CANADA COAL INC.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(EXPRESSED IN CANADIAN DOLLARS)

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

2005 Sheppard Avenue East, Suite 300
Toronto, Ontario
M2J 5B4, Canada
Phone 416-496-1234
Fax 416-496-0125
Web www.mhc-ca.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canada Coal Inc.

We have audited the accompanying consolidated financial statements of Canada Coal Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2015 and 2014, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Coal Inc. and its subsidiaries as at September 30, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
November 26, 2015

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

	September 30, 2015	September 30, 2014
ASSETS		
Current		
Cash and cash equivalents (Note 7)	$ 1,561,113	$ 1,781,371
Receivables (Notes 8 and 11)	14,055	8,038
Prepaid expenses (Note 9)	7,793	38,702
Total Current Assets	1,582,961	1,828,111
Investment (Note 10)	-	37,043
Total Assets	$ 1,582,961	$ 1,865,154
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 12)	$ 23,988	$ 33,278
Total Liabilities	23,988	33,278
Shareholders' equity		
Capital stock (Note 13)	7,440,037	7,440,037
Reserves	516,260	1,302,544
Deficit	(6,397,324)	(6,910,705)
Total Shareholders' Equity	1,558,973	1,831,876
Total Liabilities and Shareholders' Equity	$ 1,582,961	$ 1,865,154

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 consolidated financial statements.

CANADA COAL INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED SEPTEMBER 30

	2015	2014
EXPENSES		
Management fees (Note 12)	$ 156,000	$ 196,000
Consulting fees	7,000	50,023
Office, rent, and miscellaneous (Note 12)	16,193	41,045
Professional fees (Note 12)	27,241	39,147
Shareholder communications and promotion	749	18,191
Share-based compensation (Notes 12 and 13)	-	10,713
Property/project investigation costs (Note 12)	36,042	16,874
Transfer agent and filing fees	17,820	22,000
Travel and accommodation	-	17,275
Loss before other items	261,045	411,268
OTHER ITEMS		
Investment income	(17,227)	(20,059)
Share of losses of equity associate (Note 10)	285	4,207
Impairment in investment (Note 10)	36,758	-
Write off of equipment	-	11,893
Recovery (write off) of exploration and evaluation expenditures (Note 11)	(7,958)	4,460,148
Net loss before income taxes	272,903	4,867,457
Deferred income tax (recovery) (Note 15)	(102,769)	(486,630)
Net loss and comprehensive loss for the year	$ 170,134	$ 4,380,827
Basic and diluted net loss per common share	$ 0.00	$ 0.10
Weighted average number of common shares outstanding – basic and diluted	43,449,750	43,449,750

See accompanying notes to the consolidated financial statements.

CANADA COAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED SEPTEMBER 30

	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss for the year	$ (170,134)	$ (4,380,827)
Items not affecting cash:		
Deferred income tax recovery	(102,769)	(486,630)
Share-based compensation	-	10,713
Share of losses of equity associate	285	4,207
Impairment of investment	36,758	
Write off of equipment	-	11,893
(Recovery) write off of exploration and evaluation expenditures	(7,958)	4,460,148
	(243,818)	(380,496)
Change in non-cash working capital items:		
Decrease in receivables	1,941	8,039
Decrease (increase) in prepaid expenses	30,909	(17,326)
(Decrease) in accounts payable and accrued liabilities	(9,290)	(1,786)
Net cash flows (used by) operating activities	(220,258)	(391,569)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	-	(32,187)
Refund of coal licence deposits	-	321,351
Net cash flows from investing activities	-	289,164
(Decrease) in cash and cash equivalents	(220,258)	(102,405)
Cash and cash equivalents, beginning of year	1,781,371	1,883,776
Cash and cash equivalents, end of year	$ 1,561,113	$ 1,781,371
Cash and cash equivalents, comprised of:		
Cash	$ 42,757	$ 74,660
Short term money market investments	1,518,356	1,706,711
	$ 1,561,113	$ 1,781,371

Supplemental disclosure with respect to cash flows (Note 14)

See accompanying notes to the consolidated financial statements.

