

Colonial Coal International Corp.

(An Exploration Stage Company)

Condensed Interim Consolidated Financial Statements First Quarter Ended October 31, 2015

(Unaudited - Expressed in Canadian dollars)

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

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 financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Colonial Coal International Corp.

(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Expressed in Canadian dollars)

	Note	October 31, 2015 \$	July 31, 2015 \$
Assets			
Current assets			
Cash		1,696,580	2,090,437
Short term investments		88,026	88,026
Receivables and prepaids	4	75,584	80,055
Marketable securities	5	236,561	297,719
		<u>2,096,751</u>	<u>2,556,237</u>
Coal properties and deferred exploration	6	10,793,634	10,719,973
Reclamation deposits		222,300	222,300
Equipment		8,564	9,274
Deferred acquisition costs	7	1	1
		<u>11,024,499</u>	<u>10,951,548</u>
		<u>13,121,250</u>	<u>13,507,785</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		127,143	131,204
Due to related parties	9	27,948	25,078
		<u>155,091</u>	<u>156,282</u>
Equity Attributable to Shareholders			
Share capital	8	27,193,476	27,193,476
Contributed surplus		5,992,500	5,992,500
Deficit		(20,219,817)	(19,834,473)
		<u>12,966,159</u>	<u>13,351,503</u>
		<u>13,121,250</u>	<u>13,507,785</u>

Commitments (Notes 6 and 10)

Subsequent event (Note 13)

On behalf of the Board

(signed) "Ian Downie"

(signed) "David Austin"

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Colonial Coal International Corp.

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Condensed Interim Consolidated Statements of Comprehensive Loss

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian dollars)

	Note	2015 \$	2014 \$
Expenses			
Amortization		710	860
Business investigation	7	11,253	114,882
Consulting	9	64,241	54,918
Directors' fees	9	4,500	4,500
Filing and listing fees		6,399	1,092
Foreign exchange loss		155	469
Management fees	9	123,500	127,500
Office and administration		49,918	58,958
Professional fees	9	55,717	45,014
Salaries and benefits		-	35,000
Shareholder communications		707	6,552
Travel and promotion		12,808	40,648
Workers compensation fees		2,139	3,121
		<u>(332,047)</u>	<u>(493,514)</u>
Other income (expense)			
Interest income		7,861	7,042
Impairment of marketable securities	5	(61,158)	-
		<u>(385,344)</u>	<u>(486,472)</u>
Net loss for the period			
Other comprehensive income (loss)			
Items that may be reclassified subsequently to profit or loss:			
Unrealized loss on marketable securities		(61,158)	(39,779)
Impairment of marketable securities		61,158	-
		<u>-</u>	<u>(39,779)</u>
Total other comprehensive loss for the period			
		<u>(385,344)</u>	<u>(526,251)</u>
Total comprehensive loss for the period			
		<u>(0.00)</u>	<u>(0.01)</u>
Basic and diluted net loss per common share			
		<u>96,808,396</u>	<u>65,091,896</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Colonial Coal International Corp.

(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian dollars)

	Issued Share Capital		Contributed Surplus	AOCI	Deficit	Total
	Number of Shares #	Amount \$				
Balance at July 31, 2015	96,808,396	27,193,476	5,992,500	-	(19,834,473)	13,351,503
Total comprehensive loss for the period	-	-	-	-	(385,344)	(385,344)
Balance at October 31, 2015	96,808,396	27,193,476	5,992,500	-	(20,219,817)	12,966,159
Balance at July 31, 2014	65,091,896	24,021,826	5,992,500	-	(17,528,568)	12,485,758
Total comprehensive loss for the period	-	-	-	(39,779)	(486,472)	(526,251)
Balance at October 31, 2014	65,091,896	24,021,826	5,992,500	(39,779)	(18,015,040)	11,959,507

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Colonial Coal International Corp.

