CANADA COAL INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIODS ENDED JUNE 30, 2012 AND 2011
(EXPRESSED IN CANADIAN DOLLARS)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Canada Coal Inc. for the nine months ended June 30, 2012 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors. Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

CANADA COAL INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

	June 30, 2012	September 30, 2011
ASSETS		
Current		
Cash and cash equivalents (Note 7)	$ 5,575,483	$ 3,074,570
Receivables (Note 8)	152,279	75,306
Prepaids (Note 9)	73,111	-
Prepaid transaction costs	-	58,669
	5,800,873	3,208,545
Equipment (Note 10)	31,900	-
Exploration and evaluation expenditures (Note 11)	2,873,301	794,736
	$ 8,706,074	$ 4,003,281
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 12)	$ 1,180,202	$ 140,083
	1,180,202	140,083
Shareholders' equity		
Capital stock (Note 14)	7,394,680	2,871,329
Reserves	3,054,256	1,501,225
Deficit	(2,923,064)	(509,356)
	7,525,872	3,863,198
	$ 8,706,074	$ 4,003,281

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 11 and 17)

On behalf of the Board:

"R. B. Duncan", Director   "T. A. Fenton", Director

See accompanying notes to the unaudited condensed interim consolidated financial statements.

CANADA COAL INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED

	Three months ended June 30, 2012	Three months ended June 30, 2011 (i)	Nine months ended June 30, 2012	Nine months ended June 30, 2011
EXPENSES				
Management fees (Note 12)	$ 63,000	$ 60,000	$ 276,000	$ 100,000
Consulting fees	10,500	27,838	32,000	45,838
Office, rent, and miscellaneous	28,122	763	43,577	1,149
Professional fees (Notes 12)	12,815	16,274	171,320	19,340
Shareholder communications and promotion	2,490	2,550	21,634	2,550
Share based compensation (Note 14)	-	33,365	746,779	151,817
Transfer agent and filing fees	8,486	273	70,348	604
Travel and accommodation	15,866	4,840	26,067	4,840
Loss before other items	141,279	145,903	1,387,725	326,138
OTHER ITEMS				
Investment income	(19,930)	(1,065)	(54,856)	(1,065)
Reverse take-over transaction cost	-	-	1,187,770	-
Net loss and comprehensive loss for the period	$ 121,349	$ 144,838	$ 2,520,639	$325,073
Basic and diluted net loss per common share	$ 0.00	$ 0.01	$ 0.06	$ 0.04
Weighted average number of common shares outstanding	43,449,750	23,764,286	37,556,818	7,950,822

(i) It has determined that management fees for February and March 2011 of $40,000 should have been accrued and reported in the three and six months ended March 31, 2011 instead of May 2011, the month in which the fees were paid. The figures presented above reflect the expenses in the appropriate period.

See accompanying notes to the unaudited condensed interim consolidated financial statements.

CANADA COAL INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE NINE MONTHS ENDED

	June 30, 2012	June 30, 2011
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss for the period	$ (2,520,639)	$ (325,073)
Items not affecting cash:		
Reverse take-over transaction cost	1,187,770	-
Share based compensation	746,779	151,817
	(586,090)	(173,256)
Change in non-cash working capital items:		
(Increase)Decrease in receivables	(59,161)	(25,299)
Increase in prepaid expenditures	(73,111)	-
Increase(Decrease) in accounts payable and accrued liabilities	(34,424)	44,688
Net cash flows used by operating activities	(752,786)	(153,867)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placements and seed share placement	4,349,127	4,000,750
Share issue costs	(383,810)	(261,511)
Net cash flows from financing activities	3,965,317	3,739,239
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(997,610)	(224,901)
Purchase of equipment	(32,641)	-
Acquisition of Mercury's net cash	318,633	-
Net cash flows used by investing activities	(711,618)	(224,901)
Increase in cash and cash equivalents	2,500,913	3,360,471
Cash and cash equivalents, beginning of period	3,074,570	-
Cash and cash equivalents, end of period	$ 5,575,483	$ 3,360,471
Comprised of:		
Cash	87,276	159,406
Money market instruments	5,488,207	3,201,065
Cash paid for taxes during the period	-	-

Supplemental disclosure with respect to cash flows (Note 15)

See accompanying notes to the unaudited condensed interim consolidated financial statements.