CANADA COAL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED

	Number of Shares	Capital Stock	Reserves: Equity Settled Share-Based Payments Reserve	Reserves: Warrant Reserve	Deficit	Total
Balance, September 30, 2013	43,449,750	$ 7,596,420	$ 940,191	$ 2,073,211	$ (4,040,202)	$ 6,569,620
Share-based compensation	-	-	10,713	-	-	10,713
Expiry of options	-	-	(425,421)	-	425,421	-
Expiry of warrants	-	-	-	(1,249,686)	1,249,686	-
Tax effect of warrant expiry	-	-	-	-	(164,783)	(164,783)
Reversal of deferred income tax recovery on share issue costs	-	(156,383)	-	(46,464)	-	(202,847)
Net loss and comprehensive loss for the year	-	-	-	-	(4,380,827)	(4,380,827)
Balance, September 30, 2014	43,449,750	7,440,037	525,483	777,061	(6,910,705)	1,831,876
Expiry of options	-	-	(9,223)	-	9,223	-
Expiry of warrants	-	-	-	(777,061)	777,061	-
Tax effect of warrant expiry	-	-	-	-	(102,769)	(102,769)
Net loss and comprehensive loss for the year	-	-	-	-	(170,134)	(170,134)
Balance, September 30, 2015	43,449,750	$ 7,440,037	$ 516,260	$ -	$ (6,397,324)	$ 1,558,973

See accompanying notes to consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Canada Coal Inc. (hereafter the "Company" or "Canada Coal") 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 exploration on its projects and as such, to date, has not generated significant revenues from its operations.

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

These consolidated financial statements were approved by the Board of Directors on November 26, 2015.

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 expenditures incurred for exploration and evaluation expenditures is 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.

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, and political uncertainty.

These consolidated financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at September 30, 2015, the Company had working capital of $1,558,973 and an accumulated deficit of $6,397,324 compared with working capital of $1,794,833 and an accumulated deficit of $6,910,705 as at September 30, 2014. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations.

3. BASIS OF PRESENTATION

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as held-for-trading, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Continued…

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Canadian Sovereign Coal Corp., a company incorporated under the laws of British Columbia, and 5200 Nunavut Ltd., a company incorporated under the laws of Nunavut. The subsidiaries hold title to the coal licences but have no other assets or liabilities. 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 to exist when the Company is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 money market investments with original maturities of 90 days or less which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and are available on demand by the Company.

Financial instruments

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are measured at fair value with subsequent changes in fair value recognized in the statement of loss. As at September 30, 2015 and September 30, 2014, 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. As at September 30, 2015 and September 30, 2014, 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. 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 (loss). 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. As at September 30, 2015 and September 30, 2014, the Company has no available-for-sale assets.

Continued…

4. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments (Continued)

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. The Company has classified accounts payable and accrued liabilities as other financial liabilities, which are carried at amortized cost. Due to their short-term natures, the fair values of these financial instruments approximate their carrying values, and are not subject to significant credit or interest rate risk.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At September 30, 2015 and September 30, 2014, 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.

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.

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 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.

Investments

Investments in associates are accounted for using the equity method based on the Company's ability to exercise significant influence over the operating and financial policies of the investee. Investments of this nature are recorded at original cost and adjusted periodically to recognize the Company's proportionate share of the associate's net income or losses after the date of investment, additional contributions made and dividends received. Investments are written down when there has been a significant or prolonged decline in fair value.

Continued…

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

The Canadian dollar is the functional and reporting currency of the Company and its subsidiaries. All monetary assets and liabilities are translated at the rate of exchange at the financial reporting 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 statement of financial position 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.

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 exploration and evaluation expenditures 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. At September 30, 2015 and 2014, the carrying value of the Company's exploration and evaluation expenditures was written off.

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 September 30, 2015 and September 30, 2014.

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.

Continued…

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions (Continued)
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 September 30, 2015 and 2014.

Share-based payment transactions
In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The fair value of stock options granted to employees is recognized as an expense over the vesting period with a corresponding increase in the equity settled share-based payments reserve account. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Unexercised expired stock options are transferred to deficit.

