

CANADA COAL INC.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(EXPRESSED IN CANADIAN DOLLARS)**

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, 2014 and 2013, 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, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
December 16, 2014

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

	September 30, 2014	September 30, 2013
ASSETS		
Current		
Cash and cash equivalents (Note 7)	\$ 1,781,371	\$ 1,883,776
Receivables (Note 8)	8,038	76,712
Prepaid expenses (Note 9)	38,702	37,261
Total Current Assets	1,828,111	1,997,749
Equipment (Note 10)	-	20,785
Investment (Note 11)	37,043	41,250
Exploration and evaluation expenditures (Note 12)	-	4,680,131
Total Assets	\$ 1,865,154	\$ 6,739,915
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 13)	\$ 33,278	\$ 51,295
Deferred tax liability (Note 16)	-	119,000
Total Liabilities	33,278	170,295
Shareholders' equity		
Capital stock (Note 14)	7,440,037	7,596,420
Reserves	1,302,544	3,013,402
Deficit	(6,910,705)	(4,040,202)
Total Shareholders' Equity	1,831,876	6,569,620
Total Liabilities and Shareholders' Equity	\$ 1,865,154	\$ 6,739,915

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 12 and 18)
Subsequent events (Note 19)

On behalf of the Board:

_____, Director

"R. B. Duncan"

_____, Director

"T. A. Fenton"

See accompanying notes to the consolidated financial statements.

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

	September 30, 2014	September 30, 2013
EXPENSES		
Management fees (Note 13)	\$ 196,000	\$ 252,000
Consulting fees	50,023	113,931
Office, rent, and miscellaneous (Note 13)	41,045	54,551
Professional fees (Notes 13)	39,147	63,122
Shareholder communications and promotion	18,191	26,980
Share based compensation	10,713	6,049
Property/project investigation costs (Note 13)	16,874	41,100
Transfer agent and filing fees	22,000	24,278
Travel and accommodation	17,275	28,658
Loss before other items	411,268	610,669
OTHER ITEMS		
Investment income	(20,059)	(29,353)
Share of losses of equity associate (Note 11)	4,207	8,750
Write off of equipment	11,893	-
Write off of exploration and evaluation expenditures (Note 12)	4,460,148	119,548
Net loss before income taxes	4,867,457	709,614
Deferred income tax (recovery) (Note 16)	(486,630)	(239,642)
Net loss and comprehensive loss for the year	\$ 4,380,827	\$ 469,972
Basic and diluted net loss per common share	\$ 0.10	\$ 0.01
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, 2014	September 30, 2013
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (4,380,827)	\$ (469,972)
Items not affecting cash:		
Deferred income tax recovery	(486,630)	(239,642)
Share based compensation	10,713	6,049
Share of losses of equity associate	4,207	8,750
Write off of equipment	11,893	-
Write off of exploration and evaluation expenditures	4,460,148	119,548
	(380,496)	(575,267)
Change in non-cash working capital items:		
Decrease in receivables	8,039	73,417
(Increase) in prepaid expenses	(1,441)	(7,250)
(Decrease) in accounts payable and accrued liabilities	(1,786)	(28,193)
Net cash flows (used by) operating activities	(375,684)	(537,293)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(111,626)	(716,210)
Refund of coal licence deposits	384,905	-
Purchase of investment (Note 11)	-	(50,000)
Net cash flows from (used by) investing activities	273,279	(766,210)
(Decrease) in cash and cash equivalents	(102,405)	(1,303,503)
Cash and cash equivalents, beginning of year	1,883,776	3,187,279
Cash and cash equivalents, end of year	\$ 1,781,371	\$ 1,883,776
Cash and cash equivalents, comprised of:		
Cash	\$ 74,660	\$ 13,182
Short term money market investments	1,706,711	1,870,594
	\$ 1,781,371	\$ 1,883,776

Supplemental disclosure with respect to cash flows (Note 15)

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	Warrant Reserve	Deficit	Total
Balance, September 30, 2012	43,449,750	\$ 7,596,420	\$ 971,782	\$ 2,142,734	\$ (3,666,752)	\$ 7,044,184
Share-based compensation	-	-	6,049	-	-	6,049
Expiry of options	-	-	(37,640)	-	37,640	-
Expiry of warrants	-	-	-	(69,523)	69,523	-
Tax effect of warrant expiry	-	-	-	-	(10,641)	(10,641)
Net loss and comprehensive loss for the year	-	-	-	-	(469,972)	(469,972)
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

See accompanying notes to consolidated financial statements.

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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 December 16, 2014.

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, currency exchange fluctuations and restrictions, 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, 2014, the Company had working capital of \$1,794,833 and an accumulated deficit of \$6,910,705 compared with working capital of \$1,946,454 and an accumulated deficit of \$4,040,202 as at September 30, 2013. 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.