CANADA COAL INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE PERIODS ENDED

			Reserves			
	Number of Shares	Capital Stock	Equity settled share-based payments reserve	Warrant reserve	Deficit	Total
Balance, September 30, 2010	-	-	-	-	(4,631)	(4,631)
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	20,000,000	2,728,540	-	1,271,460	-	4,000,000
Share based compensation	-	-	151,817	-	-	151,817
Issue costs-cash	-	(178,386)	-	(83,125)	-	(261,511)
Issue costs- non cash	-	(44,549)	-	44,549	-	-
Net loss and comprehensive loss for the nine month period	-	-	-	-	(325,073)	(325,073)
Balance, June 30, 2011	30,000,000	2,646,505	151,817	1,232,884	(329,704)	3,701,502
Share based compensation	-	-	63,591	-	-	63,591
Issued pursuant to private placements	1,500,000	224,824	-	75,176	-	300,000
Expiry of options	-	-	(22,243)	-	22,243	-
Net loss and comprehensive loss for the three month period	-	-	-	-	(201,895)	(201,895)
Balance, September 30, 2011	31,500,000	$ 2,871,329	$ 193,165	$ 1,308,060	$ (509,356)	$ 3,863,198
Share based compensation	-	-	746,779	-	-	746,779
Issued pursuant to private placement	8,600,000	3,546,843	-	753,157	-	4,300,000
Acquisition of Mercury Capital	3,349,750	1,373,398	138,769	6,048	-	1,518,215
Additional contribution for seed shares	-	49,127	-	-	-	49,127
Expiry of options	-	-	(106,931)	-	106,931	-
Issue costs-cash	-	(355,350)	-	(75,458)	-	(430,808)
Issue costs-non cash	-	(90,667)	-	90,667	-	-
Net Loss and comprehensive loss for the nine month period	-	-	-	-	(2,520,639)	(2,520,639)
Balance, June 30, 2012	43,449,750	7,394,680	971,782	2,082,474	(2,923,064)	7,525,872

See accompanying notes to the unaudited condensed interim consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Canada Coal Inc. (hereafter the "Company") was incorporated on August 26, 2010 under 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 unaudited condensed interim consolidated financial statements were approved by the Board of Directors on August 24, 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.

On November 4, 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, would each receive common shares and other securities of the resulting issuer on a one for one basis. The amalgamation constituted a qualifying transaction for Mercury Capital as defined in Policy 2.4 of the Exchange's Corporate Finance Manual.

Canada Coal Inc. was the resulting issuer from the amalgamation and upon completion of the amalgamation, was considered a Tier I mining issuer. Conditional approval for the transaction was received January 23, 2012 from the TSX Venture Exchange and shareholder approval was obtained on February 21, 2012. The amalgamation was effective February 23, 2012 and the Company began trading on the TSX Venture Exchange on February 29, 2012.

These condensed interim 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 June 30, 2012, the Company had working capital of $4,620,671 and an accumulated deficit of $2,923,064 compared to a working capital deficiency of $3,068,462 and an accumulated deficit of $509,356 as at September 30, 2011. 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 unaudited condensed interim 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.

2. STATEMENT OF COMPLIANCE

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations. Accordingly, these unaudited condensed interim consolidated financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes.

3. BASIS OF PRESENTATION

These unaudited condensed interim 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. In addition these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

In the preparation of these unaudited condensed interim 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 unaudited condensed interim 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.

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 June 30, 2012 and 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.

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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

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.

Equipment

Equipment is stated at cost less accumulated amortization and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Company amortizes cost less estimated residual values on a straight line method over the estimated useful life of the asset. The estimated useful life of assets is as follows:

Equipment	5 years
Vehicles	2 years

An item of equipment is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of loss and comprehensive loss.

The Company conducts an annual assessment of the residual balances, useful lives and amortization methods being used for equipment and any changes arising from the assessment are applied by the Company prospectively.

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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 pre-tax 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 June 30, 2012 and September 30, 2011.

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.

A provision for onerous contacts 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 June 30, 2012 and September 30, 2011.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Flow-through shares

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which offer a tax incentive to Canadian investors by transferring the tax deductibility of exploration expenditures from the Company to the investor.

The Company has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A liability is recognized for the premium paid by the investors. Upon renunciation of the flow through expenditures for Canadian income tax purposes, the liability component is derecognized and a deferred income tax liability is recognized for the taxable temporary difference created at the Company's applicable tax rate which is expected to apply in the year the deferred income tax liability will be settled. Any difference between the amount of the liability component derecognized and deferred income tax liability recognized is recorded in profit and loss.