Warrants
Warrants are recognized at fair value on the date of grant and are measured using the Black-Scholes option pricing model. Incremental costs directly attributable to the issue of new warrants are shown in equity as a deduction, net of tax, from the proceeds. Unexercised expired warrants are transferred to deficit.

Income taxes
Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and to the extent that the Company does not consider it probable that a future tax asset will be recovered, it is not recognized.

Continued…

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The proceeds upon the exercise of the options and warrants are used to purchase common shares at the average market price during the period. During the years ended September 30, 2015 and 2014, all the outstanding stock options and warrants were anti-dilutive.

Comprehensive loss

Other comprehensive loss represents the change in net equity for the period that arises from unrealized gains and losses on available-for-sale financial instruments. Amounts included in other comprehensive loss are shown net of tax. Cumulative changes in other comprehensive loss are presented separately in the consolidated statement of changes in equity. The Company has no financial assets classified as available for sale, and accordingly, net loss is equivalent to comprehensive loss.

Use of estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of the assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. The impact of these estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. Estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant estimates made by the Company include factors affecting the recoverability of exploration and evaluation expenditures, inputs used for share-based payment transactions, inputs used for valuation of warrants and valuation of 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.

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.

Continued…

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates (Continued)

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.

Adoption of new and amended IFRS pronouncements
The Company has adopted the new and amended IFRS pronouncements listed below as at October 1, 2014, in accordance with the transitional provisions outlined in the respective standards. The adoption of these standards did not materially impact the Company's consolidated financial statements.

IFRS 2 Share-based Payment ("IFRS 2") was amended to clarify the definition of "vesting conditions", and separately define a "performance condition" and a "service condition". A performance condition requires the counterparty to complete a specified period of service and to meet a specified performance target during the service period. A service condition solely requires the counterparty to complete a specified period of service.

IFRS 13 Fair Value Measurement ("IFRS 13") was amended to clarify that the exception which allows fair value measurements of a group of financial assets and liabilities on a net basis applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or liabilities as defined in IAS 32.

IAS 24 Related Party Disclosures ("IAS 24") was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity.

IAS 32 Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

IAS 36 Impairments of Assets ("IAS 36") was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount.

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 October 1, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 Financial Instruments: Classification and Measurement ("IFRS 9"), effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.

Continued…

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new and amended IFRS pronouncements (Continued)

IFRS 10 Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

IAS 1 Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

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 opportunities and seek to acquire an interest in additional properties or projects 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 significant changes in the Company's approach to capital management during the years ended September 30, 2015 and 2014. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements at September 30, 2015 and September 30, 2014.

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 and a refund of licence deposits 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 however it will require additional cash to fund a Phase II work program on its coal assets.

Continued…

6. FINANCIAL RISK FACTORS (Continued)

Market risk
(a) Interest rate risk
The Company has cash balances and no interest-bearing debt therefore, interest rate risk is minimal.

(b) Foreign currency risk
The majority of the Company's administrative expenditures are transacted in Canadian dollars. The Company funds certain expenses in the United States on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Management does not hedge its foreign exchange risk. A 1% change in foreign exchange rates between the Canadian and US dollar at September 30, 2015 would not have a significant impact on the Company's financial statements.

(c) Price risk
The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(d) Sensitivity analysis
Based on management's knowledge and experience of the financial markets, the Company does not expect material movements in the underlying market risk variables over the next three-month period.

7. CASH AND CASH EQUIVALENTS

The Company's short term money market instruments accrue interest between 0.75% and 1.25% per annum (2014: 1.25% and 1.35% per annum) and are redeemable at any time without penalty.

8. RECEIVABLES

The receivables balance is comprised of the following items:

	September 30, 2015	September 30, 2014
Sales tax due from Federal Government	$ 3,178	$ 5,119
License fees (Note 11)	10,877	2,919
Total	$ 14,055	$ 8,038

9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

	September 30, 2015	September 30, 2014
Consulting	$ -	$ 23,435
Property investigation	-	7,550
Insurance	5,548	5,222
Promotion	2,245	2,495
Total	$ 7,793	$ 38,702

Continued…

10. INVESTMENT

In October 2012, the Company acquired a 25% interest in Nord Iron Mines ("Nord Iron"), a private company, for $50,000. The Company exercises significant influence over Nord Iron and accordingly accounts for its investment on an equity method basis. Nord Iron acquired mineral interests in certain claims; however, title ownership is currently being litigated. For the year ended September 30, 2015, the Company recorded an equity loss of $285 (2014: $4,207) with respect to its investment in Nord Iron. As at September 30, 2015, the Company wrote off the carrying value of $36,758 to reflect an impairment in the value of the investment. The impairment is based on the general decline of investor support in the mining sector and the uncertainty as to the timing and resolution of the on-going litigation.

