Canada Coal Inc.
(Formerly Mercury Capital Limited)
(A Capital Pool Company)

Financial Statements

For the Year Ended December 31, 2011 and Period From July 22, 2010 (Date of Incorporation) to December 31, 2010

(Expressed in Canadian Dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canada Coal Inc.
(Fomerly Mercury Capital Limited)
(A Capital Pool Company)

We have audited the accompanying financial statements of Canada Coal Inc. which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and July 22, 2010 and the statements of loss and comprehensive loss, changes in equity and cash flows for the year ended December 31, 2011 and for the period from 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 International Financial Reporting Standards, 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 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 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 in our audits 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 Canada Coal Inc. as at December 31, 2011, December 31, 2010 and July 22, 2010 and its financial performance and its cash flows for the year ended December 31, 2011 and for the period from date of incorporation (July 22, 2010) to December 31, 2010 in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
April 27, 2012
Toronto, Ontario

Canada Coal Inc.
(Formerly Mercury Capital Limited)
(A Capital Pool Company)
Statements of Financial Position
(Expressed in Canadian Dollars)
As at

	December 31, 2011	December 31, 2010 (Note 13)	July 22, 2010 (Note 13)
Assets			
Current			
Cash (Note 3)	**$ 387,742**	$ 73,956	$ -
Amounts receivable (Note 4)	**10,734**	3,620	-
	398,476	77,576	-
Deferred share issuance costs	**-**	41,581	-
	$ 398,476	$ 119,157	$ -
Liabilities			
Current			
Accounts payable and accrued liabilities (Note 5)	**$ 31,314**	$ 45,186	$ -
Shareholders' Equity			
Share capital (Note 6)	**427,196**	100,000	-
Reserves (Note 7)	**67,670**	-	-
Deficit	**(127,704)**	(26,029)	-
	367,162	73,971	-
	$ 398,476	$ 119,157	$ -

Nature of Operations (Note 1)

Subsequent Events (Note 14)

Approved by the Board **Abraham Jonker** Director **(Signed)** **R. Bruce Duncan** Director **(Signed)**

Canada Coal Inc.
(Formerly Mercury Capital Limited)
(A Capital Pool Company)
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

		Year Ended December 31, 2011		Period from July 22, 2010 (Date of Incorporation) to December 31, 2010 (Note 13)
Expenses				
Professional fees	**$**	**53,379**	$	6,800
Transfer agent, listing and filing fees		**1,769**		19,229
Share based payment		**46,527**		-
Net loss and comprehensive loss for the period	**$**	**(101,675)**	$	(26,029)
Loss per share (Note 8)				
Basic and diluted	**$**	**(0.05)**	$	-
Weighted average number of common shares outstanding (Note 8)				
Basic and diluted		**1,978,673**		-

See accompanying notes

Canada Coal Inc.
(Formerly Mercury Capital Limited)
(A Capital Pool Company)
Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital	Reserves: Warrants	Reserves: Options	Deficit	Total
Balance, July 22, 2010	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Issuance of common shares	100,000	-	-	-	100,000
Net loss and comprehensive loss	-	-	-	(26,029)	(26,029)
Balance, December 31, 2010 (Note 13)	**100,000**	**-**	**-**	**(26,029)**	**73,971**
Issuance of common shares and warrants, net of costs (Note 6)	327,196	4,249	-	-	331,445
Share based payment (Note 7)	-	-	63,421	-	63,421
Net loss and comprehensive loss	-	-	-	(101,675)	(101,675)
Balance, December 31, 2011	**$ 427,196**	**$ 4,249**	**$ 63,421**	**$ (127,704)**	**$ 367,162**

Canada Coal Inc.
(Formerly Mercury Capital Limited)
(A Capital Pool Company)
Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended December 31, 2011	Period from July 22, 2010 (Date of (Incorporation) to December 31, 2010 (Note 13)
Cash provided by (used in)		
Operations		
Net loss for the period	**$ (101,675)**	$ (26,029)
Items not affecting cash		
Share based payment (Note 7)	**46,527**	-
	(55,148)	(26,029)
Net changes in non-cash working capital		
Amounts receivable	**(7,114)**	(3,620)
Accounts payable and accrued liabilities	**(13,872)**	45,186
	(76,134)	15,537
Financing		
Issuance of common shares (Note 6)	**469,950**	100,000
Share issue costs (Note 6)	**(80,030)**	-
Deferred share issuance costs	**-**	(41,581)
	389,920	58,419
Net change in cash	**313,786**	73,956
Cash, beginning of the period	**73,956**	-
Cash, end of the period	**$ 387,742**	$ 73,956

See accompanying notes

1. NATURE OF OPERATIONS

Canada Coal Inc. (formerly Mercury Capital Limited) (the "Company" or "Canada Coal") 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.

