# Corsa Coal Corp.

**Unaudited Condensed Interim Consolidated Financial Statements**
**March 31, 2016 and 2015**

**Corsa Coal Corp.**
**Unaudited Condensed Interim Consolidated Balance Sheets**
**Expressed in United States dollars, tabular amounts in thousands**

| **Assets** | **March 31, 2016** | **December 31, 2015** |
|---|---|---|
| Cash | $ 12,869 | $ 9,493 |
| Accounts receivable (note 3) | 11,867 | 13,236 |
| Prepaid expenses and other current assets | 2,251 | 2,924 |
| Inventories | 13,827 | 11,576 |
| **Current Assets** | 40,814 | 37,229 |
| | | |
| Restricted cash (note 4) | 34,137 | 34,226 |
| Advance royalties and other assets | 3,882 | 3,919 |
| Property, plant and equipment (note 5) | 125,987 | 127,486 |
| Deferred income tax assets | — | — |
| **Total Assets** | $ 204,820 | $ 202,860 |
| | | |
| **Liabilities** | | |
| | | |
| Accounts payable and accrued liabilities | $ 12,628 | $ 10,833 |
| Notes payable (note 6) | 4,083 | 5,023 |
| Finance lease obligations | 3,742 | 3,733 |
| Other liabilities (note 8) | 8,441 | 8,027 |
| Reclamation provision (note 9) | 4,268 | 4,399 |
| **Current Liabilities** | 33,162 | 32,015 |
| | | |
| Notes payable (note 6) | 2,103 | 1,267 |
| Finance lease obligations | 4,458 | 5,079 |
| Loan payable (note 7) | 25,140 | 24,440 |
| Other liabilities (note 8) | 14,068 | 15,002 |
| Reclamation provision (note 9) | 60,556 | 61,079 |
| Warrant financial liability (note 7(b)) | 1,061 | 220 |
| **Total Liabilities** | 140,548 | 139,102 |
| | | |
| **Equity** | | |
| Share Capital | 161,425 | 153,172 |
| Contributed Surplus | 2,505 | 1,956 |
| Retained earnings (deficit) | (131,393) | (123,004) |
| **Total Shareholders' Equity** | 32,537 | 32,124 |
| Non-controlling interest | 31,735 | 31,634 |
| **Total Equity** | 64,272 | 63,758 |
| **Total Liabilities and Equity** | $ 204,820 | $ 202,860 |

Nature of operations and going concern (note 1).

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

Approved by the Board of Directors:

Corbin J. Robertson III, Director
(signed)

Alan M. De'Ath, Director
(signed)

**Corsa Coal Corp.**
**Unaudited Condensed Interim Consolidated Statements of Operations and Comprehensive Loss**
**Expressed in United States dollars, tabular amounts in thousands except for per share amounts**

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Revenue (note 11) | $ 16,613 | $ 31,366 |
| Cost of sales (note 12) | (19,676) | (52,676) |
| **Gross Margin** | (3,063) | (21,310) |
| | | |
| Corporate and administrative expense (note 13 and 14) | (3,107) | (4,139) |
| **Loss from operations** | (6,170) | (25,449) |
| | | |
| Net finance expense (note 15) | (2,434) | (569) |
| Other income | 307 | 655 |
| **Loss before tax** | (8,297) | (25,363) |
| | | |
| Current income tax (benefit) expense | — | 185 |
| Deferred income tax expense | — | 79 |
| | — | 264 |
| | | |
| **Net and comprehensive loss** | $ (8,297) | $ (25,627) |
| | | |
| Attributable to: | | |
| Shareholders | $ (8,398) | $ (23,174) |
| Non-controlling interest | $ 101 | $ (2,453) |
| | | |
| Basic loss per share (note 16) | $ (0.01) | $ (0.02) |
| Diluted loss per share (note 16) | $ (0.01) | $ (0.02) |

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

**Corsa Coal Corp.**
**Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**
**Expressed in United States dollars, tabular amounts in thousands**

| | For the three months ended March 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | **Number of Corsa Common Shares (000's)** | **Share Capital** | **Contributed Surplus** | **Retained Earnings (Deficit)** | **Non-Controlling Interest** | **Total Equity** |
| **Balance - January 1, 2016** | 1,379,241 | $ 153,172 | $ 1,956 | $ (123,004) | $ 31,634 | $ 63,758 |
| Stock based compensation (note 14) | — | — | 558 | — | — | 558 |
| Stock option expiration/forfeiture (note 14) | — | — | (9) | 9 | — | — |
| Corsa equity financing (note 10) | 207,744 | 8,000 | — | — | — | 8,000 |
| Equity issuance costs | — | (47) | — | — | — | (47) |
| Credit amendment fee shares (note 7(a)) | 7,791 | 300 | — | — | — | 300 |
| Net and comprehensive loss | — | — | — | (8,398) | 101 | (8,297) |
| **Balance - March 31, 2016** | 1,594,776 | $ 161,425 | $ 2,505 | $ (131,393) | $ 31,735 | $ 64,272 |

| | For the three months ended March 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Number of Corsa Common Shares (000's)** | **Share Capital** | **Contributed Surplus** | **Retained Earnings (Deficit)** | **Non-Controlling Interest** | **Total Equity** |
| **Balance - January 1, 2015** | 1,190,770 | $ 145,980 | $ 2,379 | $ 13,666 | $ 45,034 | $ 207,059 |
| Stock based compensation (note 14) | | — | 891 | — | — | 891 |
| Net and comprehensive loss | — | — | — | (23,174) | (2,453) | (25,627) |
| **Balance - March 31, 2015** | 1,190,770 | $ 145,980 | $ 3,270 | $ (9,508) | $ 42,581 | $ 182,323 |