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 licences and eight coal exploration licence applications 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 a 100% interest in the coal licences and licence 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. The Company has not made any advance royalty payments as at September 30, 2015.

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 arm's length third party vendors. The only assets held by 5200 were interests in seven coal exploration licences located in Nunavut. As consideration for the acquisition, the Company paid $15,700 and issued 1,000,000 shares valued at $140,000.

In fiscal 2011, 51 coal exploration licences were acquired and an additional 11 licences were acquired in fiscal 2013. In May 2013, the Company applied for two coal exploration licences near Pond Inlet on Baffin Island. As of September 30, 2014, the licences had not been issued. Given the delays, the Company withdrew the licence applications and requested a refund of the application fees in the amount of $2,919.

In June 2013, seven of the licence blocks held by the Company expired. The Company submitted applications to reacquire the area covered by the expired licences. As of September 30, 2015, the licences had not been issued. The Company has withdrawn the licence applications and requested a refund of the application fees of $7,958.

As at September 30, 2014, the Company has written off all exploration and evaluation expenditures due to the uncertainty of reaching an agreement with the local community with respect to its proposed exploration plan.

Continued…

(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	Year ended September 30, 2015	Year ended September 30, 2014
West Oak Capital	Management fees	a	$ 96,000	$ 96,000
Abraham Jonker	Management fees	b	$ -	$ 40,000
Olga Nikitovic	Management fees	c	$ 60,000	$ 60,000
Aird & Berlis	Legal fees	d	$ 4,046	$ 24,180
Evolving Gold	Rent	e	$ 1,500	$ 18,000

a) West Oak Capital Partners Inc. ("West Oak") is owned by R. B. Duncan, the Company's Executive Chairman of the Board and CEO. The fees paid to West Oak are included in management fees.

b) Abraham Jonker resigned effective February 28, 2014 as the Company's CEO. His fees 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 $4,046 (2014: $12,756) are included in professional fees and $Nil (2014: $11,424) are included in property/project investigation costs. Legal fees included in accounts payable at September 30, 2015 are $Nil (2014: $4,021).

e) The Company shared office space with Evolving Gold Corp. ("Evolving Gold") and accordingly paid rent. The payment of rent ceased as of November 1, 2014. The Company and Evolving Gold share one common officer and director. The costs are included in office, rent and miscellaneous expense.

Compensation of key management personnel

	Notes	Year ended September 30, 2015	Year ended September 30, 2014
Salaries	a	$ 156,000	$ 196,000
Share-based payments	b	-	10,713
Total		$ 156,000	$ 206,713

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 and are included in trading transactions above.

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

Continued…

(EXPRESSED IN CANADIAN DOLLARS)

13. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Capital Stock

The Company has authorized an unlimited number of common shares without par value. As at September 30, 2015 the Company had 43,449,750 common shares outstanding (September 30, 2014 : 43,449,750).

The Company did not enter into any capital stock transactions for the year ended September 30, 2015.

For the year ended September 30, 2014, the Company entered into the following capital stock transactions:

a) In January 2014, 200,000 stock options were granted to a director. The stock options vested immediately, have an exercise price of $0.20 and have a life of five years. The options had a grant date fair value of $1,490 determined using the Black-Scholes option pricing model.

b) In April 2014, 200,000 stock options were granted to a director. The stock options vested immediately, have an exercise price of $0.20 and have a life of five years. The options had a grant date fair value of $9,223 determined using the Black-Scholes option pricing model.

Share purchase warrants

At September 30, 2015, there were no warrants outstanding.