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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, 2014 and September 30, 2013, 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, 2014 and September 30, 2013, 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. 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, 2014 and September 30, 2013, the Company has no available-for-sale assets.

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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, 2014 and September 30, 2013, 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.

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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's amortization is recorded as an addition to exploration and evaluation expenditures and 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.

The Company conducts an assessment of the residual balances, useful lives and amortization methods being used for equipment at each reporting date 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 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.

Continued...

CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014 and September 30, 2013.

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 contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions at September 30, 2014 and September 30, 2013.

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.

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CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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, 2014 and 2013, all the outstanding stock options and warrants were anti-dilutive.

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CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Capitalization of exploration and evaluation expenditures

Management has determined that exploration and evaluation expenditures 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 expenditures

While assessing whether any indications of impairment exist for exploration and evaluation expenditures, 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 expenditures. Internal sources of information include the manner in which exploration and evaluation expenditures are being used or are expected to be used and indications of expected economic performance of the expenditures. Estimates may 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 expenditures.

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CANADA COAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates (Continued)

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.

Adoption of new and amended IFRS pronouncements

The Company has adopted the new and amended IFRS pronouncements listed below as at October 1, 2013, in accordance with the transitional provisions outlined in the respective standards.

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 adoption of IFRS 10 did not have a material impact the Company's financial statements.

IFRS 11 Joint Arrangements ("IFRS 11") replaces IAS 31, Interests in Joint Ventures. The new standard defines two types of arrangements: Joint Operations and Joint Ventures. The focus of the standard is to reflect the rights and obligations of the parties involved in the joint arrangement, regardless of whether the joint arrangement operates through a separate legal entity. Joint Arrangements that are classified as joint ventures are accounted for using the equity method of accounting. Joint arrangements that are classified as joint operations require the venturers to recognize the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. The Company does not have any interests in joint operations or arrangements therefore the adoption of IFRS 11 did not result in any change to the Company's financial statements.

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. The adoption of this standard did not result in any changes to the Company's disclosure requirements for interests in other entities.

IFRS 13 Fair Value Measurement ("IFRS 13") defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements for fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement, so assumptions that market participants would use should be applied in measuring fair value. The adoption of IFRS 13 did not materially impact the Company's financial statements.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new and amended IFRS pronouncements (Continued)

IAS 28 Investments in Associates and Joint Ventures (“IAS 28”) was issued by the IASB in May 2011 and supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IAS 28 also provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and joint ventures should be tested for impairment. The adoption of IAS 28 did not have a material impact the Company's financial statements.

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 on or after October 1, 2014 or later periods.

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. The amendments are effective for share-based payment transactions for which the grant date is on or after July 1, 2014. The Company is currently assessing the impact of this standard on its consolidated financial statements.

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. The Company is currently assessing the impact of this standard on its consolidated financial statements.

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. The amendment is effective for annual periods beginning on or after July 1, 2014. The Company is currently assessing the impact of this standard on its consolidated financial statements.

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. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014. The Company is currently assessing the impact of this standard on its consolidated financial statements.

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. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of this standard on its consolidated financial statements.

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. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of this standard on its consolidated financial statements.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes (Continued)

IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted. The Company is currently assessing the impact of this standard 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 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, 2014 and 2013. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements at September 30, 2014 and 2013.

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 further cash to fund its Phase II planned work program.

Market risk

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt therefore, interest rate risk is minimal.

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6. FINANCIAL RISK FACTORS (Continued)

(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, 2014 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 1.25% and 1.35% per annum (2013: between 1.25% - 1.35%) and are redeemable at any time without penalty.

8. RECEIVABLES

The receivables balance is comprised of the following items:

	September 30, 2014	September 30, 2013
Sales tax due from Federal Government	\$ 5,119	\$ 13,157
License fees (Note 12)	2,919	63,555
Total	\$ 8,038	\$ 76,712

9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

	September 30, 2014	September 30, 2013
Consulting	\$ 23,435	\$ 23,435
Property investigation	7,550	-
Insurance	5,222	6,576
Promotion	2,495	7,250
Total	\$ 38,702	\$ 37,261

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10. EQUIPMENT

	Equipment	Vehicles	Total
Cost			
Balance September 30, 2012	\$ -	\$ -	\$ -
Acquisitions	14,945	17,696	32,641
Balance September 30, 2013	14,945	17,696	32,641
Write down	(14,945)	(17,696)	(32,641)
Balance September 30, 2014	-	-	-
Accumulated amortization			
Balance, September 30, 2012	\$ 996	\$ 1,968	\$ 2,964
Amortization	2,988	5,904	8,892
Balance, September 30, 2013	3,984	7,872	11,856
Amortization	2,988	5,904	8,892
Write down	(6,972)	(13,776)	(20,748)
Balance, September 30, 2014	-	-	-
Carrying value			
At September 30, 2013	\$ 10,961	\$ 9,824	\$ 20,785
At September 30, 2014	\$ -	\$ -	\$ -