The Company's head office is located at 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9.

The Company was listed on the Exchange on February 2, 2011. Subsequent to year-end the Company had completed its Qualifying Transaction (Note 14).

The financial statements of the Company were approved by the Board of Directors on April 27, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"). In 2010, the Canadian Institute of Chartered Accountants ("CICA") Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

These are the Company’s first audited annual financial statements for the year ended December 31, 2011 presented in accordance with IFRS as issued by the IASB. IFRS 1 First-Time Adoption of IFRS ("IFRS 1") has been applied and the impact of the transition from Canadian GAAP to IFRS is explained in Note 13. Subject to Note 13, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at July 22, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 13 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s financial statements for the period ended December 31, 2010.

Basis of presentation

These audited financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these audited financial statements have been prepared using the accrual basis of accounting except for cash flow information.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Functional and presentation currency

These audited financial statements have been prepared in Canadian dollars, which is the Company's functional and presentation currency.

Cash

Cash includes cash on hand with a Canadian chartered bank.

Financial Instruments

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as available-for-sale are measured at fair value with any resultant gain or loss being recognized directly under other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets classified as loans and receivables and held to maturity, are measured at amortized cost using the effective interest rate method.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are classified as other financial liabilities, and are subsequently measured at amortized cost using effective interest rate method.

The Company's financial assets include cash while the Company's financial liabilities include accounts payable and other liabilities. Classification of these financial instruments is as follows:

Financial Instrument	Classification
Cash	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities

Financial instruments recorded at fair value on the audited statements of financial position are classified 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:

- Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Valuation techniques based on 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 3: Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

The Company's financial instruments measured at fair value on the statements of financial position consist of cash. Cash is measured at level 1 of the fair value hierarchy.

Share Based Payments

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. 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 share options that are expected to vest.

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless the fair value cannot be estimated reliably, in which case, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income Taxes (Cont'd)

Deferred tax is provided using the asset and 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 following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. 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. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Deferred Financing Costs

The Company deferred direct and incremental costs incurred in connection with the issuance of share capital pursuant to its Initial Public Offering ("IPO") (see Note 6) as an asset and charged the costs against share capital when the IPO was completed.

Significant Accounting Judgments and Estimates

The preparation of these audited financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The audited financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the audited 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 the revision affects both current and future periods.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the inputs used in measurement for warrants in the audited statement of financial position;
- the inputs used in measurement for share based payment expense in the audited statement of comprehensive loss; and
- the provision for income taxes which is included in the audited statements of comprehensive loss and recognition of deferred income tax assets and liabilities included in the audited statement of financial position at December 31, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after December 31, 2011 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 was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. 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. The IASB has proposed to move the effective date of IFRS 9 to January 1, 2015.

(b) IFRS 10 Consolidated Financial Statements was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC 12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(c) IFRS 11 Joint Arrangements was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities Non Monetary Contributions by Venturers, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(d) IFRS 12 Disclosure of Interests in Other Entities was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(e) IFRS 13 Fair Value Measurement was issued by the IASB in May 2011. IFRS 13 establishes new guidance on fair value measurement and disclosure requirements for IFRSs and US generally accepted accounting principles (GAAP). The guidance, set out in IFRS 13 and an update to Topic 820 in the FASB’s Accounting Standards Codification (formerly referred to as SFAS 157), completes a major project of the boards’ joint work to improve IFRSs and US GAAP and to bring about their convergence. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Recent Accounting Pronouncements (Cont'd)

(f) IAS 1 Presentation of Financial Statements was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

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. As of December 31, 2011 the Company had exceeded this limit.

4. AMOUNTS RECEIVABLE

	2011	2010
Harmonized sales tax receivable	**$ 10,734**	$ 3,620

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
Trade payables	**$ 13,064**	$ 45,186
Accrued liabilities:		
Legal	**18,250**	-
Balance, end of year	**$ 31,314**	$ 45,186

(Expressed in Canadian Dollars)

6. SHARE CAPITAL

	Number of Shares	Amount
Balance at July 22, 2010	**-**	**$ -**
Issuance of common shares (a)	1,000,000	100,000
Balance at December 31, 2010	**1,000,000**	**$ 100,000**
Issuance of common shares, net (b)	1,599,750	212,553
Issuance of common shares, net (c)	750,000	114,643
Balance at December 31, 2011	**3,349,750**	**$ 427,196**

(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 were considered contingently issuable until the Company completed its Qualifying Transaction (Note 14) and accordingly, they were 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 2 years from the date of listing of the common shares on the Exchange. These options were valued at $16,894 (see Note 7).

