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of Mercury Common Shares remaining available for future issuance under equity compensation plans (excluding securities listed in first column)
Equity compensation plans not approved by security holders	259,975	\$0.20	75,000

Indebtedness Of Directors And Executive Officers

None of the officers or directors of Mercury was indebted to Mercury as of December 31, 2010 or at any time during 2010.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Directors and officers of Mercury own beneficially, directly or indirectly, or exercise control or direction over, an aggregate of approximately 750,000 Mercury Common Shares (approximately 22.39% of the Mercury Common Shares outstanding as at the date hereof). The directors and officers of Mercury have indicated that they will vote the 750,000 Mercury Common Shares beneficially owned by them in favour of the Amalgamation and all other matters to be considered at the Mercury Meeting.

None of the current directors of Mercury are anticipated to serve as directors of the Resulting Issuer following the completion of the Proposed Transaction.

None of Mercury's directors or senior officers, or their associates and affiliates, have any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Mercury Meeting except as disclosed in this Circular.

Other than in their capacity as Mercury Shareholders or as described above or elsewhere in this Circular, no director or senior officer is expected to benefit from the Proposed Transaction.

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc., 200-510 Burrard St., Vancouver, BC V6C 3B9, is Mercury's registrar and transfer agent.

CORPORATE GOVERNANCE PRACTICES

Pursuant to National Instrument 58-101 - *Disclosure of Corporate Governance Practices* ("NI 58-101"), Mercury is required to disclose information relating to its corporate governance practice. Mercury's "Statement of Corporate Governance Practices", approved by the Mercury Board, is attached to this Circular as Schedule "B".

AUDIT COMMITTEE

Audit Committee's Charter

Multilateral Instrument 52-110 of the Canadian Securities Administrators ("NI 52-110") requires Mercury, as a venture issuer, to disclose annually in its information circular certain information concerning the constitution of its audit committee ("**Audit Committee**") and its relationship with its independent auditor, as set forth in the following.

The Audit Committee is governed by an Audit Committee charter (the "**Charter**"), which is attached as Schedule "C" attached hereto.

Composition of Audit Committee

During 2010 and 2011 to the date of this Circular, the Audit Committee was comprised of three directors: Alexander C. Logie, Andrew Bordin and Thomas Sears, two of whom were independent directors who meet the independence

requirement set out in NI 58-101 and under NI 52-110. Alexander C. Logie is not considered independent by virtue of the officer positions he holds within Mercury.

All current members of the Audit Committee are “financially literate” within the meaning given to such term in the Charter and NI 52-110, and have the ability to understand and evaluate financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by Mercury’s financial statements.

Relevant Education and Experience

In addition to each current member’s general business experience, the education and experience of each individual that is relevant to such member’s responsibilities as a member of the Audit Committee is set forth below:

- (a) **Alexander C. Logie** - Mr. Logie received a Bachelor of Commerce Degree from Queen’s University in 1982. Mr. Logie has over 25 years of investment experience initially in fixed income and derivatives trading and more recently with hedge funds and private equity funds. He began his career as a bond trader and market maker for Prudential Securities. From 1985-1997, he served as Senior Vice President and Head Trader for Citibank Canada in the Global Debt Derivatives and Fixed Income Arbitrage Group. Mr. Logie was also a Founding Director of Mapleridge Capital Corporation, a Toronto based Commodity Trading Advisory firm. In 1998, Mr. Logie co-founded Crane Capital Associates, a Canadian-based international private placement firm specializing in Alternative Assets which was acquired by Bear Stearns Asset Management Inc. in 2007. After the sale to Bear Stearns, Mr. Logie worked for the Baron Group in Hong Kong, a merchant bank where he organized their asset management business as CEO. Most recently, Mr. Logie Co-Founded Faryx Development LLC, a U.S. based developer of wind and solar power and has been their CFO since inception as they organize, build and acquire renewable energy projects throughout the U.S.
- (b) **Andrew Bordin** - From 1994 to 2000 Andrew Bordin was a successful driver who climbed through Formula Ford and Formula 2000 to spend several seasons racing Formula Atlantic and Indy Lights. Since 1995, Mr. Bordin has been the President and owner of AIM Autosport. Established in 1995, AIM Autosport operates multi-car teams competing in the Rolex Sports Cars Series, the Star Mazda Series and the USF2000 Series. The company has a mandate to identify, train and manage emerging motorsport talent.
- (c) **Thomas Sears** - Mr. Sears obtained his Bachelor of Commerce from the University of Windsor in 2002. Since October 2010, Mr. Sears has been in Institutional Sales at Dominick & Dominick Securities Inc. From February 2010 to August 2010 he was a Sales Consultant for PasWord Protection. From 2009 to 2010 he was an Investment Advisor at Canaccord Capital Corporation (now known as Canaccord Genuity) and from 2002 to 2007 he was an Investment Advisor at Research Capital Corporation (now known as Mackie Research Capital Corporation).

Audit Committee Oversight

At no time since the commencement of Mercury’s most recently completed financial year have any recommendations by the Audit Committee respecting the appointment and/or compensation of Mercury’s external auditors not been adopted by the directors.

RELiance ON CERTAIN EXEMPTIONS

Mercury has not relied on the exemptions contained in sections 2.4 or 8 of NI 52-110. Section 2.4 provides an exemption from the requirement that the Audit Committee must pre-approve all non-audit services to be provided by the auditor, where the total amount of fees related to the non-audit services are not expected to exceed 5% of the total fees payable to the auditor in the financial year in which the non-audit services were provided. Part 8 permits a company to apply to a securities regulatory authority for an exemption from the requirements of NI 52-110, in whole or in part.

PRE-APPROVAL POLICIES AND PROCEDURES

Mercury has not adopted any specific policies in relation to the engagement of non-audit services.

EXTERNAL AUDITOR SERVICE FEES

- (a) *Audit Fees* – Collins Barrow Toronto LLP billed Mercury approximately \$10,300 from July 22, 2010 to December 31, 2010.
- (b) *Audit-Related Fees* - Collins Barrow Toronto LLP billed Mercury approximately \$NIL July 22, 2010 to December 31, 2010 for assurance and related services that are reasonably related to the performance of the audits or reviewing Mercury’s financial statements and are not included under “Audit Fees”.
- (c) *Tax Fees* - Collins Barrow Toronto LLP billed Mercury \$NIL from July 22, 2010 to December 31, 2010 for services related to tax compliance, tax advice and tax planning.
- (d) *All Other Fees* - Collins Barrow Toronto LLP billed Mercury \$NIL from July 22, 2010 to December 31, 2010 for services other than those reported above.

EXEMPTION

Mercury is a “venture issuer” as defined in NI 52-110 and is relying on the exemption contained in Section 6.1 of NI 52-110, which exempts Mercury from the requirements of Part 3 (Composition of the Audit Committee) and Part 5 (Reporting Obligations) of NI 52-110.

ADDITIONAL INFORMATION

Mercury is a reporting issuer in the Provinces of British Columbia, Alberta and Ontario. As a result, Mercury files annual and other information with the local securities commissions and regulatory authorities of each of the above named provinces. The Canadian securities regulatory authorities maintain a web site named “SEDAR” that contains reports, proxy and other information regarding issuers that file with the securities regulatory authorities. Mercury’s filings can be found on the SEDAR web site at www.sedar.com.

MATTERS TO BE ACTED ON AT THE MERCURY MEETING

The following are the items of business to be acted upon at the Mercury Meeting:

1. ELECTION OF DIRECTORS

The articles of incorporation provide that the Mercury Board consist of a minimum of 1 director and a maximum of 10 directors. The number of directors of Mercury has previously been set at 6 and the Mercury Board appointed two additional directors pursuant to subsection 124(2) of the OBCA. Each nominee has established his eligibility and willingness to serve as director, if elected. Each duly elected director will hold office until the next annual meeting of Shareholders or until a successor is duly elected, unless his or her office is earlier vacated in accordance with the articles of Mercury. **Provided that the Amalgamation is effected, the Directors of the Resulting Issuer will be those individuals set out in section “Information Concerning the Resulting Issuer – Directors, Officers and Promoters of the Resulting Issuer” below.**

To the knowledge of Mercury, no director is, or has been in the last ten years, a director or executive officer of an issuer that, while that person was acting in that capacity: (a) was the subject of a cease trade order or similar order or an order that denied the issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days; (b) was subject to an event that resulted, after that person ceased to be a director or executive officer, in the issuer being the subject of a cease trade or similar order or an order that denied the issuer access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days; or (c) within a year of that person ceasing to act in that capacity, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets except for the following: Mr. Thomas Sears, a director of Mercury, had his securities license suspended for two months in 2007 for failing to complete a Canadian Institute Course by a certain date. Mr. Sears subsequently completed the course and the suspension was lifted after only two months.

To the knowledge of Mercury, in the past ten years, no director has become bankrupt, made a proposal under any legislation related to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or has entered into a settlement agreement as a result of penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or any other court or regulatory body that would likely be considered important to a reasonable securityholder in deciding which to vote for a proposed director.

The following chart sets out the names and residence location of each person proposed to be nominated for election as a director; all other positions and offices with Mercury; the date the person was elected as a director; their principal occupations and their occupations for the previous five years; other directorships; committee memberships in Mercury; and the approximate number of securities of Mercury, beneficially owned by each director or over which he exercises control or direction as at the date hereof. The information relating to each director having been subject to a cease trade order or bankruptcy, and each director's shareholdings and biography is not known by Mercury's management. All such information was provided to Mercury by each director, respectively.

The persons named in the proxy for the Mercury Meeting intend to vote FOR the election of the proposed nominees in the absence of directions to the contrary from the Shareholders appointing them. Mercury's management and the directors do not contemplate that any of the nominees will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, the persons named in the Management Proxy reserve the right to vote FOR another nominee in their discretion.

Name, Age and Municipality of Residence	Office Held with the Corporation	Director Since	Principal Occupations for Previous Five Years	Number of Mercury Common Shares Held	Percentage of Mercury Common Shares Owned
Alexander C. Logie (52) ⁽¹⁾ Toronto, Ontario	CEO, CFO and Director	July 22, 2010	Presently the President of West Capital Placer Inc., and CFO of Faryx Development LLC. Formerly the CEO of Baron Asset Management Limited, and Managing Partner of Crane Capital Group	68,500	2.04%
Andrew Bordin (33) ⁽¹⁾ Woodbridge, Ontario	Director	July 22, 2010	President of AIM Autosport	150,000	4.48%
Alexey Kostyuchenko (32) St. Petersburg, Russia	Director	July 22, 2010	President of Invest Financial Services Corp., and Vice-President (Development) of NSP Pharma Corp.	81,500	2.43%
Thomas Sears (33) ⁽¹⁾ Toronto, Ontario	Director	July 22, 2010	Presently Institutional Sales at Dominick & Dominick Securities Inc. Formerly Sales Consultant for PasWord Protection, Investment Advisor at Canaccord Genuity, and Investment Advisor at Mackie Research Capital Corporation	100,000	2.99%
Barry M. Polisuk (52) Thornhill, Ontario	Director	July 22, 2010	Partner of Garfinkle Biderman LLP, Barristers & Solicitors	50,000 ⁽²⁾	1.49%
Robbie Grossman (37) Toronto, Ontario	Corporate Secretary and Director	July 22, 2010	Partner of Garfinkle Biderman LLP, Barristers & Solicitors	50,000	1.49%
Leonidas Karabelas (32) Woodbridge, Ontario	Director	May 4, 2011	Presently President of Frontline Communications Investor Relations Inc. Formerly a Consultant at First Canadian Capital Corp.	250,000	7.46%

Notes:

- (1) Member of Audit Committee.
- (2) Held through Polisuk Investment Corporation, a private company wholly owned by Barry M. Polisuk.
- (3) The term of office of each of the directors of Mercury will expire at the next annual meeting of shareholders of Mercury.

The Mercury Shareholders will be requested at the Mercury Meeting to pass the following resolution, without variation:

“IT IS HEREBY RESOLVED, THAT the following persons be elected as directors of Mercury to hold office until the next annual meeting of Mercury Shareholders or until a successor is duly elected, unless his or her office is earlier vacated in accordance with the articles of Mercury:

Alexander C. Logie	Thomas Sears
Andrew Bordin	Barry M. Polisuk
Alexey Kostyuchenko	Robbie Grossman
Leonidas Karabelas”	

It is intended that the Mercury Common Shares represented by proxies in favour of management nominees will be voted for such resolution. Management does not contemplate that any of such nominees will be unable to serve as directors. However, if for any reason, any of the proposed nominees do not stand for election or are unable to serve as such, proxies in favour of management designees will be voted for another nominee in their discretion unless the shareholder has specified in his or her proxy that his or her Mercury Common Shares are to be withheld from voting in the election of directors. An affirmative vote of a majority of the votes cast at the meeting is sufficient for the appointment of the directors.

Notwithstanding the foregoing, if the Proposed Transaction is approved and implemented, the directors of the Resulting Issuer will be those directors set out in the Amalgamation Agreement (as disclosed in this Circular in the section entitled “*Information Concerning the Resulting Issuer, Directors, Officers and Promoters of the Resulting Issuer*”).

2. APPOINTMENT OF AUDITOR

Management of Mercury recommends that Collins Barrow Toronto LLP, Mercury’s auditors since inception, be appointed as the auditors of Mercury by the Mercury Shareholders and the Mercury Shareholders authorize the directors to fix the auditors’ remuneration. Management is seeking the approval of a majority of the votes cast at the Mercury Meeting for Collins Barrow Toronto LLP to be so appointed.

The Mercury Shareholders will be requested at the Meeting to pass the following resolution, without variation:

“IT IS HEREBY RESOLVED, THAT Collins Barrow Toronto LLP be appointed as the auditors of Mercury, and the board of Directors of Mercury are hereby authorized to fix the remuneration of Collins Barrow Toronto LLP.”

The persons named in the Mercury Meeting Proxy intend to vote FOR the appointment of Collins Barrow Toronto LLP as auditors of Mercury until the next annual meeting of Mercury Shareholders, and authorizing the directors to fix the remuneration of the auditors in the absence of directions to the contrary from the Mercury Shareholders appointing them. An affirmative vote of a majority of the votes cast at the meeting is sufficient for the appointment of the auditor.

Notwithstanding the foregoing, if the Proposed Transaction is approved and implemented, the auditors of the Resulting Issuer will change to McGovern, Hurley, Cunningham, LLP (as disclosed in the Circular in the section entitled “*Information Concerning the Resulting Issuer – Auditor, Transfer Agent and Registers*”).

3. APPROVAL OF MERCURY STOCK OPTION PLAN

Summary of Mercury Stock Option Plan

The policies of the Exchange and the Mercury Stock Option Plan established by the Mercury Board on September 30, 2010 provide that the Mercury Board may from time to time, in its discretion and in accordance with the Exchange requirements, grant to directors, officers and employees of Mercury as well as Management Company Employees and Consultants (as such terms are defined in the Exchange’s Corporate Finance Manual Policy 4.4 as amended from time

to time), non-transferable options to purchase Mercury Common Shares, provided that the number of Mercury Common Shares reserved for issuance will not exceed 10% of the total issued and outstanding Mercury Common Shares, exercisable for a period of up to ten (10) years from the date of the grant. The number of Mercury Common Shares reserved for issuance to any individual director or officer of Mercury will not exceed 5% of the issued and outstanding Mercury Common Shares (2% in the case of all optionees providing investor relations services to Mercury and 2% in the case of all technical consultants of Mercury). The exercise price of any option granted pursuant to the Mercury Stock Option Plan shall be determined by the Mercury Board when granted, but shall not be less than the closing price of the Mercury Common Shares on the Exchange on the last business day prior to the day on which an option is granted. The options granted pursuant to the Mercury Stock Option Plan are non-assignable, except by means of a will or pursuant to the laws of descent and distribution.

If the tenure of a director or officer or the employment of an employee of Mercury is terminated for cause no option held by such optionee may be exercised following the date upon which termination occurred. If termination occurs for any reason other than cause, then any option held by such optionee, that has vested, shall be exercisable, in whole or in part, for a period not later than one (1) year thereafter or prior to the expiry date of the option, whichever is sooner, or such shorter period of time as may be determined by the Mercury Board when the option is granted.

Notwithstanding anything to the contrary in the Mercury Stock Option Plan, any options granted prior to the issuance of the Final Exchange Bulletin permitting Mercury's listing must comply with the CPC Policy including, without limitation the restriction from granting options prior to the completion of Mercury's Qualifying Transaction to optionees providing investor relations services to Mercury. A copy of the Mercury Stock Option Plan is attached hereto at Schedule "D".

Approval of the Stock Option Plan

As the Mercury Stock Option Plan provides for a rolling maximum number of Mercury Common Shares which may be issuable upon the exercise of options granted under Mercury Stock Option Plan, Exchange Policy 4.4 requires that the Mercury Stock Option Plan receive shareholder approval each year at the annual shareholders' meeting. Accordingly, Mercury Shareholders will be asked to consider and, if thought appropriate, pass a resolution approving the Mercury Stock Option Plan.

The Mercury Board has unanimously approved the proposed Mercury Stock Option Plan and recommends that Mercury Shareholders vote FOR the Mercury Stock Option Plan. An affirmative vote of a majority of the votes cast at the Mercury Meeting is sufficient to pass the resolution approving the Mercury Stock Option Plan.

The complete text of the resolution which management intends to place before the Mercury Meeting for approval, confirmation and adoption, with or without modification, is as follows:

"WHEREAS the policies of the TSX Venture Exchange (the **"Exchange"**) require annual shareholder approval for the continuation of a rolling stock option plan;

IT IS HEREBY RESOLVED THAT:

1. the stock option plan (the **"Plan"**) in the form attached as Schedule "D" to the joint management information circular of Mercury Capital Limited and Canada Coal Inc. dated January 23, 2012, is hereby authorized and approved;
2. the form of the Plan may be further amended in order to satisfy the requirements or requests of any regulatory authorities without further approval from the shareholders of Mercury; and
3. any one director or officer of Mercury is hereby authorized and directed, for and on behalf of Mercury, to do all such things and to execute such documents, whether under the corporate seal of Mercury or otherwise, that may be necessary to give effect to the foregoing resolutions."

It is intended that the Mercury Common Shares represented by proxies in favour of management nominees will be voted for such resolution. An affirmative vote of a majority of the votes cast at the meeting is sufficient for the appointment of the Mercury Stock Option Plan.

If the Proposed Transaction is approved and implemented, the Mercury Stock Option Plan will become the Stock Option Plan of the Resulting Issuer. See *“Information Concerning the Resulting Issuer –Stock Option Plan of the Resulting Issuer”*.

4. APPROVAL OF THE AMALGAMATION

At the Mercury Meeting, the Mercury Shareholders will be asked to consider and, if deemed advisable, approve the Amalgamation with Canada Coal. The Proposed Transaction is to be completed pursuant to the terms of the Amalgamation Agreement. For information on the Proposed Transaction see *“Information For All Shareholders”*, *“Information Concerning Canada Coal”*, and *“Information Concerning the Resulting Issuer”*.

The Mercury Board has unanimously determined that the Amalgamation is in the best interests of Mercury and the Mercury Shareholders and authorized the submission of the Amalgamation to Mercury Shareholders for approval.

The Mercury Shareholders will be requested at the Mercury Meeting to pass the following resolution (the **“Amalgamation Resolution”**), without variation:

IT IS HEREBY RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The amalgamation (the **“Amalgamation”**) of Canada Coal Inc. (**“Canada Coal”**) and Mercury Capital Limited (**“Mercury”**) to form a resulting issuer named “Canada Coal Inc.”, or such other name as may be determined by the directors, as provided for in and subject to the terms and conditions set forth in an amalgamation agreement (the **“Amalgamation Agreement”**) to be entered into among Canada Coal and Mercury, is hereby approved and authorized with such restrictions or conditions as may be required by the TSX Venture Exchange (the **“Exchange”**), and with discretion to the directors to modify the terms of the transaction provided that such terms are not material at any time prior to the completion thereof, subject to the approval of the Exchange.
2. The entering into of the Amalgamation Agreement by Mercury be and is hereby ratified, confirmed, approved and authorized.
3. Notwithstanding that the above resolutions have been passed and the Amalgamation Agreement and the Amalgamation adopted by the registered holders of common shares in the capital of Mercury (**“Mercury Shareholders”**), the directors of Mercury are hereby authorized and empowered without further notice to or approval of the Mercury Shareholders (i) to amend the Amalgamation Agreement to the extent permitted by the Amalgamation Agreement, and (ii) subject to the terms and conditions of the Amalgamation Agreement, not to proceed with the Amalgamation.
4. Any director or officer of Mercury be, and such director or officer of Mercury hereby is, authorized, instructed and empowered, acting for, in the name of and on behalf of Mercury, to do or to cause to be done all such other acts and things in the opinion of such director or officer of Mercury as may be necessary or desirable in order to fulfill the intention of this resolution and the matters authorized hereby.

The Mercury Board has unanimously approved the Amalgamation and recommends that Mercury Shareholders vote FOR the Amalgamation. In order to be effective, the special resolution approving the Amalgamation requires approval of two thirds of the votes cast by Mercury Shareholders who vote in respect to such resolution.

For a summary of dissent rights available to Mercury Shareholders, refer to *“Information for All Shareholders – Right to Dissent”*.

It is intended that the Mercury Common Shares represented by proxies in favour of management nominees will be voted in favour of the Amalgamation Resolution. An affirmative vote of at least two thirds of the votes cast at the meeting is sufficient for approval of the Amalgamation.

5. APPROVAL OF STOCK OPTION PLAN FOR THE RESULTING ISSUER

Summary of Mercury Stock Option Plan

Pursuant to the terms of the Amalgamation Agreement, the assuming the Proposed Transaction is completed, the stock option plan for the Resulting Issuer is to be the Mercury Stock Option Plan. At the Mercury Meeting, the Mercury Shareholders will be asked to consider and, if deemed advisable, to adopt the Mercury Stock Option Plan as the form of stock option plan for Resulting Issuer. See “*Matters to be Acted on at the Mercury Meeting-Approval of Mercury Stock Option Plan*” for a summary of the Mercury Stock Option Plan.

A copy of the Mercury Stock Option Plan is attached hereto at Schedule “D”.

Adoption of the Stock Option Plan

The Mercury Board has unanimously approved the proposed adopting the Mercury Stock Option Plan as the form of stock option plan for Resulting Issuer, and recommends that Mercury Shareholders vote FOR the adoption of the Mercury Stock Option Plan as the form of stock option plan for the Resulting Issuer. An affirmative vote of a majority of the votes cast at the Mercury Meeting is sufficient to pass the resolution approving the Mercury Stock Option Plan as the stock option plan for the Resulting Issuer.

The Shareholders will be requested at the Mercury Meeting to pass the following resolution, without variation:

“IT IS HEREBY RESOLVED THAT:

1. the stock option plan (the “**Plan**”) in the form attached as Schedule “D” to the joint management information circular of Mercury Capital Limited and Canada Coal Inc. dated January 23, 2012, is hereby authorized and approved as the stock option plan of the company formed by the amalgamation of Mercury Capital Limited and Canada Coal Inc. (the “**Resulting Issuer**”);
2. the form of the Plan may be further amended in order to satisfy the requirements or requests of any regulatory authorities without further approval from the shareholders of Mercury; and
3. any one director or officer of Mercury is hereby authorized and directed, for and on behalf of the Mercury, to do all such things and to execute such documents, whether under the corporate seal of the Mercury or otherwise, that may be necessary to give effect to the foregoing resolutions.”

It is intended that the Mercury Common Shares represented by proxies in favour of management nominees will be voted for such resolution. An affirmative vote of a majority of the votes cast at the meeting is sufficient for the approval of the adoption of the Mercury Stock Option Plan as the stock option plan for the Resulting Issuer.

If the Proposed Transaction is approved and implemented, the Mercury Stock Option Plan will become the Stock Option Plan of the Resulting Issuer. See “*Information Concerning the Resulting Issuer –Stock Option Plan of the Resulting Issuer*”.

6. OTHER MATTERS TO BE BROUGHT BEFORE THE MERCURY MEETING

Management of Mercury is not aware of any matter to come before the Mercury Meeting other than the matters referred to in the Mercury Meeting. However, if any other matter properly comes before the Mercury Meeting, the accompanying form of proxy confers discretionary authority to vote with respect to amendments or variations to matters identified in the Mercury Meeting and with respect to other matters that may properly come before the Mercury Meeting.

INFORMATION FOR CANADA COAL SHAREHOLDERS

This Circular is furnished in connection with the solicitation of proxies by the management of Canada Coal for use at the Canada Coal Meeting to be held at the time and place and for the purposes set forth in the attached Canada Coal Notice. The solicitation will be primarily by mail, but proxies may also be solicited personally or by telephone by regular employees of Canada Coal. The cost of solicitation will be borne by Canada Coal.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are officers and directors of Canada Coal. **A Canada Coal Shareholder has the right to appoint a person (who need not be a Canada Coal Shareholder) to attend and act for such Canada Coal Shareholder and on his, her or its behalf at the Canada Coal Meeting other than the persons designated in the enclosed form of proxy.** Such right may be exercised by inserting in the blank space provided for that purpose the name of the desired person or by completing another proper form of proxy and, in either case, delivering the completed and executed proxy to Canada Coal or its counsel, Aird & Berlis LLP, both at Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9, not later than the close of business on February 17, 2012 or delivering it to the chairman of the Canada Coal Meeting on the day of the Canada Coal Meeting or any adjournment thereof prior to the time of voting. A proxy must be executed by the registered Canada Coal Shareholder or his or her attorney duly authorized in writing or, if the Shareholder is a corporation, by an officer or attorney thereof duly authorized.

Proxies given by Canada Coal Shareholders for use at the Canada Coal Meeting may be revoked prior to their use:

- (a) by depositing an instrument in writing executed by the Canada Coal Shareholder or by such Canada Coal Shareholder's attorney duly authorized in writing or, if the Canada Coal Shareholder is a corporation, under its corporate seal, by an officer or attorney thereof duly authorized indicating the capacity under which such officer or attorney is signing:
 - (i) at the registered office, 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9, at any time up to and including the last business day preceding the day of the Canada Coal Meeting, being February 17, 2012, or any adjournment thereof at which the proxy is to be used; or
 - (ii) with the chairman of the Canada Coal Meeting on the day of the Canada Coal Meeting or any adjournment thereof; or
- (b) in any other manner permitted by law.

The execution or exercise of a proxy does not constitute a written objection for the purpose of exercising dissent rights.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the accompanying form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the Canada Coal Shareholders appointing them. **In the absence of such direction, such shares will be voted in favour of the passing of the matters set out in the Canada Coal Notice. The form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Canada Coal Notice and with respect to other matters which may properly come before the Canada Coal Meeting or any adjournment thereof.** At the time of the printing of Circular, the management of Canada Coal knows of no such amendments, variations or other matters to come before the Canada Coal Meeting other than the matters referred to in the Canada Coal Notice. **However, if any other matters which at present are not known to the management of Canada Coal should properly come before the Canada Coal Meeting, the proxy will be voted on such matters in accordance with the best judgment of the named proxies.**

BENEFICIAL SHAREHOLDERS

Only registered shareholders or duly appointed proxyholders are permitted to vote at the Meeting. Some of the shareholders of the Company are “non-registered” shareholders because the common shares they own are not registered in their names but are instead registered in the name of the brokerage firm, bank or trust company through which they purchased the common shares. More particularly, a person is not a Registered Shareholder in respect of common shares which are held on behalf of that person (the “Beneficial Shareholder”) but which are registered in the name of an intermediary (and “Intermediary”) that the Beneficial Shareholder deals with in respect of the common shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans).

All references to Shareholders in this Circular and the accompanying proxy and notice of meeting are to registered shareholder unless specifically stated otherwise.

QUORUM

The articles of Canada Coal provide that a quorum of shareholders is present at a meeting of shareholders of Canada Coal (or of the holders of any class or series of shares) if two individuals present in person, each of whom is either a shareholder entitled to attend and vote at such meeting or the proxyholder of such a shareholder, is present.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Canada Coal has fixed the close of business on January 10, 2012, as the Canada Coal Record Date for the purposes of determining Canada Coal Shareholders entitled to receive the Canada Coal Notice and vote at the Canada Coal Meeting. As at the date hereof, 38,000,000 Canada Coal Common Shares, carrying the right to one vote per share at the Canada Coal Meeting, were issued and outstanding.

In accordance with the provisions of the OBCA, Canada Coal will prepare a list of the registered Canada Coal Shareholders on the Canada Coal Record Date. Each holder of such shares named on the list will be entitled to vote the shares shown opposite its name on the list at the Canada Coal Meeting.

To the knowledge of the directors and executive officers of Canada Coal, as at the date hereof, the only persons who beneficially own, directly or indirectly, or exercise control or direction over, more than ten percent (10%) of the issued and outstanding Common Shares are as follows:

Name	<u>Number of Canada Coal Common Shares Owned</u> (Percentage of Class and Type of Ownership)	
	Canada Coal Common Shares ⁽¹⁾	Percentage of Voting Rights
Sheldon Inwentash	5,500,000	14.47% ⁽²⁾
AlphaNorth Offshore Inc.	5,187,500	13.65%

Notes:

- (1) The percentage of voting rights calculations stated above are based on 38,000,000 Canada Coal Common Shares outstanding, which number represents the number of issued and outstanding Canada Coal Common Shares on the Record Date
- (2) Held directly and through Pinetree Resource Partnership.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Directors and officers of Canada Coal own beneficially, directly or indirectly, or exercise control or direction over, an aggregate of approximately 3,900,000 Canada Coal Common Shares (approximately 10.27% of the Canada Coal Common Shares outstanding on a non-diluted basis as at the date herof). The directors and officers of Canada Coal have indicated that they will vote the 3,900,000 Canada Coal Common Shares beneficially owned by them in favour of the Proposed Transaction and all other matters to be considered at the Canada Coal Meeting.

All of the current directors of Canada Coal, being R. Bruce Duncan, Senator Michael MacDonald, Braam Jonker, Thomas A. Fenton, E. Richard Klue and William F. Lindqvist, are anticipated to serve as directors and, in the case of

R. Bruce Duncan, Braam Jonker and Thomas A. Fenton, as officers, of the Resulting Issuer following the completion of the Proposed Transaction.

None of Canada Coal's directors or senior officers, or their associates and affiliates, have any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Canada Coal Meeting except as disclosed in this Circular.

Other than in their capacity as Canada Coal Shareholders or as described above or elsewhere in this Circular, no director or senior officer is expected to benefit from the Proposed Transaction.

None of the principal holders of Canada Coal Common Shares or any director or officer of Canada Coal or any Associate or any Affiliate of any foregoing persons, has or had any material interest in any transaction or any proposed transaction that materially affected, or will materially affect, Canada Coal or any of its affiliates except as disclosed above or elsewhere in this Circular or the Schedules hereto.

MATTERS TO BE ACTED ON AT THE CANADA COAL MEETING

1. ELECTION OF DIRECTORS

The articles of Canada Coal dated August 26, 2010, allow for a minimum of one and a maximum of ten directors of Canada Coal. The Canada Coal Board of directors presently consists of six directors, namely R. Bruce Duncan, Senator Michael MacDonald, Braam Jonker, Thomas A. Fenton, E. Richard Klue and William F. Lindqvist. An affirmative vote of a majority of the votes cast at the Meeting is sufficient for the election of directors. Subject to the preceding sentences, each of the directors elected will hold office from the beginning of their respective terms until the close of the next annual meeting of Shareholders or until such director's successor is duly elected or appointed. **Provided that the Amalgamation is effected, the Directors of the Resulting Issuer will be those individuals set out in section "Information Concerning the Resulting Issuer – Directors, Officers and Promoters of the Resulting Issuer" below.**

The following table sets out information regarding the nominees for election as directors.

Name, Municipality of Residence and Position with Resulting Issuer	Principal Occupation for Past Five Years ⁽³⁾	Date First Elected or Appointed	Number of Canada Coal Shares Held	Percentage of Canada Coal Shares Owned
R. Bruce Duncan President and CEO/ later to assume Executive Chairman Director Mississauga, Ontario	From December 2005 to present, Director and Chief Executive Officer of Bolero Resources Corp. (TSXV:BRU); from March 1997 to present, President, West Oak Capital Partners Inc.; from September, 2010 to present, Chief Executive Officer of Prosperity Goldfields Corp. (TSXV: PPG)	August 26, 2010 to present	2,000,000	5.26%
Senator Michael L. MacDonald Director Member of the Audit Committee Member of the Governance and Compensation Committee Dartmouth, Nova, Scotia	Senator of Canada since January, 2009; President of Fleurdelis Motel Ltd. from April, 1988 to present	August 26, 2010 to present	200,000	0.53%
Braam Jonker Director /later to assume Chief Executive Officer and President Member of the Governance and Compensation Committee Vancouver, British Columbia	From June 2009 to April 2011, CFO of Western Coal Corp.; from July 2011 to present, Director of EastCoal Inc. (TSXV: ECX); from August 2010 to present, Director of Mandalay Resources Corporation (TSX: MND); since December 2011, director of Firestone Diamonds Plc (AIM:FDI).	June 21, 2011 to present	500,000	1.32%
Thomas A. Fenton, Director and Secretary Mississauga, Canada	Partner and Practice Group leader (corporate finance) of Toronto based law firm Aird & Berlis LLP; director and officer of several public and private companies	August 26, 2010 to present	200,000	0.53%

Name, Municipality of Residence and Position with Resulting Issuer	Principal Occupation for Past Five Years ⁽³⁾	Date First Elected or Appointed	Number of Canada Coal Shares Held	Percentage of Canada Coal Shares Owned
E. Richard Klue Director Chair of the Audit Committee Member of the Governance and Compensation Committee Vancouver, British Columbia	From 2009 to present, Vice President/Director of Global CSG Operations for Tetra Tech Wardrop Engineering Inc. (Canada). 2008 to 2009, Officer & Director and General Manager for the Americas and Base Metals Global Division Bateman Engineering Canada Corp. (Canada). From 1998 - 2008, General Manager for the Base Metals Global Division, Bateman Minerals & Metals Limited (south Africa).	November 1, 2011 to present	0	0%
William F. Lindqvist Member of the Audit Committee Chair of the Governance and Compensation Committee	Independent Consulting Geologist	January 18, 2012	0	0
TOTAL			2,900,000	7.64%

As a brief description of the principal occupations of the above-named individuals during the last five years, along with other biographical information can be found at “*Information Concerning the Resulting Issuer – Directors, Officers and Promoters of the Resulting Issuer*”

“IT IS HEREBY RESOLVED, THAT the following persons be elected as Directors of Canada Coal to hold office until the next annual meeting of Shareholders or until a successor is duly elected, unless his or her office is earlier vacated in accordance with the articles of Canada Coal:

Senator Michael MacDonald	William F. Lindqvist
R. Bruce Duncan	Braam Jonker
Thomas A. Fenton	E. Richard Klue”

It is intended that the Canada Coal Common Shares represented by proxies in favour of management nominees will be voted for such resolution. Management does not contemplate that any of such nominees will be unable to serve as directors. However, if for any reason, any of the proposed nominees do not stand for election or are unable to serve as such, proxies in favour of management designees will be voted for another nominee in their discretion unless the shareholder has specified in his or her proxy that his or her Canada Coal Common Shares are to be withheld from voting in the election of directors. An affirmative vote of a majority of the votes cast at the meeting is sufficient for the appointment of the directors.

2. APPOINTMENT OF AUDITOR

Management recommends that McGovern, Hurley, Cunningham LLP, Canada Coal’s auditors since September 30, 2011, be appointed as the auditors of Canada Coal by the Shareholders and the Shareholders authorize the Directors to fix the auditors’ remuneration. Management is seeking the approval of a majority of the votes cast at the Meeting for McGovern, Hurley, Cunningham LLP to be so appointed.

The Shareholders will be requested at the Meeting to pass the following resolution, without variation:

“IT IS HEREBY RESOLVED, THAT McGovern, Hurley, Cunningham LLP be appointed as the auditors of Canada Coal, and the board of Directors of Canada Coal are hereby authorized to fix the remuneration of McGovern, Hurley, Cunningham LLP.”

The persons named in the Management Proxy intend to vote FOR the appointment of McGovern, Hurley, Cunningham LLP as auditors of Canada Coal until the next annual meeting of Shareholders, and authorizing the Directors to fix the remuneration of the auditors in the absence of directions to the contrary from the Shareholders appointing them. An affirmative vote of a majority of the votes cast at the meeting is sufficient for the appointment of the auditor.

3. APPROVAL OF THE AMALGAMATION

At the Canada Coal Meeting, the Canada Coal Shareholders will be asked to consider and, if deemed advisable, approve the Amalgamation. The Amalgamation is to be completed pursuant to the terms of the Amalgamation Agreement. For information on the Proposed Transaction see *“Information for all Shareholders”*, *“Information Concerning Canada Coal”* and *“Information Concerning the Resulting Issuer.”*

The Canada Coal Board has unanimously determined that the Amalgamation is in the best interests of Canada Coal and the Canada Coal Shareholders and authorized the submission of the amalgamation resolution (**“Amalgamation Resolution”**) to Canada Coal Shareholders for approval.

The Shareholders will be requested at the Meeting to pass the following resolution, without variation:

“IT IS HEREBY RESOLVED THAT:

1. The amalgamation (the **“Amalgamation”**) of Canada Coal Inc. (**“Canada Coal”**) and Mercury Capital Limited (**“Mercury”**) form a resulting issuer named “Canada Coal Inc.”, or such other name as may be determined by the directors, as provided for in and subject to the terms and conditions set forth in an amalgamation agreement (the **“Amalgamation Agreement”**) entered into among Canada Coal and Mercury, is hereby approved and authorized with such restrictions or conditions as may be required by the TSX Venture Exchange (the **“Exchange”**), and with discretion to the Canada Coal directors to modify the terms of the transaction provided that such terms are not material at any time prior to the completion thereof, subject to the approval of the Exchange.
2. The entering into of the Amalgamation Agreement by Canada Coal be and is hereby ratified, confirmed approved and authorized.
3. Notwithstanding that the above resolutions have been passed and the Amalgamation Agreement and the Amalgamation adopted by the registered holders of common shares in the capital of Canada Coal (**“Canada Coal Shareholders”**), the directors of Canada Coal are hereby authorized and empowered without further notice to or approval of the Canada Coal Shareholders (i) to amend the Amalgamation Agreement to the extent permitted by the Amalgamation Agreement, and (ii) subject to the terms and conditions of the Amalgamation Agreement, not to proceed with the Amalgamation.
4. Any director or officer of Canada Coal be, and such director or officer of Canada Coal hereby is, authorized, instructed and empowered, acting for, in the name of and on behalf of Canada Coal, to do or to cause to be done all such other acts and things in the opinion of such director or officer of Canada Coal as may be necessary or desirable in order to fulfill the intention of this resolution and the matters authorized hereby.”

The Board has unanimously approved the Amalgamation and recommends that Canada Coal Shareholders vote FOR the Amalgamation. In order to be effective, the Amalgamation Resolution requires approval of two thirds of the votes cast by Mercury Shareholders who vote in respect to such resolution.

For a summary of dissent rights available to you, refer to *“Information for All Shareholders – Right to Dissent”*.

It is intended that the Canada Coal Common Shares represented by proxies in favour of management nominees will be voted in favour of such resolution. An affirmative vote of at least two thirds of the votes cast at the meeting is sufficient for approval of the Amalgamation.

4. APPROVAL OF STOCK OPTION PLAN FOR THE RESULTING ISSUER

Summary of Mercury Stock Option Plan

Pursuant to the terms of the Amalgamation Agreement, assuming the Proposed Transaction is completed, the stock option plan for the Resulting Issuer is to be the Mercury Stock Option Plan. At the Canada Coal Meeting, the Canada Coal Shareholders will be asked to consider and, if deemed advisable, to adopt the Mercury Stock Option Plan as the form of stock option plan for Resulting Issuer. See “*Matters to be Acted on at the Mercury Meeting-Approval of Mercury Stock Option Plan*” for a summary of the Mercury Stock Option Plan.

A copy of the Mercury Stock Option Plan is attached hereto at Schedule “D”.

Adoption of the Stock Option Plan

The Canada Coal Board has unanimously approved the proposed adoption of the Mercury Stock Option Plan as the form of stock option plan for the Resulting Issuer, and recommends that Canada Coal Shareholders vote FOR the adoption of the Mercury Stock Option Plan as the form of stock option plan for the Resulting Issuer. An affirmative vote of a majority of the votes cast at the Canada Coal Meeting is sufficient to pass the resolution approving the Mercury Stock Option Plan as the stock option plan for the Resulting Issuer.

The Shareholders will be requested at the Canada Coal Meeting to pass the following resolution, without variation:

“IT IS HEREBY RESOLVED THAT:

1. the stock option plan (the “**Plan**”) in the form attached as Schedule “D” to the joint management information circular of Mercury Capital Limited and Canada Coal Inc. dated January 23, 2012, is hereby authorized and approved as the stock option plan of the company formed by the amalgamation of Mercury Capital Limited and Canada Coal Inc. (the “**Resulting Issuer**”);
2. the form of the Plan may be further amended in order to satisfy the requirements or requests of any regulatory authorities without further approval from the shareholders of Canada Coal; and
3. any one director or officer of Canada Coal is hereby authorized and directed, for and on behalf of Canada Coal, to do all such things and to execute such documents, whether under the corporate seal of Canada Coal or otherwise, that may be necessary to give effect to the foregoing resolutions.”

It is intended that the Canada Coal Common Shares represented by proxies in favour of management nominees will be voted for such resolution. An affirmative vote of a majority of the votes cast at the meeting is sufficient for the approval of the adoption of the Mercury Stock Option Plan as the stock option plan for the Resulting Issuer.

If the Proposed Transaction is approved and implemented, the Mercury Stock Option Plan will become the Stock Option Plan of the Resulting Issuer. See “*Information Concerning the Resulting Issuer –Stock Option Plan of the Resulting Issuer*”.

5. RATIFICATION OF THE ACTS OF THE DIRECTORS OF CANADA COAL

At the Canada Coal Meeting, the Canada Coal Shareholders will be asked to consider and, if deemed advisable, approve a special resolution (the “**Ratification Resolution**”) ratifying all acts, resolutions, other corporate activities of

the directors and shareholders of Canada Coal and the related acts of the management of Canada Coal from the date of incorporation to the date hereof (the “**Ratification**”).

In preparation for the Canada Coal Meeting, the management of Canada Coal undertook a review of certain of its past resolutions and minutes of meeting of directors and shareholders contained in its corporate minute books. The management of Canada Coal ascertained that its minute books reflected a variety of technical or procedural irregularities in connection with the place of past meetings, the constitution of quorum at past meetings, the provision or waiver of notice for past meetings, the appointment of directors, etc. The management of Canada Coal does not consider such irregularities as impacting the value of the shareholders’ interests or the substance of Canada Coal’s business in any material fashion. The management of Canada Coal has taken remedial action to ensure that such irregularities are not repeated, but is unable to alter the historical record. Nonetheless, the management of Canada Coal wishes to recognize the validity of the decisions previously made by its shareholders and directors and corporate actions taken in reliance thereon. Canada Coal may do so by special resolution of Shareholders. Approval of the Ratification may affect the future ability of shareholders to complain about irregularities in the matters being approved, ratified and confirmed.

If the Ratification Resolution is not so approved, the Board resolution relating to past minutes and resolutions of shareholders and directors contained in the minute books of Canada Coal and the related actions of management of Canada Coal will not be ratified, and Canada Coal will likely be forced to incur further cost and expense to carry out a detailed review and analysis of all such historical corporate actions and implement an alternative, time-consuming and costly plan to address any deficiencies identified. Canada Coal is unable to determine in advance what the elements of such an alternative plan would be, how much it would cost, how long it would take or how successful it would be. Entering into such a process may or may not impact the ability of Canada Coal to efficiently carry on its business in a functional fashion, thereby impacting the underlying enterprise value of Canada Coal and the interests of the shareholders of Canada Coal therein.

The Canada Coal Board has unanimously approved the proposed adoption of the Ratification Resolution, and recommends that Canada Coal Shareholders vote FOR the Ratification Resolution. An affirmative vote of a majority of the votes cast at the Canada Coal Meeting is sufficient to pass Ratification Resolution.

The Shareholders will be requested at the Canada Coal Meeting to pass the following resolution, without variation:

WHEREAS the management of Canada Coal has been advised of various technical or procedural irregularities in connection with past meetings, minutes, resolutions and other corporate proceedings reflected in the minute books of Canada Coal;

IT IS HEREBY RESOLVED THAT:

1. Notwithstanding any deficiencies resulting from technical or procedural irregularities in connection with past decisions or actions of the board of directors of Canada Coal, all actions and decisions of the board from the date of incorporation to the date hereof are hereby approved, ratified and confirmed; and
2. The directors and officers of Canada Coal are hereby authorized and directed to do all things and execute all instruments and documents necessary or desirable to carry out the foregoing resolution.

It is intended that the Canada Coal Common Shares represented by proxies in favour of management nominees will be voted for such resolution. An affirmative vote of a majority of the votes cast at the meeting is sufficient for the approval of the Ratification Resolution.

INFORMATION CONCERNING MERCURY

CORPORATE STRUCTURE

NAME AND INCORPORATION

Mercury was incorporated on July 22, 2010, under the OBCA under the name Mercury Capital Limited. On September 1, 2010, Mercury's articles were amended by removing private company restrictions. The authorized share capital of Mercury consists of an unlimited number of common shares, without nominal or par value. At the date hereof, Mercury had 3,349,750 common shares issued and outstanding.

The head and registered office of Mercury is located at 1 Adelaide Street East, Suite 801, Toronto, Ontario, M5C 2V9. Mercury has no subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

HISTORY

On October 27, 2010, Mercury received final receipt from the Ontario Securities Commission for a prospectus dated October 26, 2010 and became a reporting issuer in the provinces of Alberta, British Columbia and Ontario. Mercury completed its IPO on January 28, 2011 and raised gross proceeds of \$319,950. Mercury Common Shares were listed for trading on the Exchange on February 2, 2011 under the symbol MCL.P.

Mercury is a capital pool company whose business is to identify and evaluate businesses and assets with a view to completing a Qualifying Transaction under the policies of the Exchange.

On July 4, 2011, the Exchange halted trading in the Mercury Common Shares as a result of Mercury entering into the Letter of Intent in respect of the Proposed Transaction. The trading halt remains in place as of the date of this Circular. As of the date hereof, there are 3,349,750 Mercury Common Shares issued and outstanding.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Period	Total Expenses	Amounts Deferred in Connection with the Proposed Transaction
Incorporation to December 31, 2010	\$6,800	\$NIL
Nine months ended September 30, 2011	\$69,938	\$NIL
Total	\$76,738	\$NIL

MANAGEMENT'S DISCUSSION AND ANALYSIS

This MD&A was prepared as of December 31, 2010 to assist readers in understanding Mercury's financial performance for the period from incorporation (July 22, 2010) to December 31, 2010. This MD&A information is dated April 29, 2011 and should be read in conjunction with the unaudited financial statements for the period from incorporation (July 22, 2010) to December 31, 2010 of Mercury. Amounts herein are expressed in Canadian dollars except where indicated otherwise and the financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Additional information related to Mercury is available for viewing on SEDAR at www.sedar.com.

Forward Looking Statements

Certain statements contained within this document, and in certain documents incorporated herein by reference, constitute forward looking statements. These statements relate to future events or Mercury's future performance.

Forward looking statements are often, but not always, identified by the use of words: “expect”, “will”, “would”, “seek”, “anticipate”, “budget”, “continue”, “plan”, “forecast”, “may”, “estimate”, “intend”, “could”, “might”, “should”, “believe”, “potential”, “target” or other similar expressions or phrases. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements. Management believes the expectations reflected in such forward looking statements to be reasonable based on information reviewed at the time of writing, but no assurance can be given that these expectations will prove to be correct or will lead to the expected result, and such forward looking statements included herein, or incorporated by reference into this document should not be unduly relied on.

These forward looking statements speak only as of the date of this document, or as of the date specified in the documents incorporated into this document by reference, as the case may be.

Actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth in this document. These risks, uncertainties and factors may include, but are not limited to: unavailability of financing, changes in government regulation, general economic conditions, general business conditions, limited time being devoted to the business by directors, escalating professional fees, escalating transaction costs and the failure to identify or successfully complete a Qualifying Transaction (as defined herein). Readers are cautioned that the risk factors listed in this document are not exhaustive.

The forward looking statements contained in the document and documents incorporated by reference are expressly qualified by this cautionary statement. Management and Mercury do not undertake any obligation to publicly update or revise any forward looking statements except as required by securities law.

Overview

Mercury was incorporated under the *Business Corporations Act* (Ontario) on July 22, 2010. Mercury is classified as CPC as defined in the CPC Policy of the Exchange. On October 27, 2010, Mercury received final receipt for a prospectus dated October 26, 2010 and became a reporting issuer in the provinces of Alberta, British Columbia and Ontario. Mercury completed its initial public offering on January 28, 2011 and raised gross proceeds of \$319,950. The Mercury Shares were listed for trading on the Exchange on February 2, 2011 under the symbol MCL.P. On May 4, 2011 Mercury completed a private placement by issuing 750,000 Mercury Common Shares for aggregate gross proceeds of \$150,000.

Mercury has no assets other than cash, accounts receivable and other receivables, and deferred share issuance costs. The proceeds from Mercury’s initial public offering and its private placements prior to the initial public offering are expected to provide Mercury with sufficient funds to identify and evaluate business or assets with a view to completing a “Qualifying Transaction” as defined in the CPC Policy. Mercury will not carry on any business other than the identification and evaluation of assets or businesses with a view to completing a proposed Qualifying Transaction.

Selected Annual Information

The following is selected annual information for the following period:

	July 22, 2010 (date of incorporation) To December 31, 2010
Net revenues	Nil
Interest income	Nil
Net loss	\$6,800
Total assets	\$138,386
Long term liabilities	Nil
Cash dividends per share	Nil

Results Of Operations

The financial statements for the period from incorporation (July 22, 2010) to December 31, 2010 are incorporated by reference herein and form an integral part of this MD&A.

Mercury is a CPC and has no sales revenue. Until such time as Mercury completes a Qualifying Transaction as required by the Exchange, corporate expenditures will be restricted to costs of raising equity financing, administrative costs to maintain Mercury in good standing and costs to identify and evaluate potential business opportunities.

During the period from incorporation on July 22, 2010 to December 31, 2010, Mercury had no revenue.

Operating expenses for the period from incorporation (July 22, 2010) to December 31, 2010 was \$6,800 and consisted of professional fees.

Summary of Quarterly Results

The following summarizes Mercury's quarterly results for the quarters ended since Mercury became a reporting issuer:

	December 31, 2010
Revenue	Nil
Expenses	\$6,800
Net loss	\$(6,800)
Total assets	\$138,386

Liquidity and Capital Resources

As at December 31, 2010, Mercury had cash of \$73,956 held in Mercury's trust account. Mercury's accounts payable and accrued liabilities outstanding as at December 31, 2010 was \$45,186. Mercury's working capital as at December 31, 2010 was \$32,390.

Mercury has sufficient working capital at this time to meet its current year's anticipated financial obligations. As of the date of this MD&A, Mercury has no outstanding commitments. Mercury has not pledged any of its assets as security for loans, or otherwise and is not subject to any debt covenants.

Cash used in operating activities

Mercury used cash in operating activities of \$34,766 during the period ended December 31, 2010, caused primarily from on-going professional fees and costs associated with the initial public offering. Mercury expects to continue to generate negative cash from operating activities in the future until at least its Qualifying Transaction is completed and Mercury commences revenue generation.

Cash provided by financing activities

During the period ended December 31, 2010, Mercury raised proceeds of \$100,000 from the sale of 1,000,000 common shares issued at a price of \$0.10 per share. This resulted in cash provided by financing activities of \$100,000 during the period ended December 31, 2010.

Off Balance Sheet Arrangements

Mercury is not a party to any off balance sheet arrangements or transactions.

Transactions With Related Parties

Legal fees, including disbursements, of \$25,830 is included in deferred share issuance costs and payable at year-end to a law firm in which two directors (Robbie Grossman and Barry M. Polisuk) of Mercury are partners.

Fourth Quarter

The expenses incurred by Mercury in the three months ended December 31, 2010 were for professional fees in preparation for the IPO.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Mercury bases its estimates on historical experience and other assumptions as required that management believes are reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. Mercury reviews its estimates on an on-going basis in order to ensure the appropriateness of the estimates.

IFRS Conversion

On February 13, 2008, Canada's Accounting Standards Board confirmed January 1, 2011 as the effective date for the convergence of Canadian GAAP to International Financial Reporting Standards for publicly accountable enterprises. The transition date of January 1, 2011 for Mercury will require restatement for comparative purposes of amounts reported by Mercury for the year ended December 31, 2010. Mercury does not expect the IFRS conversion to have a significant impact on its financial statements until such time if and when a Qualifying Transaction is consummated. The extent and impact of the conversion to IFRS may be significantly impacted by the Qualifying Transaction that is currently being pursued. Mercury will develop an IFRS conversion plan subsequent to completion of the Qualifying Transaction.

Financial Instruments

As at December 31, 2010, Mercury's financial instruments consisted of cash, accounts and other receivables and accounts payable and accrued liabilities. The carrying amounts of these financial instruments, reflected in the balance sheet, approximate their fair value due to their short-term nature.

Credit Risk

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. Mercury's exposure to credit risk is limited to its cash. Mercury limits its exposure to credit risk by holding its cash in deposits with high credit quality Canadian financial institutions.

Interest Rate Risk

All of the cash balance is held in a Canadian bank account. Any change to market rates results in interest rate risk. The exposure to interest rate risk, however, is limited due to the nature of the account.

Liquidity Risk

Mercury's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, Mercury had a cash balance of \$73,956 to settle accounts payable and accrued liabilities of \$45,186.