Resource expenditure deductions for income tax purposes related to exploration and evaluation activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation.

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.

Continued…

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (Continued)
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 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.

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 June 30, 2012 and 2011, 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 unaudited condensed interim 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.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets’ carrying values and impairment charges
In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Continued…

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates (Continued)

Capitalization of exploration and evaluation costs
Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of operating facilities, operating management expertise and existing permits.

Impairment of exploration and evaluation assets
While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

Estimation of decommissioning and restoration costs and the timing of expenditure
The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Income taxes and recoverability of potential deferred tax assets
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Share-based Payments
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Continued…

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.

IAS 1 Presentation of Financial Statements (“IAS 1”) 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. The Company has not yet determined the impact of the amendment 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 period ended June 30, 2012. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

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 June 30, 2012 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.

(EXPRESSED IN CANADIAN DOLLARS)

7. CASH AND CASH EQUIVALENTS

The Company's short term money market instruments accrue interest between 1.25% to 1.35% per annum and are redeemable at any time without penalty.

8. RECEIVABLES

The receivables balance is comprised of the following items:

	June 30, 2012	September 30, 2011
Sales tax due from Federal Government	$ 152,279	$ 75,306
Total	$ 152,279	$ 75,306

9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

	June 30, 2012	September 30, 2011
Rent and security deposit	$ -	$ -
Insurance	9,611	-
Consultants	53,500	-
Professional fees retainer	10,000	-
Investor relations and communications	-	-
Other	-	-
Total	$ 73,111	$ -

10. EQUIPMENT

	Equipment	Vehicles	Total
Cost			
Balance September 30, 2011	$ -	$ -	$ -
Acquisitions	14,945	17,696	32,641
Balance June 30, 2012	14,495	17,696	32,641
Accumulated amortization			
Balance, September 30, 2011	-	-	-
Amortization	249	492	741
Balance, June 30, 2012	249	492	741
Carrying Value			
At September 30, 2011	$ -	$ -	$ -
At June 30, 2012	$ 14,696	$ 17,204	$ 31,900

(EXPRESSED IN CANADIAN DOLLARS)

11. 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. The Company was granted licenses for all of its coal exploration license applications.

At June 30, 2012 and September 30, 2011, expenditures incurred on mineral claims were as follows:

	As at June 30, 2012	As at September 30, 2011
Acquisition costs:		
Balance, beginning of the period	$ 265,829	$ 5,074
Additions during the period	-	260,755
Acquisitions, end of period	265,829	265,829
Deferred exploration costs:		
Balance, beginning of the period	528,907	-
Satellite Imagery	-	122,812
Geologists and consultants	561,287	96,475
Permitting	14,550	39,488
Community consultation	47,745	-
Assays	4,299	-
Field supplies	36,137	828
Equipment rental	10,923	-
Transportation	674,071	-
Fuel	181,904	-
License, maintenance fees	260,037	-
Travel, meals and accommodation	275,536	267,828
Amortization	741	-
Administrative and other expenses	11,335	1,476
Deferred exploration, end of period	2,607,472	528,907
Total, end of period	$ 2,873,301	$ 794,736

(EXPRESSED IN CANADIAN DOLLARS)

12. 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	Nine months ended June 30, 2012	Nine months ended June 30, 2011
West Oak Capital	Management fees	a	$ 84,000	$ 60,000
Abraham Jonker	Management fees	b	$ 138,000	$ -
Olga Nikitovic	Management fees	c	$ 54,000	$ 40,000
Aird & Berlis	Legal fees	d	$ 175,758	$ 37,777
Evolving Gold	Rent	e	$ 7,500	$ -

a) West Oak Capital Partners Inc. ("West Oak") is owned by R. B. Duncan, the Company's CEO until February 23, 2012 at which time Mr. Duncan became the Executive Chairman of the Board. The fees paid to West Oak relate to management fees.

b) Abraham Jonker became CEO of the Company on February 23, 2012. His fees, which included a $90,000 signing bonus, are included in management fees.

c) Olga Nikitovic is the CFO of the Company. The fees paid relate to financial management and accounting services and are classified as management fees.

d) 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 $135,925 (2011: $18,376) are reflected as professional fees, legal fees related to the acquisition of mineral properties of $Nil (2011: $7,939) are reflected in exploration and evaluation expenditures, fees related to the private placements of $39,833 (2011: $11,462) are reflected as share issue costs. Legal fees included in accounts payable at June 30, 2012 are $2,935 (2011: $11,394).

e) The Company shares office space with Evolving Gold Corp. ("Evolving Gold") and accordingly pays rent of $1,500 per month to Evolving Gold. The Company and Evolving Gold share one common officer and two common directors. The costs are included in office, rent and miscellaneous expense.