(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian dollars)

	2015	2014
	\$	\$
Cash flows (used in) from operating activities		
Net loss for the period	(385,344)	(486,472)
Adjustments for:		
Amortization	710	860
Impairment of marketable securities	61,158	-
Interest income	(7,861)	(7,042)
	(331,337)	(492,654)
Interest received	8,710	8,205
Changes in non-cash operating working capital		
Change in receivables and prepaids	3,622	3,961
Change in accounts payable and accrued liabilities	2,788	41,740
Change in due to related parties	2,870	48,988
	(313,347)	(389,760)
Cash flows used in investing activities		
Deferred exploration costs	(80,510)	(112,862)
	(80,510)	(112,862)
Decrease in cash	(393,857)	(502,622)
Cash - Beginning of the period	2,090,437	2,880,454
Cash - End of the period	1,696,580	2,377,832
Supplemental cash flow information		
Interest paid with cash	-	-
Taxes paid with cash	-	-

Non-cash transactions (Note 11)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian dollars)

1 Organization and nature of operations

Colonial Coal International Corp. (the “Company”) was incorporated pursuant to the Business Corporations Act of Alberta on August 1, 2007. The Company’s corporate head office is located at Suite 200 – 595 Howe Street, Vancouver, British Columbia, Canada. The Company is listed for trading on the TSX Venture Exchange under the symbol “CAD”.

On March 31, 2015, the Company completed the acquisition of all of the common shares of Tuya Energy Inc. (“Tuya”), a private company with five directors in common, pursuant to a court approved plan of arrangement under the *Business Corporations Act* (British Columbia) (the “Arrangement”). Upon completion of the Arrangement, each common share of Tuya was exchanged for 0.5 of a common share of the Company with the result that the former shareholders of the Company and former shareholders of Tuya held approximately 67% and 33%, respectively, of the total issued and outstanding shares of the Company.

The Company’s principal activities include the acquisition, exploration and development of coal properties located in Canada. The Company is also pursuing the acquisition of Watson Island, located just outside of Prince Rupert, British Columbia, for the purpose of developing a seaport terminal and supporting industrial park.

The recoverability of amounts shown as coal properties and deferred exploration is dependent upon the discovery of economically recoverable reserves, the Company’s ability to obtain financing to develop the properties, and the ultimate realization of profits through future production or sale of the properties.

2 Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended July 31, 2015, which have been prepared in accordance with IFRS.

The Company uses the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended July 31, 2015.

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgments made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended July 31, 2015.

These financial statements were approved by the board of directors for use on December 17, 2015.

Colonial Coal International Corp.

(An Exploration Stage Company)

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian dollars)

3 Accounting standards issued but not yet applied

The following new standards have been issued but not yet applied:

- a) IFRS 9, *Financial Instruments*, was issued in July 2014 and replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 was developed in phases by the IASB. As a result there are a number of transition options and requirements in relation to earlier versions of IFRS 9 prior to the mandatory effective date of IFRS 9 in its entirety. IFRS 9 is mandatory for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for classification and measurement of financial assets and financial liabilities; impairment methodology for financial instruments; and general hedge accounting. IFRS 9 has specific requirements for whether debt instruments are accounted for at amortized cost, fair value through other comprehensive income or fair value through profit or loss. IFRS 9 requires equity instruments to be measured at fair value through profit or loss unless an irrevocable election for use of fair value through other comprehensive income which results in changes in fair value not being recycled to the income statement. The Company has not adopted IFRS 9 and has not completed its assessment of the impact of this standard.
- b) IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 and establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The required adoption date for IFRS 15 is the annual period beginning on or after January 1, 2018, with early adoption permitted. The Company has not completed its assessment of the impact of this standard.

4 Receivables and prepaids

	October 31, 2015	July 31, 2015
	\$	\$
B.C. Mining Exploration Tax Credits	27,034	27,034
GST recoverable	24,433	21,400
Prepaid expenses and other	24,117	31,621
Total	<u>75,584</u>	<u>80,055</u>

5 Marketable securities

	October 31, 2015	July 31, 2015
	\$	\$
Portfolio investments in securities of public companies		
Acquisition cost	1,216,534	1,216,534
Impairment of marketable securities	(979,973)	(918,815)
Carrying value	<u>236,561</u>	<u>297,719</u>

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For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian dollars)

The Company has less than a 1% interest in certain public companies. Investments in securities having quoted market values and which are publicly traded are recorded on the basis of period-end market bid quotations.