Risks and Uncertainties

The proposed business of Mercury involves a high degree of risk and there is no assurance that Mercury will identify an appropriate business for acquisition or investment, and even if so identified and warranted, it may not be able to finance such acquisition or investment. Additional funds may be required to enable Mercury to pursue such an initiative and Mercury may be unable to obtain such financing on terms which are satisfactory to it. Furthermore, there is no assurance that the business acquired will be profitable.

Mercury has only recently been incorporated, has not yet commenced commercial operations and has no assets other than cash and cash equivalents. It has no history of earnings, and shall not generate earnings or pay dividends until at least after the completion of the Qualifying Transaction.

Mercury currently does not have any full time employees and does not maintain liability insurance. If its operations change, Mercury may add appropriate coverage to cover some of the risks associated with its new business activities.

The Qualifying Transaction may be financed in all or part by the issuance of additional securities by Mercury and this may result in further dilution to the investor, which dilution may be significant and which may also result in a change of control of Mercury.

Subsequent Events

On January 28, 2011, Mercury completed its initial public offering by issuing 1,599,750 common shares at a price of \$0.20 per common share by way of a prospectus pursuant to the policies of the Exchange governing Capital Pool Companies. The common shares were listed and posted for trading on the Exchange under the trading symbol “MCL.P” at the opening of the market on February 2, 2011. The proceeds of the initial public offering will be used to identify and evaluate assets or business for acquisition with a view to completing a “Qualifying Transaction” under the Capital Pool Company program of the Exchange.

In connection with the Offering Mercury paid cash commissions of \$31,995, a \$10,000 corporate finance fee and agent's expenses of \$11,900 (inclusive of taxes). The agent was also granted non-transferable options to purchase 159,975 common shares at a price of \$0.20 per common share, exercisable until February 2, 2013.

An incentive stock option plan was established for the benefit of directors, officers, employees and consultants of Mercury. Pursuant to the option plan options to purchase up to 259,975 common shares of Mercury at an exercise price of \$0.20 per common share, expiring 10 years from the date of grant were issued on January 28, 2011.

On May 4, 2011, Mercury completed a non-brokered private placement financing by issuing 750,000 common shares at a price of \$0.20 per share for a gross proceeds of \$150,000. Mercury paid cash commissions of \$15,000, and issued compensation warrants to purchase 25,000 common shares at an exercise price of \$0.20 per share exercisable until May 4, 2013.

DESCRIPTION OF SECURITIES

Mercury is authorized to issue an unlimited number of common shares (previously defined as “**Mercury Common Shares**”), of which 3,349,750 Mercury Common Shares are issued and outstanding as at the date hereof. In addition, 259,975 Mercury Common Shares are reserved for issuance pursuant to Mercury Options and 184,975 Mercury Common Shares are reserved for issuance pursuant to Mercury Compensation Warrants.

Holders of Mercury Common Shares are entitled to one vote per share at meetings of shareholders of Mercury, to receive dividends if, as and when declared by the directors of Mercury and to receive pro rata the remaining property and assets of Mercury upon its dissolution, liquidation or winding-up, subject to the rights of shares having priority over the Mercury Common Shares.

STOCK OPTION PLAN

As at the date hereof, 259,975 Mercury Common Shares are reserved for issuance pursuant to Mercury Options. See “*Matters to be acted on at the Mercury Meeting - Approval of Stock Option Plan*” for a description of the material terms and conditions of the Mercury Stock Option Plan.

The following table sets out all stock options granted by Mercury:

Name	Number of Common Shares Under Option	Exercise Price of Common Share	Expiry Date
Andrew Bordin	88,392	\$0.20	January 28, 2021
Alexander C. Logie	20,798	\$0.20	January 28, 2021
Alexey Kostyuchenko	67,593	\$0.20	January 28, 2021
Barry M. Polisk	31,197	\$0.20	January 28, 2021

Name	Number of Common Shares Under Option	Exercise Price of Common Share	Expiry Date
Robbie Grossman	31,197	\$0.20	January 28, 2021
Thomas Sears	20,798	\$0.20	January 28, 2021
Total:	259,975		

The policies of the Exchange and the Mercury Stock Option Plan established by the directors of Mercury on September 30, 2010, provide that the board of directors of Mercury may from time to time, in its discretion and in accordance with the Exchange requirements, grant to directors, officers and employees of Mercury as well as Management Company Employees and Consultants (as such terms are defined in the Exchange's Corporate Finance Manual Policy 4.4 as amended from time to time), non-transferable options to purchase Mercury Common Shares, provided that the number of Mercury Common Shares reserved for issuance will not exceed 10% of the total issued and outstanding Mercury Common Shares, exercisable for a period of up to ten (10) years from the date of the grant. The number of Mercury Common Shares reserved for issuance to any individual director or officer of Mercury will not exceed 5% of the issued and outstanding Mercury Common Shares (2% in the case of all optionees providing investor relations services to Mercury and 2% in the case of all technical consultants of Mercury). The exercise price of any option granted pursuant to the Mercury Stock Option Plan shall be determined by the board of directors when granted, but shall not be less than the Discounted Market Price (as such term is defined by the Exchange). The options granted pursuant to the Mercury Stock Option Plan are nonassignable, except by means of a will or pursuant to the laws of descent and distribution.

If the tenure of a director or officer or the employment of an employee of Mercury is terminated for cause, no option held by such optionee may be exercised following the date upon which termination occurred. If termination occurs for any reason other than cause, then any option held by such optionee, that has vested, shall be exercisable, in whole or in part, for a period not later than one (1) year thereafter or prior to the expiry date of the option, whichever is sooner, or such shorter period of time as may be determined by the directors when the option is granted. Notwithstanding anything to the contrary in the Mercury Stock Option Plan, any Mercury Options granted prior to the issuance of the Final Exchange Bulletin must comply with the Exchange's CPC Policy, including, without limitation the restriction from granting options

PRIOR SALES

The following tables set forth the date and prices at which securities of Mercury have been sold since incorporation, and the number of securities of the class sold at each price:

Date	Number of Common Shares	Issue Price per Common Share	Aggregate Proceeds	Consideration Received
July 22, 2010 ¹	728,700	\$0.10	\$72,870	Cash
July 27, 2010 ¹	100,000	\$0.10	\$10,000	Cash
August 19, 2010 ¹	71,300	\$0.10	\$7,130	Cash
August 31, 2010 ¹	100,000	\$0.10	\$10,000	Cash
January 28, 2011	1,599,750	\$0.20	\$319,950	Cash
May 4, 2011	750,000	\$0.20	\$150,000	Cash
TOTAL	3,349,750			

(1) Issued to Non-Arm's Length Parties and subject to the CPC Escrow Agreement.

STOCK EXCHANGE PRICE

The following table sets forth the monthly high and low closing prices and volumes of the trading of the Mercury Common Shares for the periods indicated. The Mercury Common Shares presently trade under the symbol "MLC.P" on the Exchange:

Period	High (\$)	Low (\$)	Volume
--------	-----------	----------	--------

Period	High (\$)	Low (\$)	Volume
July 1 to July 4, 2011 ⁽¹⁾	0.00	0.00	0.00
June, 2011	0.30	0.20	14,000
May, 2011	0.35	0.16	94,000
April, 2011	0.275	0.16	49,500
March, 2011	0.20	0.165	12,000
February, 2011 ⁽²⁾	0.30	0.135	125,200

Note:

(1) Trading of the Mercury Common Shares was halted on July 4, 2011 and remains halted as of the date hereof.

(2) Mercury was listed on the Exchange on February 2, 2011.

NON-ARM'S LENGTH PARTY TRANSACTIONS/ARM'S LENGTH TRANSACTION

Since incorporation on July 22, 2010, Mercury has not acquired any assets or been provided any services in any transaction, or in any proposed transaction, from any director, officer or Insider of Mercury, the proposed nominees for election as directors of the Resulting Issuer, the proposed officers or Insiders of the Resulting Issuer or their Associates or Affiliates.

ARM'S LENGTH TRANSACTION

The Proposed Transaction, if completed, is not a Non-Arms Length Transaction.

LEGAL PROCEEDINGS

Management knows of no legal proceedings, contemplated or actual, involving Mercury or which could materially affect Mercury.

AUDITOR, TRANSFER AGENTS AND REGISTRARS

Auditor

The auditors of Mercury are Collins Barrow Toronto LLP, located at 11 King Street West, Suite 700, Toronto, Ontario, Canada, M5H 4C7.

Transfer Agent and Registrar

The transfer agent and registrar of Mercury is Computershare Investor Services Inc., at its principal offices in Vancouver, British Columbia.

MATERIAL CONTRACTS

Mercury has not entered into any material contracts and will not enter into any material contracts prior to the closing of this Offering, other than:

- (a) Transfer Agent, Registrar and Disbursing Agent Agreement dated the 9th day of September, 2010, between Mercury and Computershare Investor Services Inc.;
- (b) the CPC Escrow Agreement;
- (c) IPO Agency Agreement dated the 26th day of October, 2010, between Mercury and the Agent; and
- (d) the Amalgamation Agreement;

Copies of the foregoing agreements will be available for inspection until the Closing Date and for a period of 30 days thereafter at the offices of Garfinkle Biderman LLP, Dundee Place, 1 Adelaide Street East, Suite 801, Toronto, Ontario M5C 2V9, counsel to Mercury, during ordinary business hours.

INFORMATION CONCERNING CANADA COAL

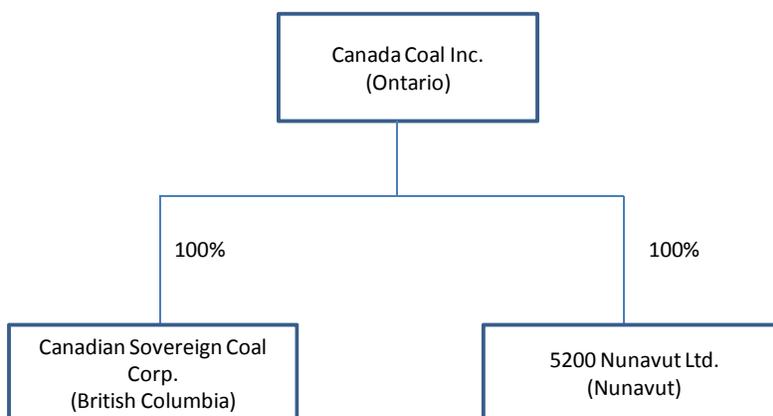
CORPORATE STRUCTURE

NAME AND INCORPORATION

Canada Coal Inc. was incorporated under the *Business Corporations Act* (Ontario) on August 26, 2010 under the name “Pacific Coal Corp”. On April 12, 2011, its name was changed to “Canada Coal Corp” by filing Articles of Amendment. Canada Coal is a privately owned corporation. Canada Coal is a company which is principally engaged in exploration of coal based exploration properties in Nunavut. Canada Coal’s head and registered office is located at Suite 1800, 181 Bay Street, Toronto, Ontario M5J 2T9. Canada Coal has no other offices.

CANADA COAL SUBSIDIARIES

Canada Coal has two subsidiaries, both of which are wholly-owned, as depicted below.



GENERAL DEVELOPMENT OF THE BUSINESS

Since its incorporation, Canada Coal has followed a corporate strategy of acquiring and enhancing coal based exploration projects in Nunavut.

On December 22, 2010, Canada Coal acquired all of the issued and outstanding shares of CSCC and thereby, 9 coal licences and 8 coal licence applications held by CSCC pursuant to a share purchase agreement dated as of September 15, 2010, made between Weststar Resources Corp. (“**Weststar**”) and Pacific Coal Corp. (“**Pacific Coal**”) and a letter of intent made among Hunter Exploration Group (“**Hunter**”), Weststar and Pacific Coal dated September 20, 2010 (collectively the “**CSCC Purchase Agreement**”).

Pursuant to the terms of the CSCC Purchase Agreement, Canada Coal issued 500,000 Canada Coal Common Shares to Weststar and 1,000,000 Canada Coal Common Shares to Hunter, in exchange for all of the issued and outstanding shares of CSCC. Hunter retained a 2% gross royalty (“**GSR**”) on sales of coal originating from the properties of CSCC, and will receive annual advance royalty payments of \$50,000 commencing December 1, 2013. Canada Coal has the right to purchase 1% of Hunter's GSR at any time for a \$1,000,000 cash payment. The acquisition was an arm’s length transaction.

On April 12, 2011, Canada Coal acquired all of the issued and outstanding shares of 5200 Nunavut and thereby, 7 coal exploration licences held by 5200 Nunavut in exchange for 1,000,000 Canada Coal Common Shares and the payment of \$15,700 cash. The acquisition was with arm’s length parties to Canada Coal.

Equity Financings

Between April and June 2011, Canada Coal conducted a series of equity financings wherein it issued 21,500,000 units at a price of \$0.20 per unit, with each unit being comprised of one Canada Coal Common Share and one Canada Coal Warrant, for aggregate gross proceeds of \$4,300,000. Each Canada Coal Warrant issued in connection with such financings entitled the holder to purchase one Canada Coal Common Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, the Exchange or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on the date that is five years after the date of issuance.

In connection with these financings, Canada Coal paid commissions of \$240,000 and issued to finders a total of 1,600,000 Canada Coal Compensation Warrants with each Canada Coal Compensation Warrant exercisable for two years from the date of issuance at an exercise price of \$0.20.

In May of 2011, Mercury completed a non-brokered private placement financing by issuing 750,000 Mercury Common Shares at a price of \$0.20 per Mercury Common Share for gross proceeds of \$150,000. In connection with the financing, Mercury paid cash commissions of \$15,000, and issued Mercury Compensation Warrants to purchase 25,000 Mercury Common Shares at an exercise price of \$0.20 per Mercury Common Share exercisable until May 4, 2013.

On November 4, 2011, Canada Coal completed the Concurrent Financing, which consisted of a brokered private placement of 6,500,000 Canada Coal Flow-Through Units at a price of \$0.50 per Canada Coal Flow Through Unit and 2,100,000 Canada Coal Subscription Receipts at a price of \$0.50 per Canada Coal Subscription Receipt, for aggregate gross proceeds of \$4,300,000.

Each Canada Coal Flow-Through Unit consisted of one Canada Coal Flow-Through Share and one half of one Canada Coal Warrant. Each Canada Coal Warrant issued in connection with the Concurrent Financing shall entitle the holder to purchase one Canada Coal Common Share at a price of \$0.80 per share until March 4, 2014. If the Release Condition is not satisfied on or before March 4, 2012, the number of Canada Coal Warrants per Canada Coal Flow-Through Unit shall be one as opposed to one-half of one.

Each Canada Coal Subscription Receipt issued in connection with the Concurrent Financing entitles the holder to acquire one Resulting Issuer Share and one-half of one Resulting Issuer Warrant upon the completion of the Amalgamation, provided that if the Release Condition is not satisfied on or before March 4, 2012, each Canada Coal Subscription Receipt shall at such point and at no additional consideration to the holder, be comprised of 1.1 Resulting Issuer Share (instead of one Resulting Issuer Share) and 0.55 Resulting Issuer Warrants (instead of one-half of one Resulting Issuer Warrant). If the Release Condition is not satisfied on or before April 4, 2012, the Canada Coal Subscription Receipts will be cancelled and all proceeds from the sale of such subscription receipts shall be returned to the subscriber thereof.

In connection with the Concurrent Financing, Canada Coal paid a cash commission of \$301,000, which represented 7% of the aggregate gross proceeds raised and issued a total of 602,000 Canada Coal Compensation Warrants to the Agents, with each compensation warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.80 per share until November 4, 2014.

NUNAVUT COAL PROJECT

Canada Coal is a privately owned company focused on coal exploration and development on Ellesmere Island and Axel Hieberg Island in Nunavut. Through its two subsidiaries, CSCC and 5200 Nunavut, Canada Coal now holds close to 2,442,627 acres located on Ellesmere Island and Axel Hieberg Island in Nunavut, consisting of 75 active licences (collectively, the “**Nunavut Coal Project**”).

As of the date of this Circular, the Nunavut Coal Project is Canada Coal’s only Principal Property (as such term is defined by the Exchange).

Unless otherwise stated, the information in this section is based on the Nunavut Technical Report, an independent technical report for the purposes of NI 43-101. The principal authors of the Nunavut Technical Report are Keith McCandlish, P. Geol., P. Geo. and Susan O’Donnell, P. Geol., of Associated Geosciences Ltd., each of whom is a

“qualified person” within the meaning of NI 43-101. Neither Keith McCandlish, P. Geol., P. Geo., Susan O’Donnell, P. Geol., nor Associated Geosciences have a direct or indirect interest in Mercury or Canada Coal and each is an “independent person” within the meaning of NI 43-101. The information derived from the Nunavut Technical Report has been included with the consent and prior review of Mr. McCandlish and Ms. O’Donnell, and Mr. McCandlish and Ms. O’Donnell have reviewed all available technical, exploration and business documents related to the Nunavut Coal Project. A site assessment was completed between August 9, 2011 and August 27, 2011 by Mr. McCandlish and Ms. O’Donnell, both full-time employees of Associated Geosciences. Portions of the information are based on assumptions, qualifications and procedures which are not fully described herein. Reference should be made to the full text of the Nunavut Technical Report which is available for review under Mercury’s profile on SEDAR at www.sedar.com. The Nunavut Technical Report is not and shall not be deemed to be incorporated by reference in this management information circular. A copy of the Nunavut Technical Report may be inspected during normal business hours at the head office of Canada Coal at Suite 1800, 181 Bay Street, Toronto, Ontario M5J 2T9.

The following is an excerpt from portions of the Nunavut Technical Report:

Property Description and Location

Property Area

The Nunavut Coal Project consists of 75 coal exploration licences geographically distributed into nine separate land areas. Altogether, the coal exploration licences occupy a total of 2,442,627 acres. Coal licences are held by Canada Coal’s two wholly-owned subsidiaries: 5200 Nunavut and CSCC.

Property Location

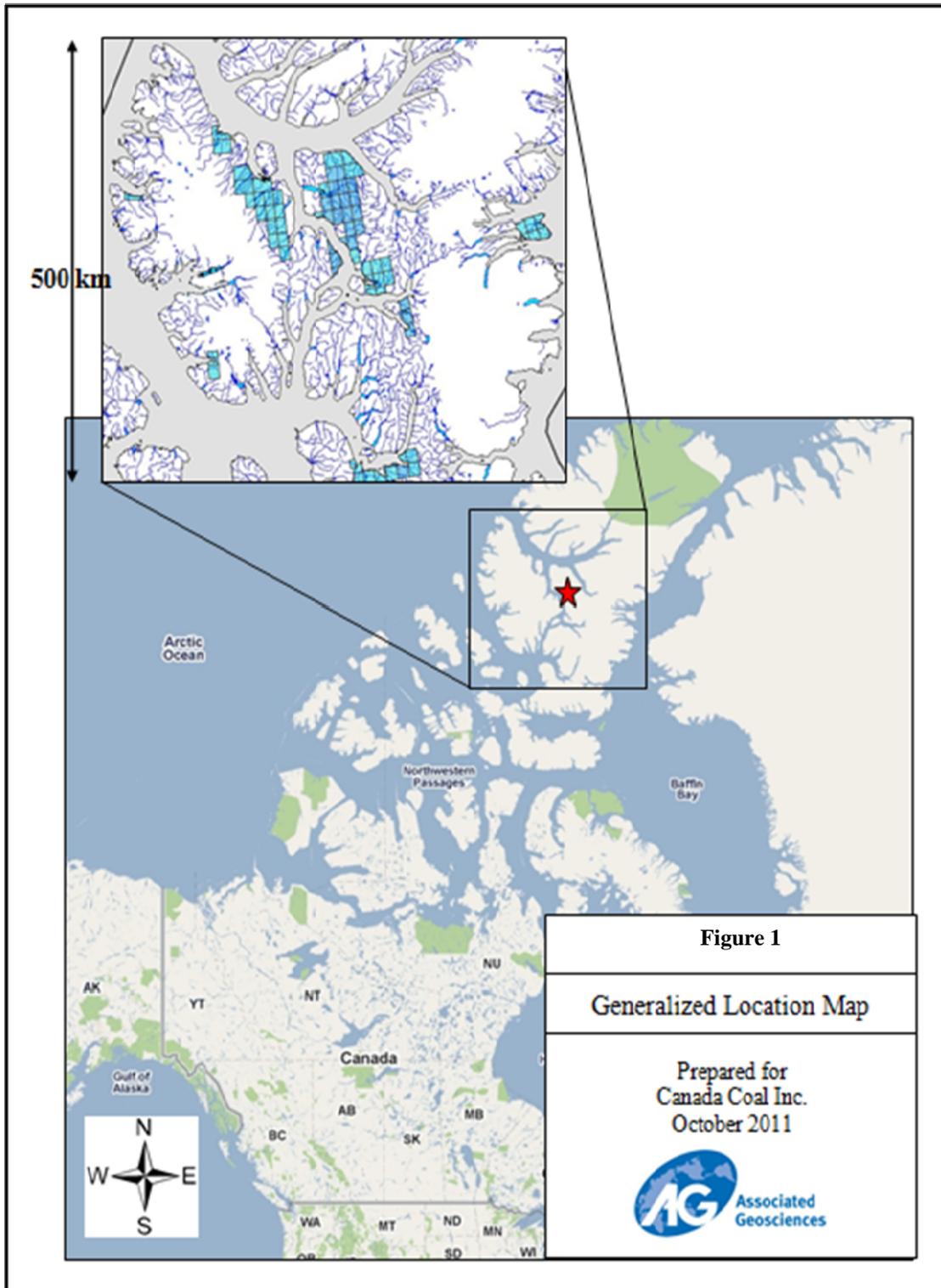
The land areas are primarily situated in Nunavut Territory, Ellesmere Island (Figure 1). A small land area is also situated on the eastern side of Nunavut’s Axel Heiberg Island. Ellesmere and Axel Heiberg Islands are located in the Canadian Arctic Archipelago, and form part of the Queen Elizabeth Islands. Politically, the prospects fall within the Qikiqtaaluk administrative region of Nunavut, also occasionally referred to as the Baffin region.

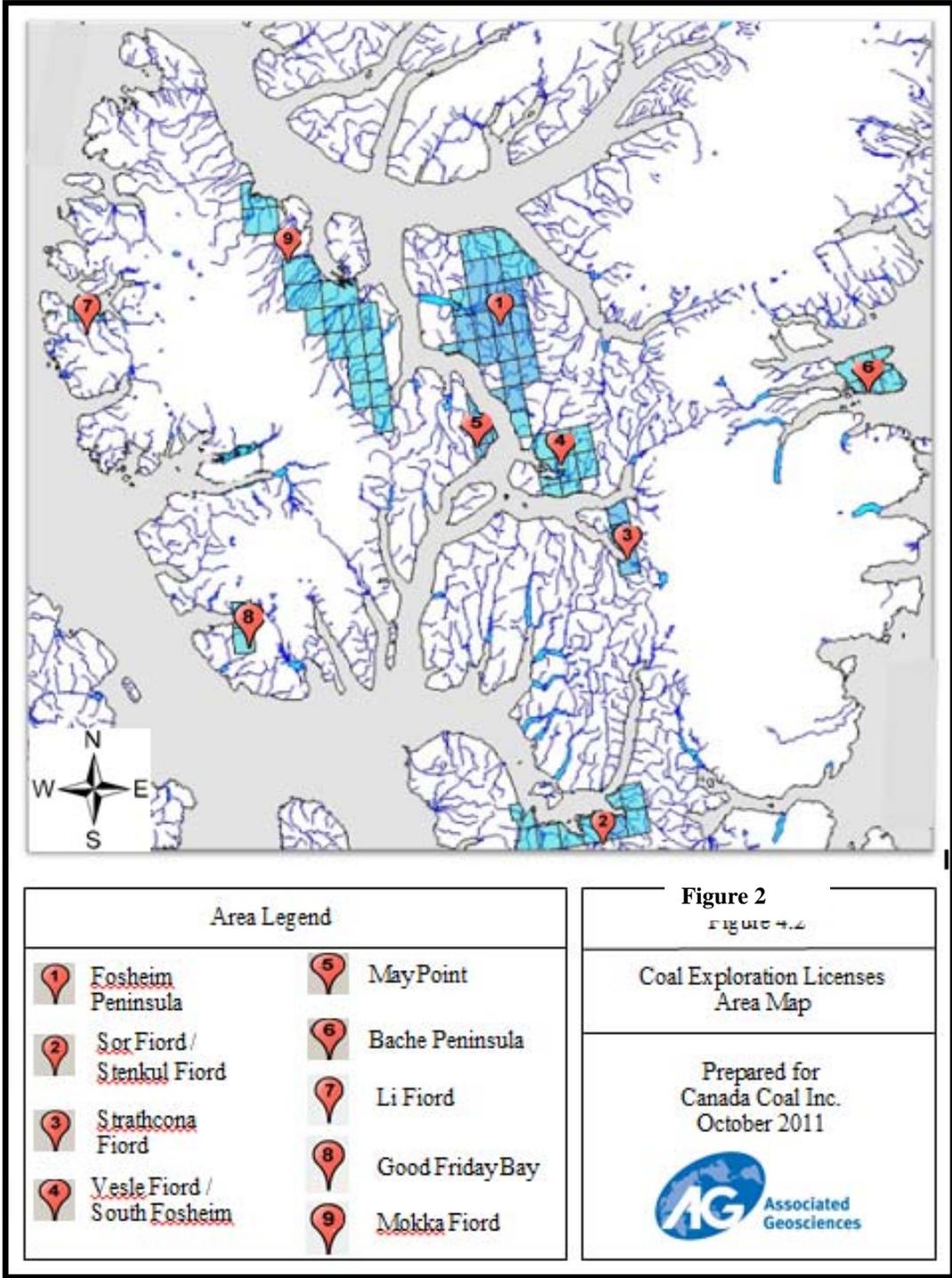
Ellesmere Island is the most northerly island in the Canadian Arctic Archipelago, and its northernmost tip (Cape Columbia) forms the most northerly point in Canada. Ellesmere Island’s approximate position is between 76-84 degrees north latitude and 62-97 degrees west longitude, encompassing a land mass of roughly 200,000 square kilometres. It is home to three settlements: Grise Fiord, Eureka, and Alert.

Grise Fiord, located at 76° 25’34” north latitude and 82° 54’34” west longitude, is known as Canada’s northernmost civilian settlement and hosts a population of 141 residents according to the Canada 2006 Census. Grise Fiord is located 410 kilometres (or 220 nautical miles) south-southeast of Eureka, a government run research station and military base.

Eureka, located at 79° 59’ north latitude and 85° 49’ west longitude on the northwest coast of Ellesmere Island (Slidre Fiord), is the closest year-round settlement to the bulk of coal exploration licences. Eureka does not have any permanent residents; however, it is staffed year-round by shift personnel.

The Canadian Forces maintain a permanent station at Alert, located on the northernmost point of Ellesmere Island. According to the Canada 2006 Census, the population of Alert is 5 although many temporary personnel are stationed there. Geographical coordinates for Alert are 82° 28’ north latitude and 62° 30’ west longitude. It is located 480 kilometres (260 nautical miles) northeast of Eureka.





Property Rights

Canada Coal's exploration licences are parceled into 9 separate geographical areas (Figure 2) including: Fosheim Peninsula, located in the vicinity of the Eureka weather station, is the focal point of Canada Coal's license areas. Fosheim Peninsula's contiguous coal exploration licences include numbers: 101 through 104, 109 through 111, 122 through 128, 130, 131, 134, 160 through 162, and 166 through 168.

Table 1 Approximate Geographic Centers of Exploration Areas

Area Number	Area Name	Approximate Geographic Center	
		Latitude	Longitude
1	Fosheim Peninsula	79° 48' N	84° 15' W
2	Sor Fiord/Stenkul Fiord	77° 17' N	84° 17' W
3	Strathcona Fiord	78° 38' N	82° 08' W
4	Vesle Fiord/South Fosheim	79° 05' N	83° 04' W
5	May Point	79° 18' N	85° 17' W
6	Bache Peninsula	79° 07' N	75° 12' W
7	Li Fiord	80° 02' N	95° 32' W
8	Good Friday Bay	78° 30' N	91° 42' W
9	Mokka Fiord	80° 00' N	88° 14' W

The southernmost exploration area is Sor Fiord/Stenkul Fiord. It includes coal exploration license numbers 105, 154, 155, 157 through 159, and 163 through 165.

Strathcona Fiord includes contiguous coal exploration license numbers 106 through 108. The center of the area lies approximately 50 kilometres southeast of the Fiord/South Fosheim area.

Vesle Fiord/South Fosheim begins at the southernmost region of the Fosheim Peninsula exploration area. Vesle Fiord/South Fosheim contiguous coal exploration licences include license numbers 169 through 175.

May Point is located on Axel Heiberg Island's eastern shore. It includes contiguous coal exploration license numbers 112 through 115.

The easternmost exploration area is known as the Bache Peninsula. It includes coal exploration license numbers 146 through 153.

The Li Fiord exploration area consists of a single license (number 179) located on the northwestern shore of Axel Heiberg Island.

Good Friday Bay consists of two coal licences, numbers 177 and 178, located at the southwestern margin of Axel Heiberg Island.

Mokka Fiord consists of two separate land parcels which have been grouped together for the purposes of the report detailed herein. Mokka Fiord is located at the eastern edge of Axel Heiberg Island, north of the May Point exploration area. Mokka Fiord's coal licences include numbers 180 through 196.

Coal Tenure

Canada Coal's land tenure consists of 75 individual coal exploration licences which are detailed in Table 2. Canada Coal does not currently have any coal leases or coal permits.

Coal exploration licences, coal leases and coal permits in Nunavut are granted by the Mining Recorder's Office in Iqaluit (the “**Recorder**”) who is responsible for subsurface rights administration of Crown land and for administering the Territorial Coal Regulations of the Territorial Lands Act (“**Territorial Coal Regulations**”).

The following information pertaining to coal exploration license, lease, and permit regulation and administration has been summarized from the Aboriginal Affairs and Northern Development Canada (“**AANDC**”, formerly known as the Department of Indian Affairs and Northern Development or “**DIAND**”) official government website as well as from the Territorial Coal Regulations.

Territorial Coal Regulations

Anyone who is over the age of 18 may explore for coal in Nunavut. There are no initial prospector's licences required, but it is recommended that companies doing business in Nunavut be registered and in good standing with the Government of Nunavut's Department of Justice, Legal Registry.

Coal staking is not allowed in the following areas:

- land used as a cemetery;
- land within the limits of a municipal district, a municipality or a local improvement district;
- land reserved for an Indian Reserve, a national park or game sanctuary or for military or other public purpose;
- land reserved under the *Dominion Water Power Act*;
- land lawfully occupied for mining purposes.

If the surface lands to be staked are occupied: 1) consent from the surface holder is required, or 2) a security deposit is required in an amount that is determined by the Recorder to be sufficient to cover any loss or damage that may result from staking on such lands.

The coal permit or lease shall be staked as nearly as possible in the form of a rectangle, which the length shall not exceed four times the width. The total area shall not exceed 640 acres for a lease application and no more than one acre for a permit application.

The locations must be marked on the ground by a post at each of the four corners of the claim.

Coal Exploration Licences

To apply for an exploration license the applicant must submit to the Recorder an application form, a description of the land, a fee of \$10/area applied for and a deposit equal to the expenditures required in the first year the license is in force. License applications consist of ¼ areas of mineral claim staking sheets (1:50,000 NTS map sheets).

Applications are sent for consultation to various associations, boards, and institutions, during which time the status of an applied license is pending. Once awarded, the status of a license is active.

A license is valid for a term of three years beginning on the day of application unless the license is terminated earlier. The work requirements are 5 cents per acre in the first year, 10 cents per acre in the second year, and 20 cents per acre in the third year.

The deposits must be paid by the date of issuance of the license, and may be replaced by an equivalent amount of exploration work done to the license area.

Exploration work that is to be applied to the license shall be submitted within 90 days after the end of each year that the license is in force and shall include:

- a statement of expenditures;
- a report on all exploration;
- geological, geochemical or geophysical reports;
- maps and assay reports.

Any deposits made may be refunded to the licensee if the required amount of exploration work was done and approved.

At the end of any year during the term of a license, not later than 90 days after the expiration of a license the licensee may apply for a lease or permit within the license area. No person other than the licensee may obtain a permit or a lease within the license area.

Table 2 Coal Exploration Licences , Source: Mining Recorder, as at January 13, 2012

LIC#	NTS Sheet	Quarter	Owner	Application Date	Status	Acre	End of 1st Term	End of 2nd Term	Expiry Date
101	049G16	NW	CSCC	2008-06-05	Active	33610.42	6/5/2012	6/5/2013	6/5/2014
102	049G16	SW	CSCC	2008-06-05	Active	34023.23	6/5/2012	6/5/2013	6/5/2014
103	049G16	SE	CSCC	2008-06-05	Active	34024.04	6/5/2012	6/5/2013	6/5/2014
104	049G16	NE	CSCC	2008-06-05	Active	33611.2	6/5/2012	6/5/2013	6/5/2014
105	049D05	SW	CSCC	2008-06-05	Active	39395.39	6/5/2012	6/5/2013	6/5/2014
106	049E11	SE	CSCC	2008-06-05	Active	31021.56	6/5/2012	6/5/2013	6/5/2014
107	049E11	NE	CSCC	2008-06-05	Active	32356.27	6/5/2012	6/5/2013	6/5/2014
108	049E14	SE	CSCC	2008-06-05	Active	29580.11	6/5/2012	6/5/2013	6/5/2014
109	049G09	NW	5200 Nunavut	2008-06-06	Active	34435.89	6/6/2011	6/6/2012	6/6/2013
110	049G10	NE	5200 Nunavut	2008-06-06	Active	24074.64	6/6/2011	6/6/2012	6/6/2013
111	049G15	SE	5200 Nunavut	2008-06-06	Active	34022.45	6/6/2011	6/6/2012	6/6/2013
112	049G08	SW	5200 Nunavut	2008-06-06	Active	4212.24	6/6/2011	6/6/2012	6/6/2013
113	049G07	SE	5200 Nunavut	2008-06-06	Active	35107.95	6/6/2011	6/6/2012	6/6/2013
114	049G07	NE	5200 Nunavut	2008-06-06	Active	14004.16	6/6/2011	6/6/2012	6/6/2013
115	049G02	NE	5200 Nunavut	2008-06-06	Active	11898.06	6/6/2011	6/6/2012	6/6/2013
122	049H12	SW	CSCC	2009-03-16	Active	34849.25	3/16/2012	3/16/2013	3/16/2014
123	049H12	NW	CSCC	2009-03-16	Active	34436.73	3/16/2012	3/16/2013	3/16/2014
124	049G08	NW	CSCC	2009-03-16	Active	10440.3	3/16/2012	3/16/2013	3/16/2014
125	049G08	NE	CSCC	2009-03-16	Active	34732.03	3/16/2012	3/16/2013	3/16/2014
126	340B03	SE	CSCC	2009-03-16	Active	66393.13	3/16/2012	3/16/2013	3/16/2014
127	049H13	NW	CSCC	2009-03-16	Active	33611.19	3/16/2012	3/16/2013	3/16/2014
128	049H13	SW	CSCC	2009-03-16	Active	34024.04	3/16/2012	3/16/2013	3/16/2014
130	049G09	SE	CSCC	2009-03-16	Active	34849.25	3/16/2012	3/16/2013	3/16/2014
131	049G09	NE	CSCC	2009-03-16	Active	34436.73	3/16/2012	3/16/2013	3/16/2014
146	039H03	NW	5200 Nunavut	2011-05-30	Active	25040.55	5/30/2012	5/30/2013	5/30/2014

LIC#	NTS Sheet	Quarter	Owner	Application Date	Status	Acre	End of 1st Term	End of 2nd Term	Expiry Date
147	039H03	SW	5200 Nunavut	2011-05-30	Active	29844.6	5/30/2012	5/30/2013	5/30/2014
148	039H03	SE	5200 Nunavut	2011-05-30	Active	2488.05	5/30/2012	5/30/2013	5/30/2014
149	039H03	NE	5200 Nunavut	2011-05-30	Active	700.61	5/30/2012	5/30/2013	5/30/2014
150	039H04	NW	5200 Nunavut	2011-05-30	Active	27142.87	5/30/2012	5/30/2013	5/30/2014
151	039H04	SW	5200 Nunavut	2011-05-30	Active	10066.76	5/30/2012	5/30/2013	5/30/2014
152	039H04	SE	5200 Nunavut	2011-05-30	Active	23961.02	5/30/2012	5/30/2013	5/30/2014
153	039H04	NE	5200 Nunavut	2011-05-30	Active	33456.87	5/30/2012	5/30/2013	5/30/2014
154	049D05	NW	5200 Nunavut	2011-05-30	Active	16080.63	5/30/2012	5/30/2013	5/30/2014
155	049D05	SE	5200 Nunavut	2011-05-30	Active	41720	5/30/2012	5/30/2013	5/30/2014
156	049D05	NE	5200 Nunavut	2011-05-30	Active	41717.42	5/30/2012	5/30/2013	5/30/2014
157	049C07	NW	5200 Nunavut	2011-05-30	Active	29667.97	5/30/2012	5/30/2013	5/30/2014
158	049C07	SW	5200 Nunavut	2011-05-30	Active	37872.26	5/30/2012	5/30/2013	5/30/2014
159	049C07	SE	5200 Nunavut	2011-05-30	Active	42239.55	5/30/2012	5/30/2013	5/30/2014
160	340B02	NW	5200 Nunavut	2011-05-30	Active	32353.88	5/30/2012	5/30/2013	5/30/2014
161	340B02	SW	5200 Nunavut	2011-05-30	Active	60885.45	5/30/2012	5/30/2013	5/30/2014
162	340B03	NE	5200 Nunavut	2011-05-30	Active	65566.79	5/30/2012	5/30/2013	5/30/2014
163	049C08	SW	5200 Nunavut	2011-05-30	Active	29884.28	5/30/2012	5/30/2013	5/30/2014
164	049C08	SE	5200 Nunavut	2011-05-30	Active	41641.18	5/30/2012	5/30/2013	5/30/2014
165	049C08	NE	5200 Nunavut	2011-05-30	Active	6124.39	5/30/2012	5/30/2013	5/30/2014
166	049G08	SE	5200 Nunavut	2011-05-30	Active	29712.38	5/30/2012	5/30/2013	5/30/2014
167	049G10	NW	5200 Nunavut	2011-07-27	Active	10947.01	7/27/2012	7/27/2013	7/27/2014
168	049G15	NE	5200 Nunavut	2011-07-27	Active	29856.22	7/27/2012	7/27/2013	7/27/2014
169	049H04	NW	5200 Nunavut	2011-07-27	Active	33772.73	7/27/2012	7/27/2013	7/27/2014
170	049H04	SW	5200 Nunavut	2011-07-27	Active	22583.4	7/27/2012	7/27/2013	7/27/2014
171	049H04	SE	5200 Nunavut	2011-07-27	Active	34571.19	7/27/2012	7/27/2013	7/27/2014
172	049H04	NE	5200 Nunavut	2011-07-27	Active	36084.76	7/27/2012	7/27/2013	7/27/2014
173	049H03	NW	5200 Nunavut	2011-07-27	Active	36083.99	7/27/2012	7/27/2013	7/27/2014
174	049H03	SW	5200 Nunavut	2011-07-27	Active	36495.73	7/27/2012	7/27/2013	7/27/2014
175	049E13	NW	5200 Nunavut	2011-07-27	Active	15614.38	7/27/2012	7/27/2013	7/27/2014

LIC#	NTS Sheet	Quarter	Owner	Application Date	Status	Acre	End of 1st Term	End of 2nd Term	Expiry Date
176	049E13	NE	5200 Nunavut	2011-07-27	Active	18310.02	7/27/2012	7/27/2013	7/27/2014
177	059E12	SW	5200 Nunavut	2011-07-27	Active	31055.28	7/27/2012	7/27/2013	7/27/2014
178	059E05	NW	5200 Nunavut	2011-07-27	Active	38550.87	7/27/2012	7/27/2013	7/27/2014
179	560A04	SW	5200 Nunavut	2011-07-27	Active	24471.46	7/27/2012	7/27/2013	7/27/2014
180	049G05	NW	5200 Nunavut	2011-07-27	Active	35259.06	7/27/2012	7/27/2013	7/27/2014
181	049G12	NW	5200 Nunavut	2011-07-27	Active	34434.38	7/27/2012	7/27/2013	7/27/2014
182	049G12	SW	5200 Nunavut	2011-07-27	Active	34846.81	7/27/2012	7/27/2013	7/27/2014
183	059H09	SE	5200 Nunavut	2011-07-27	Active	34847.16	7/27/2012	7/27/2013	7/27/2014
184	059H09	NE	5200 Nunavut	2011-07-27	Active	34434.72	7/27/2012	7/27/2013	7/27/2014
185	049G13	NW	5200 Nunavut	2011-07-27	Active	33609	7/27/2012	7/27/2013	7/27/2014
186	049G13	SW	5200 Nunavut	2011-07-27	Active	34021.78	7/27/2012	7/27/2013	7/27/2014
187	059H16	NW	5200 Nunavut	2011-07-27	Active	33609.78	7/27/2012	7/27/2013	7/27/2014
188	059H16	SW	5200 Nunavut	2011-07-27	Active	34022.59	7/27/2012	7/27/2013	7/27/2014
189	059H16	SE	5200 Nunavut	2011-07-27	Active	34022.1	7/27/2012	7/27/2013	7/27/2014
190	059H16	NE	5200 Nunavut	2011-07-27	Active	33609.31	7/27/2012	7/27/2013	7/27/2014
191	059H15	NE	5200 Nunavut	2011-07-27	Active	33610.4	7/27/2012	7/27/2013	7/27/2014
192	560A01	NW	5200 Nunavut	2011-07-27	Active	62604.83	7/27/2012	7/27/2013	7/27/2014
193	560A01	SW	5200 Nunavut	2011-07-27	Active	66492.86	7/27/2012	7/27/2013	7/27/2014
194	560A01	SE	5200 Nunavut	2011-07-27	Active	61364.99	7/27/2012	7/27/2013	7/27/2014
195	560A07	NE	5200 Nunavut	2011-07-27	Active	63913.11	7/27/2012	7/27/2013	7/27/2014
196	560A10	SE	5200 Nunavut	2011-07-27	Active	38209.22	7/27/2012	7/27/2013	7/27/2014

Coal Leases

A person may apply for a lease by filing the following with the Recorder: an application form, a fee of \$5, a sketch of the location, and the amount of the rental for the first year of the lease. Upon receipt of an application for a license, the Recorder may cause the location to be inspected and if satisfied that the application is in order shall forward such application to the Chief.

If approved, the lease will be issued for a term of 21 years at an annual rental of \$1 per acre payable yearly in advance. A lease is renewable for a further term of 21 years where the lessee furnishes evidence satisfactory to the Minister to show that during the term of the lease he has complied with the conditions of such lease, and may be renewed for additional periods of 21 years subject to the regulations at that time in force.

In addition to the annual rental, a lessee shall pay annually a royalty at the rate of \$0.10 per ton on merchantable coal mined on lands acquired by lease under these Regulations.

A lessee is entitled to the coal upon or in the land included in such lease, and has the right to enter upon, use and occupy the surface of such location or such portion thereof, and to such extent as the Minister considers necessary for efficient coal mining operations but for no other purpose.

A lessee shall commence active operations on his leasehold within one year following the day he is notified by the Minister to commence operations and shall produce from such operations the quantity of coal specified in the said notification. In no case shall the maximum quantity required to be mined exceed 10 tons per annum for each acre leased.

Coal Permits

A person may apply for a permit by filing with the Recorder an application form, a fee of \$1, a payment of estimated royalty on the quantity of coal to be mined under the permit, and a sketch of the location.

Where the Recorder is satisfied that an applicant for a permit has complied with the regulations respecting staking of the location and that the permit should be issued, they shall issue a permit to the applicant.

A permittee is entitled

(a) to enter upon the surface of the location covered by his permit, or such portion thereof and to such extent as the Minister may consider necessary for efficient coal mining and for no other purpose; and

(b) to mine the quantity of coal set out in his permit subject to payment of a royalty on the merchantable output of the mine of \$0.25 per ton of 2,000 pounds or such other royalty as may be fixed from time to time by the Minister with the approval of the Governor in Council.

A permit expires upon March 31st next following the date of issue. Where a permittee wishes to obtain a further permit covering the same location for the ensuing year, they may at any time prior to expiry of the current permit, apply to the Recorder for a further permit, and where satisfied that the permittee has complied with all applicable provisions of these Regulations and of the current permit, the Recorder may, upon receipt of the required fee and estimated royalty, if any, issue a further permit without requiring such permittee to restake such location.

No person shall apply for, or hold, at one time, more than one location under permit.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Accessibility

The Nunavut Coal Project is accessible by air via helicopter. Some areas of the project are also accessible via fixed wing using natural gravel bars as runways including May Point and Stenkul Fiord. Eureka, located just outside to the northwest of the Fosheim area (see Figure 2) is the closet airstrip and it has until recently been capable of handling a Hercules transport aircraft. Marine access to the property is possible via the Eureka Sound and Slidre Fiord during the ice-free summer months.

Aircraft charters may be obtained from Resolute Bay located some 630 kilometres south-southwest of Eureka on the southern side of Cornwallis Island, or other northern communities such as Pond Inlet or Arctic Bay. Resolute Bay, Arctic Bay and Pond Inlet may be accessed via commercial flights from a variety of centers including Iqaluit, Nunavut Territory and Yellowknife, Northwest Territories. Aircraft fuel is not always available on Ellesmere and Axel Heiberg Islands and therefore fuel caching may be necessary to visit the project.

Climate and Operating Season

Climate data for the project areas are based on Environment Canada data collected at the Eureka weather station. Average temperatures at Eureka range from about -37 degrees Celsius (°C) in the winter and about +10 (°C) in the summer. Record high and low temperatures are about -55 degrees Celsius (°C) and +21 degrees Celsius (°C), respectively.

Eureka is described as a polar desert with semi-arid conditions. The average annual precipitation rate is 75.5 mm, of which the bulk majority falls as snow. The sun is above the horizon from early March to mid-October and absent from mid-October to the end of February.

The project areas are subject to continuous permafrost and reportedly the ground is frozen up to a depth of 400 metres year round with only the top few inches thawing in the summer. The frozen ground, in addition to poor soil drainage and scant vegetation, results in a water saturated ground over extended areas during the thawing season.

No details relating to potential length of project operating season are available at this time, as the project remains at an early exploration stage.

Local Resources and Infrastructure

Ellesmere Island is home to three settlements: Eureka, Grise Fiord and Alert.

Food and lodging is available at Eureka provided that a visitor permit application is submitted to the government. Major services are available at Grise Fiord including a hotel (capacity 25 people), post office, RCMP office, health centre, grocery store and small airstrip. Alert is primarily a military base.

Axel Heiberg Island is uninhabited save for a seasonal research station operated by McGill University.

It is anticipated that future exploration programs will require onsite diesel-powered generators and that waste will need to be transported to appropriate waste facilities via aircraft. There is a fuel drum crushing plant located at Eureka where fuel drums may be disposed of at a minimal fee.

No permanent access roads are known to occur within the project areas. Eureka, Grise Fiord and Alert have local roads.

Access to Eureka is via gravel airstrip. The runway at Eureka is 1,464 metres (4,802 feet) long. During the site assessment, the Eureka runway was observed to be in need of repair as a result of slumping and solifluction. Twin otter aircraft are still capable of landing on the runway, as are some larger aircraft such as the DC-3. Eureka is currently in the process of securing the funds required to repair the runway.

Topography, Elevation and Vegetation

The Nunavut Coal Project is defined by high relief, greater than 750 metre (m), mountains, glaciers, fiords and valleys.

In the Fosheim Peninsula Property, the plains are characterized as gently undulating and tundra covered, with soil polygons commonly up to 50 metres in diameter. Most streams in the area flow mainly in a north-south pattern and are tributaries of the Slidre River. On Axel Heiberg Island, the plains of the May Point Property are typically grass covered, with occasional soil polygons. Streams are scarce but those which are present drain northeast and southeast into Eureka Sound.

In addition, Arctic wolves, Arctic foxes, Arctic hares, lemmings and ptarmigan can be observed. There are summer nesting grounds for geese, ducks, owls, loons, ravens, gulls and many other smaller birds that raise their young in the Arctic region, returning south in August.

Vegetation is sparse over most of the Property, although lush near Eureka which includes grasses, mosses and low-lying shrubs (rare).

Both Ellesmere and Axel Heiberg islands contain areas of fossil forests. Tree stumps were found one to two metres in diameter that existed during Paleocene-Eocene times. These tree stumps indicate that the area was once warm enough to produce redwood swamps, deciduous flood-plains and boreal forest uplands. Many of the fossil trees are preserved as mummifications in an environment where little or no mineralization occurred. Tree specimens are perfectly preserved and almost indistinguishable from wood that can be found on the floor of forest areas.

History

The majority of historic work on the Nunavut Coal Project occurred in 1981 to 1983 and was conducted by Gulf Canada Resources Inc. (“**Gulf**”), Petro-Canada Exploration Inc. (“**Petro Canada**”) and Utah Mines Ltd. (“**Utah**”). Each of these three major exploration programs is discussed in further detail below. Historic reports are not considered

current in terms of NI 43-101 and could not be updated without drilling, mapping and sampling the property areas relevant to the specific report.

The first recorded expedition to reach the vicinity of Axel Heiberg and Ellesmere Island was the Otto Sverdrup Expedition in 1898-1902. Shortly thereafter, various geological explorers reported on the area.

The Geological Survey of Canada initiated mapping of the Arctic Islands in the late 1950's, and in 1955 conducted a comprehensive investigation titled Operation Franklin of potential mineral fuel resources in the Arctic Islands.

Highlights from Petro-Canada's 1982 reconnaissance program, include the following:

- An exploration program to determine the areal extent, thickness and tonnage of coal seams within the Eureka Sound Formation on Petro-Canada's licences was completed.
- Coal samples were collected for laboratory analysis to determine the chemical properties of individual seams.
- Licences were acquired around the Stenkul Fiord where thick seams were discovered in the later part of the 1982 field season.

Petro-Canada completed coal resource estimation (not compliant with NI 43-101 standards) on the Fosheim Peninsula coal licences, albeit at a reconnaissance level of detail with numerous assumptions in lieu of drill data, and concluded that seams are more or less evenly distributed through the formation and that they thin towards the east. Following the 1983 exploration season, Petro-Canada also completed coal resource estimation (not compliant with NI 43-101 standards) on the Stenkul Fiord coal licences at a similar reconnaissance level of detail.

In 1981, Utah conducted 16 days of field work comprising preliminary, reconnaissance mapping and sampling program on their Strathcona Fiord and May Point licences. Program recommendations included further mapping at a scale of 1:50,000 as a precursor to drilling and seeking some sort of partnership with Gulf and Petro-Canada to reduce costs.

Gulf conducted an exploration program in 1981 over four project areas, two of which (Fosheim Peninsula and May Point) occur within the Nunavut Coal Project. Gulf completed coal resource estimation (not compliant with NI 43-101 standards) in a similar fashion to Petro-Canada. Conclusions from the Gulf report are summarized as follows:

- Lignitic to sub-bituminous A coal was speculated to be present within the Fosheim Peninsula area in sufficient abundance to have potential for economic exploitation.
- May Point was considered to have insufficient in-situ resource potential for economic exploitation.
- Drilling and mapping was required for a more accurate appraisal of the Eureka Sound Formation coal measures.

Historical Mineral Resource and Mineral Reserve Estimates

Various authors prepared historical resource estimates (not compliant with NI 43-101 standards and not verified by the authors of the Nunavut Technical Report) on certain project areas within the Nunavut Coal Project. The authors of the Nunavut Technical Report caution that the historical resources estimates are non-compliant, and at best would correlate to the "Speculative" coal resource category described in Geological Survey of Canada paper 88-21 ("GSC 88-21"), titled 'A Standardized Coal Resource/Reserve Reporting System for Canada', used in conjunction with NI 43-101 for reporting of coal resources and coal reserves in Canada, due to the lack of direct supporting evidence in the form of drill holes, trenches and so forth.

"Speculative" coal resources would not normally be reported by industrial users as it the resource category was originally intended to provide a basis for Government assessment of a country's national coal resources. Nevertheless, the non-compliant historical resource estimates are presented here as an indication of the relative size of the Nunavut Coal Project target resource.

The figures quoted in Table 3 below are reported as an exploration target, based on reasonable assumptions made from compiled data. These figures should not be construed to reflect a calculated resource (inferred, indicated or measured) under standards of NI 43-101. The potential quantities and grades reported above are conceptual in nature and there has been insufficient work to date to define a NI 43-101 compliant resource. Furthermore, it is uncertain if additional exploration will result in discovery of an economic mineral resource on the property.