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 10 years at a price of $0.20 per share. These options were valued at $46,527 (see Note 7).

(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. These warrants were valued at $4,249 (see Note 7).

7. 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 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.

(Expressed in Canadian Dollars)

7. STOCK OPTIONS AND WARRANTS (Cont'd)

(a) Stock Options (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, December 31, 2011	**419,950**	**$ 0.20**

(i) On February 2, 2011, the Company granted 159,975 options to its agent 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. As the fair value of the services received could not be reliably estimated, 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 weighted average grant date fair value of each 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 years; and (v) share price $0.20. The fair market value was determined to be $46,527 and was charged to share based payment for the period. The Company has assumed no forfeiture rate. The weighted average grant date fair value of each option is $0.18.

(Expressed in Canadian Dollars)

7. STOCK OPTIONS AND WARRANTS (Cont'd)

(a) Stock Options (Cont'd)

The following table reflects the actual stock options issued and outstanding as of December 31, 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	1.09	159,975	159,975	-
January 28, 2021	$0.20	9.08	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. As the fair value of the services received could not be reliably estimated, 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 each warrant is $0.17.

The Company issued warrants to acquire common shares as follows:

	Number of Warrants	Weighted average exercise price
Balance, July 22, 2010 and December 31, 2010	-	$ -
Granted	25,000	0.20
Balance, December 31, 2011	**25,000**	**$ 0.20**

The following table reflects the actual warrants issued and outstanding as of December 31, 2011:

Number of Warrants	Exercise Price	Expiry Date
25,000	$ 0.20	May 4, 2013

(Expressed in Canadian Dollars)

8. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2011 was based on the loss attributable to common shareholders of $101,675 and the weighted average number of common shares outstanding of 1,978,673.

Diluted loss per share did not include the effect of 419,950 stock options and 25,000 broker warrants as they are anti-dilutive.

Basic and diluted loss per share for the period from July 22, 2010 (date of incorporation) to December 31, 2010 is not presented as all shares outstanding were contingently issuable and therefore not considered to be outstanding for loss per share purposes.

9. 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 28.25% (2010 - 30.99%) to the net loss and comprehensive loss for the period. The reason for the difference is as follows:

		2011		2010
Loss before income taxes	**$**	**(101,675)**	$	(26,029)
Statutory rate		**28.25 %**		30.99 %
Expected income tax recovery	**$**	**(28,723)**	$	(8,066)
Share based payment		**13,144**		-
Share issue costs		**(20,008)**		(1,151)
Change in tax rates and other		**1,793**		(7,685)
Change in valuation allowance		**33,794**		16,902
Income tax expense (recovery)	**$**	**-**	$	-

Deferred Tax Balances

The components of the Company's deferred income tax asset are a result of the origination and reversal of temporary differences and are comprised of the following:

		2011		2010
Non-capital loss carryforwards	**$**	**27,303**	$	7,436
Share issuance costs		**23,393**		9,466
Valuation allowance		**(50,696)**		(16,902)
	$	**-**	$	-

(Expressed in Canadian Dollars)

9. INCOME TAX (Cont'd)

Losses Carried Forward

As at December 31, 2011, the Company has non-capital losses for income tax purposes of $109,212 available to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2030	$ 29,743
2031	79,469
	$ 109,212

10. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

Remuneration of Directors and key management of the Company was as follows:

	Year Ended December 31, 2011	Period from July 22, 2010 (date of Incorporation) to December 31, 2010
Share based payment (Note 7) [(i)]	**$ 46,527**	$ -

(i) Fair market value of incentive stock options issued to officers and directors.

Included in share issuance costs is $42,781 (2010 - $25,830) of fees paid to a law firm in which two directors of the Company are partners. The prior year comparative amount was included in deferred share issuance costs.

Included in accounts payable and accrued liabilities is $18,250 (2010 - $25,830) of fees payable to a law firm in which two directors of the Company are partners.

Included in professional fees is $30,104 (2010 - $Nil) of legal fees, including disbursements, paid to a law firm in which two directors of the Company are partners.