During the three months ended October 31, 2015, the Company recognized an impairment loss of \$61,158 (2014 - \$nil) due to a significant or prolonged decrease in the fair value of various public company interests.

6 Coal properties and deferred exploration (Schedule 1)

	October 31, 2015 \$	July 31, 2015 \$
Huguenot property, B.C. a)	10,008,734	9,967,435
Flatbed property, B.C. b)	148,049	132,848
Tuya River property, B.C. c)	627,208	610,047
Rocky Creek property, B.C. d)	9,643	9,643
	<u>10,793,634</u>	<u>10,719,973</u>

- a) The Company owns a 100% interest in thirty-two coal licenses covering an area of 22,893 hectares and commonly referred to as the Huguenot property located in the Liard Mining Division, northeastern British Columbia.

The Huguenot property is subject to a 1.5% production royalty, including 1.2% which is payable to certain directors of the Company.

- b) The Company owns a 100% interest in seven coal licenses covering 9,077 hectares and commonly referred to as the Flatbed property located in the Liard Mining Division, northeastern British Columbia. A further 965 hectares are under application.

The property is subject to a 1.5% production royalty, 1.35% of which is payable to certain directors of the Company.

- c) The Company owns a 100% interest in five coal licenses covering an area of 2,361 hectares commonly referred to as the Tuya River property. The Company has also made application for an additional thirty coal licenses covering an area of 9,300 hectares in respect of this property.

The five coal licenses and the thirty coal license applications are subject to a 1.5% production royalty, payable to a director of the Company.

- d) The Company owns two coal licenses comprising 1,255 hectares in the Sukunka River area of the Peace River Coalfield.

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For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian dollars)

7 Deferred acquisition costs

	October 31, 2015 \$	July 31, 2015 \$
Watson Island	1	1

The Company owns 100% of Watson Island Development Corporation (“WatCo”), a company formed to purchase or acquire Watson Island, located near Prince Rupert, British Columbia, for the purpose of the development of a deep sea port and industrial project. As consideration for 45% of the Company’s interest in WatCo, the Company has agreed to pay a former shareholder of WatCo 10% of the proceeds of future financings by WatCo to a maximum of \$800,000.

In July 2012, the City of Prince Rupert (“COPR”) accepted an offer from WatCo to purchase Watson Island, subject to a number of conditions. Sale conditions included the development, approval and funding of a remediation plan for the land, which is contaminated as a result of decades of pulp mill operation. It was also a requirement of the purchase that WatCo would not be obligated for any historical environmental liabilities on Watson Island beyond a proposed lump sum financial contribution to an environmental remediation plan. At the time of entering into the offer to purchase, WatCo had been, and was to continue, funding the land expense costs of Watson Island and offered to fund the planning process and to make a significant contribution to the environmental remediation plan. Other conditions included notice requirements of the local governments, resolution of current court actions against the local governments by Sun Wave Forest Products Ltd. (“Sun Wave”), relating to the title to Watson Island, and historic licensing and regulatory issues.

The COPR settled with Sun Wave in August 2013 and WatCo and the COPR subsequently negotiated to settle the terms of a definitive agreement. In the course of negotiations with the COPR, WatCo eventually accepted all of the terms of the definitive agreement proposed by the COPR and the COPR then advised that it would not proceed with the sale of Watson Island to WatCo. WatCo commenced litigation in the British Columbia Supreme Court against the COPR to enforce WatCo’s rights in connection with the acquisition of Watson Island. A Certificate of Pending litigation (“CPL”) was immediately filed to prevent the land from being sold to others while the litigation is outstanding. The COPR subsequently asked the Court to remove the CPL so that it could sell the lands to a third party purchaser. The Court refused to remove the CPL, but required WatCo to post security of \$3.2 million within 21 days to keep the CPL on title. WatCo had insufficient available capital and the Company considered it ill-advised to post security and the CPL has now been removed from title. WatCo’s claim against the COPR will now be for damages only unless Watson Island remains unsold at the time of a successful judgment.