Table 3 - Historical Inferred Resources - Not NI 43-101 Compliant

Author	Year	Area	Inferred Resource (M tonnes)	Rank
RM Bustin ¹	1980	Fosheim Peninsula	21,000	High volatile bituminous to lignite
RM Bustin ¹	1980	East Axel Heiberg	9,000	High volatile bituminous to lignite
Gulf ²	1982	Fosheim Peninsula	5,616	High volatile bituminous to lignite
Petro-Canada ¹	1982	Fosheim Peninsula	21,900	High volatile bituminous to lignite
Petro-Canada ³	1982	Vesle Fiord	4,000	Sub-bituminous 'A' to lignite
Petro-Canada ³	1982	Strathcona Fiord	10,100	Sub-bituminous 'A' to lignite
Petro-Canada ¹	1983	Stenkul Fiord	750,000	Lignite
W. D. Kalkreuth ⁴	1993	Bache Peninsula	100	Lignite

1 Coal seams > 1 m thick used for estimation over outcrop area to a depth of 200 m

2 Coal seams > 1 m thick used for estimation over outcrop area to a depth of 500 m

3 Coal seams >1 m thick used for estimation over outcrop area to a total depth of section

4 Coal seams > 1 m thick used for estimation over outcrop area to a depth of 300 m

Bustin–Historic Resource Estimate (Non-Compliant)

Inferred coal resources in the order of 30,000 million tonnes were estimated by R.M. Bustin of the University of British Columbia over a portion of known coal measures within the Fosheim Peninsula and the Eastern Axel Heiberg areas. Coal rank for the resource estimate varied: 4,000 million tonnes was ascribed to high volatile bituminous coal, 11,000 million tonnes was ascribed to sub-bituminous coal and 15,000 million tonnes was ascribed to lignite. Details of the 1980 Bustin resource estimate are as follows:

As part of a stratigraphic and sedimentological study on Axel Heiberg and Ellesmere Islands, Bustin examined coal of the Eureka Sound Formation at numerous localities and determined the rank of coal using the reflectance method. The purpose of the study was to document some of the major coal occurrences including the rank and character of the coal and to provide some preliminary estimates of the coal resources within the study area.

The study area included both Fosheim Peninsula and Eastern Axel Heiberg (May Point and Mokka Fiord areas). At Fosheim Peninsula the coal measures outcropped over an area of about 2500 km², and a section 3300 m thick was measured along Remus Creek on the west flank of a broad northerly-trending synclinorium. At Eastern Axel Heiberg, the coal measures outcropped over an area of about 1500 km², and the coal measures were highly variable in thickness ranging from a maximum measured thickness of 1500 metres to thin erosional outliers.

Coal seams within the Fosheim Peninsula study area occurred throughout the section at Remus Creek although they were more abundant in the basal 1,500 m of the section. In the better exposed intervals of the measured section (45% of the total section) 86 coal seams were measured of which 48 seams were less than one metre thick and 28 seams were greater than one metre thick. The thickest measured seam was 10 metres. The coal rank ranged systematically from the base to the top of the section at Remus Creek. The range in coal rank was from high volatile bituminous coal (0-600 metres) to sub-bituminous coal (600-1625 metres) to lignite (1625 to 3300 metres).

The thickest succession of coal measures at Eastern Axel Heiberg was exposed adjacent to Mokka Fiord. A total of 40 seams were measured through a 1,500 metre interval with about 70% exposure. Of the 40 seams, 22 were less than one metre thick and 18 were greater than one metre thick. The thickest measured seam was six metres thick, but contained a high percentage of argillaceous material. Coal rank varied on eastern Axel Heiberg from lignite and sub-bituminous B coal at Mokka Fiord and Flat Sound to sub-bituminous C coal in the May Point area and finally to high volatile bituminous C coal adjacent to Whitsunday Bay. Variations in coal rank on eastern Axel Heiberg did not form a consistent trend with estimated depths of burial or age of the strata and therefore a prediction of the lateral continuity of the coal seams was not possible with the exception of one location in the May Point area.

Coal resources were obtained by considering those seams which were equal or greater than one metre thick and extrapolating their thickness over the area of outcrop to a depth of 200 metres. The author of the study noted that coal resource calculations must only be considered approximate within orders of magnitude.

Coal resources in the Fosheim Peninsula area were estimated to be in the order of 21,000 million tonnes. Of the total resource estimate, 4,000 million tonnes were considered to be high volatile bituminous coal, 7,000 million tonnes were considered to be sub-bituminous coal and 10,000 million tonnes were considered to be lignite.

Coal resources in the eastern Axel Heiberg area are estimated to be in the order of 9,000 tonnes. Of these resources 4,000 million tonnes are sub-bituminous coal, 5,000 million tonnes are lignite and 300 million tonnes are high volatile bituminous coal.

Gulf - 1982 Historic Resource Estimate (Non-Compliant)

Gulf prepared a historical resource estimate in 1982 covering 138,191 hectares of land in the Fosheim Peninsula area (largely contained within license number 101). In-situ potential coal resource figures of 5,616 million tonnes and 2,097 million tonnes were ascribed to coal seams greater than or equal to 1.0 metre in thickness and coal seams greater than or equal to 2.0 metres in thickness, respectively. Reflectance studies indicated that coal rank varied from lignite (Ro max 0.15%) to high volatile bituminous (Ro max 0.57%).

Petro-Canada - 1982 Historic Resource Estimates (Non-Compliant)

Petro-Canada delineated three areas of inferred coal resource potential in their 1982 exploration report: Fosheim Peninsula-West, Vesle Fiord and Strathcona Fiord. Inferred coal resources in the order of 21,900 million tonnes, 4,000 million tonnes and 10,100 million tonnes were estimated, respectively. Rank of the resources ranged from high volatile bituminous C to lignite. Petro-Canada also evaluated the Fosheim Peninsula-East area, located east of the Sawtooth Mountains, and identified no significant coal resources.

Fosheim Peninsula-West

Petro-Canada prepared a historical resource estimate covering 170,412 hectares of land in the Fosheim Peninsula-West area (now referred to simply as Fosheim Peninsula). The inferred resource estimate was compared with a previous estimate in the same area. Inferred resources on the order of 21,000 million tonnes (Bustin) and 21,900 million tonnes (Petro-Canada) described by the two estimates were similar. Inferred resources were estimated to be within 200 metres of surface.

Vesle Fiord

Although Petro-Canada ascribed 4,000 million tonnes of inferred coal resources to the Vesle Fiord area as a result of the 1982 exploration program, the area was not considered prospective for resource exploitation. The Vesle Fiord area is structurally deformed and the majority of coal resources are below 200 metres of surface- therefore, the area was

characterized as lacking in significant resource potential. Estimation methodology for the coal resource estimate was similar to that described for Fosheim Peninsula-West, except for the final stage of the calculation owing to the fact that minimal coal was ascribed within 200 metres of surface.

Strathcona Fiord

Similar to the Vesle Fiord area, the Strathcona Fiord can locally be divided into four members, two of which are coal bearing. Coal seams up to 24 metres in thickness are present and range from sub-bituminous 'A' to lignite in rank. The area is gently folded and transected by few faults. The area contains the thickest coal seams in the Canadian Arctic Archipelago and was ascribed inferred resources in the order of 10.1 billion tonnes (on Petro-Canada's licences). Estimation methodology for the coal resource estimate was similar to that described for Fosheim Peninsula-West, except for the final stage of the calculation (total inferred resources for the entire formation given).

Petro-Canada – 1983 Historic Resource Estimate (Non-Compliant)

As a result of its 1983 exploration program, Petro-Canada estimated that the Stenkul Fiord property was underlain by seven hundred fifty million tonnes of low quality (lignitic) thermal coal. The inferred resource estimate extended to a maximum depth of 200 metres from surface.

Petro-Canada further concluded that geologic structure over most of the property was simple and that gentle bedding dips suggested surface mining potential with low average in-situ strip ratios. Furthermore, the specific energy values and low ash and sulphur values of the coal indicated its suitability for thermal power generation.

Kalkreuth – 1992 Rough Estimate of Coal Resources (Non-Compliant)

No detailed resource estimate studies have been undertaken at Bache Peninsula; however, in 1992 W.D. Kalkreuth ("Kalkreuth"), reported a rough estimate of coal resources on the order of 100 million tonnes for the Bache Peninsula as part of a paper in the *International Journal of Coal Geology* entitled, 'The geology, petrography and palynology of tertiary coals from the Eureka Sound Group at Strathcona Fiord and Bache Peninsula, Ellesmere Island, Arctic Canada.'

Kalkreuth's rough coal resources estimate was calculated based on a total areal extent of at least eight square kilometres underlain by total coal thicknesses ranging from 3.23 m to 19.93 m. The rough coal estimate was calculated for coal resources less than 300 metres depth from surface. The authors of the Nunavut Technical Report cautions that Kalkreuth's method was intended as a 'Speculative' target size at best and that the methodology is non-compliant with NI 43-101 standards.

Geological Setting

Regional Geology

Ellesmere and Axel Heiberg Islands are typically divided into three major geological units: 1) Precambrian basement rocks; 2) the Franklin sedimentary succession; and 3) the Sverdrup Basin sedimentary succession. The rocks are generally young to the northwest, and are separated from each other by major regional unconformities.

The rocks of southeastern Ellesmere Island are defined mostly by granulitegrade metamorphic rocks (including granite, gneiss, amphibolite, marble and quartzite) of the Precambrian Canadian Shield, but also include unmetamorphosed sedimentary and igneous rocks of the late Precambrian Thule Group. These Thule Group rocks correlate with similar units in Greenland, while the Shield rocks of Ellesmere Island form part of the Churchill geological province and represent the northern extent of the Canadian Shield. Massive ice sheets cover most of the Shield rocks except along the coast.

Overlying the Precambrian Shield rocks of Ellesmere Island is the Franklinian sedimentary succession. The Franklinian sedimentary succession (Cambrian to Late Devonian) nonconformably overlies the Precambrian basement rocks and consists mainly of shelf carbonates, evaporites, basinal deep-water rocks and fluvial and deltaic deposits; quartzose sandstone and volcanics are also included as major lithological constituents of this succession. During the Ellesmerian Orogeny (Late Devonian to Early Carboniferous, i.e. Fammenian to Viséan), the Franklinian succession was folded to form the Hazen and Central Ellesmere fold belts, of which the Hazen is more intensely folded. The southern and eastern

regions of the Franklinian sedimentary succession were left relatively undeformed to form what is known today as the “**Arctic Platform**”.

Overlying the Franklinian sedimentary succession is the Sverdrup Basin sedimentary succession. The Sverdrup Basin sedimentary succession (Early Carboniferous to Early Tertiary) unconformably (angular unconformity) overlies rocks of the Franklinian succession, and consists mainly of shelf carbonates, non-marine clastics, turbidites, evaporites, deltaic deposits and deep-water basinal rocks. Upper Paleozoic and Cretaceous basalts are also present, and thick gabbroic sills intrude parts of the succession. During the Eureka Orogeny (mid-Tertiary) the Sverdrup Basin succession was folded, faulted and experienced evaporite diapirism to form the Eureka Fold and Thrust Belt. At the same time, older Ellesmerian structures were reactivated and faulting took place on the Arctic Platform.

Local and Property Geology

Fosheim Peninsula

At Fosheim Peninsula, the Eureka Sound Formation is 3,200 metres thick and is coal bearing throughout. Multiple seams up to fifteen metres in thickness reportedly exist in the area, although the maximum thickness encountered during the Associated Geosciences site assessment was 4.2 metres. The rank of the seams ranges from high volatile bituminous 'C' to lignite. The coal seams are laterally persistent and can be traced up to twenty-five kilometres along strike.

The structure at Fosheim Peninsula is dominated by an asymmetrical synclorium trending southerly to southwesterly through the area. The resulting structural Tertiary basin covers a surface area with a minimum width of 15 kilometres whose length extends through the entire area.

The synclorium structure is cut by the northwest to southeast trending Black Top Fault. The fault is near vertical and is believed to have undergone differential movement. The hinge line for this movement is presumed to be in the northern portion of the property near Romulus Lake. Vertical displacements of 150 metres, in the southeast portion of the property, and in excess of 1,000 metres northwest of the property, across the Black Top Ridge have been estimated.

The rotational nature of the fault has altered the attitude of the fold from north to south. North of the Black Top Fault the eastern fold limb dips at approximately 20 degrees to the west and the western limb has an average dip of 50 degrees east. South of the fault the eastern limb dips approximately 50 degrees west while the western limb dips an average of 18 degrees east.

Additional folding and faulting occurs on the property but is minor in comparison and does not greatly alter the structural style or subsequent tonnage estimates. Thrust faults are not known to occur on the property.

Vesle Fiord

At Vesle Fiord, the Eureka Sound Formation is in the order of 2700 metres thick and is only partly coal bearing. The formation contains at least one major marine unit. Coal seams locally exceed four metres but usually occur in areas which are structurally complex. The coal ranges from sub-bituminous 'B' to lignite 'A' in rank.

Strathcona Fiord

At Strathcona Fiord, the Eureka Sound Formation can locally be divided into four members having a collective thickness of 2,500 metres. Much of the strata is exposed in a broad syncline. At least one of the members is marine in origin and only the upper member contains multiple seams up to 24 metres in thickness. The coal ranges from sub-bituminous 'C' to lignite 'A' in rank.

Sor Fiord/Stenkul Fiord

At Sor Fiord/Stenkul Fiord, the Eureka Sound is preserved in several graben structures. Coal seams over 15 metres in thickness were identified. The rank of the coal seams ranges between sub-bituminous 'C' to lignite 'A'.

In the Stenkul Fiord area, the Eureka Sound formation is comprised of fault-bounded blocks surrounding the fiord. The formation is at least 165 metres thick and overlies the Devonian Okse Bay Formation. The contact is unconformable and is marked by a minor angularity. The bulk of the coal in the Stenkul Fiord area is described as lignite.

May Point

In the area of the May Point Property, the Eureka Sound Formation can be divided into three units. Each unit has its own distinct color, reflecting a different depositional environment. The lower unit appears dark brown by virtue of a predominant shale-sand-rare coal sequence. The middle unit is a pale yellow-brown sand sequence, and the shale and coal rich upper unit displays a medium brown color.

The lower unit predominantly consists of mudstone, with minor interbeds of siltstone and sandstone and some rare coals. The soft mudstone is dark to medium brown and carbonaceous in places. The interbeds of white quartzose, and fine to medium grained semi-consolidated sandstone, may reach six metres in thickness and appear to be associated with thin platy interbeds of hard ferruginous siltstone containing well preserved plant impressions. Coal seams are rare and usually less than one metre in thickness; however one attained a thickness of six metres. This unit is estimated to be 500 metres in thickness throughout the area.

The middle unit consists almost exclusively of clean, white to light brown, fine to medium grained, semi-consolidated sandstone. The clean sandstones contain ripple marks, pelecypods and trace fossils. The unit seems barren of coal seams and other carbonaceous material. Thin mudstone and siltstone interbeds are rare. The environment of deposition is interpreted to be near shore or of a beach origin. This unit has a minimum thickness of 900 metres in the area.

The upper unit consists of alternating sandstones, siltstones, mudstones and coals. The sandstones are thin to thick bedded, light grey, fine to medium grained and poorly indurated. The platy siltstones are well indurated, medium grey to dark red. Thin to thick bedded mudstones are dark grey, carbonaceous and silty in places. Coal seams are abundant and range up to 38 metres in thickness. Thicker coal seams typically have abundant mudstone splits. The coals are the most resistant rock units within the Eureka Sound Formation, hence, are prominent on the landscape. The unit has a minimum thickness of 500 metres.

The Eureka Sound Formation occupies the entire peninsula of the May Point Property. Near the northwest boundary of the property, the Eureka Sound Formation is bounded by a north-northeast trending, east dipping normal fault. Along the majority of the western margin of the property, Eureka Sound strata lie conformably on Upper Cretaceous Kangul strata. The lower unit in the Eureka Sound Formation is exposed over much of the property and found to contain several coal seams many of which were trenched. The middle pale sand unit is exposed in the easternmost part of May Point. Due to the flat to rolling topography, outcrops are sparse and can be found in a few creek beds. Bedding is flat to gently dipping, up to 10 degrees to the east over the majority of the property. There may be gentle north trending folds across the property but slumping is common rendering many attitudes unreliable.

Bache Peninsula

Eureka Sound sediments on Bache Peninsula have been described. No measurements were made of any sections but there is described a 214 metre thick sequence of light-brown or yellowish white-weathering quartz-carbonate sandstone and green-grey and grey-brown shaley sandstone preserved in a graben.

Exploration

Recent exploration activity on the Nunavut Coal Project has been limited to the recent site inspection conducted by the authors of the Nunavut Technical Report.

Associated Geosciences 2011 Site Assessment

The site assessment of the Nunavut Coal Project was conducted from August 9th through August 27th, 2011. Due to time constraints and adverse weather conditions, Associated Geosciences was only able to assess the following areas: Fosheim Peninsula, Stenkul Fiord, Sor Fiord, Vesle Fiord and Mokka Fiord. Associated Geosciences considers that Fosheim Peninsula and Stenkul are, at this stage, the primary targets on the Canada Coal licences and are therefore satisfied that the site assessment meets the criteria as described by NI 43-101.

In some locations, samples were not taken as the coal was deemed inappropriate for sampling (weathered or burnt). Associated Geosciences cautions that data accrued from sampling may not be accurate due to potential surface slumping, solifluction and oxidation of the seams- however, Associated Geosciences attempted to sample fresh surfaces as much as possible.

Fosheim Peninsula

The site assessment primarily focused on Fosheim Peninsula for the following reasons: 1) Fosheim Peninsula is considered the primary exploration target based on historic coal rank, level of previous exploration and proximity to the Eureka weather station and 2) weather conditions were adverse and many of the outlying exploration areas could not be accessed.

Associated Geosciences was able to confirm the existence of a laterally continuous coal zone within Fosheim Peninsula. The coal zone strikes NNE and dips gently to the NW in most areas. The coal zone is comprised of many seams including at least two 4-6 m thick seams and several metre-scale seams observed by Associated Geosciences. Previous authors described the zone as extending 15 kilometres along strike. Associated Geosciences was able to further extend the zone to 25 kilometres along strike. Associated Geosciences flew along the strike of the coal zone and notes that a few major structural breaks exist toward the southwest end of the coal zone but that for the most part the zone is continuous.

Associated Geosciences sampled from three locations at Fosheim Peninsula to verify historical reports and get a preliminary indication of coal rank in the region. Sample AGL-FN 004 was particularly well exposed as the creek-cut bank had recently slumped. The coal seam was estimated to be 4.3 metres thick in total and appeared somewhat blocky and dull banded. Associated Geosciences divided the seam into upper, middle and lower zones for sampling purposes, in order to ascertain if there was any significant coal quality variation within the seam.

The author considers that the Fosheim Peninsula coal zone represents a viable drilling target for the second stage of a planned exploration program and that the generally flat-lying character of the area could prove amenable to exploration activities such as drilling. More detailed mapping and additional surface sampling is also recommended along the strike length of the zone in advance of the drilling activities.

Vesle Fiord

Vesle Fiord was examined by aerial overview and also via ground inspection at two sampling locales. From the aerial viewpoint, Associated Geosciences observed that although numerous coal seams are present their degree of structural complexity is highly variable and that the topography itself is quite rugged.

At the ground level, coal measures were observed as abundant thin seams (0.5 to 2 metres in thickness) with varying degrees of interburden (metres to decimetres). Strikes and dips varied widely, often within short distances (hundreds of metres). In some instances, seams were nearly vertically dipping. One sample was taken from a 1 metre seam in the Vesle Fiord area so that Associated Geosciences could compare coal quality at Vesle Fiord with coal quality at Fosheim Peninsula; however, sample exposure in this location was as fresh as the Fosheim Peninsula samples.

Based on the site assessment, coal measures at Vesle Fiord are not as prospective as the relatively flat-lying, gently dipping coal measures at Fosheim Peninsula.

Sor Fiord/Stenkul Fiord

Associated Geosciences committed one day of the site inspection to assessing the Sor Fiord/Stenkul Fiord area. The Sor Fiord/Stenkul area is located a considerable distance from the Eureka base station, and therefore Associated Geosciences had previously cached fuel near the Sor Fiord area. There is a known fuel cache location situated at 77° 26' N and 85° 48' W alongside with a well-maintained runway suitable for twin otter aircraft equipped with tundra tires.

Numerous thin coal seams were observed to occur within the Sor Fiord/Stenkul Fiord coal exploration licences. Coal outcropped on several higher topographic blocks and weathered into soil polygons and was also observed along block margins. Coal thicknesses were difficult to determine due to the degree of weathering and the presence of a dark carbonaceous shale unit in the sedimentary package. The seams were burnt across considerable distances and were

therefore not appropriate for sampling. Abundant relict tree stumps were preserved within the vicinity of the coal seams.

Associated Geosciences noted an abandoned runway and old camp remains in proximity to southern Stenkul Fiord and sample observation point AGL-STK-006.

The topography and structural setting of the area is considerably more complex than that of Fosheim Peninsula. Associated Geosciences has not been able to verify the coal quality of the area and is of the opinion that considerable mapping and sampling would be required prior to the identification of drill targets at Sor Fiord/Stenkul Fiord.

May Point

Associated Geosciences was unable to land at May Point due to time constraints and adverse weather conditions; however, Associated Geosciences did fly over the area while en route to Sor Fiord/Stenkul Fiord. The authors aerially observed several dark, thin, coal-like units outcropping at seemingly shallow dips within the May Point area, but cannot directly attest to the nature of character of the dark units.

Mokka Fiord

Associated Geosciences attempted to locate several historic coal occurrences in the vicinity of Mokka Fiord during the site assessment, but did not encounter any seams of significance. The author notes that the Mokka Fiord site assessment was brief (half a day) due to time constraints and adverse weather conditions, and that some of the historically reported coal occurrence locations were quite vague (coordinate systems were often inferred and sample locations often 'eyeballed' using historic maps).

While coal may well occur within the Mokka Fiord license area, further reconnaissance work will be required to ascertain its extent, structural setting and character.

The coal licences on eastern Axel Heiberg Island are situated in the vicinity of the world-renown Geodetic Hills Fossil Forrest. As such, Associated Geosciences does not recommend further coal exploration within the Mokka Fiord region in order to preserve the integrity of the fossil forest.

Remaining License Areas

Associated Geosciences was unable to directly assess the following license areas due to time constraints and adverse weather conditions: Li Fiord, Good Friday Bay, Strathcona Fiord and Bache Peninsula. The aforementioned license areas remain of interest to the Nunavut Coal Project, however they are not considered critical targets at this time.

Mineralization

Coal is found in five formations on the Nunavut Coal property; The Eureka Sound, Okse Bay, Heiberg, Isachsen and Hassel Formations.

The Upper Cretaceous to Tertiary Eureka Sound formation was deposited prior to and during the early phases of the Eureka Orogeny. It is the main coal-bearing formation in the Arctic Islands. It is comprised of roughly 3,300 m of clastic and minor marine sediments in the region of the Fosheim Peninsula and thins to approximately 2,500 m in the vicinity of the Strathcona Fiord. Lithologically the formation consists of mainly sandstone, claystone, minor siltstone and thick lignite seams. The majority of the coal seams explored on the property are found as part of an Alluvial Plain Facies. The lignitic coal seams here range from a few cm to over 8 m in thickness and are commonly blocky. They weather platy to papery and are quite woody as evident by the petrified tree branches and silicified stumps still in an upright growth position.

The Okse Bay formation is the oldest coal-bearing formation on the property, aging from the Devonian, and has an estimated thickness of 3,000 m. It was deposited under deltaic conditions and consists of a thick series of commonly cross-bedded nonmarine sandstones, shales, carbonaceous debris and thin coal stringers which do not exceed 30 cm.

The Heiberg formation dates from the Early Triassic to late Jurassic and is comprised of reddish-weathering sandstones and siltstones along with carbonaceous shales and coal seams. The formation is over 750 m thick on the Fosheim Peninsula and is as thick as 1,400 m on Axel Heiberg Island. Coal seams within the Heiberg Formation do not exceed one metre thick.

The Isachsen formation formed in the Early Cretaceous and is used as a marker horizon for the area due to its lithological uniformity over the entire region. It is composed of reddish- to-brownish sandstones, conglomerate, minor siltstone and shales, with thin coal beds in the basal layers. No coal seams over 50 cm were observed within the Isachsen formation. Marine fossils occur in the basal beds, but the overlying beds are clearly non-marine suggesting a deltaic origin.

The Hassel formation is Early to Late Cretaceous in age. It consists of pale coloured, poorly consolidated medium to fine-grained quartzose sandstones with minor siltstones, shales and lignite seams. The Hassel formation is thought to have formed in a shoreline environment. The formation is roughly 50 to 75 m thick along the flanks of the Fosheim syncline and anticline. Coal seams up to 40 cm thick occur within the Hassel formation.

Strathcona Fiord

Calorific values and huminite reflectances place seams at Strathcona Fiord into lignite to subbituminous rank. Petrographic analyses showed that the coals are characterized by the predominance of wood-derived macerals of the humotelinite group. Detailed analyses of seam sub-sections show that there is little in-seam variation. Based on petrographic characteristics and pollen spore assemblages in the coals and sedimentological features of associated strata a peat accumulation in forested swamps which formed on a broad coastal plain is indicated. The pollen assemblages suggest a temperate climate with modern rainfall during the lifetime of the mires.

Bache Peninsula

Calorific values and huminite reflectance levels at Bache Peninsula are that of lignite. Petrographic analyses showed the predominance of macerals of the humodetrinite group, frequently associated with mineral matter in the form quartz and clay minerals. Inertinite is common mainly in the form of inertodetrinite and fusinite. Petrographic characteristics of the coal-bearing succession at Bache Peninsula such as the dominance of degraded organic components, the relative low diversity in the pollen and spore assemblage and the occurrence of numerous pteridophyte spores suggest formation of the peat in a slightly forested swamp/reed marsh, in which abundant ferns and sphagnum mats were common. The climate during peat accumulation was most likely temperate with moderate precipitation.

Stenkul Fiord

Petrographic analyses show that wood-derived macerals of the humotelinite group characterize the coals. Geochemical analyses show that diterpanes are predominant and suggest that the wood macerals are primarily gymnospermous. Palynological assemblages are usually dominated by Taxodiaceae pollen. Geological interpretation, petrographic characteristics and palynological determination suggest that peat accumulated in forested swamps on an alluvial coastal plain. The pollen assemblages suggest the climate during growth of the mires was temperate with moderate rainfall. Coals are determined to have developed at the same time as the Strathcona Fiord coals and in a similar environment.

Drilling

As far as Associated Geosciences can determine, there has been no documented drilling on the Nunavut Coal Project. Hunter, a former holder of coal licences within the Nunavut Coal Project area, noted old drums and plastic core tubes at their sample site 05DBP602 although no historic drilling results have been reported. Associated Geosciences notes that the plastic core tubes might have been used for ice coring rather than exploration drilling.

Sampling and Analysis

Associated Geosciences is reliant upon other experts for sample preparation, analyses and security including Loring Laboratories and JP PetroGraphics of Calgary Alberta, and are also reliant on historic reports. Historic reports have been verified in part by recent independent site assessments conducted by ourselves as well as APEX in 2009 on behalf of Weststar.

Recent Sampling

Sampling during 2005 was conducted by Dean Besserer (P.Geol.) of APEX Geoscience Ltd, Edmonton, Alberta. APEX flew their double bagged and sealed samples by helicopter to Grise Fiord where they were placed in a wooden crate, loaded on a barge and shipped to Montreal, Quebec, and then shipped by truck to Loring in Calgary, Alberta. Loring reported nothing unusual with respect to the shipments, once received.

Sampling during 2011 was conducted by the authors. Associated Geosciences flew double bagged samples sealed in duct-taped coolers by fixed wing to Arctic Bay, and then via commercial air to Calgary, Alberta. Associated Geosciences reported nothing unusual with the samples once they arrived at the Calgary office. Petrographic analysis for vitrinite reflectance was conducted by JP PetroGraphics of Calgary Alberta.

Loring conducted raw proximate analysis on Associated Geosciences and APEX's samples and reported the values on an as received, air dried and dry basis. Loring is an International Organization for Standardization (ISO/IEC) 9001 accredited laboratory. The author has no reason to believe analyses completed by Loring were not conducted in accordance with industry standards and best practices.

Raw coals submitted for proximate analysis to Loring are first subjected to a wet crush. The samples are then dried at 38°C for 72 hours and weighed. Sub-samples are then subjected to moisture content, ash content, volatile content, total sulphur content and calorific value analysis. Moisture content analysis involves weighing 1 gram (g) of the sample in a crucible. The crucible is then dried in an oven at 110°C for 1 hour. To determine ash content a 1 g sample is weighed into a crucible and cooked in a furnace at 750°C for 4 hours. Volatile content is determined by weighing 1 g of sample into a crucible and cooking in a furnace at 950°C for 7 minutes. Samples for moisture, ash and volatile content are allowed to cool after heating and are then reweighed. Total sulphur content is determined by placing a sample of known weight into a Leco Sulphur analyzer for 140 seconds at which point the total sulphur value is displayed. Calorific value is determined by placing 1 g of sample into an adiabatic bomb calorimeter, the temperature of the water vessel is recorded (T1). The sample is then combusted in a pure oxygen environment and the resultant change in temperature of the water vessel is recorded (T2). The total amount of energy released during the combustion of a sample can be determined by multiplying the change in temperature of the calorimeter system by the heat capacity of the calorimeter system and dividing by the number of grams of sample used.

Analytical Methods

Analytical coal testing methods can be subdivided into chemical, rheological and petrographic tests. Chemical test methods include: moisture, volatile matter, ash yield, sulfur, forms of sulfur, ultimate analysis, chlorine, ash composition, ash fusion temperatures, trace elements and calorific value. Rheological and physical test methods include: Gieseler fluidity, hardgrove grindability index, dilation tests and free-swelling indices. Petrographic test methods include: maceral analysis and vitrinite reflectance. Some additional physical coal testing methods include: X-ray radiography, macroscopic analyses, apparent relative density, rock mechanics and gas-emission testing.

Analytical Results

Sample results from the recent Associated Geosciences and APEX site inspections confirm historic reports that the coals in the Nunavut Coal Project vicinity range in rank from high volatile bituminous 'C' to lignite. Coals are generally low in ash (5-10%) and sulphur (<0.5%), although occasionally exhibit moderate ash values. Coals are considered to be suitable for use as a high quality thermal coal.

Based on recent and historic sample analyses, Fosheim Peninsula remains the most prospective area for identifying a higher quality coal resource as coal rank at Fosheim Peninsula has been shown to increase with depth through the measured section.

Mineral Resources and Mineral Reserves

No coal resources are currently ascribed to the Nunavut Coal Project due to a lack of direct empirical data (such as drill hole, adit, trenching, or similar) aside from reported coal occurrences that have not been verified by Associated Geoscience.

No coal reserves are currently ascribed to the Nunavut Coal Project due to a lack of direct empirical data (such as drill hole, adit, trenching, or similar) aside from reported coal occurrences that have not been verified by Associated Geoscience and insufficient information on mining, processing, economic, permitting and other factors required to prepare a preliminary feasibility study.

Interpretation and Conclusions

Associated Geosciences has been able to confirm the widespread existence of coal within the Nunavut Coal Project. Recent site assessments and historic reports indicate that the coals range in rank from high volatile bituminous 'C' to lignite. Coals are generally low in ash (5-10%) and sulphur (<0.5%), although occasionally exhibit moderate ash values. Coals are considered to be suitable for use as a high quality thermal coal. Fosheim Peninsula remains the most prospective target based on the level of historic exploration, the region's potential for higher ranked coal occurrences and the area's suitable geography for open-pit mining.

At this stage the project is considered to be an early stage exploration project. Additional exploration will be required to further the historic understandings and geological interpretations and also to advance the project to a stage where coal resources may be estimated in accordance with NI 43-101.

The logistics of shipping a bulk commodity such as coal from the Canadian Arctic Archipelago remain challenging; however, the enormous potential target size of the coal within the Nunavut Coal Project warrants further exploration.

Recommendations

- Coal is present within the Nunavut Coal Project in sufficient quantity and quality to merit further evaluation through an aggressive work program.
- Fosheim Peninsula should be a priority target for the proposed work program based on the level of historic exploration, the region's potential for higher ranked coal occurrences and the area's suitable geography for open-pit mining.
- Data compilation of historic reports and government assessments should be on-going to evaluate the potential of additional exploration areas in the Nunavut Coal Project.
- Recently acquired digital elevation mapping should be integrated with existing geological, mapping and sampling information.
- Coal exploration licences on eastern Axel Heiberg Island should be either relinquished or set aside for archaeological studies as they occur in vicinity to the world-renown Geodetic Hills Fossil Forest.
- Various studies, such as a preliminary shipping logistics study to determine viability of a coal mining operation in the High Arctic, should be commissioned by Canada Coal in conjunction with the proposed exploration program.

Work Program

Associated Geosciences recommends a two phased exploration program for the Nunavut Coal Project. Phase 1 will primarily be focused on reconnaissance including mapping and sampling to delineate and prioritize targets. Phase 2 is contingent on the results of Phase 1 and will consist of a drilling program to move the project forward to defining NI 43-101 compliant coal resources if possible.

The proposed work budget includes a substantial contingency of 25%. This contingency was developed as a result of the recent personal inspection of the property by the authors. Significant transportation issues arose as a result of local shortages of jet fuel, weather and runway/landing strip conditions. Exploration in the high arctic presents many challenges and the contingency reflects the potential for additional aircraft requirements.

Additional sampling and structural mapping will be required to identify the most suitable areas for drilling. As well, the acquisition of a modern digital elevation model will substantially enhance the locations of known and newly identified outcrops.

Work Program Budget	
2011 Costs	
Project Permitting/Community Consultation	\$100,000
2012 Project Planning	\$100,000
Preliminary Shipping Logistics Study	\$50,000
Desktop Archaeology Constraints Study	\$20,000
2011 Costs Subtotal	\$270,000
Phase 1 Costs	
Pre-disturbance Studies	\$200,000
Helicopter	\$500,000
Fixed Wing Charter (incl. fuel mob)	\$300,000
Accommodation	\$200,000
Fuel	\$200,000
Local Hires/Community Consultation	\$50,000
Reporting	\$100,000
Permafrost Geophysics	\$200,000
Airstrip Construction	\$100,000
Fosheim Peninsula Mapping/Sampling	\$350,000
Strathcona Fiord Mapping/Sampling	\$250,000
Bache Peninsula Mapping/Sampling	\$200,000
Good Friday Bay Prospecting/Site Assessment	\$100,000
	Sub-total \$3,020,000
	Contingency (25%) \$755,000
	Phase 1 Sub-total <u>\$3,775,000</u>

Phase 2 Costs	
Pre-disturbance Studies	\$350,000
Helicopter	\$2,000,000
Fixed Wing Charter (incl. fuel mob)	\$1,750,000
Camp	\$1,000,000
Fuel	\$800,000
Local Hires/Community Consultation	\$250,000
Reporting	\$200,000
Drill Mobilization	\$100,000
Permafrost Geophysics	\$100,000
Airstrip Construction	\$100,000
Fosheim Peninsula Mapping/Sampling	\$250,000
Fosheim Peninsula Drilling (5,000 m)	\$1,250,000
Fosheim Peninsula Borehole Geophysics	\$500,000
Fosheim Peninsula Sample Analysis	\$500,000
Secondary Target Drilling (1,000 m)	\$250,000
Secondary Target Borehole Geophysics	\$135,000
Secondary Target Sample Analysis	\$135,000
May Point Funded Archaeology Study	\$250,000
	Sub-total \$9,920,000
	Contingency (25%) \$2,480,000
	Phase 2 Sub-total <u>\$12,400,000</u>

SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Information

The following table sets out selected annual financial information for the most recent financial year ended September 30, 2011:

	For the Year Ended September 30, 2011	For the period from incorporation to September 30, 2010
	\$	\$
Revenue (investment income)	11,732	-
Loss before other items for the year	538,700	4,631
Net loss for the year	526,968	4,631
Net loss per common share, basic and diluted	0.03	0.00
Weighted average number of common shares outstanding, basic and diluted	15,890,548	-
Balance Sheet Data		
Working capital (deficiency)	3,068,462	(9,705)
Total assets	4,003,281	5,074
Long-term debt	Nil	Nil

The results of operations reflect maintenance of Canada Coal's mineral properties in good standing and general and administrative expenses necessary to maintain Canada Coal in good standing with regulatory authorities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis is dated as at the date hereof and reports on the financial condition and the results of operations of Canada Coal for the year ended September 30, 2011 should be read in conjunction with the audited financial statements for the year ended September 30, 2011 attached at "*Schedule "G" - Financial Statements of Canada Coal Inc.*".

Overview

Canada Coal is a junior resource mining company focussed on the acquisition and exploration of coal properties in Nunavut, Canada. Canada Coal was incorporated on August 26, 2010 under the laws of the OBCA under the name Pacific Coal Corp. On April 12, 2011, it changed its name to Canada Coal Inc.

On June 30, 2011, Canada Coal entered into an agreement with Mercury in respect to a proposed business combination to be effected by way of an amalgamation of the parties. Subsequently, on November 4, 2011, the parties entered into the definitive Amalgamation Agreement. Under the terms of the Amalgamation Agreement, holders of common shares and other securities such as options and warrants of Canada Coal and Mercury, will each receive common shares and other securities of the resulting issuer on a one for one basis. The amalgamation is expected to constitute a Qualifying Transaction for Mercury.

The transaction is subject to shareholder approval from both companies as well as Exchange approval. Upon completion of the amalgamation, the resulting issuer will be considered a Tier 2 mining issuer. It is anticipated that the issuer resulting from the amalgamation will be known as Canada Coal Inc., subject to TSX Venture Exchange approval.

Overall Performance

Canada Coal incurred a net loss for the year ended September 30, 2011 of \$526,968. Canada Coal incurred a net loss of \$4,631 for the period from incorporation (August 26, 2010) to September 30, 2010. The operating results for the two

periods are not comparable. In the period from incorporation to September 30, 2010, Canada Coal had no cash and was in the early stages of acquiring its coal assets.

During the year ended September 30, 2011, Canada Coal actively pursued the acquisition of coal licences and raised the required equity to finance its operations. Canada Coal acquired 75 active coal licences occupying a total of 2,442,627 acres located on Ellesmere Island and Axel Heiberg Islands, Nunavut Territory, Canada. The licences and applications are held by Canada Coal through its two wholly-owned subsidiaries, 5200 Nunavut and CSCC.

A NI 43-101, prepared by Associated Geosciences Ltd., Calgary, Alberta, was completed on the area covered under the coal licences which outlined a two phased work program. Phase I would be primarily focused on reconnaissance including mapping and sampling to delineate and prioritize targets. Phase 2 is contingent on the results of Phase I and would consist of a drilling program to move the project forward to defining NI 43-101 compliant coal resources if possible.

During the year ended September 30, 2011, Canada Coal closed a non-brokered private placement which was closed in three tranches. A total of 21,500,000 units were issued at \$0.20 per unit for gross proceeds of \$4,300,000. Each unit consisted of a common share and one share purchase warrant. Each warrant is exercisable at \$0.30 until the earlier of 24 months following the listing of the shares on the Exchange or the Toronto Stock Exchange, as the case may be, or five years from the respective financing closing date.

Subsequent to year end (September 30, 2011), Canada Coal closed a brokered private placement in which it issued 6,500,000 flow-through units at a price of \$0.50 per Canada Coal Flow Through Unit and 2,100 subscription receipts at a price of \$0.50 per subscription receipt, for aggregate gross proceeds of \$4,300,000. Each flow-through unit consists of one common share and one-half of one share purchase warrant. Each full warrant is exercisable at \$0.80 for three years. Canada Coal has sufficient cash to fund the 43-101 recommended Phase I work program and general overhead.

Canada Coal is proceeding with its planned amalgamation with Mercury which is expected to constitute a Qualifying Transaction for Mercury.

Operating Activities

On September 15, 2010, Canada Coal entered into an agreement with Weststar Resources Corp. (“**Weststar**”) to purchase the outstanding capital of Weststar's wholly-owned subsidiary, CSCC. CSCC's only assets were an 80% interest in 9 coal exploration licences and 8 coal exploration license applications for approximately 589,661 acres of land located in Ellesmere Island, Nunavut. Weststar's 80% interest in the claims was acquired pursuant to a letter of intent (“**Letter of Intent**”) dated March 18, 2009 between Hunter Exploration Group (“**Hunter**”) and Weststar.

On September 20, 2010, Canada Coal, Weststar and Hunter entered into an agreement whereby Weststar was released from any obligations or commitments under the original Letter of Intent dated March 18, 2009 and a 100% interest in the coal licences and license applications was transferred to CSCC. Hunter retained a 2% GSR on the licences of which 1% can be purchased by Canada Coal for \$1,000,000. Details of the consideration for the acquisition are outlined in the notes to the consolidated financial statements.

On April 12, 2011, Canada Coal entered into an agreement to purchase all of the issued and outstanding capital of 5200 Nunavut from arms-length third party vendors. The only assets held by 5200 Nunavut were interests in 7 coal exploration licences representing approximately 157,755 acres of land located in Nunavut. The consideration for the acquisition, is outlined in the notes to the consolidated financial statements.

Canada Coal also applied for 51 additional coal exploration licences representing approximately 1,702,015 acres in Nunavut. The deposit of \$95,136 for the licences is refundable if Canada Coal incurs sufficient acceptable work on the licensed area to cover the amount of the deposit.

Canada Coal's coal licences are located on Ellesmere Island and Axel Heiberg Islands, Nunavut Territory, Canada. The project currently consists of 75 active coal licences geographically distributed in 9 discrete exploration areas occupying a total of 2,442,627 acres. The licences are held by Canada Coal through its two wholly-owned subsidiaries 5200 Nunavut and CSCC. The exploration areas consist of: Fosheim Peninsula, Sor Fiord/Stenkul Fiord, Strathcona Fiord, Vesle Fiord/South Fosheim, May Point, Bache Peninsula, Li Fiord, Good Friday Bay and Mokka Fiord.

Canada Coal acquired a digital elevation model (DEM) for the Fosheim Peninsula and Sor Fiord/Stenkul Fiord areas in September 2011 from PhotoSat of Vancouver, BC. Elevation grids (2.5m prisms) and contours (5/25/50/100) were produced from high resolution stereo satellite photos. The digital elevation mapping will assist with project planning.

Canada Coal contracted Associated Geosciences to prepare a NI 43-101 compliant technical report for the coal assets acquired. As part of the NI 43-101 technical report process, Associated Geosciences took samples during its on-site visit to Nunavut. The sample results confirm historic reports that the coals in the area covered by Canada Coal's coal licences range in rank from high volatile bituminous 'C' to lignite. The sample indicated coals that were generally low in ash (5-10%) and sulphur (<0.5%), although occasionally exhibit moderate ash values. The coals are considered to be suitable for use as a high quality thermal coal.

Canada Coal has begun its community consultation process in Nunavut in preparation for submitting its permit applications.

As at September 30, 2011, Canada Coal had incurred \$265,829 in acquisition costs and \$528,907 towards deferred development costs for the coal licences and applications.

Selected Annual Financial Information

	For the Year Ended September 30, 2011	For the period from incorporation to September 30, 2010
	\$	\$
Revenue (investment income)	11,732	-
Loss before other items for the year	538,700	4,631
Net loss for the year	526,968	4,631
Net loss per common share, basic and diluted	0.03	0.00
Weighted average number of common shares outstanding, basic and diluted	15,890,548	-
Balance Sheet Data		
Working capital (deficiency)	3,068,462	(9,705)
Total assets	4,003,281	5,074
Long-term debt	Nil	Nil

Results of Operations

The results of operations reflect the overhead costs incurred for coal asset acquisitions and exploration expenses incurred by Canada Coal to maintain good standing with the various regulatory authorities and to provide an administrative infrastructure to manage the acquisition, exploration and financing activities of Canada Coal. General and administrative costs can be expected to increase or decrease in relation to the changes in activity required as asset acquisitions and exploration continues. As at September 30, 2011, Canada Coal had not recorded any significant revenues from its projects.

Canada Coal incurred a net loss for the year ended September 30, 2011 of \$526,968. Canada Coal incurred a net loss of \$4,631 for the period from incorporation (August 26, 2010) to September 30, 2010. The operating results for the two periods are not comparable. In the period from incorporation to September 30, 2010 Canada Coal had no cash and was in the early stages of acquiring its coal assets.

During the year ended September 30, 2011, Canada Coal actively pursued the acquisition of coal licences and raised the required equity to finance its operations. The most significant expenses relate to management fees, professional fees, stock based compensation for options granted and consulting fees.

Summary of Quarterly Results

The following table sets out selected quarterly information for the time periods shown.

	Three Months Ended September 30, 2011	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011	Three Months Ended December 31, 2010	Period from Incorporation to September 30, 2010
	\$	\$	\$	\$	\$
Revenue	10,667	1,065	-	-	-
Net Loss	201,895	184,838	129,219	11,016	4,631
Net Loss per common share	0.01	0.01	0.01	0.00	0.00

Liquidity and Capital Resources

Canada Coal's cash position at September 30, 2011 was \$3,074,570 compared with a cash balance of \$Nil at September 30, 2010.

At September 30, 2011, Canada Coal had working capital of \$3,068,462 compared to a working capital deficit of \$9,705 at September 30, 2010. For the year ended September 30, 2011, Canada Coal utilized \$347,228 for operating activities and \$570,444 for exploration and evaluation expenditures. Canada Coal obtained \$4,039,239 from its non brokered private placement. Canada Coal also utilized \$46,997 for issue costs related to the financing which closed subsequent to year end.

During the year ended September 30, 2011, Canada Coal closed a three tranche non-brokered private placement in which it issued 21,500,000 units for a price of \$0.20 per unit for gross proceeds of \$4,300,000. Each unit consisted of a common share and one share purchase warrant. Each warrant is exercisable at \$0.30 until the earlier of 24 months following the listing of the shares on the Toronto Stock Exchange or five years from closing date.

Subsequent to year end, Canada Coal closed a brokered private placement in which it issued 6,500,000 flow through units and 2,100,000 non flow through units for \$0.50 per unit for gross proceeds of \$4,300,000. Each unit consists of one common share and one half share purchase warrant. Each full warrant is exercisable at \$0.80 for three years.

Subsequent to year end, the seed shareholders agreed to pay an additional \$49,127 for their seed shares to comply with founder share limits set by the Exchange.

There were no material credit facilities in place as at September 30, 2011.

Any commitments to pay cash or issue shares are disclosed in the notes to the consolidated financial statements.

Related Party Transactions

For the year ended September 30, 2011, Canada Coal entered into the following related party transactions:

- (a) Incurred management fees of \$96,000 (2010: \$Nil) to West Oak Capital Partners Inc., a company controlled by the CEO of Canada Coal, R. Bruce Duncan.
- (b) Incurred management fees of \$64,000 (2010: \$Nil) to Olga Nikitovic (CFO)
- (c) Incurred legal fees from Aird & Berlis LLP. Tom Fenton (Director and Corporate Secretary) is a Partner with Aird & Berlis LLP, corporate counsel to Canada Coal. General corporate legal fees of

\$57,186 (2010: \$1,631) are reflected as professional fees, legal fees related to the acquisition of mineral properties of \$7,939 (2010:\$5,074) are reflected in exploration and evaluation expenditures, fees related to private placement throughout the year of \$20,891 (2010: \$Nil) are reflected as share issue costs and fees of \$8,901 related to the proposed financing which closed subsequent to year end are reflected as deferred transaction costs. Legal fees included in accounts payable at September 30, 2011 are \$30,672 (2010: \$6,705).

The compensation for key management personnel is identified above in (a) and (b). Canada Coal does not pay any health or post employment benefits. The fair value of share based compensation granted to key management or directors in fiscal 2011 was \$215,408 (2010: \$Nil).

During the year ended September 30, 2011, pursuant to the June 20, 2011 private placement, two directors subscribed for a total of 1,500,000 units for gross proceeds of \$300,000.

Off Balance Sheet Arrangements

Canada Coal is not a party to any off balance sheet arrangements or transactions.

have been based on careful judgements and have been properly reflected in the financial statements.

DESCRIPTION OF SECURITIES

Authorized Capital

The authorized share capital of Canada Coal consists of an unlimited number of Canada Coal Common Shares. As at the date hereof, 38,000,000 Canada Coal Common Shares are issued and outstanding. In addition, there are currently Canada Coal Warrants outstanding to purchase up to 24,750,000 Canada Coal Common Shares, 2,202,000 Canada Coal Compensation Warrants, 3,700,000 Canada Coal Options and 2,100,000 Canada Coal Subscription Receipts issued and outstanding.

Common Shares

The holders of Canada Coal Common Shares are entitled to dividends if, as and when declared by the board of directors of Canada Coal, to receive notice of and to vote at meetings of the shareholders Canada Coal on the basis of one vote per share and, upon liquidation, to share equally in such assets of Canada Coal remaining upon the liquidation of Canada Coal after the creditor's of Canada Coal have been satisfied.

Canada Coal Warrants

As of the date hereof, Canada Coal has Canada Coal Warrants outstanding to purchase up to 24,750,000 Canada Coal Common Shares. Upon completion of the Proposed Transaction, the outstanding Canada Coal Warrants will be exchanged and replaced with Resulting Issuer Warrants on a one-for-one basis pursuant to the terms of the Amalgamation Agreement.

Canada Coal Compensation Warrants

As of the date hereof, Canada Coal has Canada Coal Compensation Warrants outstanding to purchase up to 2,202,000 Canada Coal Common Shares. Upon completion of the Proposed Transaction, the outstanding Canada Coal Compensation Warrants will be exchanged and replaced with Resulting Issuer Compensation Warrants on a one-for-one basis pursuant to the terms of the Amalgamation Agreement.

Canada Coal Options

As of the date hereof, Canada Coal has Canada Coal Options outstanding to purchase up to 3,700,000 Canada Coal Options. Upon completion of the Proposed Transaction, the outstanding Canada Coal Options will be exchanged and replaced with Resulting Issuer Options on a one-for-one basis pursuant to the terms of the Amalgamation Agreement.

Canada Coal Subscription Receipts

As of the date hereof, 2,100,000 Canada Coal Subscription Receipts have been issued at a price of \$0.50 per Canada Coal Subscription Receipt. Each Canada Coal Subscription Receipt entitles the holder thereof to acquire one Resulting Issuer Share and one-half of one Resulting Issuer Warrant upon certain terms and conditions being satisfied, provided that if the Release Condition is not satisfied on or before March 4, 2012, each Canada Coal Subscription Receipt shall at such point and at no additional consideration to the holder, be comprised of 1.1 Resulting Issuer Shares (instead of one Resulting Issuer Share) and 0.55 Resulting Issuer Warrants (instead of one-half of one Resulting Issuer Warrant).

CONSOLIDATED CAPITALIZATION

The following table sets forth the capitalization of Canada Coal as at September 30, 2011, being the date of the most recent balance sheet contained in this Circular (prior to giving effect to the Proposed Transaction, the Concurrent Financing and the Amalgamation):

Designation of Security	Amount Authorized	Amount Outstanding as at September 30, 2011 (audited)
Canada Coal Common Shares	Unlimited	31,500,000
Canada Coal Warrants	N/A	21,500,000
Canada Coal Compensation Warrants	N/A	1,600,000
Canada Coal Options	10% of issued and o/s	1,600,000

PRIOR SALES

The following tables set forth the issuances of securities of Canada Coal since Canada Coal was incorporated on August 26, 2010:

Date	Type of Security	Number of Securities Sold	Issue price	Nature of Consideration Received
October 19, 2010 ⁽¹⁾	Common Shares	500,000	\$0.0001 ⁽¹²⁾	Cash
December 22, 2010 ⁽³⁾	Common Shares	1,500,000	\$0.0001 ⁽¹²⁾	Asset
January 11, 2011 ⁽²⁾	Common Shares	3,200,000	\$0.0001 ⁽¹²⁾	Cash
January 18, 2011 ⁽²⁾	Common Shares	3,000,000	\$0.0001 ⁽¹²⁾	Cash
January 24, 2011 ⁽⁴⁾	Common Shares	100,000	\$0.0001 ⁽¹²⁾	Cash
January 27, 2011 ⁽²⁾	Common Shares	100,000	\$0.0001 ⁽¹²⁾	Cash
February 8, 2011 ⁽²⁾	Common Shares	400,000	\$0.0001 ⁽¹²⁾	Cash
March 22, 2011 ⁽⁵⁾	Common Shares	200,000	\$0.0001 ⁽¹²⁾	Cash
April 12, 2011 ⁽⁶⁾	Common Shares	1,000,000	\$0.0001 ⁽¹²⁾	Asset
April 21, 2011 ⁽⁷⁾	Units	10,050,000	\$0.20	Cash
May 4, 2011 ⁽⁸⁾	Units	9,950,000	\$0.20	Cash
June 30, 2011 ⁽⁹⁾	Units	1,500,000	\$0.20	Cash
November 4, 2011 ⁽¹⁰⁾	Flow Through Units	6,500,000	\$0.50	Cash
November 4, 2011 ⁽¹¹⁾	Subscription Receipts	2,100,000	\$0.50	Cash

Notes:

- (1) Issued in connection with incorporation and pursuant to a private placement for founders shares and held by insiders of Canada Coal.
- (2) Issued for cash.
- (3) Issued in connection with the purchase of all of the issued and outstanding shares of CSCC by Canada Coal and the release of Weststar from its obligations under an agreement with Hunter.
- (4) Issued for cash.
- (5) Issued for cash.
- (6) Issued in exchange for the purchase of 5200 Nunavut and certain claims it held.
- (7) Issued pursuant to a first tranche private placement of units, with each unit being comprised of one Canada Coal Common Share and one whole Canada Coal Warrant, with each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, the Exchange or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on the date that is five years after the date of issuance.
- (8) Issued pursuant to a second tranche private placement of units, with each unit being comprised of one Canada Coal Common Share and one whole Canada Coal Warrant, with each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, the Exchange or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on the date that is five years after the date of issuance.
- (9) Issued pursuant to a final tranche private placement of units, with each unit being comprised of one Canada Coal Common Share and one whole Canada Coal Warrant, with each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, the Exchange or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on the date that is five years after the date of issuance.
- (10) Issued pursuant to the Concurrent Financing.
- (11) Issued pursuant to the Concurrent Financing.
- (12) On or about January 9, 2012, certain holders of founders shares of Canada Coal made a capital contribution of \$49,127 to Canada Coal in respect of 982,537 Canada Coal Common Shares, to bring the cost base of such shares to \$0.05 per share. This capital contribution was made at the behest of the TSXV in order to comply with its bulletin dated October 20, 2008, entitled "Restated Deal Structure and Founder Shares Guidelines".