11. 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. During the year ended September 30, 2014, the Company recorded an equity loss of \$4,207 (2013: \$8,750) with respect to its investment in Nord Iron. (Note 13)

12. EXPLORATION AND EVALUATION EXPENDITURES

As at September 30, 2014 and September 30, 2013, expenditures incurred on mineral claims were as follows:

	September 30, 2014	September 30, 2013
Acquisition costs:		
Balance, beginning of the year	\$ 251,050	\$ 280,022
Additions during the year	-	10,877
Recoveries during the year	(2,919)	-
Write offs during the year	(248,131)	(39,849)
Acquisitions, end of year	-	251,050
Deferred exploration costs:		
Balance, beginning of the year	4,429,081	4,061,657
Recoveries	(327,351)	(905)
Geologists and consultants	45,924	359,238
Permitting	-	1,910
Community consultation	1,500	7,318
Travel, meals and accommodation	53,616	65,392
Amortization	8,892	8,892
Administrative and other expenses	355	5,278
	4,212,017	4,508,780
Write offs during the year	(4,212,017)	(79,699)
Deferred exploration, end of year	-	4,429,081
Total exploration and evaluation expenditures, end of year	\$ -	\$ 4,680,131

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12. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

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, 2014.

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 have not been issued. Given the delays, the Company has withdrawn 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, 2014, the licences have not been issued.

On July 26, 2013, twenty coal licences located in Axel Heiberg expired. The acquisition and maintenance fee costs related to those claims have been written off accordingly.

The Company was entitled to a refund of annual licence fees of \$384,905, of which \$63,554 was included in receivables as at September 30, 2013, based on exploration expenditures incurred on the Company's licence areas in 2011 and 2012. The funds were received during the year ended September 30, 2014.

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.

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13. 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, 2014	Year ended September 30, 2013
West Oak Capital	Management fees	a	\$ 96,000	\$ 96,000
Abraham Jonker	Management fees	b	\$ 40,000	\$ 96,000
Olga Nikitovic	Management fees	c	\$ 60,000	\$ 60,000
Aird & Berlis	Legal fees	d	\$ 24,180	\$ 16,355
Evolving Gold	Rent	e	\$ 18,000	\$ 18,000

a) West Oak Capital Partners Inc. ("West Oak") is owned by R. B. Duncan, the Company's Executive Chairman of the Board. Effective February 28, 2014, Mr. Duncan assumed the role of interim CEO. The fees paid to West Oak are included in management fees.

b) Abraham Jonker was the Company's CEO. His fees are included in management fees. Mr. Jonker resigned effective February 28, 2014.

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 \$12,756 (2013: \$16,355) are reflected in professional fees and \$11,424 (2013: \$Nil) are reflected in property/project investigation costs. Legal fees included in accounts payable at September 30, 2014 are \$4,021 (2013: \$559). This amount is unsecured, non-interest bearing and due on demand.

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 director. The costs are included in office, rent and miscellaneous expense.

f) In October 2012, the Company acquired a 25% interest in Nord Iron through the acquisition of 4,000,000 shares valued at \$50,000. Officers and directors of the Company are officers, directors and shareholders of Nord Iron. (Note 11)

Compensation of key management personnel

	Notes	Year ended September 30, 2014	Year ended September 30, 2013
Salaries	a	\$ 196,000	\$ 252,000
Share-based payments	b	\$ 10,713	\$ 6,049
Total		\$ 206,713	\$ 258,049

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.

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14. 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, 2014 the Company had 43,449,750 common shares outstanding (September 30, 2013 : 43,449,750) with 1,425,000 common shares held in escrow (September 30, 2013 : 4,275,000).

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.

For the year ended September 30, 2013, the Company entered into the following capital stock transactions:

- c) In July 2013, 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 \$6,049 determined using the Black-Scholes option pricing model.

Share purchase warrants

At September 30, 2014, warrants were outstanding enabling holders to acquire shares as follows:

Expiry Date	Exercise Price \$	Warrants Outstanding and Exercisable	
		Number of Warrants Outstanding	Weighted average remaining contractual life (years)
November 4, 2014	0.80	4,902,000	0.09

The following is a summary of the warrant transactions for the years ended September 30, 2014 and 2013.

	2014		2013	
	Number Of Warrants	Weighted Average Exercise Price \$	Number Of Warrants	Weighted Average Exercise Price \$
Balance, beginning of the year	26,402,000	0.39	28,027,000	0.38
Warrants expired	<u>(21,500,000)</u>	0.30	<u>(1,625,000)</u>	0.20
Balance, end of year	4,902,000	0.80	26,402,000	0.39

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

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.