Management reviewed the carrying value of deferred acquisition costs as at July 31, 2014 and, in view of uncertainties, wrote down the deferred costs to a nominal amount of \$1, recognizing an impairment charge of \$3,395,512. The Company is continuing with its litigation against the COPR to enforce WatCo’s rights in connection with the acquisition.

During the three months ended October 31, 2015, the Company incurred \$11,253 (2014 - \$114,882) in additional costs associated with the proposed acquisition of Watson Island. These costs have been expensed as business investigation costs.

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8 Share capital

a) Authorized

An unlimited number of common shares without par value.

An unlimited number of preferred shares issuable in series without par value.

The holders of the common shares are entitled to one vote per share and are entitled to dividends, when and if declared by the directors of the Company, and to the distribution of the residual assets of the Company in the event of the liquidation, dissolution or winding-up of the Company. No dividends have ever been declared or paid as at October 31, 2015.

b) Stock options

The Company has established a stock option plan (the "Plan") for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates. The maximum number of shares available under the Plan is limited to 10% of the issued common shares. Options granted under the Plan have a maximum term of ten years and the vesting provisions of options granted are at the discretion of the Board.

The Company's stock options outstanding as at October 31, 2015 and July 31, 2015 are as follows:

	Number of options	Weighted Average Exercise price \$	Weighted Average Remaining Contractual Life (Years)
Balance – July 31, 2015	4,845,000	0.77	5.19
Balance, outstanding and exercisable – October 31, 2015	4,845,000	0.77	4.94

Options to acquire common shares outstanding at October 31, 2015 are as follows:

Number Outstanding	Exercise Price \$	Expiry Date
4,845,000	0.77	October 7, 2020

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Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian dollars)

9 Related party transactions

Related party transactions during the three months ended October 31, 2015 and 2014 not disclosed elsewhere in these consolidated financial statements are as follows:

	2015	2014
	\$	\$
Consulting fees	15,000	7,500
Directors' fees	4,500	4,500
Management fees	123,500	127,500
Professional fees	25,000	22,700
	<u>168,000</u>	<u>162,200</u>

Amounts due to related parties at October 31, 2015 amounting to \$27,948 (July 31, 2015 - \$25,078) are non-interest bearing and have no specific terms of repayment.

Related party transactions are comprised of services rendered by directors and/or officers of the Company and companies controlled by them or persons associated with them. Related party transactions are in the ordinary course of business and are measured at the exchange amount.

The compensation paid or payable to key management, including the Company's Chief Executive Officer, Chief Operating Officer and directors for services rendered during the three months ended October 31, 2015 and 2014 is as follows:

	2015	2014
	\$	\$
Directors' fees	4,500	4,500
Management fees	123,500	127,500
	<u>128,000</u>	<u>132,000</u>

10 Commitments

- a) The Company is committed under the terms of royalty agreements in respect of its interests in coal properties (Note 6).
- b) The Company is committed under the terms of an office lease agreement that expires on June 30, 2016 for \$50,100 of rent and estimated operating costs.

11 Non-cash transactions

Investing and financing activities that do not have a direct impact on cash flows are excluded from the consolidated statements of cash flows. During the three months ended October 31, 2015, the following transactions were excluded from the consolidated statement of cash flows:

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Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian dollars)

- a) Deferred exploration expenditures of \$10,399 included in accounts payable and accrued liabilities at October 31, 2015, less expenditures included in accounts payable and accrued liabilities at July 31, 2015 of \$17,248 (net inclusion of \$6,849).

During the three months ended October 31, 2014, the following transactions were excluded from the consolidated statement of cash flows:

- a) Deferred exploration expenditures of \$33,997 included in accounts payable and accrued liabilities at October 31, 2014, less expenditures included in accounts payable and accrued liabilities at July 31, 2014 of \$28,851 (net exclusion of \$5,146).

12 Segment information

The Company operates in one segment – the acquisition, exploration and development of coal properties. As at October 31, 2015 and July 31, 2015, all the operations and assets were in Canada.