11. CAPITAL RISK MANAGEMENT

The Company includes equity, comprised of issued common shares, reserves 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. In addition, see Note 3.

There has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2011.

12. 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 December 31, 2011, the Company has accounts payable and accrued liabilities of $31,314 due within 12 months and has cash of $387,742. As a result the Company has minimal liquidity risk and has sufficient funds to meet its ongoing obligations.

13. CONVERSION TO IFRS

As stated in Significant Accounting Policies Note 2, these are the Company's first annual financial statements prepared in accordance with IFRS as issued by the IASB.

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the year ended December 31, 2011, the period from July 22, 2010 (date of incorporation) to December 31, 2010 and in the preparation of an opening IFRS statement of financial poisition at July 22, 2010 (the Company's date of transition).

13. CONVERSION TO IFRS (Cont'd)

First-time Adoption of IFRS

IFRS has been applied retrospectively at the date of transition to the statements of financial position and the statements of loss and comprehensive loss, changes in equity and cash flows with all adjustment to assets and liabilities as stated under Canadian GAAP taken to retained earnings, except where certain exemptions and elections were applied. The Company did not use the exemptions listed in IFRS 1.

Under pre-transition Canadian GAAP, listing fees relating to listing the Company's shares on the Exchange were considered incremental to issuing new shares and were accounted for as deferred share issuance costs at December 31, 2010. Under IFRS, listing fees are not considered incremental and are expensed. The Company has recorded a transition adjustment of $19,229 to expense prior year deferred share issuance costs. This is the only transition adjustment identified.

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 other then the the transition adjustment relating to listing fees describe above.

Transition Date Statement of Financial Position

The Company’s Transition Date IFRS statement of financial position is included as comparative information in the audited statements of financial position in these financial statements. Transition adjustments relating to the adoption of IFRS are presented below.

Comparative Audited Financial Statements

The changes in accounting policies resulting from the Company’s adoption of IFRS are presented below. The impact on the statement of cash flows for the period from July 22, 2010 (date of incorporation) to December 31, 2010 was net loss and comprehensive loss was increased by $19,229 while deferred share issuance costs was decreased by $19,229.

(Expressed in Canadian Dollars)

13. CONVERSION TO IFRS (Cont'd)

Reconciliation of Comprehensive Loss and Equity

Reconciliation of net loss and comprehensive loss	Period From July 22, 2010 (Date of incorporation) to December 31, 2010
Net loss and comprehensive loss under Canadian GAAP	$ 6,800
IFRS adjustments to net loss and comprehensive loss	19,229
Net loss and comprehensive loss under IFRS	$ 26,029

Reconciliation of shareholders' deficiency	December 31, 2010	July 22, 2010
Total shareholders' equity under Canadian GAAP	$ 93,200	$ -
IFRS adjustments to shareholders' equity	(19,229)	-
Total shareholders' equity under IFRS	$ 73,971	$ -

14. SUBSEQUENT EVENTS

On July 7, 2011 the Company announced that it had tentatively reached an agreement with Mercury Capital Limited ("Mercury") in respect to a proposed business combination to be effected by way of amalgamation of the parties which is expected to constitute the Mercury's Qualifying Transaction. The amalgamation was 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. Upon completion of the amalgamation, the Resulting Issuer (as defined in Policy 2.4 of the Exchange) became a Tier 2 Mining Issuer (as defined in Policy 2.1 of the Exchange).

As a result of the amalgamation Mercury changed it name to Canada Coal in these financial statements.

It was 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 was issued and outstanding. The shareholders of the Mercury owned 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 owned 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 Company and Mercury completed the business combination on February 23, 2012 ("Effective Date"). The Exchange has issued its acceptance of the Amalgamation, and the Resulting Issuer will commenced trading on the Exchange on February 29, 2012, under the symbol "CCK".

On the Effective Date, all common shares of Mercury and Canada Coal were exchanged for common shares of the Resulting Issuer, on a one-for-one basis. All outstanding compensation options and warrants and outstanding options issued pursuant to Mercury's stock option plan, remain outstanding and shall entitle the holder thereof to acquire Resulting Issuer Shares on the same terms and conditions as the original Mercury securities. All outstanding warrants, compensation warrants and options issued pursuant to Canada Coal's stock option plan, remain outstanding and shall entitle the holder thereof to acquire Resulting Issuer Shares on the same terms and conditions as the original Canada Coal securities.