Compensation of key management personnel

	Notes	Nine months ended June 30, 2012	Nine months ended June 30, 2011
Salaries	a	$ 276,000	$ 100,000
Share-based payments	b	$ 746,779	$ 151,817

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 Executive Chairman, CEO and CFO included in trading transactions above.

b) Share-based payments are the fair value of options granted to key management and directors.

(EXPRESSED IN CANADIAN DOLLARS)

13. REVERSE ACQUISITION

Mercury Capital Limited ("Mercury") and Canada Coal Inc. signed a definitive agreement (“Agreement”) dated November 4, 2011. Under the terms of the Agreement, holders of common shares and other securities such as options and warrants of Canada Coal and Mercury, each received common shares and other securities of the resulting issuer on a one for one basis. The amalgamation constituted a qualifying transaction for Mercury as defined in Policy 2.4 of the Exchange's Corporate Finance Manual. The resulting issuer was named Canada Coal Inc. The amalgamation was completed on February 23, 2012.

As a result of the transaction, the former shareholders of the original Canada Coal owned 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 financial statements are 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 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 transaction recognizes the acquisition of all of the shares of Mercury by Canada Coal. The fair value of Canada Coal's shares based on the value from the private placement described in 12(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 $138,769 and $6,048, 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 $330,445 and the resulting reverse acquisition cost charged to the statements of loss and comprehensive loss is as follows:

Consideration	
Shares	$1,373,398
Options	138,769
Warrants	6,048
	$1,518,215
Identifiable assets acquired	
Cash	318,633
Other receivables	17,812
Account payable and accrued liabilities	(6,000)
Unidentifiable assets acquired	
Reverse takeover transaction cost	1,187,770
Total net identifiable assets and reverse takeover transaction cost	$1,518,215

(EXPRESSED IN CANADIAN DOLLARS)

14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Capital Stock
The Company has authorized an unlimited number of common shares without par value. As at June 30, 2012, the Company had 43,449,750 common shares outstanding (2011: 30,000,000). As at September 30, 2011, the Company had 31,500,000 common shares outstanding.

For the nine month period ended June 30, 2012, the Company entered into the following capital stock transactions:

a) 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 consisted 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. $585,000 of the flow through proceeds has been allocated to warrants.

   The proceeds from the issuance of subscription receipts were held in escrow until the amalgamation was complete. The 2,100,000 subscription units were issued for gross proceeds of $1,050,000 of which $168,157 has been allocated to warrants. In February 2012, each holder of a subscription unit received one common share and one half of one common share purchase warrant exercisable at $0.80 for three years from the date of closing.

   Finders' fees of $301,000 cash were paid and 602,000 broker warrants valued at $ 110,570 were issued. The broker warrants are exercisable at $0.80 for a period of three years. Total cash issue costs were $430,808.

b) In November 2011, 2,100,000 stock options were granted to directors. The stock options have an exercise price of $0.50 and have a life of five years.

c) The seed shareholders agreed to contribute an additional $49,127 for their shares to comply with Founder share limits set by the Exchange.

d) On February 23, 2012, the Company issued 3,349,750 shares valued at $1,373,398, 419,950 options valued at $138,769 and 25,000 warrants valued at $6,048 for the acquisition of the net assets of Mercury.

Share purchase warrants

At June 30, 2012, 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	0.81	804,000	0.81
May 4, 2013	0.20	821,000	0.84	821,000	0.84
March 1, 2014	0.30	21,500,000	1.67	21,500,000	1.67
November 4, 2014	0.80	4,902,000	2.34	4,902,000	2.34
		28,027,000	1.74	28,027,000	1.74

(i) Warrants issued as part of the April 21, 2011, May 4, 2011 and June 30, 2011 private placements 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. As the Company was listed on February 29, 2012, the expiry date for those warrants is March 1, 2014.