13 Subsequent event

The Company has entered into a letter agreement (“Letter Agreement”) with a certain investor group (the “Investor”) which provides for the terms and conditions of a proposed private placement of units together with the corresponding granting of an option to acquire a 10% registered and beneficial ownership interest in the Company’s Flatbed property which will become available to the Investor upon the successful completion of the private placement.

Under the private placement, the Company has agreed to offer up to 24,000,000 units at a price of \$0.10 per unit for aggregate proceeds of up to \$2,400,000, with each unit comprised of one common share and one-half of one share purchase warrant. Each whole warrant will entitle the Investor to purchase one common share of the Company at a price of \$0.20 per share for a period of two years from closing of the private placement.

Closing of the private placement is subject to a number of conditions, including receipt of all necessary corporate and regulatory approvals, inclusive of that of the Exchange.

Upon the successful completion of the entire private placement closing, however, subject to any prior suitability and filing requirements of the Exchange and all applicable securities laws and regulators, the Investor will be entitled to the immediate appointment of one member to the Company’s Board of Directors. In connection with this appointment, the Company has agreed to grant a stock option to acquire up to 2,000,000 common shares at an exercise price of \$0.10 per share for a period of five years from the date of grant, with such option to vest equally over a period of twelve months. In accordance with current Exchange policy and the provisions of the Company’s stock option plan, the option price may be subject to adjustment upwards at the time of the grant so as to ensure that the option price represents the Company’s current market trading price at the time.

Upon the successful completion of the entire private placement closing, the Investor shall immediately acquire an option, exercisable within 90 calendar days of execution of the Letter Agreement, to acquire a 10%

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For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian dollars)

registered and beneficial ownership interest in those certain coal licenses that together comprise the Company's Flatbed property for cash consideration of \$5,000,000.

Upon the successful completion of the acquisition of the 10% interest in the Flatbed property, however, subject to any prior suitability and filing requirements of the Exchange and all applicable securities laws and regulators, the Investor will be entitled to the immediate appointment of an additional member to the Company's Board of Directors, with one member of the Company's then Board of Directors resigning. In connection with this appointment, the Company has agreed to grant a stock option to acquire up to 2,000,000 common shares at an exercise price of \$0.10 per share for a period of five years from the date of grant, with such option to vest equally over a period of twelve months. In accordance with current Exchange policy and the provisions of the Company's stock option plan, the option price may be subject to adjustment upwards at the time of the grant so as to ensure that the option price represents the Company's current market trading price at the time.

Colonial Coal International Corp.

Schedule 1

(An Exploration Stage Company)

Consolidated Schedule of Deferred Exploration Costs

For the three months ended October 31, 2015 and the year ended July 31 2015

(Unaudited - Expressed in Canadian dollars)

	Huguenot property	Flatbed property	Tuya River property	Rocky Creek property	Total
	\$	\$	\$	\$	\$
Balance at July 31, 2014	9,616,396	38,063	-	-	9,654,459
Acquisition cost	-	-	604,255	-	604,255
Field programs	31,131	2,394	100	-	33,625
Consultants and contractors	152,234	47,660	4,692	758	205,344
Licenses and fees	216,527	63,539	-	8,858	288,924
Public relations and First Nations	146	146	1,000	-	1,292
Laboratory	1,800	-	-	-	1,800
Project administration	62,724	11,976	-	27	74,727
B.C. Mining Exploration Tax Credits	(113,523)	(30,930)	-	-	(144,453)
	351,039	94,785	610,047	9,643	1,065,514
Balance at July 31, 2015	9,967,435	132,848	610,047	9,643	10,719,973
Field programs	3,230	-	-	-	3,230
Consultants and contractors	32,164	13,084	5,309	-	50,557
Licenses and fees	-	-	11,805	-	11,805
Laboratory	450	-	-	-	450
Project administration	5,455	2,117	47	-	7,619
	41,299	15,201	17,161	-	73,661
Balance at October 31, 2015	10,008,734	148,049	627,208	9,643	10,793,634