Since the date of incorporation, the following warrants have been issued by Canada Coal:

Date	Number of Warrants	Consideration	Exercise price	Number of Canada Coal Common Shares Issuable upon exercise
April 21, 2011 ⁽¹⁾	10,050,000	Cash	\$0.30	10,050,000
April 21, 2011 ⁽²⁾	804,000	Compensation	\$0.20	804,000
May 4, 2011 ⁽³⁾	9,950,000	Cash	\$0.30	9,950,000
May 4, 2011 ⁽⁴⁾	796,000	Compensation	\$0.20	796,000
June 30, 2011 ⁽⁵⁾	1,500,000	Cash	\$0.30	1,500,000
November 4, 2011 ⁽⁶⁾	3,250,000	Cash	\$0.80	3,250,000
November 4, 2011 ⁽⁷⁾	602,000	Compensation	\$0.80	602,000
TOTAL	26,952,000			

Notes:

- (1) Each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, Exchange or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on April 21, 2016.
- (2) Each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.20 per share until April 21, 2013.
- (3) Each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, Exchange or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on May 4, 2016.
- (4) Each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.20 per share until May 4, 2013.
- (5) Each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, Exchange or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on June 30, 2016.
- (6) Each whole warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.80 per share until March 4, 2014, provided that if the Release Condition is not satisfied on or before March 4, 2012, the number of common share purchase warrants shall be equal to 6,500,000.
- (7) Each warrant entitling the holder to purchase one Canada Coal Common Share at a price of \$0.80 per share until November 4, 2014.

Since the date of incorporation, the following options have been issued by Canada Coal:

Date	Number of Options	Exercise price	Number of Canada Coal Common Shares Issuable upon exercise
February 21, 2011	1,000,000	\$0.20	1,000,000
June 21, 2011	300,000	\$0.20	100,000
August 1, 2011	(200,000) ⁽¹⁾	N/A	N/A
August 1, 2011	500,000	\$0.20	500,000
November 1, 2011	200,000	\$0.50	200,000
November 4, 2011	1,600,000	\$0.50	1,600,000
TOTAL	3,400,000		3,400,000

Notes:

- (1) On June 21, 2011, 200,000 options were granted to Dennis Paterson in his capacity as a director of Canada Coal. On July 13, 2011, Mr. Patterson resigned from the board and at meeting of the directors of Canada Coal on August 1, 2011, the options previously granted to Mr. Peterson were cancelled.

There are no other warrants, options or other securities convertible into common shares of Canada Coal. Canada Coal's Common Shares are not listed on any stock exchange or traded on any market.

STOCK EXCHANGE SHARE PRICE

None of the securities of Canada Coal is, or have been, posted for trading on any stock exchange.

PRINCIPAL SHAREHOLDERS

To the knowledge of the directors and executive officers of Canada Coal, as at the date of this Circular, no person beneficially own, or control or direct, directly or indirectly, voting securities of Canada Coal carrying 10% or more of the voting rights attached to the Canada Coal Common Shares other than the following:

Name	Number of Canada Coal Common Shares Owned (Percentage of Class and Type of Ownership)	
	Canada Coal Common Shares ⁽¹⁾	Percentage of Voting Rights
Sheldon Inwentash	5,500,000	14.47% ⁽²⁾
AlphaNorth Offshore Inc.	5,187,500	13.65%

Notes:

- (1) The percentage of voting rights calculations stated above are based on 38,000,000 Canada Coal Common Shares outstanding, which number represents the number of issued and outstanding Canada Coal Common Shares on the Record Date
- (2) Held directly and through Pinetree Resource Partnership.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth the compensation paid or awarded to the following executive officers of Canada Coal: (i) the President and Chief Executive Officer; (ii) the Chief Financial Officer; and (iii) the Secretary, being all of the executive officers of Canada Coal, from the date of incorporation (August 26, 2010) until the financial year ended September 30, 2011:

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$) ⁽³⁾	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
R. Bruce Duncan, ⁽¹⁾ President and CEO	2011	96,000	NIL	47,400	NIL	NIL	NIL	NIL	143,400
Olga Nikitovic, ⁽²⁾ C.A. Chief Financial Officer	2011	64,000	NIL	47,400	NIL	NIL	NIL	NIL	111,400
Thomas A. Fenton, Secretary	2011	NIL	NIL	11,850	NIL	NIL	NIL	NIL	11,850

Notes:

- (1) R. Bruce Duncan has served as Canada Coal's President & Chief Executive Officer from the period of incorporation to date. Mr. Duncan receives a monthly consulting fee of \$12,000 plus HST (effective January 1, 2012, the monthly payment payable to Mr. Duncan will be reduced to \$8,000 plus HST) paid to his consulting company, West Oak Capital Partners Inc. Effective on the date on which Mr. Braam Jonker receives a valid work permit from Immigration Canada, Mr. Duncan will assume the office of Executive Chairman and Mr. Braam Jonker will be named acting Chief Executive Officer and President.
- (2) Olga Nikitovic, Canada Coal's Chief Financial Officer, is paid a monthly fee of \$8,000 (effective January 1, 2012, the monthly payment payable to Ms. Nikitovic will be reduced to \$6,000 plus HST) plus HST to provide her services as Chief Financial Officer. Ms. Nikitovic is the spouse of Mr. Duncan.

LONG-TERM INCENTIVE PLANS - AWARDS IN MOST RECENTLY COMPLETED FINANCIAL YEAR

Canada Coal does not currently have nor has it ever had any long term incentive plans.

COMPENSATION OF DIRECTORS

During the period from inception to September 30, 2011, Canada Coal paid no cash compensation (including salaries, director's fees, commissions, bonuses paid for services rendered, bonuses paid for services rendered in a previous year, and any compensation other than bonuses earned by the directors for services rendered) to the directors for services rendered in their capacity as directors other than reimbursement of reasonable expenses.

STOCK OPTIONS, STOCK APPRECIATION RIGHTS AND RESTRICTED SHARES

Canada Coal has granted the following stock options to the following individuals since incorporation.

Name	Number of Common Shares Under Option	Exercise Price of Common Share	Expiry Date
R. Bruce Duncan	400,000	\$0.20	February 12, 2016
	550,000	\$0.50	November 4, 2016
Senator Michael MacDonald	100,000	\$0.20	February 12, 2016
	100,000	\$0.50	November 4, 2016
Thomas Fenton	100,000	\$0.20	February 12, 2016
	100,000	\$0.50	November 4, 2016
Olga Nikitovic	400,000	\$0.20	February 12, 2016
	300,000	\$0.50	November 4, 2016
David Danzinger	100,000	\$0.20	June 21, 2016
Braam Jonker	500,000	\$0.20	August 1, 2016
	550,000	\$0.50	November 4, 2016
E. Richard Klue	200,000	\$0.50	November 1, 2016
Total:	3,400,000		

EMPLOYMENT CONTRACTS

Canada Coal has no written employment contract with any director or executive officer, except as summarized below. Canada Coal has not entered into any compensatory plan, contract or arrangement where a Named Executive Officer is entitled to receive compensation in the event of resignation, retirement or any other termination, a change of control of Canada Coal, or a change in the Named Executives' responsibilities following a change in control, except as summarized below.

A consulting services agreement was entered into between Olga Nikitovic and Canada Coal effective March 1, 2011 for a renewable two year term, for Ms. Nikitovic to act as Chief Financial Officer, oversee financial reporting and maintain financial records in exchange for a monthly payment of \$8,000 plus HST, expenses and stock options as determined by the Board of Directors. Effective January 1, 2012, Ms. Nikitovic has agreed to reduce the monthly fee payable from \$8,000 to \$5,000, plus HST. Financial penalties are payable if the agreement is terminated by Canada Coal without cause or by a "triggering event". A triggering event includes a successful take-over bid, a change in control of the Canada Coal, the sale of substantially all of Canada Coal's assets, the disposition of the majority of outstanding Canada Coal Shares, the termination of Canada Coal's business, certain mergers and amalgamations or an asset liquidation..

A consulting services agreement was entered into between Bruce Duncan and Canada Coal effective March 1, 2011 for a renewable two year term, for Mr. Duncan to act as President and Chief Executive Officer. In exchange for services, Mr. Duncan will receive a monthly payment of \$12,000 plus HST, expenses and stock options as determined by the Canada Coal Board. Effective January 1, 2012, Mr. Duncan has agreed to reduce the monthly fee payable to him from \$12,000 to \$8,000, plus HST. Financial penalties are payable to Mr. Duncan if the agreement is terminated by Canada Coal without cause or by a "triggering event". A triggering event includes a successful take over bid, a change in control of the Canada Coal, the sale of substantially all of Canada Coal's assets, the disposition of the majority of outstanding Canada Coal Shares, the termination of Canada Coal's business, certain mergers and amalgamations or an asset liquidation.

On November 1, 2011, Canada Coal entered into an employment agreement with Braam Jonker to act as President and Chief Executive Officer of Canada Coal. Mr. Jonker is currently not a Canadian resident and the employment of Mr. Jonker is conditional upon him receiving a valid work permit from Immigration Canada, permitting him to be employed in Canada. Upon the work permit being granted, Canada Coal shall appoint Mr. Jonker as President and Chief Executive Officer of Canada Coal; Mr. Duncan has agreed to resign from such positions and shall thereafter be appointed as Executive Chairman of Canada Coal. Upon his becoming President and Chief Executive Officer, Canada Coal has agreed to pay Mr. Jonker a signing bonus of \$90,000 and pay him a monthly salary of \$8,000.

MANAGEMENT CONTRACTS

Other than described above under "Employment Contracts," the management functions of Canada Coal are not performed by any person other than the senior officers and directors of Canada Coal.

NON-ARM'S LENGTH PARTY TRANSACTIONS

Canada Coal did not complete any non-arms length party transactions during the fiscal year ended September 30, 2011.

INVESTOR RELATIONS AGREEMENT

Canada Coal does not have any investor relations agreements in place.

LEGAL PROCEEDINGS

To the knowledge of the management of Canada Coal, there are no actual or contemplated material legal proceedings to which Canada Coal is a party.

MATERIAL CONTRACTS

Since incorporation, other than contracts entered into in the ordinary course of business, Canada Coal has not entered into any contracts material to Canada Coal except:

- (a) purchase agreement between Weststar Resources Corp. and Canada Coal dated September 15, 2010 in consideration for all of the issued and outstanding shares of CSCC;
- (b) letter agreement dated September 20, 2010, made between Canada Coal and Hunter Exploration Group relating to certain coal licences held by Hunter Exploration Group on Ellesmere Island;
- (c) purchase agreement among Trevor Teed, Michael Magrum, Lane Dewar and Canada Coal for the purchase of all issued and outstanding shares of 5200 Nunavut by Canada Coal;
- (d) the Agency Agreement;
- (e) the Canada Coal Subscription Receipt Agreement; and
- (f) the Amalgamation Agreement.

The material contracts described above may be inspected at the offices of Canada Coal at Suite 1800, 181 Bay Street, Toronto, Ontario M5J 2T9 during ordinary business hours until the Proposed Transaction Closing Date and for a period of 30 days thereafter.

INFORMATION CONCERNING THE RESULTING ISSUER

CORPORATE STRUCTURE

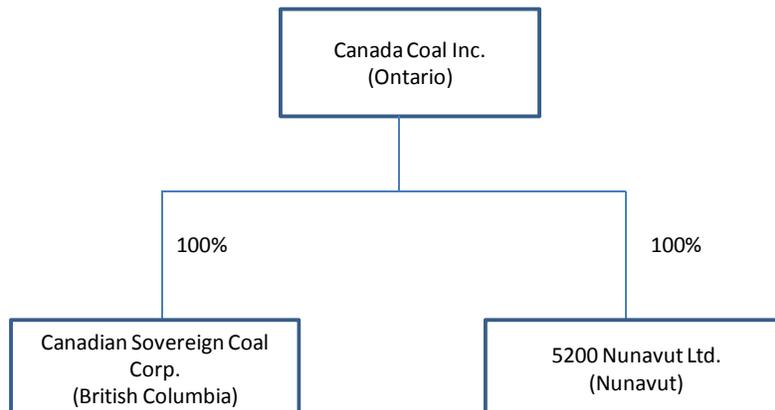
Name and Incorporation

Upon completion of the Proposed Transaction, the Resulting Issuer will continue to be an Ontario corporation incorporated under the OBCA listed on the Exchange under the name “Canada Coal Inc.”, or such other name as may be determined in the sole discretion of the Resulting Issuer’s board of directors.

Immediately following completion of the Proposed Transaction, the Resulting Issuer’s head and registered office will be located at Suite 1800, 181 Bay Street, Toronto, Ontario M5J 2T9. It is anticipated that upon completion of the Proposed Transaction, the Resulting Issuer will begin looking for suitable office space.

Intercorporate Relationships

Upon completion of the Proposed Transaction, the Resulting Issuer, formed on the amalgamation of Canada Coal and Mercury, will have two wholly-owned subsidiaries, CSCC and 5200 Nunavut.



NARRATIVE DESCRIPTION OF THE BUSINESS

The Resulting Issuer’s business objective after completion of the Proposed Transaction will be to continue to be the same as previously carried on by Canada Coal, namely coal exploration and development in Nunavut. See also “*Information Concerning Canada Coal – Narrative Description of the Business*”.

STATED BUSINESS OBJECTIVES AND MILESTONES

Upon completion of the Proposed Transaction, the Resulting Issuer’s business will be that of a predominantly Nunavut based exploration and development company involved in the exploration of its mineral exploration properties. It is intended that the Resulting Issuer will be listed as a Tier 2 company on the Exchange. The Resulting Issuer’s business will be to carry out exploration activities on the Nunavut Coal Project in accordance with the recommendations contained in the Nunavut Technical Report. See also “*Information Concerning Canada Coal - - Nunavut Coal Project*” and a summary of the Nunavut Technical Report elsewhere in this Circular.

It is anticipated that the Phase 1 work program described in the Nunavut Technical Report will be completed within approximately 12 months of the completion of the Proposed Transaction. However, the timing will be dependent on a number of factors beyond the control of the Resulting Issuer including, but not limited to, weather conditions, timing and availability of permits and drill availability. Any additional Phase II work program on the Nunavut Coal Project

will only be undertaken upon satisfactory completion of the Phase I work program. The Resulting Issuer’s available funds will be sufficient to, among other things, complete the contemplated Phase I work program.

EXPLORATION AND DEVELOPMENT

As stated above, the Resulting Issuer’s primary business objective following completion of the Proposed Transaction will be to carry out exploration activities on the Nunavut Coal Project in accordance with the recommendations contained in the Nunavut Technical Report.

DESCRIPTION OF SECURITIES

The share structure and the rights associated with common shares of the Resulting Issuer will be the same as that of Canada Coal. See “*Information Concerning Canada Coal – Description of Securities.*”

Upon completion of the Proposed Transaction an aggregate of 43,449,750 Resulting Issuer Shares will be issued and outstanding, consisting of 38,000,000 Resulting Issuer Shares issued to existing holders of Canada Coal Common Shares, 3,349,750 Resulting Issuer Shares issued to holders of Mercury Common Shares and 2,100,000 Resulting Issuer Shares issued to holders of Canada Coal Subscription Receipts. The Canada Coal Warrants will be exchanged for Resulting Issuer Warrants representing the right to acquire an aggregate of 24,750,000 Resulting Issuer Shares. 1,050,000 Resulting Issuer Warrants will be issued holders upon the conversion of the Canada Coal Subscription Receipts. The Canada Coal Compensation Warrants and the Mercury Compensation Warrants will be exchanged for Resulting Issuer Compensation Warrants representing the right to acquire an aggregate of 2,386,975 Resulting Issuer Shares.

In addition, an aggregate of 3,659,975 Resulting Issuer Shares will be reserved for issuance to the directors, officers, employees and consultants of the Resulting Issuer pursuant to the terms of the Resulting Issuer Stock Option Plan.

PRO FORMA CONSOLIDATED CAPITALIZATION

The following table sets forth the capitalization of the Resulting Issuer after giving effect to the Proposed Transaction including, without limitation, the Concurrent Financing, described in the pro forma financial statements attached hereto as Schedule “H”. See “*Information for All Shareholders – Concurrent Financing.*”

Designation of Security	Amount Authorized or to be Authorized	Amount Outstanding After Giving Effect to the Proposed Transaction and the Concurrent Financing
Resulting Issuer Shares	Unlimited	43,449,750

FULLY DILUTED SHARE CAPITAL

The following table sets out the diluted share capital of the Resulting Issuer after giving effect to the Proposed Transaction:

	After Giving Effect to the Proposed Transaction	
	Number of Securities	Percentage of Securities ⁽¹⁾
Shares Issued		
Resulting Issuer Shares issued in exchange for Mercury Common Shares	3,349,750	4.448%
Resulting Issuer Shares issued in exchange for Canada Coal Common Shares	38,000,000	50.467%
Resulting Issuer Shares issued as a result of the conversion of Canada Coal Subscription Receipts	2,100,000	2.789%
Total Resulting Issuer Shares	43,449,750	57.704%
Securities Reserved for Future Issue:		
Resulting Issuer Warrants issued in exchange for Canada Coal Warrants	24,750,000	32.870%
Resulting Issuer Warrants issued as a result of the conversion of Canada Coal Subscription Receipts	1,050,000	1.395%
Subtotal Resulting Issuer Warrants	25,800,000	34.265%
Resulting Issuer Options issued in exchange for Mercury Options	259,975	0.345%
Resulting Issuer Options issued in exchange for Canada Coal Options	3,400,000	4.515%
Subtotal Resulting Issuer Options	3,659,975	5.860%
Resulting Issuer Compensation Warrants issued in exchange for Mercury Compensation Warrants	184,975	0.245%
Resulting Issuer Compensation Warrants issued in exchange for Canada Coal Compensation Warrants	2,202,000	2.924%
Subtotal Resulting Issuer Compensation Warrants	2,386,975	3.169%
Total Securities Reserved for Future Issuance	31,846,950	42.296%
Total Number of Fully Diluted Securities	75,296,700	100%

Notes:

(1) Calculated on a fully diluted basis.

AVAILABLE FUNDS AND PRINCIPAL PURPOSES

Upon completion of the Proposed Transaction, the Resulting Issuer will have estimated funds of approximately \$7,162,205 available. The Resulting Issuer expects that the principal purpose of such funds will be used for the completion of the recommended work program set out in the Nunavut Technical Report. Specifically, the Resulting

Issuer intends to use the funds available for the following purposes (the following estimates based on 12 month breakdown).

Available Funds	Amount
Approximate working capital of Mercury and Canada Coal as September 30, 2011.	\$3,469,682
Gross Proceeds of the Concurrent Financing	\$4,300,000
Cash commissions of 7% paid to the Agents in connection with the Concurrent Financing	(\$301,000)
Legal and other expenses incurred in connection with the Concurrent Financing	(\$85,604)
Costs associated with implementing the Proposed Transaction	(\$270,000)
Additional capital contribution by seed shareholders	\$49,127
Total Available Funds	\$7,162,205
Anticipated Use of Funds	
Phase I work program to be conducted on Nunavut Coal Property ⁽¹⁾	(\$3,775,000)
Accounts Payable ⁽²⁾	(\$116,519)
General and Administration Costs for 12 Months following completion of the Proposed Transaction	
Management fees	\$332,000
Investor relations/shareholder communication	\$36,000
Transfer agent/filing fees	\$15,000
Legal/audit	\$60,000
Admin/rent	\$10,000
Insurance (D&O)	\$12,000
Travel	\$100,000
\$565,000	(\$565,000)
Licence deposits for Nunavut Coal Project (to November 2012)	(\$244,517)
Signing Bonus for CEO	(\$90,000)
Unallocated working capital	(\$100,000)
Total Anticipated Use of Funds	(\$4,891,0368)
Total Unallocated Funds	<u>2,271,169</u>

Notes:

(1) See “*Information Concerning Canada Coal – Nunavut Coal Project*”, for a detailed breakdown of the Phase I work program.

(2) This amount includes issue costs and other additional costs associated with the completion of the Proposed Transaction.

It is currently anticipated that the Resulting Issuer’s unallocated working capital will be used to: (i) fund any proposed Phase I work program on the Nunavut Coal Property, (ii) pay additional licence fees to acquire additional coal licences or applications for licences, and (iii) for such other uses determined by management of the Resulting Issuer from time to time.

The Resulting Issuer will spend the funds available to it upon completion of the Proposed Transaction and for the principal purposes indicated above. Notwithstanding the foregoing, there may also be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Resulting Issuer to achieve its objectives. The Resulting Issuer may require additional funds in order to fulfill all of the Resulting Issuer’s expenditure requirements to meet its objectives, in which case the Resulting Issuer expects to either issue additional shares or incur indebtedness. There can be no assurance that additional funding required by the Resulting Issuer will be available if required.

However, it is anticipated that the available funds will be sufficient to satisfy the Resulting Issuer's objectives over the next 12 months.

DIVIDENDS

There are no restrictions that could prevent the Resulting Issuer from paying dividends. Any decision to pay dividends on its shares will be made by the Resulting Issuer's board of directors on the basis of the Resulting Issuer's earnings, financial requirements and other conditions existing at such future time. It is not contemplated that any dividends will be paid in the immediate or foreseeable future following completion of the Proposed Transaction.

PRINCIPAL SECURITYHOLDERS OF THE RESULTING ISSUER

To the knowledge of the directors and officers of each of Mercury and Canada Coal, no Persons will beneficially own, directly or indirectly, or exercise control or direction over voting securities carrying more than 10% of the voting rights attached to any class of voting securities of the Resulting Issuer after completion of the Proposed Transaction, except as follows:

Name	Number of Common Shares Owned (Percentage of Class and Type of Ownership)	
	Common Shares	Percentage of Voting Rights ⁽¹⁾
Sheldon Inwentash	5,500,000	12.66% ⁽²⁾
AlphaNorth Offshore Inc.	5,187,500	11.94% ⁽³⁾

Notes:

- (1) The percentage of voting rights calculations stated above are based on 43,449,750 Common Shares outstanding, which number represents the anticipated number of Resulting Issuer Shares to be issued and outstanding following the completion of the Proposed Transaction.
- (2) 7.30% on a fully diluted basis.
- (3) 6.89% on a fully diluted basis.

DIRECTORS, OFFICERS AND PROMOTERS OF THE RESULTING ISSUER

Name, Address, Occupation and Security Holdings

The following table lists the names, municipalities of residence of the proposed directors and officers of the Resulting Issuer, their proposed positions and offices to be held with the Resulting Issuer, and their principal occupations during the past five years and the number of securities of the Resulting Issuer which will be beneficially owned, directly or indirectly, or over which control or direction will be exercised by each at the completion of the Proposed Transaction.

Name, Municipality of Residence and Position with Resulting Issuer	Principal Occupation for Past Five Years ⁽⁴⁾	Date First Elected	Number and type of Securities Held After Giving Effect to the Transaction ⁽⁵⁾	Percentage held after Completion of the Proposed Transaction (undiluted) ⁽⁶⁾
R. Bruce Duncan ⁽¹⁾ President and CEO/ later to assume Executive Chairman Director Mississauga, Ontario	From December 2005 to present, Director and Chief Executive Officer of Bolero Resources Corp. (TSXV:BRU); from December 2001 to present, President, West Oak Capital Partners Inc.; from September, 2010 to present, Chief Executive Officer of Prosperity Goldfields Corp. (TSXV: PPG)	August 26, 2010 to present	2,000,000 Resulting Issuer Shares 950,000 Resulting Issuer Options	4.60%
Senator Michael L. MacDonald ^{(2) (3)} Director Dartmouth, Nova, Scotia	Senator of Canada since January, 2009; President of Fleurdelis Motel Ltd. from April, 1988 to present	August 26, 2010 to present	200,000 Resulting Issuer Shares 200,000 Resulting Issuer Options	0.46%
Braam Jonker ⁽¹⁾ Director Later to assume Chief Executive Officer and President Vancouver, British Columbia	From June 2009 to April 2011, CFO of Western Coal Corp.; from July 2011 to present, Director of EastCoal Inc. (TSXV: ECX); from August 2010 to present, Director of Mandalay Resources Corporation (TSX: MND); Since December 2011 a director of Firestone Diamonds Plc (AIM:FDI).	June 21, 2011 to present	500,000 Resulting Issuer Shares 500,000 Resulting Issuer Warrants 1,050,000 Resulting Issuer Options	1.15%
Olga Nikitovic, CA Chief Financial Officer Mississauga, Canada	From July, 2007 to present, CFO of Bolero Resources Corp. (TSXV:BRU); November 2004 to present, partner of West Oak Capital Partners Inc.; August 2008 to September 2009, Chief Financial Officer of AusPotash Corp.; June 2007 to April, 2009, Chief Financial Officer of Alix Resources Corp.; August 2006 to April 2009, Chief Financial Officer of Geo Minerals Ltd.; September, 2010 to present, Chief Financial Officer Prosperity Goldfields Corp. (TSXV: PPG)	August 26, 2010 to present	1,000,000 Resulting Issuer Shares 700,000 Resulting Issuer Options	2.30%

Name, Municipality of Residence and Position with Resulting Issuer	Principal Occupation for Past Five Years ⁽⁴⁾	Date First Elected	Number and type of Securities Held After Giving Effect to the Transaction ⁽⁵⁾	Percentage held after Completion of the Proposed Transaction (undiluted) ⁽⁶⁾
Thomas A. Fenton, Director and Secretary Mississauga, Canada	Partner and Practice Group leader (corporate finance) of Toronto based law firm Aird & Berlis LLP; director and officer of several public and private companies	August 26, 2010 to present	200,000 Resulting Issuer Shares 200,000 Resulting Issuer Options	0.46%
E. Richard Klue ⁽²⁾⁽³⁾ Director Chair of the Audit Committee	From 2009 to present, Vice President/Director of Global CSG Operations for Tetra Tech Wardrop Engineering Inc. (Canada). 2008 to 2009, Officer & Director and General Manager for the Americas and Base Metals Global Division Bateman Engineering Canada Corp. (Canada). From 1998 - 2008, General Manager for the Base Metals Global Division, Bateman Minerals & Metals Limited (south Africa).	November 1, 2011 to present	200,000 Resulting Issuer Options	0%
William F. Lindqvist ⁽²⁾⁽³⁾ Chair of the Governance and Compensation Committee	Independent Consulting Geologist	January 18, 2012	Nil	0%
TOTAL			3,900,000 Resulting Issuer Shares 500,000 Resulting Issuer Warrants 3,300,000 Resulting Issuer Options	8.97%⁽⁷⁾

Notes:

- (1) It is expected that Mr. Duncan will act as President and Chief Executive Officer of the Resulting Issuer until a valid work permit is received from Immigration Canada for Mr. Jonker to act in these roles. Once such permits are received it is expected that Mr. Jonker will be appointed as President and CEO and Mr. Duncan will be appointed to the position of Executive Chairman.
- (2) Anticipated to be a member of the Resulting Issuer's audit committee. Each director holds office until the next annual meeting of shareholders.
- (3) Anticipated to be a member of the Resulting Issuer's corporate governance and compensation committee.
- (4) The information as to principal occupation, business or employment is not within the knowledge of the management of the Company and has been furnished by the respective nominees. Each nominee has held the same or a similar principal occupation with the organization indicated or a predecessor thereof for the last five years.
- (5) See "Resulting Issuer – Escrowed Securities – Canada Coal Resulting Issuer Escrowed Shares".
- (6) None of the Resulting Issuer's directors and officers purchased any securities in connection with the Concurrent Financing. The percentages have been calculated without including any Resulting Issuer Shares that may be issued upon the exercise of the stock options granted to directors, officers and other eligible persons under the Stock Option Plan. These calculations assume that there will be 43,449,750 Resulting Issuer Shares issued and outstanding after completion of the Proposed Transaction.
- (7) 15.85% on a partially diluted basis.

MANAGEMENT

If all of the matters placed before the Meeting are approved, and the Proposed Transaction is completed, R. Bruce Duncan, Olga Nikitovic and Thomas A. Fenton will constitute the officers of the Resulting Issuer. A brief description of the biographies for all the proposed officers and directors of the Resulting Issuer are set out below.

None of the director's positions are with what will be affiliates of the Resulting Issuer and none of the directors have entered into any relevant non-compete agreements. It is expected that the CEO and CFO will devote 20% of their time to the business of the Resulting Issuer and the other directors will devote 5% of their time to the business of the Resulting Issuer.

R. Bruce Duncan (Age 50) - Director, President and CEO

Mr. Duncan is the founder of Canada Coal and has over thirty years' experience in the capital market and brokerage industry, including eight years with Gordon Capital Corporation. Mr. Duncan is currently the President of West Oak Capital Partners Inc. which provides strategic advisory services, including identifying and qualifying merger and acquisition candidates and advising in public transactions. Mr. Duncan's client base has included financial services, aviation, mining, oil and gas, logistics, and retail industries. Mr. Duncan currently sits on the boards of several public and private companies and is the President and CEO of Bolero Resources Corp. (BRU:TSXV), the CEO of Prosperity Goldfields Corp. (PPG:TSXV) and a Director of Evolving Gold Corp. (EVG.TSX). Mr. Duncan has extensive experience advising on corporate takeovers, both friendly and hostile, either by designing and executing effective approaches to acquiring assets or by implementing defensive strategies.

Senator Michael MacDonald (Age 56) - Director

Senator Michael L. MacDonald is a Nova Scotia businessman and long-time Conservative activist. Mr. MacDonald has held a number of jobs since the late 70's on Parliament Hill in Ottawa, first with the Progressive Conservative Research office, and later as Executive Assistant to the Honorable Tom McMillan and Honorable Stewart McInnes. He also worked for the Progressive Conservative government in Nova Scotia as Assistant to the Honorable Gerald Sheehy, Minister of Health, and as Executive Assistant to Premier John Buchanan. At the time of his appointment to the Senate, Mr. MacDonald was the Vice-President of the Conservative Party of Canada. He serves on the Senate Fisheries Committee and the Committee for Transportation and Communications. Sen. MacDonald is Vice-Chair of the Canada-US Interparliamentary Group, and serves on the Canada-Europe, Canada-South Korea, Canada-India and Canada-Taiwan Parliamentary Groups.

Braam Jonker (Age 43) - Director

Mr. Jonker is a Chartered Accountant (South Africa, England and Wales) and holds a Masters Degree in South African and International Tax from the Rand Afrikaans University. Mr. Jonker has over 17 years of extensive accounting and corporate finance experience mostly in the mining industry. He has worked as a consultant to the mining sector in Africa, spent time with Mwana Africa Plc, and with the corporate finance departments at Anglo American Corporation and PricewaterhouseCoopers. Most recently, Mr. Jonker was the Chief Financial Officer at Western Coal Corp. until its acquisition by Walter Energy Inc. Mr. Jonker is also a member of the Boards of Directors of EastCoal Inc. (ECX:TSXV) and Mandalay Resources Corporation (MND:TSX) where he is also the Interim Chairman of the Board.

Thomas A. Fenton, LLB (Age 51) - Secretary & Director

Mr. Fenton is a partner of the Toronto based law firm, Aird & Berlis LLP. Mr. Fenton's practice encompasses corporate finance and merger and acquisitions. He is director and/or officer of several public and private companies. Mr. Fenton was called to the bar in 1988 having obtained his LLB degree from the University of Western Ontario in 1986.

Olga Nikitovic, CA (Age 50) - Chief Financial Officer

Ms. Nikitovic is a chartered accountant and management consultant with over 25 years of work experience. Ms. Nikitovic worked at PricewaterhouseCoopers for nine years in both the audit and management consulting departments. While consulting, Ms. Nikitovic specialized in re-engineering and cost management. After leaving PricewaterhouseCoopers, Ms. Nikitovic held senior management positions with two of Canada's largest retailers. At present, Ms. Nikitovic is the Chief Financial Officer for a number of publically traded mining companies, namely: Bolero Resources Corp. and Prosperity Goldfields Corp.

E. Richard Klue (age 50) - Director

(Edward) Richard Klue is a metallurgical engineer by profession and also holds a business degree where he specialized in economics and business economics. He has been in the mining minerals and metals industry for over 30 years, including 18 years in operations, capital & sustaining capital projects, and the last 12 years dedicated to project development and management. He has provided global strategic direction to the mining & minerals' industry for studies and projects and has developed new technologies in the Americas, Canada, Africa, India, Russia, Europe and China. His experience has involved the full mining life cycle – geology, permitting, environmental, mining, processing, infrastructure, tailings, operations, maintenance and closure. Mr. Klue is currently a Senior Manager (Director) for Tetra Tech Wardrop. Mr. Klue previously held a positions on the Executive Committee for Messina Investments Ltd., Director of Bateman Canada Corp. and General Manager for Bateman's Base Metals Division. He also performed many roles such as Project Director and Project Manager of widely varying scope, with the major accent on metallurgical treatment plant designs and layouts for base metals (zinc, lead, copper, cobalt, nickel, molybdenum), precious metals (gold, silver), diamonds, iron ore, coal, uranium and industrial materials (sulphuric acid and mineral sands).

William F. Lindqvist, Ph.D. (age 69) – Director

Dr. Lindqvist is a geologist with extensive exploration experience in North and South America, Australia, Indonesia, Eastern Europe and parts of Asia and Africa. He is currently a director of several public companies including Plutonic Power Corporation, Andean Gold Ltd. and Orosur Mining Inc. (formerly Uruguay Mineral Exploration Inc.) He has spent a long and distinguished career primarily with Gold Fields Mining Corp. and Homestake Mining Company (acquired by Barrick Gold Corporation in 2000). Dr. Lindqvist has a Ph.D. in Applied Geology from the Royal School of Mines, London.

PROMOTER

R. Bruce Duncan, is the Promoter of Canada Coal and the Resulting Issuer. Upon closing of the Proposed Transaction, Mr. Duncan will become the Executive Chairman and a Director of the Resulting Issuer. For a description of the number and percentage of common shares in the Resulting Issuer to be beneficially owned, directly or indirectly, or over which direction or control will be exercised by Mr. Duncan see above "*Information Concerning the Resulting Issuer – Name, Address, Occupation and Security Holdings*". For a description of the compensation to be paid to Mr. Duncan, see also "*Information Concerning the Resulting Issuer – Proposed Executive Compensation*".

CORPORATE CEASE TRADE ORDERS OR BANKRUPTCIES

Except as described below, no director, officer, Insider, Control Person or promoter of Canada Coal has, within the last 10 years, been a director, officer or promoter of any company that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied that Company access to any exemptions under applicable securities laws for a period of more than 30 consecutive days or became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that Company.

Mr. Thomas A. Fenton was a former officer (from July 1, 2004 to June 15, 2005) and director (from December 9, 1999 to September 23, 2004) of Hip Interactive Corp. (TSX:HP) which was placed into receivership, by court appointment, on July 11, 2005. A management cease trace order was imposed on certain officers and directors, past and present, on July 11, 2005, for the corporation's failure to file its audited financial statement for its fiscal year ended March 31, 2005. Such statement were die to be filed by June 30, 2005, but were not filed and thus a management cease trade order followed.

PENALTIES OR SANCTIONS

No director, officer, or promoter of the Resulting Issuer has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or has been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulating authority that would be likely to be considered important to a reasonable investor making an investment decision.

PERSONAL BANKRUPTCIES

No director, officer, or promoter of the Resulting Issuer, or a personal holding Company of any such persons has, within the last 10 years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the individual.

CONFLICTS OF INTEREST

There are potential conflicts of interest to which any directors, officers, or promoter of the Resulting Issuer will be subject in connection with the Resulting Issuer's operations. Some of the directors, officers, Insiders and promoters are engaged in and will continue to be engaged in corporations or businesses which may be in competition with the business of the Resulting Issuer. Accordingly, situations may arise where some of the directors, officers or the promoter will be in direct competition with the Resulting Issuer. Conflicts, if any occur, will be managed according to the procedures and remedies as provided under the OBCA. See also "*Risk Factors.*"

OTHER REPORTING ISSUER EXPERIENCE

The following table sets out the directors, officers and promoter(s) of the Resulting Issuer that are, or have been within the last five years, directors, officers or promoters of other issuers that are or were reporting issuers:

Name	Name of Reporting Issuer	Name of Exchange or Market	Position	Term
R. Bruce Duncan	Bolero Resources Corp.	TSXV	Director President and CEO	December 2005 to present
	Prosperity Goldfields Corp. Evolving Gold Corp.	TSXV TSXV	CEO & Director Director	September, 2010 to present May, 2011 to present
	Stealth Energy Inc.	CNSX	Director	April, 2004 to February, 2008
Senator Michael MacDonald	Not Applicable	-	-	-
Braam Jonker	Western Coal Corp.	TSX	CFO	June 2009 to April 2011
	EastCoal Inc.	TSXV	Director	July 2011 to present
	Mandalay Resources Corporation	TSX	Director	August 2010 to present
	Firestone Diamonds plc	AIM	Director	December 2011 to present
Olga Nikitovic	Bolero Resources Corp.	TSXV	CFO	July 2007 to present
	Prosperity Goldfields Corp.	TSXV	CFO	September, 2010 to present
	Alix Resources Corp.	TSXV	CFO	June 2007 to April 2009
	Geo Minerals Ltd.	TSXV	CFO	August 2006 to April 2009
	GeoNovus Minerals Corp.	TSXV	CFO	December 2011

Name	Name of Reporting Issuer	Name of Exchange or Market	Position	Term
Thomas A. Fenton	Bolero Resources Corp.	TSXV	Corporate Secretary	February, 2008 to present
	Hip Interactive Corp.	TSX	VP & Corporate Secretary	July, 2004 to June 2005
	Payment Services Interactive Gateway Corp.	TSXV	Director	April, 2005 to October, 2010
	Woodview Corporation	TSXV	Director	Aug., 1997 to Aug., 2002
	Prosperity GoldfieldsCorp.	TSXV	Director	December 2011 to present
William F. Lindqvist	Orosur Mining Inc.	TSXV	Director	2005 to present
	AndeanGold Ltd.	TSXV	Director	2007 to present
	Plutonic Power Corporation	TSX	Director	2003-2011
	Evolving Gold Corp.	TSX	Director	2009 to present

PROPOSED EXECUTIVE COMPENSATION OF THE RESULTING ISSUER

For purposes of this Filing Statement, “named executive officer” of the Resulting Issuer means an individual who, at any time during the year, was (each a “**Resulting Issuer Named Executive Officer**”):

- (a) the Resulting Issuer’s CEO;
- (b) the Resulting Issuer’s CFO;
- (c) each of the Resulting Issuer’s three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year and whose total compensation was, individually, more than \$150,000 for that financial year; and
- (d) each individual who would be a Resulting Issuer Named Executive Officer under paragraph (c) but for the fact that the individual was neither an executive officer of the Resulting Issuer, nor acting in a similar capacity, at the end of the most recently completed financial year.

Based on the foregoing definition, for the 12 months following Completion of the Qualifying Transaction, the Resulting Issuer will have three Resulting Issuer Named Executive Officers, there being no other executive officers of the Resulting Issuer.

COMPENSATION DISCUSSION AND ANALYSIS

In formulating the compensation of the Resulting Issuer Named Executive Officers, the Resulting Issuer does not yet have in place any formal objectives, criteria or analysis; instead, it will rely mainly on discussion among its board of directors, with input from and upon the recommendations of the nomination and compensation committee of the Resulting Issuer.

The Resulting Issuer’s executive compensation program has two principal components: base salary and stock options.

Base salaries for all employees of the Resulting Issuer, including base salaries for the Resulting Issuer Named Executive Officers, will be established for each position through comparative salary surveys of similar type and size companies. Both individual and corporate performances will also take into account.

Stock options will be granted to provide an incentive to the participants in the Resulting Issuer’s Stock Option Plan to achieve the longer-term objectives of the Resulting Issuer; to give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Resulting Issuer; and to attract and retain persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in the Resulting Issuer. The Resulting Issuer will award stock options to the participants in the based upon the recommendation of the nomination and compensation committee of the Resulting Issuer, which recommendation is based upon the nomination and compensation committee’s review of a proposal from the CEO. Previous grants of incentive stock options will be taken into account when considering new grants.

The Resulting Issuer has no other forms of compensation, although payments may be made from time to time to individuals or companies they control for the provision of consulting services. Such consulting services are paid for by the Resulting Issuer at competitive industry rates for work of a similar nature by reputable arm’s length services providers.

Summary Compensation Table

The following table sets forth the anticipated compensation to be paid or awarded to the following executive officers of the Resulting Issuer: (i) the President and CEO, later to become the Executive Chairman; (ii) the Chief Financial Officer; and (iii) the anticipated Chief Executive Officer and President, for the 12-month period after giving effect to the Proposed Transaction.

The following table assumes the transition in the CEO and President positions from Mr. Duncan to Mr. Jonker occurring 12 months following the formation of the Resulting Issuer.

Name and principal position	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
				Annual incentive plans	Long-term incentive plans			
R. Bruce Duncan Executive Chairman	\$96,000	Nil	N/A ⁽¹⁾	Nil	Nil	Nil	Nil	\$96,000
Braam Jonker ⁽³⁾ Chief Executive Officer & President	\$96,000	Nil	N/A ⁽¹⁾	Nil	Nil	Nil	\$90,000 ⁽²⁾	\$186,000
Olga Nikitovic. CA Chief Financial Officer	\$60,000	Nil	N/A ⁽¹⁾	Nil	Nil	Nil	Nil	\$60,000

Notes:

(1) Management of the Resulting Issuer cannot not predict the number of options that will be granted in the ensuing year.

(2) Upon Mr. Jonker receiving a valid work permit from Immigration Canada permitting him to act as President and Chief Executive Officer of Canada Coal and the Resulting Issuer, pursuant to his employment agreement, he will be paid a signing bonus of \$90,000.

Summary of Employment Contracts of each Resulting Issuer Named Executive Officer

The Resulting Issuer Named Executive Officers have employment contracts. A summary of the terms of these contracts is provided in “*Information Concerning Canada Coal – Employment Contracts*”. It is expected that, upon

completion of the Proposed Transaction and the conditions for a change in President and CEO being met, the contract of R. Bruce Duncan will be revised.

Incentive Plan Awards

Except as described herein, the Resulting Issuer does not currently intend to issue the Resulting Issuer Named Executive Officers or the directors of the Resulting Issuer any share-based awards and option-based awards during the 12 months following Completion of the Qualifying Transaction. In addition, no benefits are proposed to be paid to any of the Resulting Issuer Named Executive Officers or director of the Resulting Issuer under any pension or retirement plan or under any deferred compensation plan during the 12 months following Completion of the Qualifying Transaction.

The Resulting Issuer does not currently intend to provide its directors with any compensation for attending any meetings of the board of directors of the Resulting Issuer or any committee thereof.

Pension Plan Benefits

The Resulting Issuer does not intend to enact any deferred compensation plan or pension plan that provides for payments or benefits at, following or in connection with retirement.

Termination and Change of Control Benefit

The Board of Directors of the Resulting Issuer may enter into employment agreements with certain members of its management team upon or after closing of the Transaction. Such employment agreements may contain termination or change of control benefits in favour of such Persons.

Director Compensation

Upon Completion of the Qualifying Transaction the Board of Directors will determine how much, if any, compensation will be paid to directors for services rendered to the Resulting Issuer by them in that capacity. Such incentives are anticipated to be in the form of Resulting Issuer Options. It is not anticipated that directors who are otherwise employed by or engaged to provide services to the Resulting Issuer will be paid an annual director's fee or be paid any cash compensation.

Share-Based Awards, Option-based Awards and Non-Equity Incentive Plan Compensation

The Resulting Issuer will consult with its compensation committee in connection with any share-based awards, option based awards or the establishment of any non-equity incentive plans.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

No person who is, or was during the most recently completed financial year of the Issuer, a director or officer of the Resulting Issuer or any associate thereof, is or has been at any time during the last financial year of the Resulting Issuer indebted to the Resulting Issuer or any of its subsidiaries.

INVESTOR RELATIONS ARRANGEMENTS

Neither Mercury nor Canada Coal has entered into any written or oral agreement or understanding with any person to provide any promotional or investor relations services for themselves or the Resulting Issuer or related securities or to engage in activities for the purposes of stabilizing the market.

Following the Qualifying Transaction, the Resulting Issuer may enter into an agreement with a Person or firm to provide corporate communications and investor relations services for the Resulting Issuer or its securities. No agreement has been concluded with any Person or firm with respect to the provision of such services or to engage in any other activities for the purposes of stabilizing the market for the Common Shares.

OPTIONS TO PURCHASE SECURITIES

Following completion of the Proposed Transaction the maximum aggregate number of Resulting Issuer Shares that may be reserved for issuance under the Resulting Issuer Stock Option Plan will be 10% of the issued Resulting Issuer Shares.

The following table provides information as to the option holders of the Resulting Issuer that, as of the date of this Circular, are expected to be outstanding immediately following the completion of the Proposed Transaction:

Category of Optionholder	Number of Options to Acquire Resulting Issuer Shares Held as a Group
All proposed officers and directors of the Resulting Issuer	3,300,000
All other persons or companies (incl. past directors and officers of Canada Coal and Mercury) ⁽¹⁾⁽²⁾	359,975
TOTAL NUMBER OF OUTSTANDING OPTIONS	3,659,975

Notes:

- (1) Upon completion of the Proposed Transaction, all officers and directors and past officers and directors of Mercury will hold options to purchase up to 259,975 Resulting Issuer Shares.
- (2) Upon completion of the Proposed Transaction, all past directors and officers of Canada Coal as a group will hold options to purchase 100,000 Resulting Issuer Shares.

The following table provides information as to material provisions of the options of the Resulting Issuer that are expected to be outstanding immediately following the completion of the Proposed Transaction:

Date of Grant	Number of Options	Exercise Price	Expiry Date
January 28, 2011	259,975	\$0.20	January 28, 2021
February 21, 2011	1,000,000	\$0.20	February 21, 2016
June 21, 2011	100,000	\$0.20	June 21, 2016
August 1, 2011	500,000	\$0.20	August 1, 2016
November 1, 2011	200,000	\$0.50	November 1, 2016
November 4, 2011	1,300,000	\$0.50	November 4, 2016
November 4, 2011	300,000	\$0.50	January 21, 2012
TOTAL OPTIONS	3,659,975		

STOCK OPTION PLAN OF THE RESULTING ISSUER

After completion of the Proposed Transaction, the Resulting Issuer will adopt the Mercury Stock Option Plan. See Schedule "D" for a copy of the plan and "*Matters to be Acted on at the Mercury Meeting – Stock Option Plan.*" for a summary of the plan.

ESCROWED SECURITIES

CPC Escrowed Securities

To the knowledge of Mercury and Canada Coal as of the date hereof, none of the issued and outstanding shares of Canada Coal are currently held in escrow. There are currently 1,000,000 Mercury Common Shares held in escrow which are subject to the CPC Escrow Agreement.

Under the CPC Escrow Agreement, 10% of the shares escrowed will be released from escrow on the issuance of the Final Exchange Bulletin (the “**Initial Release**”) and an additional 15% will be released on the dates 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release.

If the Resulting Issuer meets the Exchange’s Tier 1 initial listing requirements either at the time the Final Exchange Bulletin is issued or subsequently, the release of the shares will be accelerated. An accelerated escrow release will not commence until the Resulting Issuer has made an application to the Exchange for listing as a Tier 1 issuer and the Exchange has issued a bulletin that announces the acceptance for listing of the Resulting Issuer on Tier 1 of the Exchange.

The Exchange's prior consent must be obtained before a transfer within escrow of shares subject to the CPC Escrow Agreement. Generally, the Exchange will only permit a transfer within escrow to be made to incoming Principals in connection with the Qualifying Transaction.

Escrowed Securities on Qualifying Transaction

Generally, if at least 75% of the securities issued pursuant to a Qualifying Transaction are “Value Securities”, then all of the securities issued to Principals of the Resulting Issuer pursuant to the Qualifying Transaction will be deposited into escrow pursuant to a value security agreement (the “**Value Security Escrow Agreement**”). “Value Securities” are securities issued pursuant to a transaction, for which the deemed value of the securities at least equals the value ascribed to the assets, using a valuation method acceptable to the Exchange, or securities that are otherwise determined by the Exchange to be Value Securities and required to be placed in escrow under the Value Security Escrow Agreement. However, if at least 75% of the securities issued pursuant to the Qualifying Transaction are not Value Securities, all securities issued pursuant to the Qualifying Transaction will be deposited into a surplus security escrow agreement (a “**Surplus Security Escrow Agreement**”).

The principal distinction between a Value Security Escrow Agreement and a Surplus Security Escrow Agreement is the time period for release of securities from escrow. The Resulting Issuer will be a Tier 2 issuer when the Final Exchange Bulletin is issued. Accordingly the Value Security Escrow Agreement provides for a three year escrow release mechanism with 10% of the escrowed securities being releasable at the time of the Final Exchange Bulletin, and 15% of the escrowed securities being releasable every 6 months thereafter until the date which is 36 months after the Final Exchange Bulletin. The Surplus Security Escrow Agreement provides for a 3 year escrow release mechanism with 5% of the escrowed securities releasable at the time of the Final Exchange bulletin, 5% on the date which is 6 months after the Final Exchange Bulletin, 10% on each of the dates which are 12 and 18 months after the Final Exchange Bulletin, 15% on each of the dates which are 24 and 30 months after the Final Exchange Bulletin and 40% on the date which is 36 months after the Final Exchange Bulletin.

Securities issued pursuant to a private placement to Principals of Canada Coal and the proposed Resulting Issuer will generally be exempt from escrow requirements where:

- (a) the private placement is announced at least five trading days after the news release announcing the Agreement in Principle and the pricing for the financing is at not less than the discounted market price, as determined in accordance with the Policies of the Exchange; or
- (b) the private placement is announced concurrently with the Agreement in Principle and:
 - (i) at least 75% of the proceeds from the private placement are not from Principals of Canada Coal or the proposed Resulting Issuer,
 - (ii) if subscribers, other than Principals of Canada Coal or the proposed Resulting Issuer, will obtain securities subject to hold periods, then in addition to any resale restrictions under applicable securities legislation, any securities issued to such Principals will be subject to a four month hold period, and
 - (iii) none of the proceeds of the private placement are allocated to pay compensation or to settle indebtedness owing to Principals of the Resulting Issuer.

The following table sets out, as of the date hereof and to the knowledge of Mercury and Canada Coal, the name and municipality of residence of the security holders whose shares and warrants of the Resulting Issuer are anticipated to be subject to CPC escrow after giving effect to the Proposed Transaction:

Name and Municipality of Residence of Shareholder	Designation of Class	Prior to Giving Effect to the Proposed Transaction		After Giving Effect to the Proposed Transaction	
		Number of Securities held in Escrow	Percentage of Mercury Common Shares	Number of Securities to be held in Escrow ⁽¹⁾⁽²⁾	Percentage of Resulting Issuer Shares ⁽³⁾
Andrew Bordin Woodbridge, Ontario	Resulting Issuer Shares	150,000	4.48%	150,000	0.35%
Alexey Kostyuchenko St. Petersburg, Russia	Resulting Issuer Shares	81,500	2.43%	81,500	0.19%
Thomas Sears Toronto, Ontario	Resulting Issuer Shares	100,000	2.99%	100,000	0.23%
Alexander C. Logie Toronto, Ontario	Resulting Issuer Shares	68,500	2.04%	68,500	0.16%
Polisuk Investment Corporation ⁽⁴⁾ Ontario, Canada	Resulting Issuer Shares	50,000	1.49%	50,000	0.12%
Robbie Grossman Toronto, Ontario	Resulting Issuer Shares	50,000	1.49%	50,000	0.12%
Leonidas Karabelas Woodbridge, Ontario	Resulting Issuer Shares	250,000	7.46%	250,000	0.58%
JG Advisory Inc. ⁽⁵⁾ Ontario, Canada	Resulting Issuer Shares	250,000	7.46%	250,000	0.58%
		1,000,000	29.85%	1,000,000	2.30%

Notes:

- (1) These shares are held in escrow under the CPC Escrow Agreement, which provides for the staged release from escrow of the holder's shares over a 36 month period from the date of the Completion of the Qualifying Transaction with 10% as of the date of the Completion of the Qualifying Transaction with an additional 15% released on the 6, 12, 18, 24, 30 and 36 month anniversaries of the Completion of the Qualifying Transaction.
- (2) Does not reflect the 10% release of the Common Shares held under the CPC Escrow Agreement and the Escrow Agreement as of the date of the Final TSXV Bulletin.
- (3) Assumes 43,449,750 Resulting Issuer Shares outstanding.
- (4) Private company incorporated under the *Business Corporations Act* (Ontario) beneficially owned and controlled by Barry M. Polisuk.
- (5) Private company incorporated under the *Business Corporations Act* (Ontario) beneficially owned and controlled by Josh Gerstein.

CANADA COAL RESULTING ISSUER ESCROW SHARES

The following table sets out, as of the date hereof and to the knowledge of Mercury and Canada Coal, the name and municipality of residence of the security holders whose shares, warrants and Options of the Resulting Issuer are anticipated to be considered Value Securities as defined in Exchange Policy 5.4 and will be subject to escrow after giving effect to the transaction:

Name and Municipality of Residence of Shareholder	Number of Resulting Issuer Shares to be held in Escrow	Number of Resulting Issuer Warrants to be held in Escrow	Number of Resulting Issuer Options to be Held in Escrow	Percentage of Class Undiluted ⁽¹⁾	Percentage of Class on a Partially Diluted basis ⁽²⁾
R. Bruce Duncan, Mississauga, Ontario	2,000,000	0	950,000	4.60%	6.08%
Abraham Jonker, Vancouver, British Columbia	500,000	500,000	1,050,000	1.15%	4.22%
Olga Nikitovic, Mississauga, Canada	1,000,000	0	700,000	2.30%	3.50%
Senator Michael MacDonald, Dartmouth, Nova Scotia	200,000	0	200,000	0.46%	0.82%
Thomas A. Fenton, Mississauga, Canada	200,000	0	200,000	0.46%	0.82%
E. Richard Klue, Vancouver, British Columbia	0	0	200,000	0.00%	0.41%
Totals	3,900,000	500,000	3,300,000	8.97%	15.85%

Note:

- (1) Assumes 43,449,750 Resulting Issuer Shares outstanding.
- (2) Assumes only the exercise of the options and warrants held by the principals.