As at September 30, 2014, the following incentive stock options were outstanding:

Expiry Date	Exercise Price \$	Options Outstanding and Exercisable	
		Number of Options Outstanding and Exercisable	Weighted average remaining contractual life (years)
February 21, 2016	0.20	900,000	1.40
November 1, 2016	0.50	200,000	2.08
November 4, 2016	0.50	950,000	2.09
January 23, 2019	0.20	200,000	4.31
April 13, 2019	0.20	200,000	4.54
		2,450,000	2.22

The following is a summary of the stock option transactions for the years ended September 30, 2014 and 2013.

	2014		2013	
	Number Of Options	Weighted Average Exercise Price \$	Number Of Options	Weighted Average Exercise Price \$
Balance, beginning of the year	3,859,975	0.34	3,819,950	0.34
Options granted	400,000	0.20	200,000	0.20
Options expired	(1,809,975)	0.31	(159,975)	0.20
Balance, end of year	2,450,000	0.34	3,859,975	0.34

The following weighted average assumptions were used for the Black-Scholes valuation of options granted for the years ended September 30, 2014 and 2013.

	2014	2013
Risk-free interest rate	1.61%	1.77%
Expected life of options	5.0 years	5.0 years
Expected annualized volatility	96.28%	108.64%
Expected dividend rate	0.00%	0.00%

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

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

Share-based compensation

The Company granted 400,000 options during the year ended September 30, 2014 (2013: 200,000). Total share-based compensation for the year ended September 30, 2014 was \$10,713 (2013: \$6,049).

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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) Amortization in exploration and evaluation expenditures of \$8,892.
- c) Decrease in receivables related to exploration and evaluation expenditures of \$60,635.

Significant non-cash financing and investing transactions for the year ended September 30, 2013 consisted of:

- d) Decrease in accrued exploration and evaluation expenditures of \$180,112.
- e) Increase in prepaid exploration and evaluation expenditures of \$23,435.
- f) Increase in receivables related to exploration and evaluation expenditures of \$63,555.
- g) Amortization in exploration and evaluation expenditures of \$8,892.

16. 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% (2013 – 27%) were as follows:

	2014	2013
	\$	\$
Net loss before income taxes	<u>(4,867,457)</u>	<u>(709,614)</u>
Expected income tax (recovery) based on statutory rate	(1,302,000)	(191,000)
Adjustment to income tax benefit:		
Expenses not deductible for tax purposes and other	48,217	(48,642)
Change in benefit of tax assets not recognized	767,153	-
Deferred income tax (recovery)	<u>(486,630)</u>	<u>(239,642)</u>

- b) Deferred income tax

	2014	2013
	\$	\$
<u>Recognized deferred tax assets (liabilities)</u>		
Mineral properties and exploration expenditures	-	(385,000)
Share issue costs	-	133,000
Non capital loss carryforwards	-	126,000
Other temporary differences	-	7,000
Deferred income tax liability	<u>-</u>	<u>(119,000)</u>

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16. INCOME TAXES (Continued)

b) Deferred income tax (Continued)

	2014	2013
	\$	\$
<u>Unrecognized deferred tax assets</u>		
Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:		
Mineral properties and exploration expenditures	2,855,000	-
Share issue costs	298,000	-
Non capital loss carryforwards	459,000	-
Other temporary differences	13,000	-
Total	<u>3,625,000</u>	<u>-</u>

The tax losses expire from 2029 to 2033. 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.

17. 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.

18. 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.

19. SUBSEQUENT EVENTS

- i) On November 4, 2014, 4,902,000 warrants exercisable at \$0.80 expired.
- ii) In November 2014, the Company entered into a non-binding letter of intent with Suntricity Corporation ("Suntricity") in respect of an arm's length transaction ("Transaction") which will constitute a reverse take over of Canada Coal by Suntricity pursuant to TSX Venture Exchange Policy 5.2. It is intended that the Transaction will result in Suntricity becoming a wholly-owned subsidiary of the Resulting Issuer by way of a three cornered amalgamation whereby Suntricity will amalgamate with a newly incorporated wholly-owned subsidiary of Canada Coal and the holders of the shares of Suntricity will receive common shares of Canada Coal on a one for one basis.

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19. SUBSEQUENT EVENTS (Continued)

The Transaction is subject to a number of conditions precedent including: completion of a private placement of a minimum of US\$5.0 million; the consolidation of Canada Coal stock on a 1 for 20 basis; a corporate name change; the cancellation of existing Canada Coal options; and the resignation of current directors and officers of Canada Coal.

The completion of the Transaction is also subject to a number of conditions including, receipt of necessary TSX-Venture and regulatory approvals, approval by the shareholders of each of the Company and Suntricity, completion of satisfactory due diligence by the Company and Suntricity and the completion of definitive legal documentation including a definitive transaction agreement.

There are no assurances that the Transaction will be completed as proposed or at all.