The following is a summary of the warrant transactions for the years ended September 30, 2015 and 2014.

	Year ended September 30, 2015		Year ended September 30, 2014	
	Number Of Warrants	Weighted Average Exercise Price $	Number Of Warrants	Weighted Average Exercise Price $
Balance, beginning of the year	4,902,000	0.80	26,402,000	0.39
Warrants expired	(4,902,000)	0.80	(21,500,000)	0.30
Balance, end of year	-	-	4,902,000	0.80

The Company recorded a deferred tax recovery of $102,769 related to the tax effect of the expiry of warrants in fiscal 2015 (2014 - $164,783).

Stock options

The Company may grant stock options pursuant to a stock option plan (the “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.

Continued…

(EXPRESSED IN CANADIAN DOLLARS)

13. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

Stock options (Continued)

As at September 30, 2015, the following incentive stock options were outstanding:

		Options Outstanding and Exercisable	
Expiry Date	Exercise Price $	Number of Options Outstanding and Exercisable	Weighted average remaining contractual life (years)
February 21, 2016	0.20	900,000	0.40
November 1, 2016	0.50	200,000	1.08
November 4, 2016	0.50	950,000	1.09
January 23, 2019	0.20	200,000	3.31
		2,250,000	1.01

The following is a summary of the stock option transactions for the years ended September 30, 2015 and 2014.

	Year ended September 30, 2015		Year ended September 30, 2014	
	Number Of Options	Weighted Average Exercise Price $	Number Of Options	Weighted Average Exercise Price $
Balance, beginning of the year	2,450,000	0.34	3,859,975	0.34
Options granted	-	-	400,000	0.20
Options expired	(200,000)	0.20	(1,809,975)	0.31
Balance, end of year	2,250,000	0.35	2,450,000	0.34

The following weighted average assumptions were used for the Black-Scholes valuation of options granted for the years ended September 30, 2015 and 2014.

	September 30, 2015	September 30, 2014
Risk-free interest rate	-	1.61%
Expected life of options	-	5.0 years
Expected annualized volatility	-	96.28%
Expected dividend rate	-	0.00%

Volatility was estimated based on historical prices of comparable companies due to the Company's lack of history.

Share-based compensation

There were no options granted during the year ended September 30, 2015 (2014: 400,000). Share-based compensation expense for the year ended September 30, 2015 was $Nil (2014: $10,713).

Continued…

(EXPRESSED IN CANADIAN DOLLARS)

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

There were no significant non-cash financing and investing transactions for the year ended September 30, 2015.

Significant non-cash financing and investing transactions for the year ended September 30, 2014 consisted of:

a) Decrease in accrued exploration and evaluation expenditures of $16,231.
b) Decrease in receivables related to exploration and evaluation expenditures of $60,635.
c) Amortization in exploration and evaluation expenditures of $8,892.
d) Decrease in prepaid expenses related to exploration and evaluation expenditures of $15,885.

15. INCOME TAXES

a) Provision for income taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 27% (2014 – 27%) were as follows:

	2015 $	2014 $
Net loss before income taxes	(272,903)	(4,867,457)
Expected income tax (recovery) based on statutory rate	(73,000)	(1,302,000)
Adjustment to income tax benefit:		
Expenses not deductible for tax purposes and other	-	48,217
Change in benefit of tax assets recognized	(29,769)	
Change in benefit of tax assets not recognized	-	767,153
Deferred income tax (recovery)	(102,769)	(486,630)

b) Deferred income tax

	2015 $	2014 $
<u>Unrecognized deductible temporary differences</u> Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:		
Mineral properties and exploration expenditures	2,876,000	2,855,000
Share issue costs	108,000	298,000
Non capital loss carryforwards	450,000	459,000
Other temporary differences	50,000	13,000
Total	3,484,000	3,625,000

The tax losses expire from 2029 to 2035. The other temporary differences do not expire under current legislation.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

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 a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

Continued…

17. COMMITMENTS AND CONTINGENCIES

The Company's exploration and evaluation 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.

The Company entered into certain management contracts which contain clauses requiring additional payments of up to $480,000 to be made upon the occurrence of certain events such as a change of control. As a trigger event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.