ESCROW SHARES

Pursuant to the policies of the Exchange (unless otherwise exempted by the Exchange), pursuant to a value escrow agreement to be entered into prior to Closing (“**Escrow Agreement**”) between R. Bruce Duncan, Abraham Jonker, Olga Nikitovic, Senator Michael MacDonald, Thomas A. Fenton, and E. Richard Klue (collectively the “**Escrow Parties**”) and the Escrow Agent, the Escrow Parties will agree to deposit 3,900,000 Resulting Issuer Shares, 3,300,000 Resulting Issuer Options and 500,000 Resulting Issuer Warrants issued to them, when issued, into escrow with the Escrow Agent. Pursuant to the policies of the Exchange, the shares and warrants placed in escrow will be released in accordance with the following timeline assuming the Resulting Issuer will be deemed by the Exchange to be a Tier 2 Issuer:

% of Common Shares Released from Escrow	Release Date
Tier 2 Issuer	
10%	Date of Final Exchange Bulletin
15%	6 months from Final Exchange Bulletin
15%	12 months from Final Exchange Bulletin
15%	18 months from Final Exchange Bulletin
15%	24 months from Final Exchange Bulletin
15%	30 months from Final Exchange Bulletin
15%	36 months from Final Exchange Bulletin

SEED SHARE RESALE RESTRICTIONS

Pursuant to Exchange Policy 5.4 - *Escrow, Vendor Consideration and Resale Restrictions*, certain non-principal shareholders of Canada Coal Common Shares, upon exchange into Mercury Common Shares, will be subject to seed share resale restrictions (each, a “**SSRR**”). SSRRs are Exchange hold periods of various lengths which apply where seed shares are issued to non-principals by private companies in connection with the Reverse Takeover. The terms of the SSRRs are based on the length of time such Canada Coal Common Shares have been held and the price at which such shares were originally issued. In the case of the Resulting Issuer, pursuant to SSRRs, as at the date of this Circular, it is estimated that a total of 27,600,000 Resulting Issuer Shares held by 49 shareholders will be subject to certain hold periods pursuant to Section 10.9 of Exchange Policy 5.4 – *Escrow, Vendor Consideration and Resale Restrictions*. It is anticipated that 4,600,000 Resulting Issuer Shares held by 7 shareholders will be held in escrow and released in the same manner as described above for Tier 2 Issuers and that 23,000,000 Resulting Issuer Shares held by 49 shareholders will be held in escrow and 20% released from escrow on issuance of the Final Exchange Bulletin (the “**Initial Release**”) and 20% will be released every month after the Initial Release. The final determination of the number of SSRRs will be determined by the Exchange.

AUDITOR, TRANSFER AGENT AND REGISTRARS

AUDITOR

The auditors of Canada Coal, McGovern, Hurley, Cunningham LLP, Chartered Accountants, Toronto, Ontario, Canada, will remain the auditors of the Resulting Issuer upon completion of the Proposed Transaction.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar of Mercury, Computershare Investor Services Inc., will remain the transfer agent and registrar of the Resulting Issuer. See “*Information Concerning Mercury – Auditor, Transfer Agents and Registrars.*”

GENERAL MATTERS

EXPERTS

Opinions

Keith McCandlish, P. Geol., P. Geo. and Susan O'Donnell, P. Geol., the authors of the technical report dated September 30, 2011, entitled "*The Nunavut Coal Project-Ellesmere Island and Axel Heiberg Island, Nunavut, Canada*", are each responsible independent qualified persons, in accordance with NI 43-101.

Interest of Experts

No person or Company whose profession or business gives authority to a statement made by the person or Company and who is named as having prepared or certified a part of this Circular or as having prepared or certified a report or valuation described or included in this Circular holds any beneficial interest, direct or indirect, in any securities or property of the Resulting Issuer, or an Associate or Affiliate.

Expert Reports

Other than the NI 43-101 Report, there have been no other expert reports prepared to support the recommendation of the board of directors of the Resulting Issuer.

OTHER MATERIAL FACTS

Mercury and Canada Coal are not aware of any other material facts relating to Mercury, Canada Coal or the Resulting Issuer or to the Proposed Transaction that are not disclosed under the preceding items and are necessary in order for this Circular to contain full, true and plain disclosure of all material facts relating to Mercury, Canada Coal and the Resulting Issuer, assuming completion of the Proposed Transaction, other than those set forth herein.

APPROVAL OF MERCURY BOARD AND CANADA COAL BOARD

The contents of this Circular and the Schedules included herein have been approved by the Mercury Board and the Canada Coal Board. The Mercury Board and the Canada Coal Board have also approved the delivery of this Circular to the Mercury Shareholders and Canada Coal Shareholders, respectively.

FINANCIAL STATEMENTS

The following financial statements and related management discussion and analysis are attached and form a part of this Filing Statement:

Description	Schedule
Interim unaudited financial statements for Mercury for the three and nine month period ended September 30, 2011, together with Management's Discussion and Analysis thereon. Annual audited financial statements for the period from incorporation to December 31, 2010, together with Management's Discussion and Analysis thereon.	See Schedule "F" to this Circular.
Audited annual financial statements of Canada Coal for the period from incorporation to September 30, 2011, together with Management's Discussion and Analysis thereon.	See Schedule "G" to this Circular.
Pro Forma Statement of Financial Position of the Resulting Issuer	See Schedule "H" to this Circular.

SCHEDULE "A"
DISSENTING SHAREHOLDER RIGHTS

SECTIONS 185 OF THE *BUSINESS CORPORATIONS ACT* (Ontario)

185(1) Subject to subsection (3) and to sections 186 and 248, if a corporation resolves to,

- (a) amend its articles under section 168 to add, remove or change restrictions on the issue, transfer or ownership of shares of a class or series of the shares of the corporation;
- (b) amend its articles under section 168 to add, remove or change any restriction upon the business or businesses that the corporation may carry on or upon the powers that the corporation may exercise;
- (c) amalgamate with another corporation under sections 175 and 176;
- (d) be continued under the laws of another jurisdiction under section 181; or
- (e) sell, lease or exchange all or substantially all its property under subsection 184 (3),

a holder of shares of any class or series entitled to vote on the resolution may dissent. R.S.O. 1990, c. B.16, s. 185 (1).

Idem

(2) If a corporation resolves to amend its articles in a manner referred to in subsection 170 (1), a holder of shares of any class or series entitled to vote on the amendment under section 168 or 170 may dissent, except in respect of an amendment referred to in,

- (a) clause 170 (1) (a), (b) or (e) where the articles provide that the holders of shares of such class or series are not entitled to dissent; or
- (b) subsection 170 (5) or (6). R.S.O. 1990, c. B.16, s. 185 (2).

One class of shares

(2.1) The right to dissent described in subsection (2) applies even if there is only one class of shares. 2006, c. 34, Sched. B, s. 35.

Exception

(3) A shareholder of a corporation incorporated before the 29th day of July, 1983 is not entitled to dissent under this section in respect of an amendment of the articles of the corporation to the extent that the amendment,

- (a) amends the express terms of any provision of the articles of the corporation to conform to the terms of the provision as deemed to be amended by section 277; or
- (b) deletes from the articles of the corporation all of the objects of the corporation set out in its articles, provided that the deletion is made by the 29th day of July, 1986. R.S.O. 1990, c. B.16, s. 185 (3).

Shareholder's right to be paid fair value

(4) In addition to any other right the shareholder may have, but subject to subsection (30), a shareholder who complies with this section is entitled, when the action approved by the resolution from which the shareholder dissents becomes effective, to be paid by the corporation the fair value of the shares held by the shareholder in respect of which the shareholder dissents, determined as of the close of business on the day before the resolution was adopted. R.S.O. 1990, c. B.16, s. 185 (4).

No partial dissent

(5) A dissenting shareholder may only claim under this section with respect to all the shares of a class held by the dissenting shareholder on behalf of any one beneficial owner and registered in the name of the dissenting shareholder. R.S.O. 1990, c. B.16, s. 185 (5).

Objection

(6) A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting or of the shareholder's right to dissent. R.S.O. 1990, c. B.16, s. 185 (6).

Idem

(7) The execution or exercise of a proxy does not constitute a written objection for purposes of subsection (6). R.S.O. 1990, c. B.16, s. 185 (7).

Notice of adoption of resolution

(8) The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (6) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn the objection. R.S.O. 1990, c. B.16, s. 185 (8).

Idem

(9) A notice sent under subsection (8) shall set out the rights of the dissenting shareholder and the procedures to be followed to exercise those rights. R.S.O. 1990, c. B.16, s. 185 (9).

Demand for payment of fair value

(10) A dissenting shareholder entitled to receive notice under subsection (8) shall, within twenty days after receiving such notice, or, if the shareholder does not receive such notice, within twenty days after learning that the resolution has been adopted, send to the corporation a written notice containing,

- (a) the shareholder's name and address;
- (b) the number and class of shares in respect of which the shareholder dissents; and
- (c) a demand for payment of the fair value of such shares. R.S.O. 1990, c. B.16, s. 185 (10).

Certificates to be sent in

(11) Not later than the thirtieth day after the sending of a notice under subsection (10), a dissenting shareholder shall send the certificates representing the shares in respect of which the shareholder dissents to the corporation or its transfer agent. R.S.O. 1990, c. B.16, s. 185 (11).

Note: On a day to be named by proclamation of the Lieutenant Governor, subsection (11) is amended by striking out "the certificates representing" and substituting "the certificates, if any, representing". See: 2011, c. 1, Sched. 2, ss. 1 (9), 9 (2).

Idem

(12) A dissenting shareholder who fails to comply with subsections (6), (10) and (11) has no right to make a claim under this section. R.S.O. 1990, c. B.16, s. 185 (12).

Endorsement on certificate

(13) A corporation or its transfer agent shall endorse on any share certificate received under subsection (11) a notice that the holder is a dissenting shareholder under this section and shall return forthwith the share certificates to the dissenting shareholder. R.S.O. 1990, c. B.16, s. 185 (13).

Rights of dissenting shareholder

(14) On sending a notice under subsection (10), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of the shares as determined under this section except where,

- (a) the dissenting shareholder withdraws notice before the corporation makes an offer under subsection (15);
- (b) the corporation fails to make an offer in accordance with subsection (15) and the dissenting shareholder withdraws notice; or
- (c) the directors revoke a resolution to amend the articles under subsection 168 (3), terminate an amalgamation agreement under subsection 176 (5) or an application for continuance under subsection 181 (5), or abandon a sale, lease or exchange under subsection 184 (8),

in which case the dissenting shareholder's rights are reinstated as of the date the dissenting shareholder sent the notice referred to in subsection (10), and the dissenting shareholder is entitled, upon presentation and surrender to the corporation or its transfer agent of any certificate representing the shares that has been endorsed in accordance with subsection (13), to be issued a new certificate representing the same number of shares as the certificate so presented, without payment of any fee. R.S.O. 1990, c. B.16, s. 185 (14).

Note: On a day to be named by proclamation of the Lieutenant Governor, subsection (14) is amended by striking out "and the dissenting shareholder is entitled, upon presentation and surrender to the corporation or its transfer agent of any certificate representing the shares that has been endorsed in accordance with subsection (13), to be issued a new certificate representing the same number of shares as the certificate so presented, without payment of any fee" at the end. See: 2011, c. 1, Sched. 2, ss. 1 (10), 9 (2).

Note: On a day to be named by proclamation of the Lieutenant Governor, section 185 is amended by adding the following subsections:

Same

(14.1) A dissenting shareholder whose rights are reinstated under subsection (14) is entitled, upon presentation and surrender to the corporation or its transfer agent of any share certificate that has been endorsed in accordance with subsection (13),

- (a) to be issued, without payment of any fee, a new certificate representing the same number, class and series of shares as the certificate so surrendered; or
- (b) if a resolution is passed by the directors under subsection 54 (2) with respect to that class and series of shares,
 - (i) to be issued the same number, class and series of uncertificated shares as represented by the certificate so surrendered, and
 - (ii) to be sent the notice referred to in subsection 54 (3). 2011, c. 1, Sched. 2, s. 1 (11).

Same

(14.2) A dissenting shareholder whose rights are reinstated under subsection (14) and who held uncertificated shares at the time of sending a notice to the corporation under subsection (10) is entitled,

(a) to be issued the same number, class and series of uncertificated shares as those held by the dissenting shareholder at the time of sending the notice under subsection (10); and

(b) to be sent the notice referred to in subsection 54 (3). 2011, c. 1, Sched. 2, s. 1 (11).

See: 2011, c. 1, Sched. 2, ss. 1 (11), 9 (2).

Offer to pay

(15) A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (10), send to each dissenting shareholder who has sent such notice,

(a) a written offer to pay for the dissenting shareholder's shares in an amount considered by the directors of the corporation to be the fair value thereof, accompanied by a statement showing how the fair value was determined; or

(b) if subsection (30) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares. R.S.O. 1990, c. B.16, s. 185 (15).

Idem

(16) Every offer made under subsection (15) for shares of the same class or series shall be on the same terms. R.S.O. 1990, c. B.16, s. 185 (16).

Idem

(17) Subject to subsection (30), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (15) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made. R.S.O. 1990, c. B.16, s. 185 (17).

Application to court to fix fair value

(18) Where a corporation fails to make an offer under subsection (15) or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as the court may allow, apply to the court to fix a fair value for the shares of any dissenting shareholder. R.S.O. 1990, c. B.16, s. 185 (18).

Idem

(19) If a corporation fails to apply to the court under subsection (18), a dissenting shareholder may apply to the court for the same purpose within a further period of twenty days or within such further period as the court may allow. R.S.O. 1990, c. B.16, s. 185 (19).

Idem

(20) A dissenting shareholder is not required to give security for costs in an application made under subsection (18) or (19). R.S.O. 1990, c. B.16, s. 185 (20).

Costs

(21) If a corporation fails to comply with subsection (15), then the costs of a shareholder application under subsection (19) are to be borne by the corporation unless the court otherwise orders. R.S.O. 1990, c. B.16, s. 185 (21).

Notice to shareholders

(22) Before making application to the court under subsection (18) or not later than seven days after receiving notice of an application to the court under subsection (19), as the case may be, a corporation shall give notice to each dissenting shareholder who, at the date upon which the notice is given,

(a) has sent to the corporation the notice referred to in subsection (10); and

(b) has not accepted an offer made by the corporation under subsection (15), if such an offer was made,

of the date, place and consequences of the application and of the dissenting shareholder's right to appear and be heard in person or by counsel, and a similar notice shall be given to each dissenting shareholder who, after the date of such first mentioned notice and before termination of the proceedings commenced by the application, satisfies the conditions set out in clauses (a) and (b) within three days after the dissenting shareholder satisfies such conditions. R.S.O. 1990, c. B.16, s. 185 (22).

Parties joined

(23) All dissenting shareholders who satisfy the conditions set out in clauses (22)(a) and (b) shall be deemed to be joined as parties to an application under subsection (18) or (19) on the later of the date upon which the application is brought and the date upon which they satisfy the conditions, and shall be bound by the decision rendered by the court in the proceedings commenced by the application. R.S.O. 1990, c. B.16, s. 185 (23).

Idem

(24) Upon an application to the court under subsection (18) or (19), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall fix a fair value for the shares of all dissenting shareholders. R.S.O. 1990, c. B.16, s. 185 (24).

Appraisers

(25) The court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders. R.S.O. 1990, c. B.16, s. 185 (25).

Final order

(26) The final order of the court in the proceedings commenced by an application under subsection (18) or (19) shall be rendered against the corporation and in favour of each dissenting shareholder who, whether before or after the date of the order, complies with the conditions set out in clauses (22) (a) and (b). R.S.O. 1990, c. B.16, s. 185 (26).

Interest

(27) The court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment. R.S.O. 1990, c. B.16, s. 185 (27).

Where corporation unable to pay

(28) Where subsection (30) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (26), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares. R.S.O. 1990, c. B.16, s. 185 (28).

Idem

(29) Where subsection (30) applies, a dissenting shareholder, by written notice sent to the corporation within thirty days after receiving a notice under subsection (28), may,

- (a) withdraw a notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder's full rights are reinstated; or
- (b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders. R.S.O. 1990, c. B.16, s. 185 (29).

Idem

(30) A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that,

- (a) the corporation is or, after the payment, would be unable to pay its liabilities as they become due; or
- (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities. R.S.O. 1990, c. B.16, s. 185 (30).

Court order

(31) Upon application by a corporation that proposes to take any of the actions referred to in subsection (1) or (2), the court may, if satisfied that the proposed action is not in all the circumstances one that should give rise to the rights arising under subsection (4), by order declare that those rights will not arise upon the taking of the proposed action, and the order may be subject to compliance upon such terms and conditions as the court thinks fit and, if the corporation is an offering corporation, notice of any such application and a copy of any order made by the court upon such application shall be served upon the Commission. 1994, c. 27, s. 71 (24).

Commission may appear

(32) The Commission may appoint counsel to assist the court upon the hearing of an application under subsection (31), if the corporation is an offering corporation. 1994, c. 27, s. 71 (24).

SCHEDULE "B"
MERCURY CORPORATE GOVERNANCE DISCLOSURE

Set forth below is a description of Mercury's current corporate governance practices, as prescribed by Form 58-101F2, which is attached to National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("NI 58-101"):

Board of Directors

The directors have determined that Alexey Kostyuchenko, Andrew Bordin, Thomas Sears and Leonidas Karabelas, current and prospective members of the board of directors of Mercury, are independent as such term is defined in NI 58-101.

The directors have determined that Alexander C. Logie is not independent as such term is defined in NI 58-101, as he is an "executive officer" of Mercury as such term is defined in NI 58-101. The directors have also determined that Robbie Grossman and Barry M. Polisuk are not considered independent as they are partners of Garfinkle Biderman LLP, Mercury's legal counsel.

Directorships

The following directors and prospective directors of Mercury are presently directors of other issuers that are reporting issuers (or the equivalent):

Name of Director	Name of Other Reporting Issuers
Robbie Grossman	Solid Gold Resources Corp.

Orientation and Continuing Education

While Mercury does not currently have a formal orientation and education program for new members of the board of directors, Mercury provides such orientation and education on an ad hoc and informal basis. The directors believe that these procedures are a practical and effective approach in light of Mercury's particular circumstances, including the size of Mercury, the number, experience and expertise of its directors.

Ethical Business Conduct

The directors' maintain that Mercury must conduct and be seen to conduct its business dealings in accordance with all applicable laws and the highest ethical standards. Mercury's reputation for honesty and integrity amongst its shareholders and other stakeholders is key to the success of its business. No employee or director will be permitted to achieve results through violation of laws or regulations, or through unscrupulous dealings.

Nomination of Directors

Both the directors and management are responsible for selecting nominees for election to the board of directors. At present, there is no formal process established to identify new candidates for nomination. The board of directors and management determine the requirements for skills and experience needed on the board of directors from time to time. The present board of directors and management expect that new nominees have a track record in general business management, special expertise in an area of strategic interest to Mercury, the ability to devote the time required, support for the Mercury's business objectives and a willingness to serve.

Compensation

At present, no compensation (other than the grant of incentive stock options) is paid to the directors of Mercury in their capacity as directors. The directors do not currently have a compensation committee. As a CPC pursuant to the CPC Policy, Mercury is not permitted to compensate officers, including the Chief Executive Officer, for their services.

Assessments

The directors' believe that nomination to Mercury's board of directors is not open ended and that directorships should be reviewed carefully for alignment with the strategic needs of Mercury. To this extent, the directors constantly review (i) individual director performance and the performance of the board of directors as a whole, including processes and effectiveness; and (ii) the performance of the Chairman, if any, of the board of directors.

SCHEDULE "C"
MERCURY AUDIT COMMITTEE CHARTER

MERCURY CAPITAL LIMITED
(the “Company”)

CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS

I. PURPOSE

The Audit Committee is a committee of the board of directors (the “**Board**”) of the Company. The function of the Audit Committee is to assist the Board in fulfilling its responsibilities to the shareholders of the Company, the securities regulatory authorities and stock exchanges, the investment community and others by:

- (a) reviewing the annual and interim (quarterly) financial statements, related management discussion and analysis (“**MD&A**”) and, where applicable, other financial information disclosed by the Company to any governmental body or the public, prior to its approval by the Board;
- (b) overseeing the review of interim (quarterly) financial statements and/or MD&A by the Company’s external auditor;
- (c) recommending the appointment and compensation of the Company’s external auditor, overseeing the external auditor’s qualifications and independence and providing an open avenue of communication among the external auditor, financial and senior management and the Board;
- (d) directly overseeing the work of the external auditor on the audit of annual financial statements; and
- (e) monitoring the Company’s financial reporting process and internal controls and compliance with legal and regulatory requirements related thereto.

The Audit Committee should primarily fulfill these responsibilities by carrying out the activities enumerated in Section III of this Charter. However, it is not the duty of the Audit Committee to prepare financial statements, to plan or conduct audits, to determine that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles (“**GAAP**”), to conduct investigations, or to assure compliance with laws and regulations or the Company’s internal policies, procedures and controls, as these are the responsibility of management and in certain cases the external auditor.

II. COMPOSITION

1. The Audit Committee shall have a minimum of three members.
2. Every Audit Committee member must be a director of the Company. The Audit Committee shall be comprised of such directors as are determined by the Board, each of whom shall be independent within the meaning of National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”) of the Canadian Securities Administrators (or exempt therefrom), and free of any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Audit Committee. Pursuant to the *Business Corporations Act* (Ontario) (the “**OBCA**”) the majority of the Audit Committee members must not be officers, nor employees of the Company or any of its affiliates.
3. All members of the Audit Committee must have (or should gain within a reasonable period of time after appointment) a working familiarity with basic finance and accounting practices and otherwise be financially literate within the meaning of NI 52-110 (or exempt therefrom). Audit Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

4. The members of the Audit Committee shall be elected by the Board on an annual basis or until their successors shall be duly appointed. Audit Committee members shall hold office until the next annual meeting of shareholders subsequent to their appointment.
5. Unless a Chair is elected by the full Board, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership.
6. The Secretary of the Audit Committee will be appointed by the Chair.
7. Any member of the Audit Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Audit Committee on ceasing to be a Director. The Board may fill vacancies on the Audit Committee by election from among the directors on the Board. If and whenever a vacancy shall exist on the Audit Committee, the remaining members may exercise all its powers so long as a quorum remains.

III. DUTIES AND RESPONSIBILITIES

1. The Audit Committee shall review and recommend to the Board for approval:
 - (a) the Company's annual and interim financial statements, including any certification, report, opinion or review rendered by the external auditor, and review related MD&A;
 - (b) press releases of the Company that contain financial information;
 - (c) other financial information provided to any governmental body, stock exchange or the public as they see fit
 - (d) documents referencing, containing or incorporating by reference the annual audited consolidated financial statements or interim financial results (e.g., prospectuses, press releases with financial results and Annual Information Form – when applicable) prior to their release; and
 - (e) any other matter not mentioned herein but otherwise required pursuant to applicable laws, including, without limitation, NI 52-110 and the OBCA.
2. The Audit Committee, in fulfilling its mandate, will:
 - (a) satisfy itself that adequate internal controls and procedures are in place to allow the Chief Executive Officer and the Chief Financial Officer to certify financial statements and other disclosure documents as required under securities laws;
 - (b) review with management relationships with regulators, and the accuracy and timeliness of filing with regulatory authorities (when and if applicable);
 - (c) ensure that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of those procedures;
 - (d) recommend to the Board the selection of the external auditor, consider the independence and effectiveness and approve the fees and other compensation to be paid to the external auditor;
 - (e) review the performance of the external auditor and approve any proposed discharge and replacement of the external auditor when circumstances warrant;
 - (f) review the annual audit plans of the internal and external auditors of the Company;
 - (g) oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company;

- (h) monitor the relationship between management and the external auditor including reviewing any management letters or other reports of the external auditor and discussing any material differences of opinion or disagreements between management and the external auditor;
 - (i) periodically consult with the external auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the organization's financial statements. Particular emphasis should be given to the adequacy of internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper;
 - (j) arrange for the external auditor to be available to the Audit Committee and the full Board as needed. Ensure that the auditors communicate directly with the Audit Committee and are made accountable to the Board and the Audit Committee, as representatives of the shareholders to whom the auditors are ultimately responsible;
 - (k) ensure that the external auditors are prohibited from providing non-audit services and approve any permissible non-audit engagements of the external auditors, in accordance with applicable legislation;
 - (l) review with management and the external auditor the Company's major accounting policies, including the impact of alternative accounting policies and key management estimates and judgments that can materially affect the financial results;
 - (m) review with management their approach to controlling and securing corporate assets (including intellectual property) and information systems, the adequacy of staffing of key functions and their plans for improvements;
 - (n) review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company;
 - (o) review the expenses of the Chairman and President of the Company annually;
 - (p) establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls, or auditing matters and the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters; and
 - (q) perform such other duties as required by the Company's incorporating statute and applicable securities legislation and policies, including, without limitation, NI 52-110 and the OBCA.
3. The Audit Committee may engage independent counsel and other advisors as it determines necessary to carry out its duties, and may set and pay the compensation of such counsel and advisors. The Audit Committee may communicate directly with the Company's internal and external counsel and advisors.

IV. MEETING PROCEDURES

1. The Audit Committee shall meet at such times and places as the Audit Committee may determine, but no less than four times per year. The Audit Committee should meet within forty-five (45) days (sixty (60) days in the event the Company is a "venture issuer" (as such term is defined in National Instrument 51-102 – *Continuous Disclosure Obligations*)) following the end of the first three financial quarters to review and discuss the unaudited financial results for the preceding quarter and the related MD&A, and shall meet within ninety (90) days (one hundred and twenty (120) days in the event the Company is a "venture issuer") following the end of the financial year end to review and discuss the audited financial results for the preceding year and the related MD&A as well as any accompanying press release, or in both cases, by

such earlier times as may be required in order to comply with applicable law or any stock exchange regulation.

2. Members of the Audit Committee shall be provided with reasonable notice of the time and place of meetings, which shall be not less than twenty-four (24) hours. The notice period may be waived by all members of the Audit Committee. Each of the Chairman of the Board, the external auditor, the Chief Executive Officer or the Chief Financial Officer shall be entitled to request that any member of the Audit Committee call a meeting.
3. The Audit Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their duties, members of the Audit Committee shall have full access to all corporate information and any other information deemed appropriate by them, and shall be permitted to discuss such information and any other matters relating to the financial position of the Company with senior employees, officers and the external auditor of the Company, and others as they consider appropriate. The external auditor may, at its option, attend meetings of the Audit Committee.
4. In order to foster open communication, the Audit Committee or its Chair should meet at least annually with management and the external auditor in separate sessions to discuss any matters that the Audit Committee or each of these groups believes should be discussed privately. In addition, the Audit Committee or its Chair should meet with management quarterly in connection with the Company's interim financial statements.
5. Meetings of the Audit Committee may be conducted with members in attendance in person, by telephone or by video conference facilities.
6. Quorum for the transaction of business at any meeting of the Audit Committee shall be a majority of the number of members of the Audit Committee or such greater number as the Audit Committee shall by resolution determine.
7. A resolution in writing signed by all the members of the Audit Committee is valid as if it had been passed at a meeting of the Audit Committee.
8. The Audit Committee shall ensure that the Board is aware of matters which may significantly impact the financial condition or affairs of the Company.

SCHEDULE "D"
MERCURY STOCK OPTION PLAN

See attached.

**STOCK OPTION PLAN OF
MERCURY CAPITAL LIMITED**
(approved by directors on September 30, 2010)

PART 1 - INTRODUCTION

1.01 Purpose

The purpose of the Plan is to secure for the Corporation and its shareholders the benefits of incentive inherent in share ownership by the directors, officers, key employees and, subject to the terms and conditions herein, consultants of the Corporation and its Affiliates who, in the judgment of the Board, will be largely responsible for its future growth and success.

1.02 Definitions

- (a) "Affiliate" has the meaning ascribed thereto in the *Business Corporations Act* (Ontario) as amended from time to time.
- (b) "Board" means the board of directors of the Corporation.
- (c) "Completion of the Qualifying Transaction" has the meaning ascribed to such term in Policy 2.4.
- (d) "Consultant" has the meaning ascribed to such term in Policy 4.4.
- (e) "Corporation" means Mercury Capital Limited, a corporation duly incorporated under the laws of the Province of Ontario, and its Affiliates, if any.
- (f) "Discounted Market Price" has the meaning ascribed to such term in Exchange Policy 1.1 as amended from time to time.
- (g) "Eligible Person" shall mean an officer or director of the Corporation ("Executive") or an employee of the Corporation ("Employee") or a Management Company Employee or a Consultant.
- (h) "Exchange" means the TSX Venture Exchange.
- (i) "Final Exchange Bulletin" has the meaning ascribed thereto in the Policy 2.4.
- (j) "Insider" means;
 - (i) an insider as defined in the *Securities Act* (Ontario), other than a person who falls within the definition solely by virtue of being a director or senior officer of a subsidiary of the Corporation; and
 - (ii) an associate of any person who is an insider by virtue of the preceding sub-clause (i).
- (k) "Investor Relations Activities" has the meaning ascribed to such term in Exchange Policy 1.1 as amended from time to time.

- (l) "Listing Date" means the date the Shares are listed and posted for trading on the Exchange.
- (m) "Management Company Employee" has the meaning ascribed to such term in Exchange Policy 4.4.
- (n) "Option" shall mean an option granted under the terms of the Plan.
- (o) "Option Period" shall mean the period during which an option may be exercised.
- (p) "Optionee" shall mean an Eligible Person to whom an Option has been granted under the terms of the Plan.
- (q) "Outstanding Issue" means the number of Shares outstanding on a non-diluted basis.
- (r) "Plan" means the stock option plan established and operated pursuant to Part 2 hereof.
- (s) "Policy 2.4" means the Exchange's Policy 2.4 entitled "Capital Pool Companies" as amended from time to time.
- (t) "Policy 4.4" means the Exchange's Policy 4.4 entitled "Incentive Stock Options" as amended from time to time.
- (u) "Resulting Issuer" has the meaning ascribed to such term in Policy 2.4.
- (v) "Shares" shall mean the common shares of the Corporation.

PART 2 - SHARE OPTION PLAN

2.01 Participation

Options shall be granted only to Eligible Persons.

2.02 Determination of Option Recipients

The Board shall make all necessary or desirable determinations regarding the granting of Options to Eligible Persons and may take into consideration the present and potential contributions of a particular Eligible Person to the success of the Corporation and any other factors which it may deem proper and relevant.

2.03 Price

The exercise price per Share when Options are granted shall be determined from time to time by the Board but, in any event, shall not be less than the Discounted Market Price. Notwithstanding the foregoing, from the Listing Date and until Completion of the Qualifying Transaction the exercise price per Share when Options are granted shall not be less than the greater of \$0.20 and the Discounted Market Price.

2.04 Grant of Options

The Board may at any time authorize the granting of Options to such Eligible Persons as it may select for the number of Shares that it shall designate, subject to the provisions of the Plan. The date of each grant of Options shall be determined by the Board when the grant is authorized.

From the Listing Date and until Completion of the Qualifying Transaction the Board shall not grant Options to an Eligible Person providing Investor Relations Activities.

Each Option granted to an Eligible Person shall be evidenced by a stock option agreement with terms and conditions consistent with the Plan and as approved by the Board (which terms and conditions need not be the same in each case and may be changed from time to time).

In the event that Options are granted to Employees, Management Company Employees or Consultants, the Corporation represents that such Optionees shall be bona fide Employees, Management Company Employees or Consultants, as the case may be.

The Corporation may at the time of granting options hereunder provide for additional terms and conditions which are not inconsistent with Part 2 hereof including, without limitation, terms and conditions deferring or delaying the date at which an Option may be exercised in whole or in part.

2.05 Term of Options

Unless otherwise expired pursuant to the terms of the Plan, all Options granted to an Optionee pursuant to this Plan shall expire at the close of business ten (10) years from the date of grant, or in the case of a Consultant or Employee, such earlier date as the Board shall decide when the Option is granted.

Upon the expiration of the Option Period the Options granted shall forthwith expire and terminate and be of no further force or effect whatsoever as to such of the Shares in respect of which the Option hereby granted has not then been exercised.

No Optionee or his or her legal representative, legatees or distributees will be, or will be deemed to be, a holder of any Shares subject to an Option, unless and until certificates for such Shares are issued to him, her or them or a securities intermediary with whom the Optionee (or his or her legal representative, legatees or distributees) has an account, is recorded as the owner of such Shares in a book-entry system under the terms of the Plan.

2.06 Exercise of Options

Except as set forth in section 2.10, no Option may be exercised unless the Optionee is at the time of such exercise;

- (a) in the case of an Employee, in the employ of the Corporation or any Affiliate and shall have been continuously so employed since the grant of his or her Option, or have been a Consultant of the Corporation during such time thereafter, but absence on leave, having the approval of the Corporation or such Affiliate, shall not be considered an interruption of employment for any purpose of the Plan;

- (b) in the case of a Consultant, under contract with the Corporation or any Affiliate and shall have been continuously so contracted since the grant of the Option; or
- (c) in the case of an Executive, a director or officer of the Corporation or any Affiliate and shall have been such a director or officer continuously since the grant of his or her Option.

No Option may be exercised by an Optionee until the Plan has been approved by the shareholders of the Corporation.

The exercise of any Option will be contingent upon receipt by the Corporation of cash payment of the full purchase price of the Shares being purchased.

Notwithstanding anything to the contrary herein, Options granted prior to the issuance of the Final Exchange Bulletin may not be exercised before the Completion of the Qualifying Transaction unless the Optionee agrees in writing to deposit the shares acquired into escrow until the issuance of the Final Exchange Bulletin.

2.07 Vesting of Options

Executives, Employees and Management Company Employees

All Options granted to an Executive, Employee or Management Company Employee pursuant to this Plan shall vest and become fully exercisable as follows or as determined by the Board when the Option is granted:

- (a) one half (1/2) of the Options on the date of grant; and
- (b) the final one half (1/2) of the Options on the date which is one (1) year from the date said Options are granted.

Consultants

All Options granted to Consultants pursuant to this Plan shall vest and become full exercisable as follows or as determined by the Board when the Option is granted:

- (a) one third (1/3) of the Options on the date of grant;
- (b) one third (1/3) of the of the Options on the date which is one (1) year from the date said Options are granted; and
- (c) the final one third (1/3) of the Options on the date which is two (2) years from the date said Options are granted.

Optionees performing Investor Relations Activities

All Options granted to Optionees performing Investor Relations Activities, pursuant to this Plan shall vest and become full exercisable as follows or as determined by the Board when the Option is granted, but in any event such Options shall not vest any sooner:

- (a) one quarter (1/4) of the Options on the date which is three (3) months from the date said Options are granted;
- (b) one quarter (1/4) of the Options on the date which is six (6) months from the date said Options are granted;
- (c) one quarter (1/4) of the Options on the date which is nine (9) months from the date said Options are granted; and
- (d) the final one quarter (1/4) of the Options on the date which is twelve (12) months from the date said Options are granted.

2.08 Restrictions on Grant of Options

The granting of Options shall be subject to the following conditions:

- (a) not more than two (2%) percent of the Outstanding Issue may be granted to any one Consultant in any 12 month period;
- (b) not more than an aggregate of two (2%) percent of the Outstanding Issue may be granted in aggregate to Eligible Persons conducting Investor Relations Activities in any 12 month period;
- (c) unless the Corporation has obtained disinterested shareholder approval, not more than five (5%) percent of the Outstanding Issue may be issued to any one individual in any 12 month period;
- (d) unless the Corporation has obtained disinterested shareholder approval, not more than an aggregate of ten (10%) percent of the Outstanding Issue may be issued to Insiders in any 12 month period; and
- (e) unless the Corporation has obtained disinterested shareholder approval, the Corporation shall not decrease the exercise price of Options previously granted to Insiders.

If disinterested shareholder approval is required, the proposed grant(s) or plan must be approved by a majority of the votes cast by all shareholders at the shareholders' meeting excluding votes attaching to shares beneficially owned by (i) Insiders to whom options may be granted under the stock option plan; and (ii) Associates of such Insiders. Holders of non-voting and subordinate voting shares must be given full voting rights on a resolution that requires disinterested shareholder approval.

2.09 Lapsed Options

If Options are surrendered, terminated or expire without being exercised in whole or in part, new Options may be granted covering the Shares not purchased under such lapsed Options.

2.10 Effect of Termination of Employment, Death or Disability

- (a) If an Optionee shall die while employed by the Corporation or its Affiliate, or while an Executive, any Option held by the Optionee at the date of death, which have vested pursuant to section 2.07, shall become exercisable, in whole or in part, but only by the persons or persons to whom the Optionee's rights under the Option shall pass by the Optionee's will or the laws of descent and distribution (the "Successor Optionee"). All such Options shall be exercisable only to the extent that the Optionee was entitled to exercise the Option at the date of his or her death and only for one (1) year after the date of death or prior to the expiration of the Option Period in respect thereof, whichever is sooner, provided that in any event and notwithstanding anything to the contrary in this section the Successor Optionee shall be entitled to exercise the Option for a period of one (1) year after the date of death of the Optionee.
- (b) If the employment of an Optionee shall terminate due to disability while the Optionee is employed by the Corporation or its Affiliate, any Option held by the Optionee on the date the employment of the Optionee is terminated due to disability, which have vested pursuant to section 2.07, shall become exercisable, in whole or in part. All such Options shall be exercisable only to the extent that the Optionee was entitled to exercise the Option at the date of his or her termination due to disability and only for one (1) year after the date of termination or prior to the expiration of the Option Period in respect thereof, whichever is sooner, provided that Options that become exercisable due to disability shall only be exercisable by the person or persons who have the legal authority to act on behalf of the Optionee in connection with the rights of the Optionee to the Option.
- (c) Subject to sections 2.10(d) and 2.10(e), Options granted to any Optionee must expire not later than one year following the date the Optionee ceases to be an Executive, Employee, Consultant or Management Company Employee, which shall be determined by the Board at time of each grant.
- (d) If the employment of an Employee or Consultant is terminated for cause no Option held by such Optionee may be exercised following the date upon which Termination occurred.
- (e) Notwithstanding anything to the contrary herein, if an Optionee does not continue as an Executive, Employee or Consultant of the Resulting Issuer, then any Option held by such Optionee that was granted prior to the issuance of the Final Exchange Bulletin shall be exercisable, in whole or in part, for a period of twelve (12) months after the Completion of the Qualifying Transaction and ninety (90) days after the Optionee ceases to become a director, officer, technical consultant or employee of the Resulting Issuer whichever is later.

2.11 Effect of Amalgamation, Consolidation or Merger

If the Corporation amalgamates, consolidates with our merges with or into another corporation any Shares receivable on the exercise of an Option shall be converted into the securities, property or cash which the Optionee would have received upon such amalgamation, consolidation or merger if the

Optionee had exercised his or her option immediately prior to the record date applicable to such

amalgamation, consolidation or merger, and the option price shall be adjusted appropriately by the Board and such adjustment shall be binding for all purposes of the Plan.

2.12 Adjustment in Shares Subject to the Plan

If there is any change in the Shares through or by means of a declaration of stock dividends of Shares or consolidations, subdivisions or reclassification of Shares, or otherwise, the number of Shares available under the Plan, the Shares subject to any Option, and the purchase price thereof shall be adjusted appropriately by the Board and such adjustment shall be effective and binding for all purposes of the Plan.

2.13 Hold Period

All Options and any Shares issued on the exercise of Options may be legended with a four month hold period commencing on the date the Options were granted pursuant to applicable securities laws and the rules of the Exchange.

PART 3 - GENERAL

3.01 Number of Shares

The aggregate number of Shares that may be reserved for issuance, from time to time, under the Plan shall not exceed ten (10%) percent of the total Outstanding Issue.

3.02 Transferability

All benefits, rights and options accruing to any Optionee in accordance with the terms and conditions of the Plan shall not be transferable or assignable unless specifically provided herein. During the lifetime of an Optionee, all benefits, rights and options may only be exercised by the Optionee.

3.03 Employment

Nothing contained in any Plan shall confer upon any Optionee any right with respect to employment or continuance of employment with the Corporation or any Affiliate, or interfere in any way with the right of the Corporation or any Affiliate to terminate the Optionee's employment at any time. Participation in any Plan by an Optionee is voluntary.

3.04 Approval of Plan

The Plan shall only become effective after it has been approved by the shareholders of the Corporation; provided, however:

- (a) Unless consistent with the terms contained herein and approved by the board, nothing contained herein shall in any way affect Options previously granted by the Corporation and currently outstanding;
- (b) the Plan must receive shareholder approval yearly, at the Corporation's annual general meeting.

The obligation of the Corporation to sell and deliver Shares in accordance with the Plan is subject to the approval of any governmental authority having jurisdiction or any stock exchanges on which the Shares are listed for trading which may be required in connection with the authorization, issuance or sale of such Shares by the Corporation. If any Shares cannot be issued to any Optionee for any reason including, without limitation, the failure to obtain such approval, then the obligation of the Corporation to issue such Shares shall terminate and any Optionee's option price paid to the Corporation shall be returned to the Optionee.

3.05 Administration of the Plan

The Board is authorized to interpret the Plan from time to time and to adopt, amend and rescind rules and regulations for carrying out the Plan. The interpretation and construction of any provision of the Plan by the Board shall be final and conclusive. Administration of the Plan shall be the responsibility of the appropriate officers of the Corporation and all costs in respect thereof shall be paid by the Corporation.

3.06 Income Taxes

As a condition of and prior to participation in the Plan, if requested by the Board, a Optionee shall authorize the Corporation in written form to withhold from any remuneration otherwise payable to such Optionee any amounts required by any taxing authority to be withheld for taxes of any kind as a consequence of such participation in the Plan.

3.07 Amendments to the Plan

The Board reserves the right to amend, modify or terminate the Plan at any time if and when it is advisable in the absolute discretion of the Board. However, any amendments of the Plan which could result, at any time, in:

- (a) materially increase the benefits under the Plan; or
- (b) an increase in the number of Shares which would be issued under the Plan (except any increase resulting automatically from an increase in the total Outstanding Issue); or
- (c) materially modify the requirement as to eligibility for participation in the Plan;

shall be effective only upon the approval of the shareholders of the Corporation. Any amendment to any provision of the Plan shall be subject to approval, if required, by any regulatory body having jurisdiction over the securities of the Corporation.

3.08 No Representation or Warranty

The Corporation makes no representation or warranty as the future market value of any Shares issued in accordance with the provisions of the Plan.

3.09 Interpretation

The Plan will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

3.10 Compliance with Applicable Law, etc.

If any provision of the Plan or of any agreement entered into pursuant to the Plan contravenes any law or any order, policy, by-law or regulation of any regulatory body or stock exchange having authority over the Corporation or the Plan then such provision shall be deemed to be amended to the extent required to bring such provision into compliance therewith.

3.11 Policy 2.4

Notwithstanding anything to the contrary herein, any Options granted prior to the issuance of the Final Exchange Bulletin must comply with Policy 2.4.

SCHEDULE "E"
AMALGAMATION AGREEMENT

See attached.

MERCURY CAPITAL LIMITED

- and -

CANADA COAL INC.

AMALGAMATION AGREEMENT

November 4, 2011

TABLE OF CONTENTS

	Page
ARTICLE 1 - INTERPRETATION.....	1
1.1 Definitions.....	1
1.2 Interpretation Not Affected by Headings. etc.	8
1.3 Number, etc.....	8
1.4 Date for Any Action.....	8
1.5 Currency.....	8
1.6 Knowledge.....	9
1.7 Meanings.....	9
1.8 Schedules	9
ARTICLE 2 - AMALGAMATION.....	9
2.1 Amalgamation.....	9
2.2 Name	9
2.3 Registered Office	9
2.4 Authorized Capital.....	9
2.5 Restriction on Share Transfer	10
2.6 Number of Directors	10
2.7 First Directors	10
2.8 First Auditors	10
2.9 Fiscal Year	11
2.10 Restrictions on Business	11
2.11 Articles of Amalgamation and By-laws.....	11
2.12 Effect of Certificate of Amalgamation On the Effective Date:	11
2.13 Manner of Conversion of Issued Securities	11
2.14 Fractional Securities.....	12
2.15 Restrictions on Securities.....	12
2.16 Certificates	13
2.17 Lost Certificates	14
2.18 Stock Option Plan	14
2.19 Dissent Rights	14
2.20 Withholding Rights.....	15

TABLE OF CONTENTS
(continued)

	Page
ARTICLE 3 - COVENANTS.....	15
3.1 Restrictive Covenants of Canada Coal	15
3.2 Positive Covenants of Canada Coal.....	16
3.3 Negative Covenants of Mercury	18
3.4 Positive Covenants of Mercury.....	20
ARTICLE 4 - REPRESENTATIONS AND WARRANTIES	22
4.1 Representations and Warranties of Mercury.....	22
4.2 Representations and Warranties of Canada Coal.....	25
4.3 Survival of Representations and Warrants.....	31
ARTICLE 5 - CONDITIONS PRECEDENT AND OTHER MATTERS.....	31
5.1 Mutual Conditions Precedent.....	31
5.2 Conditions to Obligations of Canada Coal	32
5.3 Conditions to Obligations of Mercury	34
5.4 Merger of Conditions.....	35
5.5 Closing Matters	35
ARTICLE 6 - NOTICES	35
6.1 Notices	35
ARTICLE 7 - AMENDMENT AND TERMINATION OF AGREEMENT.....	37
7.1 Amendment.....	37
7.2 Rights of Termination	37
7.3 Notice of Unfulfilled Conditions	38
7.4 Mutual Termination	38
ARTICLE 8 - GENERAL	38
8.1 Stand Still Agreement.....	38
8.2 Disclosure of Alternative Transaction	38
8.3 Entire Agreement	39
8.4 Binding Effect.....	39
8.5 Investigation.....	39
8.6 Waiver and Modification	39

TABLE OF CONTENTS
(continued)

	Page
8.7 No Personal Liability	39
8.8 Third Party Beneficiaries	39
8.9 Assignment	39
8.10 Public Disclosure	40
8.11 Expenses	40
8.12 Time of Essence	40
8.13 Governing Law	40
8.14 Severability	40
8.15 Confidentiality	40
8.16 Further Assurances	41
8.17 Counterparts and Facsimile Copies	41

AMALGAMATION AGREEMENT

THIS AMALGAMATION AGREEMENT is made as of the 4th day of November, 2011

BETWEEN:

MERCURY CAPITAL LIMITED,
a corporation existing under the laws of the Province of Ontario

(“Mercury”)

- and -

CANADA COAL INC.,
a corporation existing under the laws of the Province of Ontario

(“Canada Coal”)

RECITALS:

- A. Mercury and Canada Coal have agreed that they shall enter into a transaction pursuant to which the business and assets of Mercury shall be combined with that of Canada Coal and which transaction shall constitute the Qualifying Transaction (as herein defined) of Mercury within the meaning of the CPC Policy (as herein defined);
- B. Mercury and Canada Coal intend to effect the transaction by way of an amalgamation of Mercury and Canada Coal pursuant to Section 175 of the OBCA (as herein defined);
- C. the parties wish to enter into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to the proposed amalgamation;

THE PARTIES agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement, unless the context or subject matter provides otherwise, the following terms shall have the meanings set forth below:

“**Agency Agreement**” means the agency agreement in respect of the Private Placement entered into among Canada Coal, Mercury, Casmir Capital Ltd., Canaccord Genuity Corp., and PowerOne Capital Markets Limited, dated November 4, 2011;

“**Agreement**” means this agreement, the schedules and any amendments hereto as a whole, and includes any agreement or instrument supplementary or ancillary hereto;

“**Amalco**” means the continuing corporation to be constituted upon completion of the Amalgamation;

“**Amalco Agent’s Warrants**” means the common share purchase warrants of Amalco to be issued in connection with the exchange of the Mercury Agent’s Warrants and the Canada Coal Agent’s Warrants, respectively, as provided in Section 2.13;

“**Amalco Common Shares**” means the common shares in the capital of Amalco;

“**Amalco Options**” means the options to purchase Amalco Common Shares to be issued in connection with the exchange of the Mercury Options and the Canada Coal Options, respectively, as provided in Section 2.13;

“**Amalco Registrar and Transfer Agent**” means Computershare Investor Services Inc. and any other Person which may be appointed as registrar and transfer agent of Amalco from time to time;

“**Amalco Stock Option Plan**” means the incentive stock option plan of Amalco to be approved by the Mercury Shareholders and the Canada Coal Shareholders at the Mercury Meeting and the Canada Coal Meeting, respectively;

“**Amalco Unit Warrant**” means a common share purchase warrant of Amalco to be issued on the exchange or deemed exchange of the Unit Subscription Receipts, with each Amalco Unit Warrant entitling the holder thereof to acquire one Amalco Common Share at price of \$0.80 per share until November 4, 2014;

“**Amalco Warrants**” means common share purchase warrants of Amalco to be issued in connection with the exchange of the Mercury Warrants and the Canada Coal Warrants, respectively, as provided in Section 2.13;

“**Amalgamation**” means the amalgamation of Mercury and Canada Coal pursuant to Section 175 of the OBCA provided for herein;

“**Articles of Amalgamation**” means the articles of amalgamation with respect to the Amalgamation in the form required by the OBCA, substantially in the form attached as Schedule “A”;

“**associate**”, “**affiliate**”, “**insider**” and “**promoter**” have the respective meanings ascribed thereto in the *Securities Act* (Ontario);

“**Business Day**” means any day other than a Saturday or Sunday or statutory holiday in the City of Toronto, Province of Ontario;

“**Canada Coal**” means Canada Coal Inc. and as the context requires, includes each of the Subsidiaries;

“**Canada Coal Agent’s Warrants**” means collectively, as at the date hereof:

- (i) the 804,000 common share purchase warrants of Canada Coal, with each warrant entitling the holder to purchase one Canada Coal Share at a price of \$0.20 per share until April 21, 2013;
- (ii) the 796,000 common share purchase warrants of Canada Coal, with each warrant entitling the holder to purchase one Canada Coal Share at a price of \$0.20 per share until May 4, 2013; and;
- (iii) 602,000 common share purchase warrants of Canada Coal to be issued in connection with the Private Placement with each warrant entitling the holder to purchase one common share of Canada Coal at a price of \$0.80 per share until November 4, 2014;

“Canada Coal Financial Statements” means, collectively, (a) the audited financial statements of Canada Coal for the period from the date of incorporation (August 26, 2010) to September 30, 2010 and for the year ended September 30, 2011, and (b) such additional financial statements as may be required to be prepared and included in the Joint Management Information Circular;

“Canada Coal Flow-Through Shares” means the Canada Coal Shares issued pursuant to the Private Placement, issued as “flow-through shares” within the meaning of Tax Act, subject to certain conditions being met;

“Canada Coal Letter of Transmittal” means the letter of transmittal to be used by Canada Coal Shareholders for the purpose of surrendering certificates representing outstanding Canada Coal Shares and exchanging them for certificates representing Amalco Common Shares;

“Canada Coal Flow-Through Units” means the 6,500,000 units of Canada Coal issued in connection with the Private Placement at a price of \$0.50 per unit, with each unit being comprised of one Canada Coal Flow-Through Share and one-half of one Canada Coal Warrant, provided that if the Release Condition is not satisfied on or before March 4, 2012, each Canada Coal Flow-Through Unit shall at such point and at no additional consideration to the holder, be comprised of one Canada Coal Flow-Through Share and one whole Canada Coal Warrant (instead of one-half of one Canada Coal Warrant);

“Canada Coal Meeting” means the special meeting of the Canada Coal Shareholders to approve the Canada Coal Special Resolution and certain other matters;

“Canada Coal Options” means the 1,600,000 and 2,100,000 outstanding options granted by Canada Coal, as adjusted for any exercise after the date hereof, with each option entitling the holder to purchase one Canada Coal Share at a price of \$0.20 and \$0.50, respectively, per share in accordance with their terms;

“Canada Coal Shares” means the common shares in the capital of Canada Coal Inc. which, for greater certainty, shall include Canada Coal Flow-Through Shares;

“Canada Coal Shareholder” means a holder of outstanding Canada Coal Shares;

“Canada Coal Special Resolution” means the special resolution of the Canada Coal Shareholders to be approved at the Canada Coal Meeting approving the Amalgamation, as set out in the Joint Management Information Circular;

“Canada Coal Warrants” means collectively:

- (i) the 10,050,000 common share purchase warrants of Canada Coal, with each warrant entitling the holder to purchase one Canada Coal Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, TSX-V or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on April 21, 2016;
- (ii) the 9,950,000 common share purchase warrants of Canada Coal, with each warrant entitling the holder to purchase one Canada Coal Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, TSX-V or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on May 4, 2016;
- (iii) the 1,500,000 common share purchase warrants of Canada Coal, with each warrant entitling the holder to purchase one Canada Coal Share at a price of \$0.30 per share until the date that is the earlier of (i) twenty-four (24) months following the listing of the common shares in the capital of Canada Coal on the Toronto Stock Exchange, TSX-V or equivalent exchange as approved by Canada Coal, and (ii) 5:00 p.m. (Toronto time) on June 30, 2016; and
- (iv) 3,250,000 common share purchase warrants of Canada Coal, with each whole warrant entitling the holder to purchase one Canada Coal Share at a price of \$0.80 per share until March 4, 2014, provided that if the Release Condition is not satisfied on or before March 4, 2012, the number of common share purchase warrants of Canada Coal under this subsection (iv) shall be equal to 6,500,000;

“Certificate of Amalgamation” means the certificate of amalgamation giving effect to the Amalgamation as issued by the Director pursuant to subsection 178(4) of the OBCA;

“Closing” means the closing of the Amalgamation;

“Closing Date” means the date of the Closing, which shall be within four Business Days following the later of (i) the date the parties receive conditional approval of the Qualifying Transaction from the TSX-V; (ii) the date of approval of the Mercury Special Resolution by the Mercury Shareholders; (iii) the date of approval of the Canada Coal Special Resolution by the Canada Coal Shareholders; and (iv) such other date as Mercury

and Canada Coal may mutually agree, acting reasonably; but in any event not later April 30, 2011;

“**Confidential Information**” has the meaning specified in Section 8.16;

“**CPC Policy**” means TSX-V Policy 2.4 - *Capital Pool Companies*;

“**Director**” means the Director appointed under Section 278 of the OBCA;

“**Dissent Rights**” has the meaning specified in Section 2.19;

“**Dissenting Holder**” has the meaning specified in Section 2.19;

“**Effective Date**” means the effective date of the Amalgamation, which shall be the date of the Certificate of Amalgamation;

“**Employment Agreements**” means, collectively, the employment agreements entered into between Canada Coal and each of:

- (i) R. Bruce Duncan as President and Chief Executive Officer; and
- (ii) Olga Nikitovic as Chief Financial Officer,

copies of which have been provided to Mercury;

“**Governmental Authority**” means any government, parliament, legislature, regulatory authority, governmental department, agency, commission, board, tribunal, crown corporation, court or other law, rule or regulation-making entity having jurisdiction or exercising executive, legislative, judicial, regulatory or administrative powers on behalf of any federation or nation, or any province, territory, state or other subdivision thereof or any municipality, district or other subdivision thereof;

“**Joint Management Information Circular**” means the joint management information circular of Mercury and Canada Coal prepared in accordance with TSX-V Form 3D1, to be forwarded by Mercury to the Mercury Shareholders and by Canada Coal to the Canada Coal Shareholders, in connection with the Mercury Meeting and the Canada Coal Meeting, respectively;

“**OBCA**” means the *Business Corporations Act* (Ontario), as the same may be amended, from time to time, and includes any regulations thereto;

“**Mercury Agent’s Warrants**” means collectively:

- (i) the 159,975 outstanding agent’s options issued by Mercury each entitling the holder to purchase one Mercury Share at a price of \$0.20 per share until February 2, 2013, in accordance with their terms; and

- (ii) the 25,000 outstanding agent's warrants issued by Mercury each entitling the holder to purchase one Mercury Share at a price of \$0.20 per share until May 4, 2013, in accordance with their terms

"Mercury Disclosure Record" has the meaning specified in Section 4.1(u);

"Mercury Escrow Agreement" means the escrow agreement dated as of September 30, 2010 made among Mercury, Computershare Investor Services Inc. and certain securityholders of Mercury;

"Mercury Escrowed Shares" means the 1,000,000 Mercury Shares held subject to the Mercury Escrow Agreement;

"Mercury Financial Statements" means, collectively, (a) the audited financial statements of Mercury for the period from the date of incorporation (July 22, 2010) to December 31, 2010, (b) the interim unaudited financial statements for the three month period ended March 31, 2011, (c) the interim unaudited financial statements for the three and six month period ended June 30, 2011, (d) the interim unaudited financial statements for the three and nine month period ended September 30, 2011, and (e) such additional financial statements as may be required to be prepared and included in the Joint Management Information Circular;

"Mercury Letter of Transmittal" means the letter of transmittal to be used by Mercury Shareholders for the purpose of surrendering certificates representing outstanding Mercury Shares and exchanging them for certificates representing Amalco Common Shares;

"Mercury Meeting" means the special meeting of Mercury Shareholders to approve the Mercury Special Resolution and certain other matters;

"Mercury Options" means the 259,975 outstanding options granted by Mercury, as adjusted for any exercise after the date hereof, each option entitling the holder to purchase one Mercury Share at a price of \$0.20 per share until January 28, 2021, in accordance with their terms;

"Mercury Registrar and Transfer Agent" means Computershare Investor Services Inc., and any other Person which may be appointed as registrar and transfer agent of Mercury from time to time;

"Mercury Shareholder" means a holder of outstanding Mercury Shares;

"Mercury Shares" means the common shares in the capital of Mercury;

"Mercury Special Resolution" means the special resolution of the Mercury Shareholders approving the Amalgamation, as set out in the Joint Management Information Circular;

“**Mercury Stock Option Plan**” means the current incentive stock option plan of Mercury;

“**NI 43-101**” means National Instrument 43-101 - *Standards of Disclosure for Mineral Projects*, of the Canadian Securities Administrators;

“**Person**” means a natural person, firm, corporation, trust, partnership, joint venture, governmental body or agency or association;

“**Private Placement**” means the brokered private placement of \$1,050,000 of Unit Subscription Receipts and \$3,250,000 of Canada Coal Flow-Through Units for total gross proceeds of \$4,300,000 completed on November 4, 2011;

“**Properties**” means the mining properties, claims, concessions, options, licenses, license applications, leases or other conventional property or proprietary interests or rights of Canada Coal, including those specified in Schedule “B” attached hereto;

“**Qualifying Transaction**” has the meaning ascribed thereto under the CPC Policy;

“**Release Condition**” means the written confirmation of the TSX-V approving the Amalgamation and the listing of the Amalco Common Shares on the TSX-V;

“**Subsidiaries**” means collectively, Canadian Sovereign Coal Corp., a British Columbia corporation, and 5200 Nunavut Ltd., a Nunavut corporation, and “**Subsidiary**” means any of them;

“**Technical Report**” means the technical report dated September 30, 2011 entitled “*The Nunavut Coal Project-Ellesmere Island and Axel Heiberg Island, Nunavut, Canada*” prepared by Keith McCandlish, P. Geol., P. Geo., Susan O’Donnell, P. Geol., of Associated Geosciences Ltd., Calgary, Alberta, Canada;

“**Termination Date**” has the meaning specified in Section 7.2;

“**Time of Closing**” has the meaning specified in Section 5.5;

“**Tax Returns**” means all returns, declarations, reports, information returns and statements filed or required to be filed with any taxing authority relating to Taxes;

“**Taxes**” means all taxes, duties, assessments, imposts and levies however denominated, including any interest, penalties, fines, successor liabilities or other additions that may become payable in respect thereof, imposed by any Governmental Authority in Canada, including those levied on, measured by, or referred to as, income, capital, gross receipts, profits (including, but not limited to, federal income taxes and provincial income taxes), payroll and employee withholding, unemployment insurance, social insurance taxes, sales and use taxes, ad valorem taxes, excise taxes, franchise taxes, business license taxes, occupation taxes, real and personal property taxes, stamp taxes, environmental taxes, transfer taxes, workers compensation and other governmental charges, and other

obligations of the same or of a similar nature to any of the foregoing, which a party is required to pay, withhold, remit or collect;

“**Tax Act**” means the *Income Tax Act* (Canada), as the same may be amended from time to time, and includes any regulations thereto;

“**TSX-V**” means the TSX Venture Exchange Inc.;

“**TSX-V Conditional Approval**” means the conditional approval of the TSX-V concerning the Qualifying Transaction;

“**TSX-V Escrow Agreement**” means the escrow agreement to be entered into among the Registrar and Transfer Agent, Amalco and certain securityholders of Amalco in compliance with the requirements of TSX-V and the CPC Policy, with the securities subject to such agreement to be released as determined by TSX-V; and

“**Unit Subscription Receipts**” means the 2,100,000 subscription receipts issued pursuant to the Private Placement, at a price of \$0.50 per Unit Subscription Receipt with each Unit Subscription Receipt entitling the holder thereof to acquire one Amalco Common Share and one-half of one Amalco Unit Warrant upon certain terms and conditions being satisfied, provided that if the Release Condition is not satisfied on or before March 4, 2012, each Unit Subscription Receipt shall at such point and at no additional consideration to the holder, be comprised of 1.1 Amalco Common Share (instead of one Amalco Common Share) and 0.55 Amalco Warrants (instead of one-half of one Amalco Warrant).