(EXPRESSED IN CANADIAN DOLLARS)

14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Share purchase warrants (Continued)

The following is a summary of the warrant transactions for the nine months ended June 30, 2012 and the year ended September 30, 2011

	Nine months ended June 30, 2012		Year ended September 30, 2011	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of the period	23,100,000	0.29	-	-
Warrants issued pursuant to private placements	4,300,000	0.80	21,500,000	0.30
Warrants issued to brokers pursuant to private placements	602,000	0.80	1,600,000	0.20
Warrants issued pursuant to acquisition of Mercury Capital	25,000	0.20	1,600,000	0.20
Balance, end of period	28,027,000	0.38	23,100,000	0.29

The following weighted average assumptions were used for the Black-Scholes valuation of warrants issued for the nine month period ended June 30, 2012 and the year ended September 30, 2011.

	Nine months Ended June 30, 2012	Year ended September 30, 2011
Risk-free interest rate	1.10%	1.89%
Expected life of warrants	2.92 years	2.54 years
Expected annualized volatility	92.5%	105.7%
Expected dividend rate	0.00%	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.

(EXPRESSED IN CANADIAN DOLLARS)

14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Stock Options (Continued)

As at June 30, 2012, the following incentive stock options were outstanding:

		Options Outstanding		Options Exercisable	
Expiry Date	Exercise Price	Number of Options Outstanding	Weighted average remaining contractual life (years)	Number of Options Vested	Weighted average remaining contractual life (years)
February 2, 2013	0.20	159,975	0.59	159,975	0.59
February 21, 2016	0.20	1,000,000	3.65	1,000,000	3.65
June 21, 2016	0.20	100,000	3.98	100,000	3.98
August 1, 2016	0.20	500,000	4.08	500,000	4.08
November 1, 2016	0.50	200,000	4.33	200,000	4.33
November 4, 2016	0.50	1,600,000	4.34	1,600,000	4.34
January 28, 2021	0.20	259,975	8.58	259,975	8.58
		3,819,950	4.25	3,819,950	4.25

The following is a summary of the stock option transactions for the nine months ended June 30, 2012 and for the year ended September 30, 2011.

	Nine months ended June 30, 2012		Year ended September 30, 2011	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of the period	1,600,000	0.20	-	-
Options granted	2,100,000	0.50	1,800,000	0.20
Options issued pursuant to acquisition of Mercury	419,950	0.20	-	-
Options expired	(300,000)	0.20	(200,000)	0.20
Balance, end of period	3,819,950	0.34	1,600,000	0.20

The following weighted average assumptions were used for the Black-Scholes valuation of options granted for the nine months ended June 30, 2012 and the year ended September 30, 2011.

	Nine months ended June 30, 2012	Year ended September 30, 2011
Risk-free interest rate	1.45%	2.33%
Expected life of options	5.2 years	5 years
Expected annualized volatility	131.8%	132.5%
Expected dividend rate	0.00%	0.00%

14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Stock based compensation

The Company granted 2,100,000 options for the nine month period ending June 30, 2012 (2011: 1,300,000). The options vested immediately upon grant. Total share-based compensation for the nine month period ended June 30, 2012 was $746,779 (2011: $151,817) and has been expensed with a corresponding amount being recorded in the equity settled share- based payments reserve.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash financing and investing transactions for the nine month period ended June 30, 2012 consisted of:

a) The issuance of warrants for services valued at $110,570.
b) Increase in accrued exploration and evaluation expenditures of $1,080,214.
c) Decrease in accrued prepaid transaction costs of $11,672.
d) Issued 3,349,750 shares valued at $1,373,398, 419,950 options valued at $138,769 and 25,000 warrants valued at $6,048 to Mercury for the acquisition of net assets of Mercury.

Significant non-cash financing and investing transaction for the nine month period ended June 30, 2011 consisted of:

a) The issuance of 2,500,000 shares valued at $140,150 pursuant to the acquisition of mineral property interests.
b) Increase in accrued exploration and evaluation expenditures of $13,033.

16. 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.

17. COMMITMENTS

The Company is obligated to spend $3,250,000 by December 31, 2012 as part of the flow through funding agreement for shares issued in November 2011. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to flow through participants. The Company has indemnified the subscribers for any related tax amounts that become payable by the subscribers as a result of the Company not meeting its expenditure commitments.

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 ($177,000 in 2012) with respect to these contracts. These contracts contain clauses requiring additional payments of up to $480,000 to 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 unaudited condensed interim consolidated financial statements.

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.