1.2 Interpretation Not Affected by Headings. etc.

The division of this Agreement into articles, sections and subsections is for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

1.3 Number, etc.

This Agreement shall be read with such changes to number and gender as the context requires.

1.4 Date for Any Action

If any action required to be taken hereunder by any party is not a Business Day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding Business Day in such place.

1.5 Currency

Unless otherwise indicated, all sums of money which are referred to in this Agreement are expressed in the currency of Canada.

1.6 Knowledge

Where any representation or warranty contained in this Agreement is expressly qualified by reference to the knowledge of Mercury or Canada Coal, as applicable, it shall be deemed to refer to the knowledge, information or belief, at the relevant time, of any of the party's directors or officers.

1.7 Meanings

Unless otherwise specifically indicated or the context otherwise requires "include", "includes" and "including" shall be deemed to be followed by the words "without limitation".

1.8 Schedules

The following schedules are annexed to and form part of this Agreement:

Schedule "A" - Articles of Amalgamation (form of)

Schedule "B" - Properties

ARTICLE 2 AMALGAMATION

2.1 Amalgamation

On or before the Closing Date, subject to the terms and conditions of this Agreement, Mercury and Canada Coal shall take all steps required to complete the Amalgamation (excluding the filing of the Articles of Amalgamation with the Director) and, without limitation, use all reasonable efforts to apply for and to obtain the approval of their respective shareholders and all other consents, orders or approvals as are necessary or desirable for the implementation of the Amalgamation and the filing of the Articles of Amalgamation with the Director. On Closing, subject to the terms and conditions of this Agreement, Mercury and Canada Coal shall take all steps required to complete the Amalgamation by the filing of the Articles of Amalgamation with the Director pursuant to Section 178 of the OBCA.

2.2 Name

The name of Amalco shall be "**Canada Coal Inc.**"

2.3 Registered Office

The registered office of Amalco shall be 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9.

2.4 Authorized Capital

Amalco shall be authorized to issue an unlimited number of Amalco Common Shares which shall have the rights, privileges, restrictions and conditions set forth in the Articles of Amalgamation.

2.5 Restriction on Share Transfer

The transfer of shares of Amalco shall not be subject to any restrictions.

2.6 Number of Directors

The minimum number of directors of Amalco shall be 3 and the maximum number of directors of Amalco shall be eleven.

2.7 First Directors

The number of first directors of Amalco shall be 6. The first directors of Amalco shall be:

Name	Address for Service	Resident Canadian
R. Stuart Angus	181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9	Yes
R. Bruce Duncan	181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9	Yes
Senator Michael MacDonald	181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9	Yes
Abraham Jonker	181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9	Yes
Thomas A. Fenton	181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9	Yes
Edward R. Klue	181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9	Yes

The first directors shall hold office until the completion of the first annual meeting of the shareholders of Amalco, or until their successors are duly appointed or elected. The subsequent directors shall be elected each year thereafter as provided for in the OBCA and in the by-laws of Amalco. The management and operation of the business and affairs of Amalco shall be under the control of the board of directors of Amalco as it is constituted from time to time.

2.8 First Auditors

The first auditors of Amalco shall be McGovern, Hurley, Cunningham LLP. The first auditors of Amalco shall hold office until the completion of the first annual meeting of shareholders of Amalco following the Amalgamation or until their successor is appointed. The remuneration of the Auditors shall be determined by the board of directors of Amalco as it is constituted from time to time.

2.9 Fiscal Year

The fiscal year end of Amalco shall be December 31, or such other date as the parties may agree, and is subject to receipt of all necessary regulatory approvals.

2.10 Restrictions on Business

There shall be no restrictions on the business that Amalco may carry on.

2.11 Articles of Amalgamation and By-laws

The Articles of Amalgamation shall be in the form set forth as Schedule "A" hereto. Amalco shall adopt the by-laws of Mercury.

2.12 Effect of Certificate of Amalgamation On the Effective Date:

On the Effective Date:

- (a) the amalgamation of Mercury and Canada Coal and their continuance as one corporation shall become effective;
- (b) the property of each of Mercury and Canada Coal shall continue to be the property of Amalco;
- (c) Amalco shall continue to be liable for the obligations of each of Mercury and Canada Coal;
- (d) any existing cause of action, claim or liability to prosecution of either Mercury or Canada Coal shall be unaffected;
- (e) any civil, criminal or administrative action or proceeding pending by or against either Mercury or Canada Coal may be continued to be prosecuted by or against Amalco;
- (f) a conviction against, or ruling, order or judgment in favour of or against, either Mercury or Canada Coal may be enforced by or against Amalco; and
- (g) the Articles of Amalgamation shall be deemed to be the articles of incorporation of Amalco and the Certificate of Amalgamation shall be deemed to be the certificate of incorporation of Amalco.

2.13 Manner of Conversion of Issued Securities

On the Effective Date:

- (a) each one Canada Coal Share (excluding the Canada Coal Flow-Through Shares) shall be exchanged for one fully-paid and non-assessable Amalco Common Share;

- (b) each one Canada Coal Flow-Through Share shall be exchanged for one fully-paid and non-assessable flow-through Amalco Common Share;
- (c) each one Mercury Share shall be exchanged for one fully-paid and non-assessable Amalco Common Share;
- (d) each one Canada Coal Warrant shall be exchanged and replaced by one Amalco Warrant having the same terms and conditions as the respective Canada Coal Warrant;
- (e) each one Canada Coal Agent's Warrant shall be exchanged and replaced by one Amalco Agent's Warrant having the same terms and conditions as the respective Canada Coal Agent's Warrant;
- (f) each one Canada Coal Option shall be replaced with one Amalco Option having the same terms and conditions as the respective Canada Coal Option;
- (g) each one Mercury Agent's Warrant shall be exchanged and replaced by one Amalco Agent's Warrant having the same terms and conditions as the respective Mercury Agent's Warrant;
- (h) each one Mercury Option shall be replaced with one Amalco Option having the same terms and conditions as the respective Mercury Option;
- (i) each Unit Subscription Receipt shall be exchanged for one fully-paid and non-assessable Amalco Common Share and one-half of one Amalco Unit Warrant, provided that if the Release Condition is not satisfied on or before March 4, 2012, each Unit Subscription Receipt shall instead be exchanged for 1.1 fully-paid and non-assessable Amalco Common Shares and 0.55 Amalco Unit Warrants; and
- (j) the aggregate stated capital of Amalco Common Shares shall be an amount equal to the aggregate paid up capital for purposes of the Tax Act of the Mercury Shares and the Canada Coal Shares immediately prior to the Amalgamation, and such stated capital shall be allocated on an equal basis to each Amalco Common Share issued on the Amalgamation.

2.14 Fractional Securities

No fractional securities will be issued by Amalco and no cash will be paid in lieu thereof. Any fraction resulting will be rounded to the nearest whole number with fractions of one-half or greater being rounded to the next higher whole number and fractions of less than one-half being rounded to the next lower whole number.

2.15 Restrictions on Securities

The Amalco Common Shares and other Amalco securities issuable pursuant to Section 2.13 will be subject to compliance with resale restrictions pursuant to applicable securities laws. In addition, certain of the Amalco Common Shares or other Amalco securities to be issued pursuant

to the Amalgamation to certain Canada Coal securityholders specified by TSX-V will be subject to the TSX-V Escrow Agreement.

2.16 Certificates

On the Effective Date:

- (a) the holders of Canada Coal Shares shall cease to be holders of Canada Coal Shares and shall be deemed to be the holders of the Amalco Common Shares to which they are entitled in accordance with Section 2.13, and the holders of certificates representing Canada Coal Shares may surrender such certificates to the Amalco Registrar and Transfer Agent, together with a completed Canada Coal Letter of Transmittal and, upon such surrender, shall be entitled to receive certificates representing the number of Amalco Common Shares to which they are entitled in accordance with Section 2.13 as soon as practicable, but in any event no later than five Business Days following (i) the Effective Date; or (ii) the date of surrender of the certificate representing Canada Coal Shares;
- (b) the holders of Mercury Shares shall cease to be holders of Mercury Shares and shall be deemed to be the holders of the Amalco Common Shares to which they are entitled in accordance with Section 2.13, and the holders of certificates representing Mercury Shares may surrender such certificates to the Amalco Registrar and Transfer Agent, together with a completed Mercury Letter of Transmittal and, upon such surrender, shall be entitled to receive certificates representing the number of Amalco Common Shares to which they are entitled in accordance with Section 2.13 as soon as practicable, but in any event no later than five Business Days following (i) the Effective Date; or (ii) the date of surrender of the certificate representing Mercury Shares;
- (c) the holders of the Mercury Options and Mercury Agent's Warrants shall cease to be holders of such securities and shall be deemed to be the registered holders of the Amalco Options or the Amalco Agent's Warrants, respectively, to which they are entitled in accordance with Section 2.13, and shall receive executed agreements or certificates, as applicable, evidencing such securities of Amalco;
- (d) the holders of the Canada Coal Options, Canada Coal Warrants and Canada Coal Agent's Warrants shall cease to be holders of such securities and shall be deemed to be the registered holders of the Amalco Options, Amalco Warrants or the Amalco Agent's Warrants, respectively, to which they are entitled in accordance with Section 2.13, and shall receive executed agreements or certificates, as applicable, evidencing such securities of Amalco; and
- (e) the holders of Unit Subscription Receipts shall cease to be Unit Subscription Receipt holders of Canada Coal and shall be deemed to be the holders of that number of Amalco Common Shares and Amalco Unit Warrants to which they are entitled in accordance with Section 2.13, and the certificates representing Unit Subscription Receipts shall be cancelled, and the holders of Unit Subscription

Receipts shall be entitled to receive certificates representing that number of Amalco Common Shares and Amalco Unit Warrants to which they are entitled in accordance with Section 2.13, and shall receive executed agreements or certificates, as applicable, evidencing such securities of Amalco.

2.17 Lost Certificates

If any certificate which immediately prior to the Effective Date represented one or more outstanding Mercury Shares, Mercury Options, Mercury Agent's Warrants, Canada Coal Shares, Canada Coal Options, Canada Coal Warrants or Canada Coal Agent's Warrants shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the holder thereof, as applicable, claiming such certificate to be lost, stolen or destroyed, the Amalco Registrar and Transfer Agent or Amalco, as applicable, will issue in exchange for such lost, stolen or destroyed certificate, one or more certificates representing one or more Amalco Common Shares, Amalco Options, Amalco Warrants, Amalco Unit Warrants or Amalco Agent's Warrants, in each case deliverable pursuant to Section 2.13. When authorizing such replacement certificate in exchange for any lost, stolen, destroyed certificate, the holder to whom certificates representing such securities are to be issued shall, as a condition precedent to the issuance thereof, give a bond satisfactory to the Amalco Registrar and Transfer Agent and/or Amalco in such sum as Amalco may direct or otherwise indemnify the Amalco Registrar and Transfer Agent and Amalco in a manner satisfactory to the Amalco Registrar and Transfer Agent and Amalco against any claim that may be made against Amalco with respect to the certificate alleged to have been lost, stolen or destroyed.

2.18 Stock Option Plan

The stock option plan of Amalco shall be the Amalco Stock Option Plan, which stock option plan is to be approved by the Mercury Shareholders at the Mercury Meeting, the Canada Coal Shareholders at the Canada Coal Meeting, and the TSX-V, and will be attached as a schedule to the Joint Management Information Circular.

2.19 Dissent Rights

A registered holder of Canada Coal Shares or Mercury Shares (a "**Dissenting Holder**") may exercise rights of dissent with respect to such Canada Coal Shares or Mercury Shares, as the case may be, pursuant to and in the manner set forth in Section 185 of the OBCA (the "**Dissent Rights**") in connection with the Amalgamation. A Dissenting Holder who duly exercises such Dissent Rights (including the sending of a notice of dissent to Canada Coal or Mercury, as applicable) ceases to have any rights as a holder of Canada Coal Shares or Mercury Shares, as the case may be, other than the right to be paid the fair value of such Dissenting Holder's Canada Coal Shares or Mercury Shares, as the case may be, pursuant to Section 185 of the OBCA except in certain circumstances, including where:

- (a) such Dissenting Holder withdraws the notice of dissent before Canada Coal or Mercury, as applicable, makes an offer to such Dissenting Holder pursuant to subsection 185(15) of the OBCA; or

- (b) Canada Coal or Mercury, as the case may be, fails to make an offer to such Dissenting Holder in accordance with subsection 185(15) of the OBCA and such holder withdraws the notice of dissent.

In the circumstances described in clause (a) or (b), or if a Dissenting Holder is ultimately determined not to be entitled, for any reason, to be paid the fair value for its Canada Coal Shares or Mercury Shares, as the case may be, a Dissenting Holder shall be deemed to have participated in the Amalgamation on the same basis as a non-Dissenting Holder.

2.20 Withholding Rights

Canada Coal, Mercury, the Mercury Registrar and Transfer Agent and the Amalco Registrar and Transfer Agent shall be entitled to deduct and withhold from any amount payable to any holder of a Canada Coal Share, Canada Coal Warrant, Mercury Share, Mercury Option, Mercury Agent's Warrant, Amalco Common Share, Amalco Warrant, Amalco Unit Warrant Amalco Option or Amalco Agent's Warrant such amounts as Canada Coal, Mercury, the Mercury Registrar and Transfer Agent, Amalco or the Amalco Registrar and Transfer Agent is required to deduct and withhold with respect to such payment under the Tax Act or any provision of federal, provincial, territorial, state, local or foreign tax law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the holder of the securities in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. To the extent that the amount so required to be deducted or withheld from any payment to a holder exceeds the cash portion of the consideration otherwise payable to the holder, Canada Coal, Mercury, the Mercury Registrar and Transfer Agent, Amalco or the Amalco Registrar and Transfer Agent shall sell or otherwise dispose of such portion of the amount as is necessary to provide sufficient funds to Canada Coal, Mercury, the Mercury Registrar and Transfer Agent, Amalco or the Amalco Registrar and Transfer Agent, as the case may be, to enable it to comply with such deduction or withholding requirement, and Canada Coal, Mercury, the Mercury Registrar and Transfer Agent, Amalco or the Amalco Registrar and Transfer Agent, as the case may be, shall notify the holder thereof and remit any unapplied balance of the next proceeds of such sale.

ARTICLE 3 COVENANTS

3.1 Restrictive Covenants of Canada Coal

Canada Coal covenants and agrees that it will not, from the date hereof to and including the Effective Date, except as contemplated by this Agreement or with the prior written consent of Mercury (such consent not to be unreasonably withheld):

- (a) declare, pay or set aside any dividends or provide for any distribution of its properties or assets, or make any payment by way of return of capital, to its shareholders;
- (b) split, combine or reclassify any outstanding shares;
- (c) except for the Agency Agreement, enter into any material contract;

- (d) redeem, purchase or offer to purchase any of its shares or other securities;
- (e) reorganize, amalgamate or merge with any other Person in any manner whatsoever;
- (f) acquire or agree to acquire (by merger, amalgamation, acquisition of securities or assets or otherwise) any Person or any assets or properties other than in the ordinary course of its business;
- (g) incur or commit to incur any indebtedness for borrowed money or issue any debt securities;
- (h) except pursuant to the Private Placement, issue or commit to issue any shares, rights, warrants or options to purchase such shares, or any securities convertible into such shares, warrants or options, except pursuant to the issuance of securities issuable pursuant to the terms of securities outstanding on the date hereof,
- (i) alter or amend in any way its constating documents or by-laws as the same exist at the date of this Agreement;
- (j) take any action which would be outside the ordinary course of business or which may result in a material adverse change in its affairs;
- (k) sell, pledge, lease, dispose of, grant any interest in, encumber or agree to sell, pledge, lease, dispose of, grant any interest in or encumber any of its assets;
- (l) engage in any business enterprise or other activity materially different from that carried on or intended to be carried on as at the date hereof,
- (m) enter into any transaction with or make payments to a party with which it does not deal at arm's length, other than in the ordinary course of business consistent with past practice;
- (n) except pursuant to an existing employment agreement or the agreement with Abraham Jonker, grant any director, officer or employee who has a policy-making function any increase in compensation or in severance or termination pay (whether or not such compensation or pay is payable in cash), or enter into any employment or consulting agreement with any such director, officer or employee, or hire or promote any such person; or
- (o) perform any act or enter into any transaction or negotiation which might materially adversely interfere or be materially inconsistent with the consummation of the transactions contemplated under this Agreement.

3.2 Positive Covenants of Canada Coal

Canada Coal covenants and agrees that it will:

- (a) use all commercially reasonable efforts to obtain all necessary consents, assignments or waivers from third parties and amendments or terminations to any instrument or agreement and take such other measures as may be necessary to fulfil its obligations under and to carry out the transactions contemplated by this Agreement;
- (b) provide Mercury, on a timely basis, with all relevant information concerning it and its business, property, operations and financial statements for inclusion in the Joint Management Information Circular;
- (c) promptly notify Mercury if at any time before the Effective Time it becomes aware that the Joint Management Information Circular (with respect to information provided by or in relation to Canada Coal) or a filing or an application described in subsection 3.2(j) contains any misrepresentation or any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made, or that otherwise requires an amendment or supplement to the Joint Management Information Circular or such filing or application; and in any such event, shall cooperate in the preparation of a supplement or amendment to the Joint Management Information Circular or such other document, as required and as the case may be;
- (d) subject to Mercury complying with subsection 3.4(b), ensure that the Joint Management Information Circular complies with all applicable laws and, without limiting the generality of the foregoing, that the Joint Management Information Circular does not contain any misrepresentation or any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made (other than with respect to any information relating to or provided by Mercury). Without limiting the generality of the foregoing, Canada Coal shall ensure that the Joint Management Information Circular complies with the CPC Policy (unless otherwise exempted from all or a portion of the CPC Policy by the TSX-V) and applicable laws as they relate to Canada Coal and shall ensure that the Joint Management Information Circular provides the Canada Coal Shareholders with information in sufficient detail to permit them to form a reasoned judgment concerning the matters to be placed before them at the Canada Coal Meeting;
- (e) on or before the Closing Date, use all commercially reasonable efforts to convene the Canada Coal Meeting for the purpose of approving the Canada Coal Special Resolution;
- (f) recommend to the Canada Coal Shareholders the approval of the Canada Coal Special Resolution;

- (g) mail to the Canada Coal Shareholders the Joint Management Information Circular and other documentation required in connection with the Canada Coal Meeting in accordance with applicable laws as soon as reasonably practicable;
- (h) solicit from the Canada Coal Shareholders proxies in favour of approval of the Canada Coal Special Resolution;
- (i) not adjourn, postpone or cancel (or propose adjournment, postponement or cancellation of) the Canada Coal Meeting without Mercury's prior written consent except as required by applicable laws or, in the case of adjournment, as may be required by the Canada Coal Shareholders as expressed by majority resolution;
- (j) except for proxies and non-substantive communications with securityholders, furnish promptly to Mercury a copy of each notice, report, schedule or other document delivered, filed or received by it in connection with: (i) the Amalgamation; (ii) any filings under applicable laws; and (iii) any dealings with regulatory agencies in connection with the transactions contemplated herein;
- (k) make other necessary filings and applications under applicable federal and provincial laws and regulations required on its part in connection with the transactions contemplated herein, and take all reasonable action necessary to be in compliance with such laws and regulations;
- (l) use all commercially reasonable efforts to conduct its affairs so that all of its representations and warranties contained herein shall be true and correct on and as of the Closing Date and the Effective Date as if made on the Closing Date or the Effective Date, respectively, except to the extent that such representations and warranties require modification to give effect to the transactions contemplated herein;
- (m) use all commercially reasonable efforts to cause each of the conditions precedent set forth in Sections 5.1 and 5.3 to be complied with;
- (n) subject to the satisfaction of the conditions in Sections 5.1 and 5.2, thereafter together with Mercury file with the Director the Articles of Amalgamation and such other documents as may be required to give effect to the Amalgamation on or before the Termination Date; and
- (o) notify Mercury immediately upon becoming aware that any of its representations and warranties contained herein are no longer true and correct in any material respect.

3.3 Restrictive Covenants of Mercury

Mercury covenants and agrees that it will not from the date hereof to and including the Effective Date, except as contemplated by this Agreement or with the prior written consent of Canada Coal, such consent not to be unreasonably withheld:

- (a) declare, pay or set aside any dividends or provide for any distribution of its properties or assets, or make any payment by way of return of capital, to its shareholders;
- (b) split, combine or reclassify any outstanding shares;
- (c) except for the Agency Agreement, enter into any material contract;
- (d) redeem, purchase or offer to purchase any of its shares or other securities;
- (e) reorganize, amalgamate or merge with any other Person in any manner whatsoever;
- (f) acquire or agree to acquire (by merger, amalgamation, acquisition of securities or assets or otherwise) any Person or any assets or properties;
- (g) incur or commit to incur any indebtedness for borrowed money or issue any debt securities;
- (h) except pursuant to the Private Placement, issue or commit to issue any shares, rights, warrants or options to purchase such shares, or any securities convertible into such shares, warrants or options, except pursuant to the issuance of securities issuable pursuant to the terms of securities outstanding on the date hereof;
- (i) alter or amend in any way its constating documents or by-laws as the same exist at the date of this Agreement;
- (j) take any action which may result in a material adverse change in its affairs or which is contrary to the CPC Policy;
- (k) sell, pledge, lease, dispose of, grant any interest in, encumber or agree to sell, pledge, lease, dispose of, grant any interest in or encumber any of its assets;
- (l) engage in any business enterprise, other than as contemplated herein pursuant to the CPC Policy;
- (m) enter into any transaction with or make payments to a party with which it does not deal at arm's length, other than in the ordinary course of business consistent with past practice;
- (n) grant any director, officer or employee who has a policy-making function any increase in compensation or in severance or termination pay (whether or not such compensation or pay is payable in cash), or enter into any employment or consulting agreement with any such director, officer or employee, or hire or promote any such person; or

- (o) perform any act or enter into any transaction or negotiation which might materially adversely interfere or be materially inconsistent with the consummation of the transactions contemplated under this Agreement.

3.4 Positive Covenants of Mercury

Mercury covenants and agrees that it will:

- (a) use all commercially reasonable efforts to obtain all necessary consents, assignments or waivers from third parties and amendments or terminations to any instrument or agreement and take such other measures as may be necessary to fulfil its obligations under and to carry out the transactions contemplated by this Agreement;
- (b) provide Canada Coal, on a timely basis, with all relevant information concerning it and its business, property, operations and financial statements for inclusion in the Joint Management Information Circular;
- (c) promptly notify Canada Coal if at any time before the Effective Time it becomes aware that the Joint Management Information Circular (with respect to information provided by or in relation to Mercury) or a filing or an application described in subsection 3.4(k) contains any misrepresentation or any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made, or that otherwise requires an amendment or supplement to the Joint Management Information Circular or such filing or application; and in any such event, shall cooperate in the preparation of a supplement or amendment to the Joint Management Information Circular or such other document, as required and as the case may be;
- (d) subject to Canada Coal complying with subsection 3.2(b), ensure that the Joint Management Information Circular complies with all applicable laws and, without limiting the generality of the foregoing, that the Joint Management Information Circular does not contain any misrepresentation or any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made (other than with respect to any information relating to or provided by Canada Coal). Without limiting the generality of the foregoing, Mercury shall ensure that the Joint Management Information Circular complies with the CPC Policy (unless otherwise exempted from all or a portion of the CPC Policy by the TSX-V) and applicable laws as they relate to Mercury, and provides the Mercury Shareholders with information in sufficient detail to permit them to form a reasoned judgment concerning the matters to be placed before them at the Mercury Meeting;

- (e) on or before the Closing Date, use all commercially reasonable efforts to convene the Mercury Meeting for the purpose of approving the Mercury Special Resolution;
- (f) recommend to Mercury Shareholders the approval of the Mercury Special Resolution;
- (g) mail to Mercury Shareholders the Joint Management Information Circular and other documentation required in connection with the Mercury Meeting in accordance with applicable laws as soon as reasonably practicable;
- (h) solicit from Mercury Shareholders proxies in favour of approval of the Mercury Special Resolution;
- (i) not adjourn, postpone or cancel (or propose adjournment, postponement or cancellation of) the Mercury Meeting without Canada Coal's prior written consent except as required by applicable laws or, in the case of adjournment, as may be required by Mercury Shareholders as expressed by majority resolution;
- (j) except for proxies and other non-substantive communications with securityholders, furnish promptly to Canada Coal a copy of each notice, report, schedule or other document delivered, filed or received by Mercury in connection with: (i) the Amalgamation; (ii) any filings under applicable laws; and (iii) any dealings with regulatory agencies in connection with the transactions contemplated herein;
- (k) make other necessary filings and applications under applicable federal and provincial laws and regulations required on its part of connection with the transactions contemplated herein, and take all reasonable action necessary to be in compliance with such laws and regulations;
- (l) use all commercially reasonable efforts to conduct its affairs so that all of its representations and warranties contained herein shall be true and correct on and as of the Closing Date and the Effective Date as if made on the Closing Date or the Effective Date, respectively, except to the extent that such representations and warranties require modification to give effect to the transactions contemplated herein;
- (m) use all commercially reasonable efforts to cause each of the conditions precedent set forth in Sections 5.1 and 5.2 to be complied with;
- (n) subject to satisfaction of the conditions in Sections 5.1 and 5.3, thereafter together with Canada Coal file with the Director the Articles of Amalgamation and such other documents as may be required to give effect to the Amalgamation on or before the Termination Date; and

- (o) notify Canada Coal immediately upon becoming aware that any of its representations and warranties it contained herein are no longer true and correct in any material respect.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties of Mercury

Mercury represents and warrants to and in favour of Canada Coal (and acknowledges that Canada Coal is relying upon such representations and warranties) as follows:

- (a) it is a corporation duly incorporated, organized and validly subsisting and in good standing under the laws of the Province of Ontario, and has all the requisite corporate power, capacity and authority to enter into this Agreement and to perform its obligations hereunder and to carry on its business and to own, lease and operate its assets;
- (b) it is a reporting issuer in British Columbia, Alberta and Ontario and is in compliance in all material respects with all of its obligations under the applicable securities laws in British Columbia, Alberta and Ontario. Since October 27, 2010, Mercury has not been the subject of any investigation by any stock exchange or any other securities regulatory authority or body, is current with all filings required to be made by it under applicable securities and corporate legislation and is not aware of any material deficiencies in the filing of any documents or reports with any stock exchange or securities regulatory authority or body;
- (c) the Mercury Shares are currently listed and approved for trading on the TSX-V under the symbol "MLC.P", and on no other stock exchange, and such shares are subject to the halt in trading imposed by the TSX-V under its rules and policies as a result of the announcement of the Amalgamation;
- (d) it has not conducted any business, other than in accordance with the CPC Policy and is in compliance in all material respects with all of the rules, policies and requirements of the TSX-V, including, without limitation, the CPC Policy with respect to the permitted expenditure of funds;
- (e) the entering into and performance of this Agreement and the transactions contemplated herein by Mercury will not violate:
 - (i) its constating documents or by-laws;
 - (ii) any agreement to which it is a party and will not give any Person any right to terminate or cancel any agreement or any right enjoyed by it because of such agreement, and will not result in the creation or imposition of any lien, encumbrance or restriction of any nature whatsoever in favour of a third party upon or against it or its assets; or

- (iii) any statute, regulation, by-law, order, judgment or decree by which it is bound;
- (f) the execution and delivery of this Agreement and the completion of the transactions contemplated herein have been approved by the board of directors of Mercury and this Agreement constitutes a valid and binding obligation of Mercury enforceable against it in accordance with its terms, subject, however, to the approval of the Amalgamation by the Mercury Shareholders and the TSX-V and the limitations imposed by law in connection with bankruptcy or similar proceedings and to the extent that equitable remedies such as specific performance or injunction are granted at the discretion of a court of competent jurisdiction;
- (g) the authorized capital of Mercury consists of an unlimited number of Mercury Shares, of which 3,349,750 Mercury Shares are issued and outstanding as of the date hereof;
- (h) other than pursuant to the Private Placement, the Mercury Options and the Mercury Agent's Warrants, or pursuant to this Agreement, no Person has any agreement, option or right to acquire or capable of becoming an agreement for the purchase or acquisition of any of the unissued Mercury Shares or any other securities of Mercury, and there are no other outstanding securities or instruments which are convertible into or exchangeable for Mercury Shares;
- (i) there is no suit, action, litigation, arbitration proceeding or governmental proceeding, including appeals and applications for review in progress or, to the knowledge of Mercury, pending or threatened against or relating to Mercury or affecting its properties or business which if determined adversely to Mercury might materially and adversely affect its properties, business, future prospects or the financial condition of Mercury, taken as a whole; or the right of Mercury to use, produce or sell its property or assets in whole or in part; and there is not presently outstanding against Mercury any judgment, injunction, rule or order of any court, Governmental Authority, commission, agency or arbitrator;
- (j) it is not in arrears or in default in respect of the filing of any required Taxes or Tax Returns; and (i) all Taxes due and payable or collectible from Mercury shall have been paid or collected prior to the Effective Date, (ii) no claim for additional Taxes due and payable or collectible from Mercury has been made which has not been collected, and (iii) to the best of the knowledge of Mercury, no such return contains any misstatement or conceals any statement that should have been included therein;
- (k) no notices, reports or other filings are required to be made by Mercury with, nor are any consents, approvals, registrations, permits, order or authorizations required to be obtained by Mercury from any third party or Governmental Authority in connection with the execution and delivery of this Agreement by Mercury, the performance of its obligations hereunder or the consummation by

Mercury of the transactions contemplated hereby other than: (i) the approval of the Mercury Special Resolution by the Mercury Shareholders; (ii) the approval of the Amalgamation by the TSX-V; (iii) such registrations and other actions required under applicable securities laws as are contemplated by this Agreement and registrations and applications required as a result of the formation of a new corporation on the Amalgamation; (iv) any filings with the Director; and (v) any other consents, approvals, orders, authorizations, registrations, declarations or filings which, if not obtained or made, would not, individually or in the aggregate, have a material adverse effect on Mercury or prevent or materially impair Mercury's ability to perform its obligations hereunder;

- (l) since October 27, 2010, it has not experienced nor is it aware of any occurrence or event which has had, or might reasonably be expected to have, a materially adverse effect on its affairs or financial condition;
- (m) other than in connection with the Private Placement, it has not incurred any obligation or liability, contingent or otherwise, for broker's fees, commissions or finder's fees or other similar fees in respect of the transactions contemplated herein;
- (n) the Mercury Financial Statements and the notes thereto, have been prepared in accordance with Canadian generally accepted accounting principles or international financial reporting standards, as applicable, are true and correct and present fairly, in all material respects, the financial position of Mercury as at such dates and the results of its operations and changes in financial position for the period indicated in the said statements;
- (o) it has no material liabilities, contingent or otherwise, except those set out in the Mercury Financial Statements and the Joint Management Information Circular;
- (p) except pursuant to the Private Placement and as provided for by this Agreement, no Person has any written or oral agreement, option, understanding or commitment or any right or privilege capable of becoming an agreement for the purchase, exchange, transfer or other disposition from Mercury of any of its assets;
- (q) the Joint Management Information Circular will disclose all material contracts, agreements and commitments (whether written or oral) to which Mercury is a party, and all of such material contracts, agreements and commitments are in full force and effect and Mercury is not in default under any of such contracts, agreements or commitments, save and except for any breach or default which is not material or which has been waived by the other party to such contract, agreement or commitment;
- (r) there does not exist any state of facts which after notice or lapse of time, or both, will constitute a material default or material breach on the part of Mercury under

any of the provisions contained in any of the material contracts, commitments or agreements referred to in subsection 4.1(r);

- (s) no notices, reports or other filings are required to be made by Mercury with, nor are any consents, registrations, approvals, permits or authorizations required to be obtained by Mercury from, any Governmental Authority, other than TSX-V and the usual filings under applicable Canadian securities laws, in connection with the execution and delivery of this Agreement by Mercury and the consummation of the transactions contemplated herein by it, the failure to make or obtain any or all of which is reasonably likely to have a material adverse effect on the financial condition of Mercury or could prevent, materially delay or materially burden the transactions contemplated by this Agreement;
- (t) since October 27, 2010, it has filed all required forms, reports and other documents (collectively, the “**Mercury Disclosure Record**”) with the applicable Canadian securities regulatory authorities having jurisdiction; and none of the Mercury Public Disclosure filed with the applicable Canadian securities regulatory authorities having jurisdiction, at the time filed or as subsequently amended, contained any misrepresentation or any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading;
- (u) the corporate records and minute books of Mercury contain, in all material respects, complete and accurate minutes of all meetings of the directors and shareholders since its date of incorporation, together with the full text of all resolutions of directors and shareholders passed in lieu of such meetings, duly signed;
- (v) other than as disclosed in the prospectus of Mercury dated October 26, 2010, to the knowledge of Mercury, none of the directors, officers or principal Mercury Shareholders is or has been, in the previous ten years, subject to prior regulatory, criminal or bankruptcy proceedings in Canada or elsewhere; and
- (w) it is not a party to any material contract, agreement or understanding with any officer, director, employee, shareholder or any other Person not dealing at arm’s length with Mercury.

4.2 Representations and Warranties of Canada Coal

Canada Coal represents and warrants to and in favour of Mercury (and acknowledges that Mercury is relying upon such representations and warranties) as follows:

- (a) it is a corporation duly incorporated, organized and validly subsisting and in good standing under the laws of the Province of Ontario, and has all the requisite corporate power, capacity and authority to enter into this Agreement and to perform its obligations hereunder and to carry on its business and to own, lease and operate its assets;

- (b) it is not reporting issuer in any jurisdiction in Canada and it does not have any of its securities listed on any stock exchange;
- (c) no cease trade order has been issued against it or the Canada Coal Shares in any jurisdiction and, to the knowledge of Canada Coal, no cease trade order is pending or threatened;
- (d) the execution and delivery of this Agreement and the completion of the transactions contemplated herein have been approved by the board of directors of Canada Coal and this Agreement constitutes a valid and binding obligation of Canada Coal enforceable against it in accordance with its terms, subject, however, to the approval of the Amalgamation by the Canada Coal Shareholders and the limitations imposed by law in connection with bankruptcy or similar proceedings and to the extent that equitable remedies such as specific performance or injunction are granted at the discretion of a court of competent jurisdiction;
- (e) it has no subsidiaries except Canadian Sovereign Coal Corp. and 5200 Nunavut Ltd.;
- (f) the authorized capital of Canada Coal consists of an unlimited number of Canada Coal Shares, of which, as of the date hereof there are 38,000,000 Canada Coal Shares, issued and outstanding;
- (g) other than the Unit Subscription Receipts, the Canada Coal Warrants, the Canada Coal Options, the Canada Coal Agent's Warrants, or pursuant to this Agreement, no Person has any agreement, option or right to acquire or capable of becoming an agreement for the purchase or acquisition of any of the unissued Canada Coal Shares or any other securities of Canada Coal, and there are no other outstanding securities or instruments which are convertible into or exchangeable for Canada Coal Shares;
- (h) the information concerning Canada Coal to be provided by and contained in the Joint Management Information Circular will contain no untrue statement of a material fact and will not omit to state a material fact that is required to be stated or that is necessary to make a statement therein not misleading in light of the circumstances in which it will be made;
- (i) there is no suit, action, litigation, arbitration proceeding or governmental proceeding, including appeals and applications for review in progress or, to the knowledge of Canada Coal, pending or threatened against or relating to Canada Coal or affecting its properties or business which if determined adversely to Canada Coal might materially and adversely affect the properties, business, future prospects or the financial condition of Canada Coal, taken as a whole, or the right of Canada Coal to use, produce or sell its property or assets in whole or in part; and there is not presently outstanding against Canada Coal any judgment, decree, injunction, rule or order of any court, Governmental Authority, commission, agency or arbitrator;

- (j) it is not in arrears or in default in respect of the filing of any required Taxes or Tax Returns; and (i) all Taxes due and payable or collectible from Canada Coal shall have been paid or collected prior to the Effective Date, (ii) no claim for additional Taxes due and payable or collectible from Canada Coal has been made which has not been collected, and (iii) to the best of the knowledge of Canada Coal, no such return contains any misstatement or conceals any statement that should have been included therein;
- (k) no notices, reports or other filings are required to be made by Canada Coal with, nor are any consents, approvals, registrations, permits, order or authorizations required to be obtained by Canada Coal from any third party or Governmental Authority in connection with the execution and delivery of this Agreement by Canada Coal, the performance of its obligations hereunder or the consummation by Canada Coal of the transactions contemplated hereby other than: (i) the approval of the Canada Coal Special Resolution by the Canada Coal Shareholders; (ii) the approval of the Amalgamation by the TSX-V; (iii) such registrations and other actions required under applicable securities laws as are contemplated by this Agreement and registrations and applications required as a result of the formation of a new corporation on the Amalgamation; (iv) any filings with the Director; and (v) any other consents, approvals, orders, authorizations, registrations, declarations or filings which, if not obtained or made, would not, individually or in the aggregate, have a material adverse effect on Canada Coal or prevent or materially impair Canada Coal's ability to perform its obligations hereunder;
- (l) Canada Coal is duly licensed, registered and qualified, in all material respects, and possesses all material certificates, authorizations, permits or licences issued by the appropriate regulatory authorities in the jurisdictions necessary to enable its business to be carried on as now conducted and to enable its property and assets to be owned, leased and operated as they are now, and all such licences, registrations and qualifications are in good standing, in all material respects;
- (m) it has not experienced nor is it aware of any occurrence or event which has had, or might reasonably be expected to have, a materially adverse effect on its affairs or financial condition;
- (n) as of the date hereof:
 - (i) no party has any rights of first refusal, back-in rights or other rights in respect of the Properties;
 - (ii) there are no other outstanding agreements or options to acquire or purchase the properties comprising the Properties or any part thereof or interest therein, and no individual, corporation or other entity has any royalty or other interest whatsoever in production or profits from the properties comprising the Properties or any part thereof;

- (iii) all exploration permits, leases, licenses and mining claims, payments, rentals, taxes, assessments, renewal fees and other governmental charges, owing in respect of the Properties or any part of the Properties, have been paid in full;
- (iv) there is no adverse claim against, or challenge to, the ownership of or title to, the Properties;
- (v) all exploration activities on or in respect of the development of the Properties are in compliance with all applicable Laws and licenses;
- (vi) Canada Coal is not in any violation of any applicable Environmental Laws;
- (vii) Canada Coal has all permits, authorizations and approvals required under any applicable Environmental Laws and is in material compliance with their requirements;
- (viii) to the knowledge of Canada Coal, there are no pending or threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of non-compliance or violation, investigation or proceedings relating to any Environmental Laws against Canada Coal or claim involving a demand for damages or other potential liability with respect to violations of applicable Environmental Laws; and
- (ix) to the knowledge of Canada Coal, there are no events or circumstances that would reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting Canada Coal relating to Hazardous Materials or any Environmental Laws;
- (o) Canada Coal holds either freehold title, mining leases, mining concessions, mining claims, options or participating interests or other conventional property or proprietary interests or rights, recognized in the jurisdiction in which the Properties are located under valid, subsisting and enforceable title documents or other recognized and enforceable agreements or instruments, sufficient to permit Canada Coal to explore for the minerals relating thereto;
- (p) all property, options, leases, concessions or claims in which Canada Coal has an interest or right have been validly located and recorded in accordance in all material respects with all applicable laws and are valid and subsisting;
- (q) the Properties represent all of the material rights owned or held by Canada Coal whether freehold title, mining leases, concessions, options or participating interests or other property or proprietary interests or rights;
- (r) any and all agreements pursuant to which Canada Coal holds its respective Properties or assets or are entitled to the use of the Properties or assets, including,

without limitation, all such agreements (and all amendments thereto) relating to the Properties, are valid and subsisting agreements in full force and effect, enforceable in accordance with their respective terms and Canada Coal is not in material default of any of the provisions of any such agreements nor has any such default been alleged to have occurred, nor are there any disputes with respect thereto, and all applications, claims, options, leases, licenses, and concessions pursuant to which Canada Coal derives its interests in such material assets are in good standing in all material respects and there has been no default under any such applications, leases, claims, licenses, options or concessions and all Taxes, work fees and other amounts required to have been paid with respect to such properties and assets to the date hereof have been paid;

- (s) none of the Properties or any of the agreements referred to in the immediately preceding paragraph have been surrendered, waived, released, amended, assigned, encumbered or discounted by Canada Coal and Canada Coal has not granted any subleases, licenses, options or other rights of occupation in respect of any of the Properties;
- (t) it is in material compliance with NI 43-101 in connection with its Properties and has prepared, filed and certified all technical reports required by applicable securities laws in accordance with NI 43-101;
- (u) the entering into and performance of this Agreement and the transactions contemplated herein by Canada Coal will not violate:
 - (i) its constating documents or by-laws;
 - (ii) any agreement to which it is a party and will not give any Person any right to terminate or cancel any agreement or any right enjoyed by it because of such agreement, and will not result in the creation or imposition of any lien, encumbrance or restriction of any nature whatsoever in favour of a third party upon or against it or its assets; or
 - (iii) any statute, regulation, order, judgment or decree by which it is bound;
- (v) other than in connection with the Private Placement, it has not incurred any obligation or liability, contingent or otherwise, for broker's or finder's fees or other similar fees in respect of the transactions contemplated herein;
- (w) since October 1, 2011, there has not been any material adverse change in its condition or operation or in its assets, liabilities or financial condition;
- (x) the Canada Coal Financial Statements and the notes thereto, have been prepared in accordance with Canadian generally accepted accounting principles or international financial reporting standards, as applicable, are true and correct and present fairly, in all material respects, the financial position of Canada Coal as at such dates and the results of its operations and changes in financial position for the period indicated in the said statements;

- (y) it has no material liabilities, contingent or otherwise, except those set out in the Canada Coal Financial Statements and the Joint Management Information Circular;
- (z) other than as disclosed in the Canada Coal Financial Statements, amounts owing to reimburse individuals for business expenses incurred and approved on behalf of Canada Coal or in connection with the agreement with Abraham Jonker, Canada Coal is not indebted to:
 - (i) any director, officer, employee or shareholder of Canada Coal;
 - (ii) any individual related to any of the foregoing by blood, marriage or adoption; or
 - (iii) any corporation controlled, directly or indirectly, by any one or more of those Persons referred to in subsections 4.2(aa)(i) and (ii);
- (aa) none of those Persons referred to in subsection 4.2(aa) is indebted to Canada Coal;
- (bb) no Person has any written or oral agreement, option, understanding or commitment or any right or privilege capable of becoming an agreement for the purchase, exchange, transfer or other disposition from Canada Coal of any of its assets;
- (cc) other than the Employment Agreements or the agreement with Abraham Jonker, there are no contracts, agreements or engagements of any director, officer or senior employee of Canada Coal, either written or verbal, providing for a fixed period of employment;
- (dd) the information concerning the Amalgamation to be provided by Canada Coal to the Canada Coal Shareholders in the Joint Management Information Circular will comply with applicable laws and will disclose all material facts relating to the particular matters concerning the Amalgamation and Canada Coal to be acted upon by the Canada Coal Shareholders (as required to be disclosed under applicable laws);
- (ee) the Joint Management Information Circular will disclose all material contracts, agreements and commitments (whether written or oral) to which Canada Coal is a party, and all of such material contracts, agreements and commitments, are in full force and effect and Canada Coal is not in default under any of such contracts, agreements or commitments, save and except for any breach or default which is not material or which has been waived by the other party to such contract, agreement or commitment;
- (ff) there does not exist any state of facts which after notice or lapse of time, or both, will constitute a material default or breach on the part of Canada Coal under any

of the provisions contained in any of the material contracts, commitments or agreements of Canada Coal referred to in subsection 4.2(ff);

- (gg) the corporate records and minute books of Canada Coal contain, in all material respects, complete and accurate minutes of all meetings of the directors and shareholders since its date of incorporation, together with the full text of all resolutions of directors and shareholders passed in lieu of such meetings, duly signed;
- (hh) to the knowledge of Canada Coal, none of the directors or officers of Canada Coal is or has ever been subject to prior regulatory, criminal or bankruptcy proceedings in Canada or elsewhere;
- (ii) it is not a party to any material contract, agreement or understanding with any officer, director, employee, shareholder or any other Person not dealing at arm's length with Canada Coal;

4.3 Survival of Representations and Warrants

The representations and warranties contained in this Agreement shall be true on the Closing Date as though they were made on the Closing Date and they shall survive the completion of the transactions contemplated under this Agreement in full force and effect for a period of two years. No party shall be under liability in respect of any claim for a breach of a representation and warranty if the facts or circumstances giving rise thereto are known to the other party at the date of this Agreement.

ARTICLE 5 CONDITIONS PRECEDENT AND OTHER MATTERS

5.1 Mutual Conditions Precedent

The respective obligations of the parties hereto to consummate the transactions contemplated herein are subject to the satisfaction, on or before the Closing Date, of the following conditions any of which may be waived by the mutual consent of the parties without prejudice to their rights to rely on any other of such conditions:

- (a) the Mercury Special Resolution shall have been approved by the Mercury Shareholders in accordance with the provisions of the OBCA;
- (b) the Canada Coal Special Resolution shall have been approved by the Canada Coal Shareholders in accordance with the provisions of the OBCA;
- (c) Canada Coal shall have completed the Private Placement for minimum gross proceeds of \$4,300,000;
- (d) there shall not exist any prohibition at law against the completion of the Amalgamation;

- (e) the Amalco Stock Option Plan shall be in a form satisfactory to each of Canada Coal and Mercury;
- (f) the parties shall have received the TSX-V Conditional Approval letter approving the Amalgamation upon the terms hereof as a Qualifying Transaction of Mercury, approving the listing of the Amalco Common Shares issued and outstanding on the Effective Date and the Amalco Common Shares issuable pursuant to the Amalgamation upon exercise of any securities of Amalco convertible or exercisable into Amalco Common Shares, as well as conditionally approving the Amalco Stock Option Plan, subject to the usual conditions;
- (g) Amalco, upon completion of the Amalgamation, shall meet the initial listing requirements of the TSX-V and the TSX-V shall have, prior to the Effective Date, issued its conditional approval of the transactions contemplated herein including:
 - (i) the Amalgamation as a Qualifying Transaction of Mercury;
 - (ii) the listing on the TSX-V prior to the Effective Date of the Amalco Common Shares: (i) to be issued pursuant to the Amalgamation as of the Effective Date; (ii) issuable upon exercise of the Amalco Options granted under the Amalco Stock Option Plan; and (iii) issuable upon exercise of the Amalco Agent's Warrants, the Amalco Unit Warrants and the Amalco Warrants;
 - (iii) the issuance by Amalco of the Amalco Options on the terms and conditions of the Amalco Stock Option Plan and the issuance of the Amalco Agent's Warrant, the Amalco Unit Warrants and the Amalco Warrants;
- (h) the TSX-V Escrow Agreement shall have been entered into with terms satisfactory to the parties thereto (including the TSX-V);
- (i) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement, including, without limitation the Amalgamation;
- (j) all consents, orders and approvals, including, without limitation, regulatory approvals, required or necessary or desirable for the completion of the transactions provided for in this Agreement shall have been obtained or received from the Person having jurisdiction in the circumstances, all on terms satisfactory to each of the parties hereto, acting reasonably; and
- (k) this Agreement shall not have been terminated in accordance with Section 7.2.

5.2 Conditions to Obligations of Canada Coal

The obligation of Canada Coal to consummate the transactions contemplated herein is subject to the satisfaction, on or before the Closing Date, of the following conditions:

- (a) each of the acts and undertakings of Mercury to be performed on or before the Closing Date pursuant to the terms of this Agreement shall have been duly performed by Mercury;
- (b) no material adverse change in the business, affairs, assets or operations of Mercury shall have occurred between the date hereof and the Closing Date;
- (c) except as affected by the transactions contemplated herein, the representations and warranties of Mercury contained in Section 4.1 shall be true in all material respects on the Closing Date with the same effect as though such representations and warranties had been made at and as of such date and Canada Coal shall have received a certificate to that effect, dated the Closing Date, from a senior officer of Mercury acceptable to Canada Coal, to the best of his knowledge, having made reasonable inquiry;
- (d) the covenants of Mercury contained in Sections 3.3 and 3.4 shall have been complied with and Canada Coal shall have received a certificate of an officer of Mercury to such effect, dated the Closing Date, of a senior officer of Mercury;
- (e) Mercury shall have furnished Canada Coal with:
 - (i) certified copies of the resolutions passed by the board of directors of Mercury approving this Agreement and the consummation of the transactions contemplated herein;
 - (ii) certified copies of the Mercury Special Resolution and the resolution approving the Amalco Stock Option Plan as passed by the Mercury Shareholders at the Mercury Meeting;
 - (iii) a bring down certificate of an officer of Mercury confirming that the representations and warranties of Mercury set forth in Section 4.1;
 - (iv) a certificate of the Mercury Registrar and Transfer Agent stating the number of issued and outstanding Mercury Shares;
 - (v) a favourable legal opinion of Garfinkle Biderman LLP, counsel to Mercury, addressed to the Canada Coal Shareholders, Canada Coal and its counsel in form and substance acceptable to counsel to Canada Coal, acting reasonably,
- (f) the holders of not more than 2.5% of the issued and outstanding Mercury Shares shall have exercised, and not withdrawn, their dissent rights with respect to the Amalgamation pursuant to the OBCA;
- (g) since the date of this Agreement, no action, suit or proceeding shall have been taken before or by any Person against Mercury (whether or not purportedly on behalf of Mercury) that would, if successful, have a material adverse effect on Mercury, in the sole discretion of Canada Coal, acting reasonably; and

- (h) all other necessary corporate action shall have been taken by Mercury to permit the consummation of the Amalgamation and the transactions contemplated herein.

The conditions described above are for the exclusive benefit of Canada Coal and may be asserted by Canada Coal regardless of the circumstances, or may be waived by Canada Coal in its sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which Canada Coal may have hereunder or at law.

5.3 Conditions to Obligations of Mercury

The obligation of Mercury to consummate the transactions contemplated herein is subject to the satisfaction, on or before the Closing Date, of the following conditions:

- (a) each of the acts and undertakings of Canada Coal to be performed on or before the Closing Date pursuant to the terms of this Agreement shall have been duly performed by Canada Coal;
- (b) no material adverse change in the business, affairs, assets financial condition or operations of Canada Coal shall have occurred between the date hereof and the Closing Date;
- (c) except as affected by the transactions contemplated herein, the representations and warranties of Canada Coal contained in Section 4.2 shall be true in all material respects on the Closing Date with the same effect as though such representations and warranties had been made at and as of such time, and Mercury shall have received a certificate to such effect, dated the Closing Date, from a senior officer of Canada Coal, acceptable to Mercury, to the best of his knowledge having made reasonable inquiry;
- (d) the covenants of Canada Coal contained in Sections 3.1 and 3.2 shall have been complied with, and Mercury shall have received a certificate to such effect, dated the Closing Date, of a senior officer of Canada Coal;
- (e) Canada Coal shall have furnished Mercury with:
 - (i) certified copies of the resolutions passed by the board of directors of Canada Coal approving this Agreement and the consummation of the transactions contemplated herein;
 - (ii) a certified copy of the Canada Coal Special Resolution and the resolution approving the Amalco Stock Option Plan as passed by the Canada Coal Shareholders;
 - (iii) a bring down certificate of an officer of Canada Coal confirming that the representations and warranties of Canada Coal set forth in Section 4.2;
 - (iv) a certificate of an officer of Canada Coal stating the number of issued and outstanding Canada Coal Shares;

- (v) a favourable legal opinion of Aird & Berlis LLP, counsel to Canada Coal, addressed to the Mercury Shareholders, Mercury and its counsel in form and substance acceptable to counsel Mercury, acting reasonably;
- (f) holders of not more than 2.5% of the issued and outstanding Canada Coal Shares shall have exercised, and not withdrawn, their dissent rights with respect to the Amalgamation pursuant to the OBCA;
- (g) since the date of this Agreement, no action, suit or proceeding shall have been taken before or by any Person against Canada Coal (whether or not purportedly on behalf of Canada Coal) that would, if successful, have a material adverse effect on Canada Coal, in the sole discretion of Mercury, acting reasonably; and
- (h) all other necessary corporate action shall have been taken by Canada Coal to permit the consummation of the Amalgamation and the transactions contemplated herein, including the Private Placement.

The conditions described above are for the exclusive benefit of Mercury and may be asserted by Mercury regardless of the circumstances, or may be waived by Mercury in its sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which Mercury may have hereunder or at law.

5.4 Merger of Conditions

The conditions set out in Sections 5.1, 5.2 and 5.3 shall be conclusively deemed to have been satisfied, waived or released on the filing of Articles of Amalgamation with the Director and such other documents as are required to be filed under the OBCA for acceptance by the Director to give effect to the Amalgamation, and the issuance by the Director of a Certificate of Amalgamation.

5.5 Closing Matters

The completion of the transactions contemplated under this Agreement shall be closed at the offices of Aird & Berlis LLP, BCE Place, Suite 1800, 181 Bay Street, Toronto, Ontario, M5J 2T9, at 10:00 a.m. (Toronto Time) (the “**Time of Closing**”) on the Closing Date.

ARTICLE 6 NOTICES

6.1 Notices

All notices, requests and demands hereunder, which may or are required to be given pursuant to any provision of this Agreement, shall be given or made in writing and shall be delivered by courier, mailed by first-class mail, registered or certified mail, return receipt requested, postage prepaid or transmitted by fax or by email as follows:

- (a) to Mercury, addressed to:

Mercury Capital Limited
1 Adelaide Street East, Suite 801
Toronto, Ontario
M5C 2V9

Attention: Alexander C. Logie
Fax: (416) 869-0547
Email: logie@candlebrookcapital.com

with a copy (which shall not constitute notice to Mercury) to:

Garfinkle Biderman LLP
1 Adelaide Street East, Suite 801
Toronto, Ontario
M5C 2V9

Attention: Robbie Grossman
Fax: (416) 869-0547
Email: rgrossman@GARFINKLE.com

(b) to Canada Coal, addressed to:

Canada Coal Inc.
BCE Place, Suite 1800
181 Bay Street
Toronto, Ontario
M5J 2T9

Attention: R. Bruce Duncan
Fax: (905) 813-1985
Email: rbduncan@sympatico.ca

with a copy (which shall not constitute notice to Canada Coal) to:

Aird & Berlis LLP
BCE Place, Suite 1800
181 Bay Street
Toronto, Ontario
M5J 2T9

Attention: Thomas A. Fenton
Fax: (416) 863-1515
Email: tdenton@airdberlis.com

or to such other addresses and fax numbers as the parties may, from time to time, advise to the other parties hereto by notice in writing. All notices, requests and demands hereunder shall be

deemed to have been received, if delivered by courier or mail on the date of delivery and if sent by fax, on the next Business Day after the telecopy was sent.

ARTICLE 7 AMENDMENT AND TERMINATION OF AGREEMENT

7.1 Amendment

This Agreement may, at any time and from time to time before or after the holding of the Mercury Meeting and the Canada Coal Meeting, be amended by written agreement of the parties hereto without, subject to applicable law, further notice to or authorization on the part of their respective shareholders and any such amendment may, without limitation:

- (a) change the time for performance of any of the obligations or acts of the parties hereto;
- (b) waive any inaccuracies or modify any representation or warranty contained herein or in any document delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the parties hereto; or
- (d) waive compliance with or modify any other conditions precedent contained herein;

provided that no such amendment shall change the provisions hereof regarding the consideration to be received by securityholders of Mercury and securityholders of Canada Coal without approval by such securityholders of Mercury and Canada Coal given in the same manner as required for the approval of the Amalgamation.

7.2 Rights of Termination

If any of the conditions contained in Article 5 shall not be fulfilled or performed by April 30, 2012 (the "**Termination Date**") and such condition is contained in:

- (a) Section 5.1, any of the parties hereto may terminate this Agreement by notice to the other party;
- (b) Section 5.2, Canada Coal may terminate this Agreement by notice to Mercury; or
- (c) Section 5.3, Mercury may terminate this Agreement by notice to Canada Coal.

If this Agreement is terminated as aforesaid, the party terminating this Agreement shall be released from all obligations under this Agreement, all rights of specific performance against such party shall terminate and, unless such party can show that the condition the non-performance of which has caused such party to terminate this Agreement was reasonably capable of being performed by the other party, then the other party shall also be released from all obligations hereunder; and further provided that any of such conditions may be waived in full or

in part by either of the parties without prejudice to its rights of termination in the event of the non-fulfillment or non-performance of any other condition,

7.3 Notice of Unfulfilled Conditions

If Mercury or Canada Coal shall determine at any time prior to the Effective Date that it intends to refuse to consummate the Amalgamation or any of the other transactions contemplated hereby because of any unfulfilled or unperformed condition contained in this Agreement on the part of the other of them to be fulfilled or performed, Mercury or Canada Coal, as the case may be, shall so notify the other of them forthwith upon making such determination in order that such other of them shall have the right and opportunity to take such steps, at its own expense, as may be necessary for the purpose of fulfilling or performing such condition within a reasonable period of time, but in no event later than the Termination Date.

7.4 Mutual Termination

This Agreement may, at any time before or after the holding of the Mercury Meeting or the Canada Coal Meeting, but no later than the last Business Day immediately preceding the Effective Date, be terminated by mutual agreement of the directors of Mercury and Canada Coal without further action on the part of the Mercury Shareholders or the Canada Coal Shareholders, and, if the Amalgamation does not become effective on or before the Termination Date, either Mercury or Canada Coal may unilaterally terminate this Agreement, which termination will be effective upon a resolution to that effect being passed by its directors and notice thereof being given to the other of them.

ARTICLE 8 GENERAL

8.1 Stand Still Agreement

As long as this Agreement is in effect and except as contemplated herein, neither Mercury nor Canada Coal (including their respective directors, officers and agents) will solicit any discussions, expressions of interest, proposals or accept any offers from any Person relating to a possible merger, amalgamation, arrangement or relating to the sale of substantially all of the shares or assets, or any controlling equity interest of Mercury or Canada Coal (other than as contemplated under this Agreement), as applicable, provided however that the board of directors of Mercury and Canada Coal, as applicable, may take action or refrain from taking action as is appropriate to satisfy applicable fiduciary duties and further provided that Mercury and Canada Coal (including their directors, officers and agents) may solicit and accept offers if the Articles of Amalgamation are not filed with the Director on or before the Termination Date.

8.2 Disclosure of Alternative Transaction

In the event either Canada Coal or Mercury shall receive an unsolicited proposal, offer or expression of interest in connection with any of those matters referred to in Section 8.1 on or before the Termination Date, the recipient of such proposal, offer or expression of interest shall notify the other party and shall provide details of such proposal, offer or expression of interest to the other party.

8.3 Entire Agreement

The terms and provisions herein contained and the schedules hereto constitute the entire agreement between the parties and shall supersede all previous oral or written communications including, without limitation, the letter agreement between the parties dated June 30, 2011.

8.4 Binding Effect

This Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns.

8.5 Investigation

Any investigation by a party hereto and its advisors shall not mitigate, diminish or affect the representations and warranties of the other party of this Agreement.

8.6 Waiver and Modification

Canada Coal and Mercury may waive or consent to the modification of, in whole or in part, any inaccuracy or any representation or warranty made to them hereunder or in any document to be delivered pursuant hereto and may waive or consent to the modification of any of the covenants or agreements herein contained for their respective benefit or waive or consent to the modification of any of the obligations of the other parties hereto. Any waiver or consent to the modification of any of the provisions of this Agreement, to be effective, must be in writing executed by the party granting such waiver or consent.

8.7 No Personal Liability

- (a) No director, officer, employee or agent of Mercury shall have any personal liability whatsoever to Canada Coal under this Agreement or any other document delivered in connection with the Amalgamation on behalf of Mercury.
- (b) No director, officer, employee or agent of Canada Coal shall have any personal liability whatsoever to Mercury under this Agreement or any other document delivered in connection with the Amalgamation on behalf of Canada Coal.

8.8 Third Party Beneficiaries

Nothing in this Agreement, express or implied, shall be construed to create any third party beneficiaries.

8.9 Assignment

No party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of the other party hereto.

8.10 Public Disclosure

The parties agree to consult with each other before making any public disclosure or announcement of or pertaining to this Agreement, and that any such disclosure or announcement shall be mutually satisfactory to all parties; provided, however, this Section shall not apply in the event any party hereto is advised by its counsel that certain disclosures or announcements, which the other parties after reasonable notice will not consent to, are required to be made by applicable laws, stock exchange rules or policies of regulatory authorities having jurisdiction.

8.11 Expenses

Whether or not the Amalgamation is completed, Mercury and Canada Coal shall each pay for their respective costs and expenses, including legal and account costs, incurred in connection with the Amalgamation.

8.12 Time of Essence

Time shall be of the essence of this Agreement.

8.13 Governing Law

The laws of the Province of Ontario and the federal laws of Canada applicable therein will govern all matters arising under this Agreement, and the parties hereto irrevocably atom to the jurisdiction of the courts of the Province of Ontario.

8.14 Severability

If any provisions contained in this Agreement shall be declared invalid, illegal or unenforceable by a court or other lawful authority of competent jurisdiction, this Agreement shall continue in force with respect to the enforceable provisions and all rights and remedies accrued under the enforceable provisions shall survive any such declaration, and any non-enforceable provision shall to the extent permitted by law be replaced by a provision which, being valid, comes closest to the intention underlying the invalid, illegal and unenforceable provision.

8.15 Confidentiality

Each of Canada Coal and Mercury will provide such information as to its financial condition, business, properties, title, assets and affairs (including any material contracts) as may reasonably be requested by the other party. Such information which:

- (a) has not become generally available to the public; or
- (b) was not available to a party or its representatives on a non-confidential basis before the date of this letter; or
- (c) does not become available to a party or its representatives on a non-confidential basis from a person who is not, to the knowledge of the party or its representatives, otherwise bound by confidentiality obligations to the provider of

such information or otherwise prohibited from transmitting the information to the party or its representatives;

will be kept confidential by each party and shall constitute confidential information (the “**Confidential Information**”). No Confidential Information may be released to third parties without the consent of the provider thereof, except that the parties hereto agree that they will not unreasonably withhold such consent to the extent that such Confidential Information is compelled to be released by legal process or must be released to regulatory bodies and/or included in public documents.

8.16 Further Assurances

Each party hereto shall, from time to time, and at all times hereafter, at the request of the other parties hereto, but without further consideration, do all such further acts and execute and deliver all such further documents and instruments as shall be reasonably required in order to fully perform and carry out the terms and intent hereof.

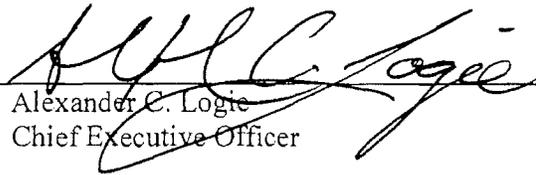
8.17 Counterparts and Facsimile Copies

This Agreement may be executed in separate counterparts, and all such counterparts when taken together shall constitute one agreement. The parties shall be entitled to rely on delivery of a facsimile copy of the executed Agreement and such facsimile copy shall be legally effective to create a valid and binding Agreement.

[The Remainder of this page has been left intentionally blank]

THE PARTIES HAVE EXECUTED this Agreement as of the date first above written.

MERCURY CAPITAL LIMITED

Per: 
Alexander C. Logie
Chief Executive Officer

CANADA COAL INC.

Per: 
R. Bruce Duncan
President & Chief Executive Officer

(Signature page to Amalgamation Agreement)

Schedule "A"

Draft Articles of Amendment

5. Method of amalgamation, check A or B
 Méthode choisie pour la fusion – Cocher A ou B :

A - Amalgamation Agreement / Convention de fusion :



The amalgamation agreement has been duly adopted by the shareholders of each of the amalgamating corporations as required by subsection 176 (4) of the *Business Corporations Act* on the date set out below.
 Les actionnaires de chaque société qui fusionne ont dûment adopté la convention de fusion conformément au paragraphe 176(4) de la *Loi sur les sociétés par actions* à la date mentionnée ci-dessous.

or
ou

B - Amalgamation of a holding corporation and one or more of its subsidiaries or amalgamation of subsidiaries / Fusion d'une société mère avec une ou plusieurs de ses filiales ou fusion de filiales :



The amalgamation has been approved by the directors of each amalgamating corporation by a resolution as required by section 177 of the *Business Corporations Act* on the date set out below.

Les administrateurs de chaque société qui fusionne ont approuvé la fusion par voie de résolution conformément à l'article 177 de la *Loi sur les sociétés par actions* à la date mentionnée ci-dessous.

The articles of amalgamation in substance contain the provisions of the articles of incorporation of
 Les statuts de fusion reprennent essentiellement les dispositions des statuts constitutifs de

and are more particularly set out in these articles.
 et sont énoncés textuellement aux présents statuts.

Names of amalgamating corporations Dénomination sociale des sociétés qui fusionnent	Ontario Corporation Number Numéro de la société en Ontario	Date of Adoption/Approval Date d'adoption ou d'approbation		
		Year année	Month mois	Day jour
CANADA COAL INC.	2254954			
MERCURY CAPITAL LIMITED	2251395			

6. Restrictions, if any, on business the corporation may carry on or on powers the corporation may exercise.
Limites, s'il y a lieu, imposées aux activités commerciales ou aux pouvoirs de la société.

The Corporation is not restricted by these articles of incorporation from carrying on any business or businesses or from exercising any power or powers.

7. The classes and any maximum number of shares that the corporation is authorized to issue:
Catégories et nombre maximal, s'il y a lieu, d'actions que la société est autorisée à émettre :

The Corporation is authorized to issue an unlimited number of shares without nominal or par value of a class designated as common shares (hereinafter called the "Common Shares").

8. Rights, privileges, restrictions and conditions (if any) attaching to each class of shares and directors authority with respect to any class of shares which may be issued in series:

Droits, privilèges, restrictions et conditions, s'il y a lieu, rattachés à chaque catégorie d'actions et pouvoirs des administrateurs relatifs à chaque catégorie d'actions qui peut être émise en série :

The rights of the holders of the Common Shares include the following rights:

- (a) to vote at all meetings of shareholders;
- (b) subject to applicable law, to receive dividends in such amounts that the directors may at any time, or from time to time, determine; and
- (c) to receive the remaining property of the Corporation upon dissolution.

9. The issue, transfer or ownership of shares is/is not restricted and the restrictions (if any) are as follows:
L'émission, le transfert ou la propriété d'actions est/n'est pas restreint. Les restrictions, s'il y a lieu, sont les suivantes :

The transfer of shares shall not be subject to any restrictions.

10. Other provisions, (if any):
Autres dispositions, s'il y a lieu :

None

11. The statements required by subsection 178(2) of the *Business Corporations Act* are attached as Schedule "A".
Les déclarations exigées aux termes du paragraphe 178(2) de la *Loi sur les sociétés par actions* constituent l'annexe A.
12. A copy of the amalgamation agreement or directors' resolutions (as the case may be) is/are attached as Schedule "B".
Une copie de la convention de fusion ou les résolutions des administrateurs (selon le cas) constitue(nt) l'annexe B.

These articles are signed in duplicate.
Les présents statuts sont signés en double exemplaire.

Name and **original signature** of a director or authorized signing officer of each of the amalgamating corporations. Include the name of each corporation, the signatories name and description of office (e.g. president, secretary). **Only a director or authorized signing officer can sign on behalf of the corporation.** / Nom et **signature originale** d'un administrateur ou d'un signataire autorisé de chaque société qui fusionne. Indiquer la dénomination sociale de chaque société, le nom du signataire et sa fonction (p. ex. : président, secrétaire). **Seul un administrateur ou un dirigeant habilité peut signer au nom de la société.**

CANADA COAL INC.

Names of Corporations / Dénomination sociale des sociétés

By / Par

Robert Bruce Duncan

Chief Executive Officer

Signature / Signature

Print name of signatory /
Nom du signataire en lettres moulées

Description of Office / Fonction

MERCURY CAPITAL LIMITED

Names of Corporations / Dénomination sociale des sociétés

By / Par

Alexander Logie

Chief Executive Officer

Signature / Signature

Print name of signatory /
Nom du signataire en lettres moulées

Description of Office / Fonction

Names of Corporations / Dénomination sociale des sociétés

By / Par

Signature / Signature

Print name of signatory /
Nom du signataire en lettres moulées

Description of Office / Fonction

Names of Corporations / Dénomination sociale des sociétés

By / Par

Signature / Signature

Print name of signatory /
Nom du signataire en lettres moulées

Description of Office / Fonction

Names of Corporations / Dénomination sociale des sociétés

By / Par

Signature / Signature

Print name of signatory /
Nom du signataire en lettres moulées

Description of Office / Fonction

4. The director(s) is/are:
Administrateur(s) :

First name, middle names and surname <i>Prénom, autres prénoms et nom de famille</i>	Address for services, giving street & No. or R.R. No., Municipality, Province, Country and Postal code. <i>Domicile élu, y compris la rue et le numéro ou le numéro de la R.R., le nom de la municipalité, la province, le pays et le code postal</i>	Resident Canadian State 'Yes' or 'No' <i>Résident canadien Oui/Non</i>
R. Stuart Angus	181 Bay Street, Suite 1800, Toronto, Ontario, Canada, M5J 2T9	Yes
Abraham Jonker	181 Bay Street, Suite 1800, Toronto, Ontario, Canada, M5J 2T9	Yes
Edward R. Klue	181 Bay Street, Suite 1800, Toronto, Ontario, Canada, M5J 2T9	Yes

Schedule "B"

Properties

LIC#	NTS Sheet	Quarter	Owner	Application Date	Status	Acre	End of 1st Term	End of 2nd Term	Expiry Date
101	049G16	NW	Canadian Sovereign Coal Corp	2008-06-05	Active	33610.42	6/5/2012	6/5/2013	6/5/2014
102	049G16	SW	Canadian Sovereign Coal Corp	2008-06-05	Active	34023.23	6/5/2012	6/5/2013	6/5/2014
103	049G16	SE	Canadian Sovereign Coal Corp	2008-06-05	Active	34024.04	6/5/2012	6/5/2013	6/5/2014
104	049G16	NE	Canadian Sovereign Coal Corp	2008-06-05	Active	33611.2	6/5/2012	6/5/2013	6/5/2014
105	049D05	SW	Canadian Sovereign Coal Corp	2008-06-05	Active	39395.39	6/5/2012	6/5/2013	6/5/2014
106	049E11	SE	Canadian Sovereign Coal Corp	2008-06-05	Active	31021.56	6/5/2012	6/5/2013	6/5/2014
107	049E11	NE	Canadian Sovereign Coal Corp	2008-06-05	Active	32356.27	6/5/2012	6/5/2013	6/5/2014
108	049E14	SE	Canadian Sovereign Coal Corp	2008-06-05	Active	29580.11	6/5/2012	6/5/2013	6/5/2014
109	049G09	NW	5200 Nunavut Limited	2008-06-06	Active	34435.89	6/6/2011	6/6/2012	6/6/2013
110	049G10	NE	5200 Nunavut Limited	2008-06-06	Active	24074.64	6/6/2011	6/6/2012	6/6/2013
111	049G15	SE	5200 Nunavut Limited	2008-06-06	Active	34022.45	6/6/2011	6/6/2012	6/6/2013
112	049G08	SW	5200 Nunavut Limited	2008-06-06	Active	4212.24	6/6/2011	6/6/2012	6/6/2013
113	049G07	SE	5200 Nunavut Limited	2008-06-06	Active	35107.95	6/6/2011	6/6/2012	6/6/2013
114	049G07	NE	5200 Nunavut Limited	2008-06-06	Active	14004.16	6/6/2011	6/6/2012	6/6/2013
115	049G02	NE	5200 Nunavut Limited	2008-06-06	Active	11898.06	6/6/2011	6/6/2012	6/6/2013
122	049H12	SW	Canadian Sovereign Coal Corp	2009-03-16	Active	34849.25	3/16/2012	3/16/2013	3/16/2014
123	049H12	NW	Canadian Sovereign Coal Corp	2009-03-16	Active	34436.73	3/16/2012	3/16/2013	3/16/2014
124	049G08	NW	Canadian Sovereign Coal Corp	2009-03-16	Active	10440.3	3/16/2012	3/16/2013	3/16/2014
125	049G08	NE	Canadian Sovereign Coal Corp	2009-03-16	Active	34732.03	3/16/2012	3/16/2013	3/16/2014
126	340B03	SE	Canadian Sovereign Coal Corp	2009-03-16	Active	66393.13	3/16/2012	3/16/2013	3/16/2014

LIC#	NTS Sheet	Quarter	Owner	Application Date	Status	Acre	End of 1st Term	End of 2nd Term	Expiry Date
127	049H13	NW	Canadian Sovereign Coal Corp	2009-03-16	Active	33611.19	3/16/2012	3/16/2013	3/16/2014
128	049H13	SW	Canadian Sovereign Coal Corp	2009-03-16	Active	34024.04	3/16/2012	3/16/2013	3/16/2014
130	049G09	SE	Canadian Sovereign Coal Corp	2009-03-16	Active	34849.25	3/16/2012	3/16/2013	3/16/2014
131	049G09	NE	Canadian Sovereign Coal Corp	2009-03-16	Active	34436.73	3/16/2012	3/16/2013	3/16/2014
146	039H03	NW	5200 Nunavut Limited	2011-05-30	Pending	25040.55	5/30/2012	5/30/2013	5/30/2014
147	039H03	SW	5200 Nunavut Limited	2011-05-30	Pending	29844.6	5/30/2012	5/30/2013	5/30/2014
148	039H03	SE	5200 Nunavut Limited	2011-05-30	Pending	2488.05	5/30/2012	5/30/2013	5/30/2014
149	039H03	NE	5200 Nunavut Limited	2011-05-30	Pending	700.61	5/30/2012	5/30/2013	5/30/2014
150	039H04	NW	5200 Nunavut Limited	2011-05-30	Pending	27142.87	5/30/2012	5/30/2013	5/30/2014
151	039H04	SW	5200 Nunavut Limited	2011-05-30	Pending	10066.76	5/30/2012	5/30/2013	5/30/2014
152	039H04	SE	5200 Nunavut Limited	2011-05-30	Pending	23961.02	5/30/2012	5/30/2013	5/30/2014
153	039H04	NE	5200 Nunavut Limited	2011-05-30	Pending	33456.87	5/30/2012	5/30/2013	5/30/2014
154	049D05	NW	5200 Nunavut Limited	2011-05-30	Pending	16080.63	5/30/2012	5/30/2013	5/30/2014
155	049D05	SE	5200 Nunavut Limited	2011-05-30	Pending	41720	5/30/2012	5/30/2013	5/30/2014
156	049D05	NE	5200 Nunavut Limited	2011-05-30	Pending	41717.42	5/30/2012	5/30/2013	5/30/2014
157	049C07	NW	5200 Nunavut Limited	2011-05-30	Pending	29667.97	5/30/2012	5/30/2013	5/30/2014
158	049C07	SW	5200 Nunavut Limited	2011-05-30	Pending	37872.26	5/30/2012	5/30/2013	5/30/2014
159	049C07	SE	5200 Nunavut Limited	2011-05-30	Pending	42239.55	5/30/2012	5/30/2013	5/30/2014
160	340B02	NW	5200 Nunavut Limited	2011-05-30	Pending	32353.88	5/30/2012	5/30/2013	5/30/2014
161	340B02	SW	5200 Nunavut Limited	2011-05-30	Pending	60885.45	5/30/2012	5/30/2013	5/30/2014
162	340B03	NE	5200 Nunavut Limited	2011-05-30	Pending	65566.79	5/30/2012	5/30/2013	5/30/2014
163	049C08	SW	5200 Nunavut Limited	2011-05-30	Pending	29884.28	5/30/2012	5/30/2013	5/30/2014
164	049C08	SE	5200 Nunavut Limited	2011-05-30	Pending	41641.18	5/30/2012	5/30/2013	5/30/2014
165	049C08	NE	5200 Nunavut Limited	2011-05-30	Pending	6124.39	5/30/2012	5/30/2013	5/30/2014
166	049G08	SE	5200 Nunavut Limited	2011-05-30	Pending	29712.38	5/30/2012	5/30/2013	5/30/2014
167	049G10	NW	5200 Nunavut Limited	2011-07-27	Pending	10947.01	7/27/2012	7/27/2013	7/27/2014

LIC#	NTS Sheet	Quarter	Owner	Application Date	Status	Acre	End of 1st Term	End of 2nd Term	Expiry Date
168	049G15	NE	5200 Nunavut Limited	2011-07-27	Pending	29856.22	7/27/2012	7/27/2013	7/27/2014
169	049H04	NW	5200 Nunavut Limited	2011-07-27	Pending	33772.73	7/27/2012	7/27/2013	7/27/2014
170	049H04	SW	5200 Nunavut Limited	2011-07-27	Pending	22583.4	7/27/2012	7/27/2013	7/27/2014
171	049H04	SE	5200 Nunavut Limited	2011-07-27	Pending	34571.19	7/27/2012	7/27/2013	7/27/2014
172	049H04	NE	5200 Nunavut Limited	2011-07-27	Pending	36084.76	7/27/2012	7/27/2013	7/27/2014
173	049H03	NW	5200 Nunavut Limited	2011-07-27	Pending	36083.99	7/27/2012	7/27/2013	7/27/2014
174	049H03	SW	5200 Nunavut Limited	2011-07-27	Pending	36495.73	7/27/2012	7/27/2013	7/27/2014
175	049E13	NW	5200 Nunavut Limited	2011-07-27	Pending	15614.38	7/27/2012	7/27/2013	7/27/2014
176	049E13	NE	5200 Nunavut Limited	2011-07-27	Pending	18310.02	7/27/2012	7/27/2013	7/27/2014
177	059E12	SW	5200 Nunavut Limited	2011-07-27	Pending	31055.28	7/27/2012	7/27/2013	7/27/2014
178	059E05	NW	5200 Nunavut Limited	2011-07-27	Pending	38550.87	7/27/2012	7/27/2013	7/27/2014
179	560A04	SW	5200 Nunavut Limited	2011-07-27	Pending	24471.46	7/27/2012	7/27/2013	7/27/2014
180	049G05	NW	5200 Nunavut Limited	2011-07-27	Pending	35259.06	7/27/2012	7/27/2013	7/27/2014
181	049G12	NW	5200 Nunavut Limited	2011-07-27	Pending	34434.38	7/27/2012	7/27/2013	7/27/2014
182	049G12	SW	5200 Nunavut Limited	2011-07-27	Pending	34846.81	7/27/2012	7/27/2013	7/27/2014
183	059H09	SE	5200 Nunavut Limited	2011-07-27	Pending	34847.16	7/27/2012	7/27/2013	7/27/2014
184	059H09	NE	5200 Nunavut Limited	2011-07-27	Pending	34434.72	7/27/2012	7/27/2013	7/27/2014
185	049G13	NW	5200 Nunavut Limited	2011-07-27	Pending	33609	7/27/2012	7/27/2013	7/27/2014
186	049G13	SW	5200 Nunavut Limited	2011-07-27	Pending	34021.78	7/27/2012	7/27/2013	7/27/2014
187	059H16	NW	5200 Nunavut Limited	2011-07-27	Pending	33609.78	7/27/2012	7/27/2013	7/27/2014
188	059H16	SW	5200 Nunavut Limited	2011-07-27	Pending	34022.59	7/27/2012	7/27/2013	7/27/2014
189	059H16	SE	5200 Nunavut Limited	2011-07-27	Pending	34022.1	7/27/2012	7/27/2013	7/27/2014
190	059H16	NE	5200 Nunavut Limited	2011-07-27	Pending	33609.31	7/27/2012	7/27/2013	7/27/2014
191	059H15	NE	5200 Nunavut Limited	2011-07-27	Pending	33610.4	7/27/2012	7/27/2013	7/27/2014
192	560A01	NW	5200 Nunavut Limited	2011-07-27	Pending	62604.83	7/27/2012	7/27/2013	7/27/2014
193	560A01	SW	5200 Nunavut Limited	2011-07-27	Pending	66492.86	7/27/2012	7/27/2013	7/27/2014
194	560A01	SE	5200 Nunavut Limited	2011-07-27	Pending	61364.99	7/27/2012	7/27/2013	7/27/2014
195	560A07	NE	5200 Nunavut Limited	2011-07-27	Pending	63913.11	7/27/2012	7/27/2013	7/27/2014

LIC#	NTS Sheet	Quarter	Owner	Application Date	Status	Acre	End of 1st Term	End of 2nd Term	Expiry Date
196	560A10	SE	5200 Nunavut Limited	2011-07-27	Pending	38209.22	7/27/2012	7/27/2013	7/27/2014

SCHEDULE "F"
FINANCIAL STATEMENTS FOR MERCURY

See attached.

Mercury Capital Limited
(A Capital Pool Company)

Condensed Interim Financial Statements

(Expressed in Canadian Dollars)

(unaudited)

**For the Three and Nine Months Ended
September 30, 2011**

Management's Responsibility for Interim Financial Statements

The accompanying unaudited condensed interim financial statements of Mercury Capital Limited. (the "Company" or "Mercury") are the responsibility of management.

The unaudited condensed interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the unaudited condensed interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34-Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited condensed interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited condensed interim consolidated financial statements and (ii) the unaudited condensed interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Mercury Capital Limited
(A Capital Pool Company)
Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars)
As at
(unaudited)

	September 30, 2011	December 31, 2010 (Note 10)	July 22, 2010 (Note 10)
Assets			
Current			
Cash (Note 3)	\$ 395,112	\$ 73,956	\$ -
Other receivables	9,849	3,620	-
	404,961	77,576	-
Deferred share issuance costs	-	60,810	-
	\$ 404,961	\$ 138,386	\$ -
Liabilities			
Current			
Accounts payable and accrued liabilities	\$ 7,108	\$ 45,186	\$ -
Shareholders' Equity			
Capital stock (Note 4)	406,921	100,000	-
Contributed surplus	67,670	-	-
Deficit	(76,738)	(6,800)	-
	397,853	93,200	-
	\$ 404,961	\$ 138,386	\$ -

Nature of Operations (Note 1)

Subsequent Events (Note 11)

Mercury Capital Limited
(A Capital Pool Company)
Condensed Interim Statement of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
(unaudited)

	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010
		(Note 10)		(Note 10)
Expenses				
Accounting fees	\$ 10,475	\$ -	\$ 3,841	\$ -
Legal fees	12,213	-	3,133	-
Listing fees	723	-	-	-
Stock based compensation (Note 5)	46,527	-	-	-
Net loss for the period	\$ (69,938)	\$ -	\$ (6,974)	\$ -
Loss per share, basic and diluted (Note 6)	\$ (0.04)	\$ -	\$ -	\$ -

Mercury Capital Limited
(A Capital Pool Company)
Condensed Interim Statements of Changes in Equity
(Expressed in Canadian Dollars)
For the Nine Months Ending
(unaudited)

	Share Capital		Contributed			
	Shares	Amount	Surplus	Deficit	Total	
Balance, July 22, 2010						
Issuance of common shares	1,000,000	\$ 100,000	\$ -	\$ -	\$ 100,000	
Net loss and comprehensive loss for the year	-	-	-	-	-	
Balance, September 30, 2010	1,000,000	100,000	-	-	100,000	
Net loss and comprehensive loss for the period	-	-	-	(6,800)	(6,800)	
Balance, December 31, 2010	1,000,000	100,000	-	(6,800)	93,200	
Issuance of common shares	2,349,750	306,921	21,143	-	328,064	
Stock based compensation	-	-	46,527	-	46,527	
Net loss and comprehensive loss for the period	-	-	-	(69,938)	(69,938)	
	-	-	-	-	-	
	-	-	-	-	-	
	-	-	-	-	-	
Balance, September 30, 2011	3,349,750	\$ 406,921	\$ 67,670	\$ (76,738)	\$ 397,853	

Mercury Capital Limited
(A Capital Pool Company)
Condensed Interim Statement of Cash Flows
(Expressed in Canadian Dollars)
(unaudited)

**For the Nine
Months Ended
September 30,
2011**

Cash provided by (used in)

Operations

Loss	\$ (69,938)
Items not affecting cash	
Stock based compensation	46,527

(23,411)

Net changes in non-cash working capital	
Accounts payable and accrued liabilities	(38,078)
Other receivables	(6,229)

(67,718)

Financing

Issuance of common shares (Note 4)	388,874
------------------------------------	---------

Net change in cash **321,156**

Cash, beginning of period **73,956**

Cash, end of period **\$ 395,112**

Mercury Capital Limited
(A Capital Pool Company)
Notes to Condensed Interim Financial Statements
(Expressed in Canadian Dollars)
September 30, 2011
(unaudited)

1. NATURE OF OPERATIONS

Mercury Capital Limited (the "Company") is a Capital Pool Company pursuant to Policy 2.4 of the TSX Venture Exchange (the "Exchange") that has not commenced commercial operations and has no assets other than a minimum amount of cash. The Company will not carry on any business other than the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction (as such term is defined under the policies of the Exchange). The Company was incorporated as a private company by Certificate of Incorporation issued pursuant to the provisions of the Business Corporation Act (Ontario) on July 22, 2010 and maintains its head office at 1 Adelaide Street East, Suite 801, Toronto, Ontario, M5C 2V9.

The Company's financial year ends on December 31.

There is no assurance that the Company will identify a business or asset that warrants acquisition or participation within the time limitations permissible under the policies of the Exchange, in which event the Exchange may suspend or delist the Company's shares from trading.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed interim financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the unaudited condensed interim financial statements for the three months ended March 31, 2011, as they follow the same accounting policies and methods of application, unless otherwise indicated.

These unaudited condensed interim financial statements have been prepared on the basis of IFRS standards that are expected to be effective or available for early adoption by the Company on December 31, 2011, the Company's first annual reporting date under IFRS. The Company has made certain assumptions about the accounting policies expected to be adopted when the first IFRS annual financial statements are prepared for the year ended December 31, 2011.

Basis of presentation

These unaudited condensed interim financial statements have been prepared on the historical cost basis.

Functional and Presentation Currency

These unaudited condensed interim financial statements have been prepared in Canadian dollars, which is the Company's functional and presentation currency.

Mercury Capital Limited
(A Capital Pool Company)
Notes to Condensed Interim Financial Statements
(Expressed in Canadian Dollars)
September 30, 2011
(unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash

Cash includes cash on hand with a Canadian chartered bank and funds held in trust with the Company's corporate counsel.

Share Capital

The Company records in share capital proceeds from share issuance, net of issuance costs and any tax effect. The fair value of common shares issued is based on the trading price of those shares on the TSX.V on the date of the agreement to issue shares as determined by the Board of Directors. Stock options and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. Proceeds from unit placements are allocated between shares and warrants issued according to the residual method.

Stock Based Compensation

The Company accounts for stock based compensation granted to directors and third parties using the fair value method of accounting. Accordingly, the fair value of the options is determined using the Black Scholes option pricing model, and stock based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight line basis over the vesting periods. The amount recognized as an expense is adjusted to reflect the actual number of stock options for which the related service and non-market vesting conditions are met. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital.

Loss Per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recorded in the financial statements if realization is considered probable.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Deferred Share Issuance Costs

These costs relate directly to the proposed issuance of shares by the Company pursuant to the initial public offering described in Note 4. Upon completion of the initial public offering, the costs were charged against capital stock.

Use of Estimates

The preparation of financial statements in conformity with IFRS principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from those estimates. Significant estimates made include valuation of stock based compensation and warrants.

Financial Instruments

All financial instruments are measured based on the classification adopted for the financial instrument: fair value through profit and loss ("FVTPL"), held to maturity, loans and receivables, available for sale or other liability.

Financial Assets

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL which are initially measured at fair value.

Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. Other financial liabilities:

Other financial liabilities including borrowings are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

Mercury Capital Limited
(A Capital Pool Company)
Notes to Condensed Interim Financial Statements
 (Expressed in Canadian Dollars)
September 30, 2011
 (unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	FVTPL
Other receivables	Loans and receivables
Accounts payable and accrued liabilities	Other
liabilities	financial

The Company's financial instruments measured at fair value on the balance sheet consist of cash. Cash is measured at level 1 of the fair value hierarchy. There are three levels of the fair value hierarchy as follows:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after December 31, 2010 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

- (a) IFRS 9 Financial instruments ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.
- (b) IFRS 10 'Consolidated Financial Statements' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Mercury Capital Limited
(A Capital Pool Company)
Notes to Condensed Interim Financial Statements
(Expressed in Canadian Dollars)
September 30, 2011
(unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Recent Accounting Pronouncements (Cont'd)

- (c) IFRS 11 Joint arrangements ("IFRS 11") was issued by the IASB in May 2011 and will replace IAS 31 Interests in Joint ventures and SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.
- (d) IFRS 12 'Disclosure of Interests in Other Entities' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- (e) IFRS 13 'Fair Value Measurement' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

3. CASH RESTRICTION

The proceeds raised from the issuance of common shares may only be used to identify and evaluate assets or businesses for future investment, with the exception that not more than the lesser of 30% of the gross proceeds from the issuance of shares or \$210,000 may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until Completion of a Qualifying Transaction by the Company as defined under the policies of the Exchange.

4. CAPITAL STOCK

	September 30, 2011	December 31, 2010
Authorized unlimited common shares		
Issued		
1,000,000 common shares ^(a)	\$ 100,000	\$ 100,000
1,599,750 common shares ^(b)	182,607	-
750,000 common shares ^(c)	124,314	-
	\$ 406,921	\$ 100,000

Mercury Capital Limited
(A Capital Pool Company)
Notes to Condensed Interim Financial Statements
(Expressed in Canadian Dollars)
September 30, 2011
(unaudited)

4. CAPITAL STOCK (Cont'd)

- (a) The Company had issued 1,000,000 seed shares which are subject to a CPC Escrow Agreement. Under the CPC Escrow Agreement, 10% of the escrowed common shares will be released from escrow upon completion of a Qualifying Transaction by the Company and an additional 15% will be released on the dates 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release. However, the release of the escrowed shares will be accelerated if the Company meets the Exchange Tier 1 initial listing requirements.

The seed common shares are considered contingently issuable until the Company completes a Qualifying Transaction and accordingly, they are not considered to be outstanding shares for purposes of loss per share calculations.

- (b) On January 28, 2011, the Company completed its initial public offering by issuing 1,599,750 common shares at a price of \$0.20 per share for a gross proceeds of \$319,950.

Hampton Securities Limited ("Hampton") acted as lead agent for the initial public offering. In connection with the offering, the Company granted Hampton, and its sub-agents, options to acquire 159,975 common shares at a price of \$0.20 per share. The options may be exercised for a period of 24 months from the date of listing of the common shares on the Exchange (see Note 5).

At the closing of the initial public offering, the Company also granted incentive stock options to its six officers and directors to acquire a total of 259,975 common shares. The options may be exercised for a period of ten years at a price of \$0.20 per share (see Note 5).

- (c) On May 4, 2011, the Company completed a private placement by issuing 750,000 common shares at a price of \$0.20 per share for a gross proceeds of \$150,000.

In connection with the offering, the Company granted Hampton warrants to acquire 25,000 common shares at a price of \$0.20 per share. The warrants may be exercised until May 4, 2013 (see Note 5).

5. STOCK OPTIONS AND WARRANTS

(a) Stock Options

The policies of the Exchange and the stock option plan of the Company established by the directors of the Company on September 30, 2010 (the "Stock Option Plan"), provide that the board of directors of the Company may from time to time, in its discretion and in accordance with the Exchange requirements, grant to directors, officers and employees of the Company as well as Management Company Employees and Consultants (as such terms are defined in the Exchange's Corporate Finance Manual Policy 4.4 as amended from time to time), non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the total issued and outstanding common shares of the Company, exercisable for a period of up to ten (10) years from the date of the grant. The number of common shares reserved for issuance to any individual director or officer of the Company will not exceed 5% of the issued and outstanding common shares (2% in the case of all optionees providing investor relations services to the Company and 2% in the case of all technical consultants of the Company).

The exercise price of any option granted pursuant to the Stock Option Plan shall be determined by the board of directors when granted, but shall not be less than the Discounted Market Price (as such term is defined by the Exchange). Notwithstanding the foregoing, until Completion of the Qualifying Transaction the exercise price shall not be less than the greater of \$0.20 and the Discounted Market Price. The options granted pursuant to the Stock Option Plan are non-assignable, except by means of a will or pursuant to the laws of descent and distribution. If the tenure of a director or officer or the employment of an employee of the Company is terminated for cause, no option held by such optionee may be exercised following the date upon which termination occurred. If termination occurs for any reason other than cause, then any option held by such optionee, that has vested, shall be exercisable, in whole or in part, for a period not later than one (1) year thereafter or prior to the expiry date of the option, whichever is sooner, or such shorter period of time as may be determined by the directors when the option is granted.

Notwithstanding anything to the contrary in the Stock Option Plan, any Options granted prior to the issuance of the Final Exchange Bulletin must comply with the CPC Policy, including, without limitation the restriction from granting options prior to the completion of the Qualifying Transaction to optionees providing investor relations services to the Company.

Any common shares acquired pursuant to the exercise of options prior to the completion of the Qualifying Transaction, must be deposited in escrow and will be subject to escrow until the Final Exchange Bulletin is issued.

Mercury Capital Limited
(A Capital Pool Company)
Notes to Condensed Interim Financial Statements
(Expressed in Canadian Dollars)
September 30, 2011
(unaudited)

5. STOCK OPTIONS AND WARRANTS (Cont'd)

The Company issued stock options to acquire common shares as follows:

	Number of Stock Options	Weighted average exercise price
Balance, July 22, 2010 and December 31, 2010	-	\$ -
Granted to Agent ⁽ⁱ⁾	159,975	0.20
Granted to directors and officers ⁽ⁱⁱ⁾	259,975	0.20
Balance, September 30, 2011	419,950	\$ 0.20

- (i) On January 28, 2011, the Company granted 159,975 options to two agents to purchase common shares pursuant to option agreements. The options are exercisable at \$0.20 per share and expire on February 2, 2013. The options vested immediately. The fair value of each option granted has been estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model with the following weighted-average assumptions: (i) dividend yield 0%; (ii) expected volatility of 100% based on analysis of historical trading data of companies similar to the Company; (iii) risk-free interest rate of 1.57%; (iv) expected life of 2 years and (v) share price \$0.20. The fair market value was determined to be \$16,894 and was charged against capital stock for the period. The Company has assumed no forfeiture rate. The weighted average grant date fair value of option is \$0.11. The options were not granted pursuant to the Stock Option Plan.
- (ii) At the closing of the initial public offering, the Company granted 259,975 options to directors and officers to purchase common shares. The options are exercisable at \$0.20 per share and expire on January 28, 2021. The options vested immediately. The fair value of each option granted has been estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model with the following weighted-average assumptions: (i) dividend yield 0%; (ii) expected volatility of 100% based on analysis of historical trading data of companies similar the the Company; (iii) risk-free interest rate of 1.57%; (iv) expected life of 10.0 years; and (v) share price \$0.20. The fair market value was determined to be \$46,527 and was charged against stock based compensation for the period. The Company has assumed no forfeiture rate. The weighted average grant date fair value of option is \$0.18.

Mercury Capital Limited
(A Capital Pool Company)
Notes to Condensed Interim Financial Statements
(Expressed in Canadian Dollars)
September 30, 2011
(unaudited)

5. STOCK OPTIONS AND WARRANTS (Cont'd)

The following table reflects the actual stock options issued and outstanding as of September 30, 2011:

Expiry Date	Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Outstanding	Number of Options Vested (Exercisable)	Number of Options Unvested
February 2, 2013	\$0.20	1.59	159,975	159,975	-
January 28, 2021	\$0.20	9.58	259,975	259,975	-
			419,950	419,950	-

(b) Warrants

On May 4, 2011, the Company granted 25,000 broker warrants to an agent to purchase common shares. The broker warrants are exercisable at \$0.20 per share and expire on May 4, 2013. The broker warrants vested immediately. The fair value of each warrant granted has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: (i) dividend yield 0%; (ii) expected volatility of 100% based on analysis of historical trading data of companies similar to the Company; (iii) risk-free interest rate of 1.66%; (iv) expected life of 2 years; and (v) share price \$0.28. The fair market value was determined to be \$4,249 and was charged against capital stock for the period. The weighted average grant date fair value of the warrant is \$0.17.

The following table reflects the actual warrants issued and outstanding as of September 30, 2011:

Expiry Date	Exercise Price	Weighted Average Remaining Contractual Life	Number of Warrants Outstanding	Number of Warrants Vested (Exercisable)	Number of Warrants Unvested
May 4, 2013	\$0.20	1.83	25,000	25,000	-

6. LOSS PER SHARE

Loss per share for the three and nine months ended September 30, 2011 have been calculated based on the weighted average number of shares outstanding of 2,069,530 and 1,588,463, respectively. Outstanding options were not included in the computation of diluted loss per share as they are anti-dilutive. The 1,000,000 shares issued in fiscal 2010 were contingently issuable and all the conditions necessary for their issuance have not been satisfied as at period end, therefore not included in the above calculations.

7. CAPITAL RISK MANAGEMENT

The Company includes equity, comprised of issued common shares and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The Company is not subject to externally imposed capital requirements other than the cash restriction disclosed in Note 3.

8. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of the business and are measured at the exchange amounts which are the amounts of consideration established and approved by the related parties.

Legal fees, including disbursements, of \$12,251 is included in share capital and has been paid to a law firm in which two directors of the Company are partners.

9. FINANCIAL INSTRUMENTS AND RISK FACTORS

The Company's financial instruments, consisting of cash and accounts payable and accrued liabilities, approximate fair values due to the relatively short term maturities of the instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

As at September 30, 2011, the Company has accounts payable and accrued liabilities of \$7,108 due within 12 months and has cash of \$395,112. As a result the Company has minimal liquidity risk.

10. CONVERSION TO IFRS

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the three and nine months ended September 30, 2011 and in the preparation of an opening IFRS balance sheet at July 22, 2010 (the Company's date of incorporation). No comparative information is presented in these unaudited condensed interim financial statements as the Company was incorporated on July 22, 2010. Accordingly, there are no statements of loss and comprehensive loss, changes in equity and cash flows for the period ended September 30, 2010.

10. CONVERSION TO IFRS (Cont'd)

First-time Adoption of IFRS

The Company did not use the exemptions listed in IFRS 1. As management had anticipated, given the business of the Company as a Capital Pool Company and given the limited number of transactions that the Company has entered into since incorporation, the impact on the adoption of IFRS had no impact on the Company's financial position, financial performance and cash flows. Specifically, the main areas of accounting focus for the Company to date have been, and will continue to be prior to the consummation of a Qualifying Transaction, the issuance of share capital, the recording of share based payments and the recording of cash transactions for which there are very few or no significant differences between IFRS and Canadian GAAP.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

Changes to Accounting Policies

The Company has changed certain accounting policies to be consistent with IFRS as is expected to be effective or available for early adoption on December 31, 2011, the Company's first annual IFRS reporting date. However, these changes to its accounting policies have not resulted in any significant change to the recognition and measurement of assets, liabilities, equity, revenue and expenses within its financial statements.

Presentation

Certain amounts on the unaudited condensed statement of financial position, statement of loss and comprehensive loss and statement of cash flows have been reclassified to conform to the presentation adopted under IFRS.

11. SUBSEQUENT EVENT

On July 7, 2011 the Company announced that it had executed an agreement with Canada Coal Inc. ("Canada Coal") in respect to a proposed business combination to be effected by way of amalgamation of the parties which is expected to constitute the Company's Qualifying Transaction. The amalgamation is subject to shareholder approval from both companies as well as Exchange approval. Canada Coal is a junior exploration and development company involved (through two wholly owned subsidiaries) in the acquisition, exploration and development of coal properties in Nunavut. It is anticipated that upon completion of the amalgamation, the Resulting Issuer (as defined in Policy 2.4 of the Exchange) will be considered a Tier 2 Mining Issuer (as defined in Policy 2.1 of the Exchange).

It is a condition of the Qualifying Transaction that Canada Coal complete a concurrent private placement financing for minimum proceeds of \$4,300,000 (the "Concurrent Financing"). On November 4, 2011, Canada Coal completed the Concurrent Financing, which consisted of a brokered private placement of 6,500,000 flow-through units at a price of \$0.50 per flow-through unit, and 2,100,000 subscription receipts, at a price of \$0.50 per subscription receipt, for aggregate gross proceeds of \$4,300,000.

After completion of the amalgamation, an aggregate of 43,449,750 common shares of the Resulting Issuer will be issued and outstanding. The shareholders of the Company would own 3,349,750 million common shares or 7.71% of the issued and outstanding common shares of the Resulting Issuer while the pre-amalgamation shareholders of Canada Coal will own 31,500,000 common shares or 72.50% of the issued and outstanding common shares of the Resulting Issuer.

The amalgamation constitutes an arm's-length transaction according to the policies of the Exchange.

The obligations of both parties to complete the amalgamation and related transactions are subject to the satisfaction of the usual conditions, including, among others, the satisfaction of both parties with regard to their due diligence reviews, all necessary approvals to enable the amalgamation to be carried out having been obtained from the Exchange, approval from the shareholders of the Company and Canada Coal, and all other regulatory authorities and third parties having jurisdiction.

Mercury Capital Limited
(A Capital Pool Company)

Financial Statements

**For the Period From the Date of Incorporation
July 22, 2010 To December 31, 2010**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Mercury Capital Limited (A Capital Pool Company)

We have audited the accompanying financial statements of Mercury Capital Limited (A Capital Pool Company), which comprise the balance sheet as at December 31, 2010, and the statements of operations and deficit and cash flows for the period from the date of incorporation (July 22, 2010) to December 31, 2010 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mercury Capital Limited as at December 31, 2010, and its financial performance and its cash flows from the date of incorporation (July 22, 2010) to December 31, 2010 in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Licensed Public Accountants

Chartered Accountants

April 29, 2011 (except for Note 10 (ii) which is as of January 23, 2012)

Toronto, Ontario

Mercury Capital Limited
(A Capital Pool Company)
Balance Sheet
As at December 31, 2010

2010

Assets

Current

Cash (Note 3) \$ 73,956
Accounts and other receivables 3,620

77,576

Deferred share issuance costs 60,810

\$ 138,386

Liabilities

Current

Accounts payable and accrued liabilities \$ 45,186

Shareholders' Equity

Capital stock (Note 4) 100,000

Deficit (6,800)

93,200

\$ 138,386

Nature of Operations (Note 1)

Subsequent Events (Note 10)

Approved by the Board "Alexander Logie"
Director (Signed)

"Thomas Sears"
Director (Signed)

Mercury Capital Limited
(A Capital Pool Company)
Statement of Operations and Deficit
Period From the Date of Incorporation July 22, 2010 To December 31, 2010

	2010
Expenses	
Professional fees	\$ 6,800
Loss and deficit, end of period	\$ 6,800

Mercury Capital Limited
(A Capital Pool Company)
Statement of Cash Flows
Period From the Date of Incorporation July 22, 2010 To December 31, 2010

2010

Cash provided by (used in)

Operations

Loss	\$ (6,800)
Net changes in non-cash working capital	
Accounts payable and accrued liabilities	45,186
Accounts and other receivable	(3,620)

34,766

Financing

Issuance of capital stock	100,000
Deferred share issuance costs	(60,810)

39,190

Net change in cash

73,956

Cash, end of period

\$ 73,956

1. NATURE OF OPERATIONS

Mercury Capital Limited (the "Company") is a Capital Pool Company pursuant to Policy 2.4 of the TSX Venture Exchange (the "Exchange") that has not commenced commercial operations and has no assets other than a minimum amount of cash. The Company will not carry on any business other than the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction (as such term is defined under the policies of the Exchange). The Company was incorporated as a private company by Certificate of Incorporation issued pursuant to the provisions of the Business Corporation Act (Ontario) on July 22, 2010.

There is no assurance that the Company will identify a business or asset that warrants acquisition or participation within the time limitations permissible under the policies of the Exchange, in which event the Exchange may suspend or delist the Company's shares from trading.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the significant accounting policies described below:

Stock Based Compensation

The Company accounts for stock based compensation granted to directors and third parties using the fair value method of accounting. Accordingly, the fair value of the options is determined using the Black Scholes option pricing model, and stock based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight line basis over the vesting periods. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital.

Loss Per Share

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Contingently issuable shares are not considered outstanding common shares and consequently not included in loss per share calculations. The Company uses the treasury stock method to compute the dilutive effect of options and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options and similar instruments. It assumes that proceeds would be used to purchase common shares at the average market price during the period.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Deferred Share Issuance Costs

These costs relate directly to the proposed issuance of shares by the Company pursuant to the initial public offering described in Note 9. Upon completion of the initial public offering, the costs will be charged against capital stock.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from those estimates.

Financial Instruments

All financial instruments are measured based on the classification adopted for the financial instrument: held for trading, held to maturity, loans and receivables, available for sale or other liability.

Financial Assets

Held for trading assets are measured at fair value with the change in the fair value recognized in net income during the period.

Held to maturity assets are measured at amortized cost using the effective interest rate method.

Loans and receivables are measured at amortized cost using the effective interest rate method.

Available for sale assets are measured at fair value with the changes in fair value recorded in other comprehensive income.

Financial Liabilities

Held for trading liabilities are measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities are measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	Held for trading
Accounts and other receivables	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The Company's financial instruments measured at fair value on the balance sheet consist of cash. Cash is measured at level 1 of the fair value hierarchy. There are three levels of the fair value hierarchy as follows:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Future Accounting Changes

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently in the process of evaluating the potential impact of IFRS to its financial statements. This will be an ongoing process as the International Accounting Standards Board and the AcSB issue new standards and recommendations. It is anticipated that the Company's financial results and financial position as disclosed in the Company's current Canadian GAAP financial statements will not be significantly different when presented in accordance with IFRS.

3. CASH RESTRICTION

The proceeds raised from the issuance of common shares may only be used to identify and evaluate assets or businesses for future investment, with the exception that not more than the lesser of 30% of the gross proceeds from the issuance of shares or \$210,000 may be used to cover prescribed costs of issuing the common shares or administrative and general expenses of the Company. These restrictions apply until Completion of a Qualifying Transaction by the Company as defined under the policies of the Exchange.

Mercury Capital Limited
(A Capital Pool Company)
Notes to Financial Statements
December 31, 2010

4. CAPITAL STOCK

2010

Authorized
unlimited common shares

Issued
1,000,000 common shares⁽ⁱ⁾ **\$ 100,000**

(i) The 1,000,000 issued common shares of the Company are subject to a CPC Escrow Agreement. Under the CPC Escrow Agreement, 10% of the escrowed common shares will be released (the "Initial Release") from escrow on the issuance of the Final Exchange Bulletin, as defined under the policies of the Exchange, and an additional 15% will be released on the dates 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release. However, the release of the escrowed common shares will be accelerated if the Company meets the Exchange Tier 1 initial listing requirements.

5. LOSS PER SHARE

The basic and fully diluted loss per share has not been presented, as all the shares were contingently issuable and all the conditions necessary for their issuance have not been satisfied as at year-end.

6. INCOME TAX

Provision for Income Taxes

The Company's effective income tax rate differs from the amount that would be computed by applying the combined federal and provincial statutory rate of 30.99% to the net loss for the period. The reason for the difference is as follows:

	2010
Recovery of income taxes based on statutory rate	\$ (2,107)
Share issue costs	(1,683)
Change in valuation allowance	16,902
Change in rate and other	(13,112)
	\$ -

6. INCOME TAX (Cont'd)

Future Tax Balances

The components of the Company's future income tax asset are a result of the origination and reversal of temporary differences and are comprised of the following:

	2010
Non-capital loss carryforwards	\$ 3,058
Share issuance costs	13,844
Valuation allowance	(16,902)
	<hr/>
	\$ -

Losses Carried Forward

As at December 31, 2010, the Company has a non-capital loss of \$12,231 which may be utilized to reduce taxable earnings in future. The potential tax benefit relating to this loss has not been reflected in these financial statements. This loss expires in 2030.

7. CAPITAL RISK MANAGEMENT

The Company includes equity, comprised of issued common shares and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The Company is not subject to externally imposed capital requirements other than the cash restriction disclosed in Note 3.

8. RELATED PARTY TRANSACTION

Transactions with related parties are incurred in the normal course of the business and are measured at the exchange amounts which are the amounts of consideration established and approved by the related parties.

Legal fees, including disbursements, of \$25,830 is included in deferred share issuance costs and payable at year-end to a law firm in which two directors of the Company are partners.

9. FINANCIAL INSTRUMENTS AND RISK FACTORS

The Company's financial instruments, consisting of cash, accounts and other receivables and accounts payable and accrued liabilities, approximate fair values due to the relatively short term maturities of the instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

As at December 31, 2010, the Company has accounts payable and accrued liabilities of \$45,186 due within 12 months and has cash of \$73,956. As a result the Company has minimal liquidity risk.

10. SUBSEQUENT EVENTS

- (i) On January 28, 2011, the Company completed its initial public offering by issuing 1,599,750 common shares at a price of \$0.20 per share for a gross proceed of \$319,950. Hampton Securities Limited ("Hampton") acted as lead agent for the initial public offering. In connection with the offering, the Company granted Hampton, and its sub-agents, options to acquire 159,975 common shares at a price of \$0.20 per share. The option may be exercised for a period of 24 months from the date of listing of the common shares on the Exchange.

At the closing of the initial public offering, the Company also granted incentive stock options to its four officers and directors to acquire a total of 259,975 common shares. The options may be exercised for a period of ten years at a price of \$0.20 per share.

- (ii) On July 7, 2011 the Company announced that it had executed an agreement with Canada Coal Inc. ("Canada Coal") in respect to a proposed business combination to be effected by way of amalgamation of the parties which is expected to constitute the Company's Qualifying Transaction. The amalgamation is subject to shareholder approval from both companies as well as Exchange approval. Canada Coal is a junior exploration and development company involved (through two wholly owned subsidiaries) in the acquisition, exploration and development of coal properties in Nunavut. It is anticipated that upon completion of the amalgamation, the Resulting Issuer (as defined in Policy 2.4 of the Exchange) will be considered a Tier 2 Mining Issuer (as defined in Policy 2.1 of the Exchange).

It is a condition of the Qualifying Transaction that Canada Coal complete a concurrent private placement financing for minimum proceeds of \$4,300,000 (the "Concurrent Financing"). On November 4, 2011, Canada Coal completed the Concurrent Financing, which consisted of a brokered private placement of 6,500,000 flow-through units at a price of \$0.50 per flow-through unit, and 2,100,000 subscription receipts, at a price of \$0.50 per subscription receipt, for aggregate gross proceeds of \$4,300,000.

After completion of the amalgamation, an aggregate of 43,449,750 common shares of the Resulting Issuer will be issued and outstanding. The shareholders of the Company would own 3,349,750 million common shares or 7.71% of the issued and outstanding common shares of the Resulting Issuer while the pre-amalgamation shareholders of Canada Coal will own 31,500,000 common shares or 72.50% of the issued and outstanding common shares of the Resulting Issuer.

The amalgamation constitutes an arm's-length transaction according to the policies of the Exchange.

10. SUBSEQUENT EVENTS (Cont'd)

The obligations of both parties to complete the amalgamation and related transactions are subject to the satisfaction of the usual conditions, including, among others, the satisfaction of both parties with regard to their due diligence reviews, all necessary approvals to enable the amalgamation to be carried out having been obtained from the Exchange, approval from the shareholders of the Company and Canada Coal, and all other regulatory authorities and third parties having jurisdiction.

SCHEDULE "G"
FINANCIAL STATEMENTS FOR CANADA COAL

See attached.

CANADA COAL INC.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010
(EXPRESSED IN CANADIAN DOLLARS)**



McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Directors of Canada Coal Inc.

We have audited the accompanying consolidated financial statements of Canada Coal Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2011 and 2010 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the periods then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Coal Inc. and its subsidiaries as at September 30, 2011 and 2010, and their financial performance and cash flows for the periods then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes that the Company is in the development stage and will require additional financing to fund the development of its properties. This condition indicates the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
January 23, 2012

2005 Sheppard Avenue East, Suite 300, Toronto, Ontario, Canada, M2J 5B4
Telephone: (416) 496-1234 – Fax: (416) 496-0125 – E-Mail: info@mhc-ca.com – Website: www.mhc-ca.com

CANADA COAL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

	September 30, 2011	September 30, 2010
ASSETS		
Current		
Cash and cash equivalents (Note 7)	\$ 3,074,570	\$ -
Receivables (Note 8)	75,306	-
Prepaid transaction costs (Note 16)	58,669	-
	3,208,545	-
Exploration and evaluation expenditures (Note 9)	794,736	5,074
	\$ 4,003,281	\$ 5,074
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 10)	\$ 140,083	\$ 9,705
Shareholders' equity		
Capital stock (Note 11)	2,871,329	-
Reserves	1,501,225	-
Deficit	(509,356)	(4,631)
	3,863,198	(4,631)
	\$ 4,003,281	\$ 5,074

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 9 and 15)
Subsequent events (Note 16)

On behalf of the Board:

_____, Director
 "R. B. Duncan"

_____, Director
 "T. Fenton"

See accompanying notes to the consolidated financial statements.

CANADA COAL INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED

	Year ended September 30, 2011	From incorporation (August 26) to September 30, 2010
EXPENSES		
Management fees (Note 10)	\$ 160,000	\$ -
Consulting fees	69,687	3,000
Office, rent, and miscellaneous	6,476	-
Professional fees (Notes 10)	70,150	1,631
Shareholder communications and promotion	9,035	-
Share based compensation (Note 11)	215,408	-
Transfer agent and filing fees	3,104	-
Travel and accommodation	4,840	-
Loss before other items	538,700	4,631
OTHER ITEMS		
Investment income	(11,732)	-
Net loss and comprehensive loss for the period	\$ 526,968	\$ 4,631
Basic and diluted net loss per common share	\$ 0.03	\$ 0.00
Weighted average number of common shares outstanding	15,890,548	-

See accompanying notes to the consolidated financial statements.

CANADA COAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED

	Year ended September 30, 2011	Period from incorporation (August 26) to September, 2010
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (526,968)	\$ (4,631)
Items not affecting cash:		
Share based compensation	215,408	-
	(311,560)	-
Change in non-cash working capital items:		
Increase in receivables	(75,306)	-
Increase in accounts payable and accrued liabilities	39,638	4,631
Net cash flows used by operating activities	(347,228)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placements	4,300,750	
Share issue costs	(261,511)	-
Prepaid issue costs	(46,997)	-
Net cash flows from financing activities	3,992,242	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(570,444)	-
Net cash flows used by investing activities	(570,444)	-
Increase in cash and cash equivalents and cash equivalents, beginning of period	3,074,570	-
	-	-
Cash and cash equivalents, end of period	\$ 3,074,570	\$ -
Comprised of:		
Cash	112,838	-
Money market instruments	2,961,732	-
Cash paid for taxes during the period	-	-

Supplemental disclosure with respect to cash flows (Note 12)

See accompanying notes to the consolidated financial statements.

CANADA COAL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

	Number of Shares	Capital Stock	Reserves Equity settled share-based payments reserve	Warrant reserve	Deficit	Total
Net loss and comprehensive loss for the period	-	-	-	-	(4,631)	(4,631)
Balance, September 30, 2010			-	-	(4,631)	(4,631)
Share based compensation	-	-	215,408	-	-	215,408
Acquisition of mineral properties	2,500,000	140,150	-	-	-	140,150
Issued pursuant to seed share placement	7,500,000	750	-	-	-	750
Issued pursuant to private placements	21,500,000	2,953,364	-	1,346,636	-	4,300,000
Expiry of options	-	-	(22,243)	-	22,243	-
Issue costs cash	-	(178,386)	-	(83,125)	-	(261,511)
Issue costs –non cash	-	(44,549)	-	44,549	-	-
Net loss and comprehensive loss for the year	-	-	-	-	(526,968)	(526,968)
Balance, September 30, 2011	31,500,000	\$ 2,871,329	\$ 193,165	\$ 1,308,060	\$ (509,356)	\$ 3,863,198

See accompanying notes to the consolidated financial statements.

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

1. NATURE AND CONTINUANCE OF OPERATIONS

Canada Coal Inc. (hereafter the "Company") was incorporated on August 26, 2010 under the laws of the Business Corporation Act (Ontario) under the name Pacific Coal Corp. On April 12, 2011, the Company changed its name to Canada Coal Inc. The Company's principal business is the acquisition and exploration of coal properties in Nunavut Canada. The Company is at the early stages of development on its projects and as such, to date, has not generated significant revenues from its operations.

The Company's head office is located at 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9.

These consolidated financial statements were approved by the Board of Directors on January 23, 2012.

The Company is in the process of exploring its properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation expenditures are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, the achievement of profitable production, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values of exploration and evaluation expenditures.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

The Company's exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

These consolidated financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at September 30, 2011, the Company had working capital of \$3,068,462 and an accumulated deficit of \$509,356 compared to a working capital deficiency of \$9,705 and an accumulated deficit of \$4,631 as at September 30, 2010. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations.

3. BASIS OF PRESENTATION

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as held-for-trading, which are stated at their fair value and restoration, rehabilitation and environmental obligations, which are recorded at management's best estimate. In addition these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Canadian Sovereign Coal Corp, a company incorporated under the laws of British Columbia, and 5200 Nunavut Ltd., a company incorporated under the laws of Nunavut. Significant inter-company balances and transactions have been eliminated upon consolidation. All references to the Company should be treated as references to Canada Coal Inc. and its subsidiaries.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with original maturities of 90 days or less which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and are available on demand by the Company.

Financial instruments

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are measured at fair value with subsequent changes in fair value recognized in the statement of loss and comprehensive loss. Currently, the Company's cash equivalents are classified as held-for-trading.

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and are measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held to maturity financial assets are recognized in the statement of loss and comprehensive loss. Currently, the Company has no held-to-maturity financial assets.

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are recognized in the statement of loss and comprehensive loss. The Company's cash and receivables are classified as loans and receivables. The estimated fair values of these financial instruments approximate their carrying values because of the limited terms of these instruments.

Continued...

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Available-for-sale assets are those financial assets that are not classified as held-for-trading, held-to-maturity or loans or receivables, and are carried at fair value. Any gains or losses arising from the change in fair value are recorded as other comprehensive income. Available-for-sale investments are written down to fair value through operations whenever it is necessary to reflect other than temporary impairment. Cumulative gains and losses arising upon the sale of the instrument are included in operations. Regular way purchases and sales of financial assets are accounted for at the trade date. Currently, the Company has no available-for-sale assets.

Financial liabilities that are not classified as held-to-maturity are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are recognized in the statement of loss and comprehensive loss. The Company has classified accounts payable and accrued liabilities as other financial liabilities, which are carried at amortized cost. Due to their short-term natures, the fair values of these financial instruments approximate their carrying values, and are not subject to significant credit or interest rate risk.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At September 30, 2011, the Company's financial instruments that were carried at fair value, consisted of cash equivalents which have been classified as Level 2 within the fair value hierarchy. There were no financial instruments carried at fair value as of September 30, 2010.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the assets have been negatively impacted. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of the impairment and the loss is recognized in the statement of loss and comprehensive loss.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in the statement of loss and comprehensive loss.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of loss and comprehensive loss.

Impairment of non financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount of the asset, the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the statement of loss and comprehensive loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

The Canadian dollar is the functional and reporting currency of the Company. Under this method, all monetary assets and liabilities are translated at the rate of exchange at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the balance sheet date. Income and expenses are translated at the rates approximating those at the transaction dates. Gains and losses arising from translation of foreign currency monetary assets and liabilities are recognized in the statement of loss and comprehensive loss.

Exploration and evaluation expenditures

All of the Company's property interests are in the exploration and evaluation phase. The Company records its interests in properties and areas of geological interest at cost. Expenditures incurred prior to obtaining the legal right to explore are expensed. All direct and indirect costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. The Company classifies the costs between intangibles and property, plant and equipment based on the nature of the costs incurred.

The cost of property interests includes any cash consideration paid and the fair market value of shares issued, if any, on the acquisition of property interests. Acquisition costs of properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property claim acquisition costs and their related exploration and evaluation costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its properties on a periodic basis and when events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of revenues from the property or from the sale of the property.

Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a 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, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit-of-production method. Changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation impact the carrying value of the asset and liability. The related liability is adjusted each period for the unwinding of the discount rate. The Company had no significant restoration, rehabilitation and environmental obligations as at September 30, 2011 and 2010.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions (Continued)

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions at September 30, 2011 or 2010.

Share-based payment transactions

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The fair value of stock options granted to employees is recognized as an expense over the vesting period with a corresponding increase in the equity settled share-based payments reserve account. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Unexercised expired stock options are transferred to deficit.

Warrants

Warrants are recognized at fair value on the date of grant and are measured using the Black-Scholes option pricing model. Incremental costs directly attributable to the issue of new warrants are shown in equity as a deduction, net of tax, from the proceeds. Unexercised expired warrants are transferred to deficit.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit 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 period 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 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. 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 are reviewed at each reporting date and to the extent that the Company does not consider it probable that a future tax asset will be recovered, it is not recognized.

Continued...

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period. At September 30, 2011 and 2010, all the outstanding stock options and warrants were anti-dilutive.

Comprehensive loss

Other comprehensive loss represents the change in net equity for the period that arises from unrealized gains and losses on available-for-sale financial instruments. Amounts included in other comprehensive loss are shown net of tax. Cumulative changes in other comprehensive loss are presented separately in the consolidated statement of changes in equity. The Company has no financial assets classified as available for sale, and accordingly, net loss is equivalent to comprehensive loss.

Use of estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of the assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. The impact of these estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. Estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant estimates made by the Company include factors affecting the recoverability of exploration and evaluation expenditures, valuation of restoration, rehabilitation and environmental obligations, inputs used for share-based payment transactions, inputs used for valuation of warrants and deferred tax assets and liabilities. Actual results could differ from those estimates.

Future accounting changes

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods beginning after September 1, 2011 or later periods.

IFRS 7 Financial instruments - Disclosures ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

IFRS 9 Financial Instruments: Classification and Measurement ("IFRS 9"), effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning October 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 9.

IFRS 10 Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on October 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

Continued...

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes (Continued)

IFRS 11 Joint Arrangements ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on October 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its financial statements.

IFRS 13 Fair Value Measurement ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

In December 2010, the IASB issued an amendment to IAS 12 – Income taxes ("IAS 12") that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company has chosen not to early adopt and does not anticipate this amendment to have a significant impact on its consolidated financial statements

5. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management considers the Company's capital structure to primarily consist of the components of shareholder's equity.

The properties in which the Company currently has an interest are in the exploration and evaluation stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended September 30, 2011. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

6. FINANCIAL RISK FACTORS

There have been no changes in the risks, objectives, policies and procedures from the previous period. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to receivables. The receivables primarily relate to sales tax due from the Federal Government of Canada. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to its receivables is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has sufficient cash to meet its current short and mid-term funding requirements for its work programs.

Market risk

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt therefore, interest rate risk is minimal.

(b) Foreign currency risk

The majority of the Company's administrative expenditures are transacted in Canadian dollars. The Company funds certain expenses in the United States on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Management does not hedge its foreign exchange risk. A 1% change in foreign exchange rates between the Canadian and US dollar at September 30, 2011 would not have a significant impact on the Company's financial statements.

(c) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(d) Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company does not expect material movements in the underlying market risk variables over the next three-month period.

7. CASH AND CASH EQUIVALENTS

The Company's short term money market instruments accrue interest at 1.35% per annum and are redeemable at any time without penalty.

8. RECEIVABLES

The receivables balance is comprised of the following items:

	September 30, 2011	September 30, 2010
Sales tax due from Federal Government	\$ 75,306	\$ -
Total	\$ 75,306	\$ -

Continued...

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

9. EXPLORATION AND EVALUATION EXPENDITURES

On September 15, 2010, the Company entered into an agreement with Weststar Resources Corp. ("Weststar") to purchase the outstanding capital of Weststar's wholly owned subsidiary, Canadian Sovereign Coal Corp. ("CSCC"). CSCC's only assets were an 80% interest in nine coal exploration licenses and eight coal exploration license applications for approximately 585,397 acres of land located in Ellesmere Island, Nunavut. Weststar's 80% interest in the claims was acquired pursuant to a Letter of Intent dated March 18, 2009 between Hunter Exploration Group ("Hunter") and Weststar.

On September 20, 2010, the Company, Weststar and Hunter entered into an agreement whereby Weststar was released from any obligations or commitments under the original Letter of Intent dated March 18, 2009 and 100% interest in the coal licenses and license applications was transferred to CSCC. As consideration for the September 15, 2010 and September 20, 2010 agreements, in December 2010, the Company issued 500,000 common shares valued at \$50 to Weststar and 1,000,000 common shares valued at \$100 to Hunter. In addition, commencing on December 1, 2013, the Company is obligated to pay \$50,000 representing annual advance royalty payments in connection with the licences. Hunter retained a 2% royalty on the licenses of which 1% can be purchased by the Company for \$1,000,000.

On April 12, 2011, the Company entered into an agreement to purchase all of the issued and outstanding capital of 5200 Nunavut Ltd. ("5200") from arms length third party vendors. The only assets held by 5200 were interests in seven coal exploration licenses representing approximately 157,753 acres of land located in Nunavut. As consideration for the acquisition, the Company paid \$15,700 and issued 1,000,000 shares valued at \$140,000.

The Company also applied for 51 additional coal exploration licenses representing approximately 1,699,477 acres in Nunavut. The deposit of \$95,136 for the licenses is refundable if the Company incurs sufficient acceptable work on the licensed area to cover the amount of the deposit.

At September 30, 2011 and 2010, expenditures incurred on mineral claims were as follows:

	Year ended September 30, 2011	From incorporation (August 26, 2010) to September 30, 2010
Acquisition costs:		
Balance, beginning of the period	\$ 5,074	\$ -
Additions during the period	<u>260,755</u>	<u>5,074</u>
Acquisitions, end of period	<u>265,829</u>	<u>5,074</u>
Deferred exploration costs:		
Balance, beginning of period	-	-
Satellite Imagery	122,812	-
Geologists and other labour	96,475	-
Permitting	39,488	-
Field supplies	828	-
Travel, meals and accommodation	267,828	-
Admin and other expenses	<u>1,476</u>	<u>-</u>
Deferred exploration, end of period	528,907	-
Total, end of period	<u>\$ 794,736</u>	<u>\$5,074</u>

Continued...

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

10. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, Executive Officers and any companies owned or controlled by them or any companies where they are also a director or officer.

Trading Transactions

The Company entered into the following transactions with related parties

	Nature of transactions	Notes	Year ended September 30, 2011	From incorporation (August 26) to September 30, 2010
West Oak Capital	Management fees	a	\$96,000	\$ -
Olga Nikitovic	Management fees	b	\$64,000	\$ -
Aird & Berlis	Legal fees	c	\$94,916	\$ 6,705

a) West Oak Capital is owned by R. B. Duncan, the Company's CEO. The fees paid to West Oak Capital relate to management fees.

b) Olga Nikitovic is the CFO of the Company. The fees paid relate to financial management and accounting.

c) Tom Fenton, Director and Corporate Secretary for the Company is a Partner with Aird & Berlis, LLP. Fees relate to legal services. General corporate legal fees of \$57,186 (2010: \$1,631) are reflected as professional fees, legal fees related to the acquisition of mineral properties of \$7,939 (2010: \$5,074) are reflected in exploration and evaluation expenditures, fees related to the private placements of \$20,891 (2010: \$Nil) are reflected as share issue costs while fees of \$8,901 related to the proposed financing are reflected as deferred transaction costs. Legal fees included in accounts payable at September 30, 2011 are \$30,672 (2010: \$6,705).

During the year ended September 30, 2011, pursuant to the June 20, 2011 private placement described in Note 11 (d), two directors of the Company subscribed for a total of 1,500,000 units for gross proceeds of \$300,000.

Compensation of key management personnel

	Notes	Year ended September 30, 2011	From incorporation (August 26) to September 30, 2010
Salaries	a	\$160,000	\$ -
Share-based payments	b	\$215,408	-

a) The Company does not pay any directors' fees nor does the Company pay any health or post employment benefits. The salaries include the fees for the CEO and CFO included in trading transactions above.

b) Share-based payments are the fair value of options granted to key management and directors.

Continued...

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

11. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Capital Stock

The Company has authorized an unlimited number of common shares without par value. As at September 30, 2011, the Company had 31,500,000 common shares outstanding (2010: -).

For the year ended September 30, 2011, the Company entered into the following capital stock transactions:

- a) Issued 7,500,000 common shares to seed investors for gross proceeds of \$750.
- b) Issued 2,500,000 shares valued at \$140,150 pursuant to the acquisition of mineral claims.
- c) On April 21, 2011, the Company closed tranche 1 of a private placement in which it issued 10,050,000 units at \$0.20 per unit for gross proceeds of \$2,010,000. Tranche 2 was closed on May 4, 2011, in which the Company issued 9,950,000 units at \$0.20 for gross proceeds of \$1,990,000. An amount of \$1,271,457 from the gross proceeds has been allocated to warrants. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable at \$0.30 until the earlier of 24 months following the listing of the shares on the Toronto Stock Exchange, or five years from closing date. Finder's fees of \$240,000 were paid and 1,600,000 broker warrants with a fair value of \$65,345 were issued. The broker warrants are exercisable at \$0.20 for a period of two years. Total cash issue costs were \$261,511 of which \$83,125 has been allocated to warrants.
- d) 1,500,000 units at \$0.20 per unit for gross proceeds of \$300,000 of which \$75,176 has been allocated to warrants were issued on June 30, 2011. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable at \$0.30 until the earlier of 24 months following the listing of the shares on the Toronto Stock Exchange, or five years from closing date. There were no finder's fees paid. Two directors of the Company were the sole placees for the private placement.

Share purchase warrants

At September 30, 2011, warrants were outstanding enabling holders to acquire shares as follows:

Expiry Date	Exercise Price	Number of Shares	Remaining contractual life (years)	Currently exercisable	Remaining contractual life (years)
April 21, 2013	0.20	804,000	1.56	804,000	1.56
May 4, 2013	0.20	796,000	1.59	796,000	1.59
April 21, 2016 (i)	0.30	10,050,000	4.56	10,050,000	4.56
May 4, 2016 (i)	0.30	9,950,000	4.60	9,950,000	4.60
June 30, 2016 (i)	0.30	1,500,000	4.75	1,500,000	4.75
		23,100,000	4.38	23,100,000	4.38

- (i) Warrants expire on the earlier of 24 months following the listing of the shares on the Toronto Stock Exchange, or five years from date of closing. Expiry dates presented represent the five year expiry.

Continued...

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

11. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

Share purchase warrants (Continued)

The following is a summary of the warrant transactions for the year ended September 30, 2011. There were no warrant transactions for the period from incorporation (August 26, 2010) to September 30, 2010.

	Year ended August 31, 2011	
	Number Of Warrants	Weighted Average Exercise Price
Balance, August 26 and September 30, 2010	-	-
Warrants issued pursuant to private placements	21,500,000	0.30
Warrants issued to brokers pursuant to private placements	<u>1,600,000</u>	0.20
Balance, September 30, 2011	<u>23,100,000</u>	<u>0.29</u>

The following weighted average assumptions were used for the Black-Scholes valuation of warrants issued for the year ended September 30, 2011.

	2011
Risk-free interest rate	1.89%
Expected life of warrants	2.54 years
Expected annualized volatility	105.7%
Expected dividend rate	0.00%

Stock options

The Company may grant stock options pursuant to a stock option plan which was established in accordance with the policies of the TSX Venture Exchange. The Board of Directors administers the Plan, pursuant to which the Board may grant from time to time incentive stock options up to an aggregate maximum of 10% of the issued and outstanding shares of the Company to directors, officers, employees, consultants or advisors. The options can be granted for a maximum of 10 years.

As at September 30, 2011, the following incentive stock options were outstanding:

Expiry Date	Exercise Price	Options Outstanding		Options Exercisable	
		Number of Options Outstanding	Weighted average remaining contractual life (years)	Number of Options Vested	Weighted average remaining contractual life (years)
February 21, 2016	0.20	1,000,000	4.40	1,000,000	4.40
June 21, 2016	0.20	100,000	4.73	100,000	4.73
August 1, 2016	0.20	<u>500,000</u>	<u>4.84</u>	<u>500,000</u>	<u>4.84</u>
		<u>1,600,000</u>	<u>4.56</u>	<u>1,600,000</u>	<u>4.56</u>

Continued...

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

11. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

Stock options (Continued)

The following is a summary of the stock option transactions for the year ended September 30, 2011. There were no stock option transactions for the period from incorporation (August 26) to September 30, 2010.

	Year ended September 30, 2011	
	Number of Options	Weighted Average Exercise Price
Balance, August 26 and September 30, 2011		-
Options granted	1,800,000	0.20
Options expired	<u>(200,000)</u>	0.20
Balance, September 30, 2011	<u>1,600,000</u>	<u>0.20</u>

The following weighted average assumptions were used for the Black-Scholes valuation of options granted for the year ended September 30, 2011.

	2011
Risk-free interest rate	2.33%
Expected life of options	5 years
Expected annualized volatility	132.5%
Expected dividend rate	0.00%

Stock based compensation

The Company granted 1,800,000 options for the year ending September 30, 2011 (2010: Nil). The options vested immediately upon grant. Total share-based compensation for the year ended September 30, 2011 was \$215,408 (2010: \$Nil) and has been expensed with a corresponding amount being recorded in the equity settled share-based payments reserve.

200,000 options expired and \$22,243, representing the fair value of the options as calculated under the Black Scholes methodology, was transferred from equity settled share-based payments reserve to deficit.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended September 30, 2011 consisted of:

- a) The issuance of 2,500,000 common shares of the Company valued at \$140,150 pursuant to the acquisition of mineral claims.
- b) The issuance of warrants for services valued at \$65,345.
- c) Increase in accrued exploration and evaluation expenditures of \$79,068.
- d) Increase in accrued prepaid transaction costs of \$11,672.

There were no non-cash transactions for the period from incorporation (August 26, 2010) to September 30, 2010.

Continued...

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

13. INCOME TAXES

A reconciliation of income taxes at the statutory Canadian rate of 29.17% (2010: 31%) with the reported taxes is as follows:

	2011 \$	2010 \$
Loss for the year from operations before income taxes	(526,968)	(4,631)
Expected income tax (recovery)	(152,000)	(1,400)
Stock-based compensation	62,000	-
Share issue costs	(15,000)	-
Benefit of tax losses not recognized	105,000	1,400
Future income tax	-	-

The significant components of the Company's future income tax assets and liabilities are as follows:

	2011 \$	2010 \$
Future income tax assets at 25%		
Mineral properties and exploration expenditures	79,000	1,200
Other assets	54,000	-
Non capital loss carryforwards	13,000	-
Tax benefits not recognized	(146,000)	(1,200)
	-	-

As at September 30, 2011, the Company had approximately \$110,000 of Canadian development expenditures and \$845,000 of Canadian exploration expenditures which, under certain circumstances, may be used to reduce taxable income of future years. The Company has non-capital losses of approximately \$52,000 available for deduction against future taxable income until the year 2031.

14. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of mineral properties in Canada. As the operations comprise in a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

15. COMMITMENTS

The Company's mining and exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Continued...

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

15. COMMITMENTS (Continued)

The Company entered into two-year contracts commencing on February 21, 2010, for the Chief Executive Officer and Chief Financial Officer positions for \$12,000 and \$8,000 per month respectively. The contracts were voluntarily amended to \$8,000 and \$5,000 per month respectively effective January 1, 2012. The Company is committed to a total of \$156,000 per annum (\$184,000 in 2012) with respect to these contracts. These contracts contain clauses requiring additional payments of up to \$480,000 be made upon the occurrence of certain events such as change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements.

16. SUBSEQUENT EVENTS

On June 30, 2011, the Company entered into an agreement with Mercury Capital Limited ("Mercury Capital") in respect to a proposed business combination to be effected by way of an amalgamation of the parties. Under the terms of the agreement, holders of common shares and other securities such as options and warrants of Canada Coal and Mercury Capital, will each receive common shares and other securities of the resulting issuer on a one for one basis. The amalgamation is expected to constitute a qualifying transaction for Mercury Capital as defined in Policy 2.4 of the Exchange's Corporate Finance Manual.

The transaction is subject to shareholder approval from both companies as well as Exchange approval. Upon completion of the amalgamation, the resulting issuer will be considered a Tier I mining issuer. It is anticipated that the issuer resulting from the amalgamation will be known as Canada Coal Inc., subject to TSX Venture Exchange approval.

On November 4, 2011, the Company closed a private placement in which it issued 6,500,000 flow-through units and 2,100,000 subscription receipts for units at \$0.50 per unit for gross proceeds of \$4,300,000. Each flow through unit consists of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable at \$0.80 for three years from the date of closing. Subsequent to the completion of the amalgamation between Mercury Capital and Canada Coal, each subscription receipt allows the holder to acquire one common share of the resulting issuer and one half of one common share purchase warrant in the resulting issuer exercisable at \$0.80 for three years from the date of closing. Finders' fees of \$301,000 cash and 602,000 broker warrants were payable. The broker warrants are exercisable at \$0.80 for a period of three years. As of September 30, 2011, the Company has incurred \$58,669 in legal fees and travel expenses related to the financing which have been recorded as prepaid transaction costs.

As a condition for the financing, if the Company is not publically traded within four months plus one day after the closing of the financing, the non flow through unit holders will be entitled to a 10% increase in the number of units held. In addition, the half warrants issued to flow-through unit holders will be converted to full warrants.

Subsequent to year-end, 2,100,000 stock options were granted to a director. The stock options have an exercise price of \$0.50 and have a life of five years.

Subsequent to year end, the seed shareholders contributed an additional \$49,127 to the Company.

SCHEDULE "H"
PRO FORMA FINANCIAL STATEMENT OF THE RESULTING ISSUER

See attached.

Canada Coal Inc.

(formerly Mercury Capital Limited)

Unaudited Pro Forma Consolidated Statement of Financial Position

(Expressed in Canadian Dollars)

September 30, 2011

Canada Coal Inc.
(formerly Mercury Capital Limited)
 Pro Forma Consolidated Statement of Financial Position
 As at September 30, 2011
 Expressed in Canadian Dollars
 (Unaudited)

	Canada Coal Inc.	Mercury Capital Limited	Note 3	Pro-Forma Adjustments	Pro-Forma consolidated Canada Coal Inc.
ASSETS					
Cash	3,074,570	395,112	a b f g	4,300,000 (386,604) (270,000) 49,127	7,162,205
Receivables	75,306	9,849		-	85,155
Prepaid transaction costs	58,669	-	b	(58,669)	-
	<u>3,208,545</u>	<u>404,961</u>			<u>7,247,360</u>
Exploration and evaluation expenditures	794,736	-			794,736
	<u>4,003,281</u>	<u>404,961</u>			<u>8,042,096</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Accounts payable and accrued liabilities	140,083	7,108	b f	(11,672) (19,000)	116,519
	<u>140,083</u>	<u>7,108</u>			<u>116,519</u>
SHAREHOLDERS' EQUITY					
Capital stock	2,871,329	406,921	a b c e e g	3,526,000 (355,553) (90,667) 1,373,398 (406,921) 49,127	7,373,634
Reserves	1,501,225	67,670	a b c d e e	774,000 (78,048) 90,667 746,779 (67,670) 145,430	3,180,053
Deficit	(509,356)	(76,738)	d e e f	(746,779) (1,120,975) 76,738 (251,000)	(2,628,110)
	<u>3,863,198</u>	<u>397,853</u>			<u>7,925,577</u>
	<u>4,003,281</u>	<u>404,961</u>			<u>8,042,096</u>

Canada Coal Inc.
(formerly Mercury Capital Limited)

Notes to Pro Forma Consolidated Statement of Financial Position
(Expressed in Canadian dollars)
(Unaudited)

1. BASIS OF PRESENTATION

Mercury Capital Limited ("Mercury") and Canada Coal Inc. ("Canada Coal") signed a Definitive Agreement dated November 4, 2011. Pursuant to the Agreement, and subject to shareholder and regulatory approval, Mercury and Canada Coal will amalgamate. Under the terms of the Agreement, holders of common shares and other securities such as options and warrants of Canada Coal and Mercury, will each receive common shares and other securities of the resulting issuer on a one for one basis. The amalgamation is expected to constitute a qualifying transaction for Mercury as defined in Policy 2.4 of the Exchange's Corporate Finance Manual. It is expected that the resulting issuer will be named Canada Coal Inc.

As a result of the transaction, the former shareholders of the original Canada Coal will own 92% of the outstanding shares of the amalgamated entity. In accordance with IFRS 3, Business Combinations, the substance of the transaction is a reverse acquisition of a non-operating company. The transaction does not constitute a business combination as Mercury does not meet the definition of a business under that standard. As a result, the transaction is accounted for as a capital transaction with the original Canada Coal being identified as the acquirer and the equity consideration being measured at fair value. The resulting statement of financial position is presented as a continuance of the original Canada Coal.

IFRS 2 applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or service received in return. Because Canada Coal has issued shares with a value in excess of the assets received, IFRS 2 would indicate that the difference is recognized in comprehensive loss as a reverse takeover transaction cost. The amount recognized as a reverse transaction cost is the difference between the fair value of the consideration paid and the net identifiable assets of Mercury acquired by Canada Coal and included in consolidated statement of loss and comprehensive loss.

The accompanying pro forma consolidated statement of financial position has been prepared in accordance with IFRS. The unaudited pro forma statement of financial position has been prepared from information derived from the audited financial statements of Canada Coal Inc. as of September 30, 2011 and the unaudited interim financial statements of Mercury Capital Limited for the three month and six month period ended September 30, 2011. The unaudited pro forma statement of financial position gives effect to the amalgamation as if it occurred on September 30, 2011.

The unaudited pro forma consolidated financial information is not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated. Actual amounts recorded upon consummation of the transaction contemplated by the Plan of Arrangement will differ from those recorded in the unaudited pro forma consolidated financial statement information.

Management of Canada Coal believes that the assumptions used provide a reasonable basis for presenting all of the significant effects of the transaction and that the pro forma adjustments give appropriate effect to those assumptions and are appropriately applied in the unaudited pro forma statement of financial position.

Canada Coal Inc.
(formerly Mercury Capital Limited)

Notes to Pro Forma Consolidated Statement of Financial Position
(Expressed in Canadian dollars)
(Unaudited)

2. PRO FORMA ASSUMPTIONS

- a) The amalgamation receives all required regulatory and shareholder approvals.
- b) Canada Coal closes its private placement in which it issues 6,500,000 flow through units and 2,100,000 non flow through units (subscription receipts) at \$0.50 per unit for gross proceeds of \$4,300,000. Commissions equal to 7% of gross proceeds are paid and broker warrants for the option to purchase common shares equal to 7% of the units sold pursuant to the private placement are issued.
- c) Canada Coal grants 2,100,000 options exercisable for \$0.50 per share for five years. The options vest immediately.
- d) Exchange of Mercury common shares for common shares of the resulting issuer on a one for one basis.
- e) Exchange of Mercury options and warrants for convertible securities with the same terms and conditions of the resulting issuer on a one for one basis
- f) Exchange of common shares of Canada Coal for common shares of the resulting issuer on a one for one basis.
- g) Exchange of Canada Coal options and warrants for convertible securities with the same terms and conditions of the resulting issuer on a one for one basis.
- h) The estimated amalgamation transaction costs of \$270,000 are paid.
- i) The purchasers of the seed shares contribute an additional \$49,127 to the Company for the purchase of the shares.

3. PRO FORMA ADJUSTMENTS

- a) Canada Coal closes its private placement in which it issues 6,500,000 flow through units and 2,100,000 non flow through units (subscription receipts) at \$0.50 for gross proceeds of \$4,300,000. Each unit consists of one common share and one half of a share purchase warrant. Each full warrant is exercisable at \$0.80 for a three years. The fair value of the warrants issued was \$774,000 or \$0.09 per unit. The fair value of the broker warrants was estimated using the Black Scholes pricing model based on the following assumptions: expected dividend yield of 0%; risk free interest rate of 1.07%; expected life of three years; and expected volatility of 94%.
- b) A cash commission of \$301,000 was paid on completion of the financing. Total cash issue costs were \$433,601 of which \$78,048 was allocated to the warrants. \$386,604 of the total issue costs were paid from the proceeds of the financing. Of the total issue costs, \$58,669 was included in prepaid transaction costs and \$11,672 were included in accounts payable as of September 30, 2011.

Canada Coal Inc.
(formerly Mercury Capital Limited)

Notes to Pro Forma Consolidated Statement of Financial Position
 (Expressed in Canadian dollars)
 (Unaudited)

3. PRO FORMA ADJUSTMENTS (Continued)

- c) 602,000 broker warrants with a fair value of \$110,570 were issued. The fair value of broker warrants at the date of grant was estimated using the Black Scholes pricing model based on the following assumptions: expected dividend yield of 0%; risk free interest rate of 1.07%; expected life of three years; and expected volatility of 94%. \$19,903 of the value of the broker warrants was allocated to the cost of the warrants.
- d) The Company granted 2,100,000 options at an exercise price of \$0.50 per share with a fair value at the date of grant of \$746,779. The fair value of the options was estimated using the Black Scholes pricing model based on the following assumptions: expected dividend yield of 0%; risk free interest rate of 1.41%; expected life of five years; and expected volatility of 137%.
- e) The amalgamation transaction is being accounted for as a capital transaction in which Canada Coal is being identified as the acquirer of Mercury and equity consideration is being measured at fair value.

The entity is to be a continuation of Canada Coal and recognizes the acquisition of all of the shares of Mercury. The fair value of Canada Coal's shares based on the value from the private placement described in 3(a) is \$0.41 per share (price of the unit less fair value of warrants). The fair value of the options and warrants issued as consideration is determined using the Black Scholes pricing model. The fair value of the shares issued is \$1,373,398, and the fair value of options and warrants issued is \$139,392 and \$6,038, respectively.

Based on Mercury's statement of financial position at the time of the reverse takeover, the net assets at fair value that were acquired by Canada Coal were \$397,853 and the resulting reverse acquisition cost charged to the statements of loss and comprehensive loss is as follows:

Consideration	
Shares	\$1,373,398
Options	139,392
Warrants	6,038
	<u>\$1,518,828</u>
Identifiable assets acquired	
Cash	395,112
Other receivables	9,849
Account payable and accrued liabilities	(7,108)
Unidentifiable assets acquired	
Reverse takeover transaction costs	<u>1,120,975</u>
Total net identifiable assets and reverse takeover transaction cost	\$1,518,828

Canada Coal Inc.
(formerly Mercury Capital Limited)

Notes to Pro Forma Consolidated Statement of Financial Position
(Expressed in Canadian dollars)
(Unaudited)

3. PRO FORMA ADJUSTMENTS (Continued)

- f) Amalgamation transaction costs of \$270,000 are paid on completion of the amalgamation of which \$19,000 was included in accounts payable as at September 30, 2011.
- g) The purchasers of the seed shares contribute an additional \$49,127 for the purchase of their shares.

4. SHARE CAPITAL CONTINUITY

Authorized: unlimited number of common shares

	Number of Shares	\$
Capital stock of Canada Coal Inc. issued and outstanding September 30, 2011	31,500,000	2,871,329
Shares issued pursuant to private placement	8,600,000	3,526,000
Share issue costs- cash	-	(355,553)
Share issue costs -non cash	-	(90,667)
Acquisition of Mercury net assets	3,349,750	1,373,398
Additional contribution for seed shares	-	49,127
	43,449,750	7,373,634

OPTION CONTINUITY

	Number of Options	\$
Canada Coal Inc. options outstanding, September 30, 2011	1,600,000	193,165
Options granted by Canada Coal Inc.	2,100,000	746,779
Acquisition of Mercury net assets	419,950	139,392
	4,119,950	1,079,336

WARRANT CONTINUITY

	Number of Warrants	\$
Canada Coal Inc. warrants outstanding, September 30, 2011	23,100,000	1,308,060
Warrants issued pursuant to private placement	4,300,000	774,000
Broker warrants issued pursuant to private placement	602,000	110,570
Issue costs- cash	-	(78,048)
Issue costs -non cash	-	(19,903)
Acquisition of Mercury net assets	25,000	6,038
	28,027,000	2,100,717

Canada Coal Inc.
(formerly Mercury Capital Limited)

Notes to Pro Forma Consolidated Statement of Financial Position
(Expressed in Canadian dollars)
(Unaudited)

5. INCOME TAXES

The pro forma effective income tax rate applicable to the consolidated operations is approximately 29% at September 30, 2011.

11760804.1

CONSENTS OF THE AUTHORS OF THE NUNAVUT TECHNICAL REPORT



Associated Geosciences Ltd.
Suite 415, 708 – 11th Avenue S.W.
Calgary, Alberta, Canada T2R 0E4

File: 2011CMAA.024
January 23rd, 2012

DIRECT: +1.403.781-2155
GSM MOBILE: +1.403.397.8349
MAIN TEL: +1.403.264.9496 Ext: 2155
FAX: +1.403.263.7641
www.associatedgeosciences.ca

Attn: Mercury Capital Limited
TSX Venture Exchange
Ontario Securities Commission
British Columbia Securities Commission
Alberta Securities Commission

EMAIL: keith.mccandlish@associatedgeosciences.ca

Dear Sirs/Mesdames:

RE: Joint Management information circular of Mercury Capital Limited and Canada Coal Inc. dated January 23, 2012. (the “**Information Circular**”)

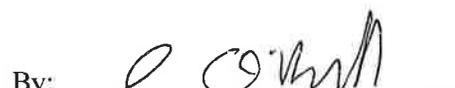
The undersigned refer to the technical report dated with an effective date of September 30, 2011, entitled “The Nunavut Coal Project-Ellesmere Island and Axel Heiberg Island, Nunavut, Canada” prepared by Associated Geosciences Ltd., Calgary, Alberta, Canada.” (the “**Technical Report**”), which Technical Report supports the disclosure in the Information Circular.

The undersigned hereby:

1. consent to the public filing of the Technical Report by Mercury Capital Limited and the submission of the Technical Report to the TSX Venture Exchange;
2. consent to the use of the Technical Report and extracts from, or a summary of the Technical Report in the Information Circular and consents to being named in such document; and,
3. certify that the undersigned have read the Information Circular and that (i) the Information Circular fairly and accurately represents the information in the sections of the Technical Report for which the undersigned is responsible, and (ii) the undersigned have no reason to believe that there is any misrepresentation contained in the Information Circular which is derived from the Technical Report or of which the undersigned is otherwise aware.

Yours Sincerely,
ASSOCIATED GEOSCIENCES LTD.

By: 
Keith McCandlish, P. Geol., P. Geo

By: 
Susan O'Donnell, P. Geol.

CONSENT OF COLLINS BARROW LLP

AUDITORS' CONSENT

We have read the Joint Management Information Circular of Mercury Capital Limited (the "Company") and Canada Cola inc. dated January 23, 2012 relating to the Amalgamation Agreement between the Company and Canada Coal Inc. We have complied with Canadian Auditing Standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned Joint Management Information Circular of our auditors' report dated April 29, 2011 (except Note 10(ii), which is as of dated January 23, 2012) to the directors of the Corporation on the balance sheet at December 31, 2010, the statement of changes in equity and the statement of cash flows for the year ended December 31, 2010.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants
Toronto, Ontario
January 23, 2012

CONSENT OF MCGOVERN HURLEY CUNNINGHAM LLP



McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITOR'S CONSENT

We have read the Joint Management Information Circular (the "**Information Circular**") of Canada Coal Inc. ("Canada Coal") dated January 23, 2012 relating to the Amalgamation Agreement between Canada Coal and Mercury Capital Ltd. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned Joint Management Information Circular of our report to the directors of Canada Coal on the consolidated statement of financial position of Canada Coal as at September 30, 2011 and 2010, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the periods then ended. Our report is dated January 23, 2012.

MCGOVERN, HURLEY, CUNNINGHAM, LLP

A handwritten signature in black ink that reads "McGovern, Hurley, Cunningham, LLP".

**Chartered Accountants
Licensed Public Accountants**

Toronto, Canada
January 23, 2012

CERTIFICATE OF MERCURY CAPITAL LIMITED

Dated: January 23, 2012

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities of Mercury Resources Inc. assuming completion of the Proposed Transaction.

“Alexander C. Logie”

Alexander C. Logie, Chief Executive Officer

“Alexander C. Logie”

Alexander C. Logie, Chief Financial Officer

**ON BEHALF OF THE BOARD OF DIRECTORS
OF MERCURY CAPITAL LIMITED**

“Thomas Sears”

Thomas Sears, Director

“Leonidas Karabelas”

Leonidas Karabelas, Director

CERTIFICATE OF CANADA COAL INC.

Dated: January 23, 2012

The foregoing as it relates to Canada Coal Inc. constitutes full, true and plain disclosure of all material facts relating to the securities of Canada Coal Inc.

"R. Bruce Duncan"

R. Bruce Duncan, Chief Executive Officer

"Olga Nikitovic"

Olga Nikitovic, Chief Financial Officer

**ON BEHALF OF THE BOARD OF DIRECTORS
OF CANADA COAL INC.**

"Thomas A. Fenton"

Thomas A. Fenton, Director

"Braam Jonker"

Braam Jonker, Director