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

**Corsa Coal Corp.**
**Unaudited Condensed Interim Consolidated Statements of Cash Flows**
**Expressed in United States dollars, tabular amounts in thousands**

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| **Operating Activities** | | |
| Net and comprehensive loss | $ (8,297) | $ (25,627) |
| Items not affecting cash: | | |
| Amortization | 4,587 | 8,547 |
| Stock-based compensation expense (note 14) | 558 | 891 |
| Net finance expense (note 15) | 1,854 | 108 |
| Change in estimate of reclamation provision for non-operating properties (note 9) | — | 1,688 |
| Deferred income tax expense | — | 79 |
| Write-off of advance royalties and other assets | 126 | 826 |
| Impairment and write-off of mineral properties (note 5) | — | 12,490 |
| Other non-cash operating (income) expense | (735) | (333) |
| Cash spent on reclamation activities | (987) | (1,395) |
| Changes in working capital balances related to operations (note 17) | 1,297 | 6,378 |
| **Cash (used in) provided by operating activities** | (1,597) | 3,652 |
| | | |
| **Investing Activities** | | |
| Restricted cash | (235) | 310 |
| Advance royalties and other assets | (66) | (410) |
| Proceeds on sale of assets | 622 | 296 |
| Property, plant and equipment additions | (2,007) | (5,154) |
| **Cash used in investing activities** | (1,686) | (4,958) |
| | | |
| **Financing Activities** | | |
| Proceeds from equity financing | 8,000 | — |
| Debt issuance costs | (42) | — |
| Share issuance costs | (47) | — |
| Proceeds from notes payable | 500 | — |
| Repayment of notes payable | (597) | (409) |
| Repayment of finance lease obligations | (1,155) | (777) |
| **Cash provided by (used in) financing activities** | 6,659 | (1,186) |
| **Net increase (decrease) in cash for the period** | 3,376 | (2,492) |
| **Cash, beginning of period** | 9,493 | 13,925 |
| **Cash, end of period** | $ 12,869 | $ 11,433 |

Supplemental disclosure (note 17)

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

## 1. Basis of Presentation and Nature of Operations

*Nature of operations and going concern matter*

Corsa Coal Corp. ("Corsa" or the "Company") is in the business of mining, processing and selling of metallurgical and thermal coal, as well as exploring, acquiring and developing resource properties that are consistent with its existing coal business. The Company is a corporation existing under the *Canada Business Corporations Act* and is domiciled in Canada and the registered office of Corsa is located at 199 Bay Street, Suite 5300, Commerce Court West, Toronto, Ontario M5L 1B9 and the head office of Corsa is located at 125 Technology Drive, Suite 100, Canonsburg, Pennsylvania 15317.

These unaudited condensed interim consolidated financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of business as they become due in the foreseeable future.

The Company's ability to continue as a going concern is largely dependent on the future demand and stability of metallurgical and thermal coal prices to fund its cash obligations through operations. To the extent that demand and metallurgical and thermal coal prices do not stabilize, or additional liquidity enhancing measures are not successful, the Company will have to obtain additional debt or equity financing. Although debt and equity financings have been successful in the past, and the Company has lowered its fixed and variable cost structure, there is no assurance it will be able to successfully complete such financings in the future. The Company is considering a number of alternatives to secure additional capital from existing institutional investors or third party capital providers. These efforts, including the realization of certain cost efficiencies or the securing of additional debt or equity, if unsuccessful, would result in a material uncertainty that would cast significant doubt as to the ability of the Company to realize its assets and discharge its liabilities, and accordingly, the appropriateness of the use of the accounting principles applicable to a going concern.

These unaudited condensed interim consolidated financial statements do not reflect any adjustments if the going concern assumption is determined to not be appropriate. Should the Company be unable to generate cash flow from operations or financing, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to these financial statements should such adverse events impair the Company's ability to continue as a going concern.

The Company has two main operating divisions, Northern Appalachian and Central Appalachian, which are described below.

*Northern Appalachian Division* ("NAPP Division" or "NAPP")

The NAPP Division is based in Somerset, Pennsylvania, USA, produces and sells a low volatile metallurgical coal used for the production of coke and thermal coal used in power generation from its mines in the Northern Appalachia coal region of the USA.

*Central Appalachian Division* ("CAPP Division" or "CAPP")

The CAPP Division, based in Knoxville, Tennessee, USA, produces and sells high-BTU, low and mid sulfur thermal coal used in power generation and industrial applications from its mines in the Central Appalachian coal region of the USA.

*Statement of Compliance*

These unaudited condensed interim consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), and do not include all of the information required for full annual financial statements. The Company has consistently applied the same accounting policies throughout all periods presented.

These unaudited condensed interim consolidated financial statements are intended to be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015 and the related notes thereto.

These unaudited condensed interim consolidated financial statements were authorized by the Board of Directors of the Company on May 18, 2016.

*Future accounting pronouncements*

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after January 1, 2014. Updates that are not applied or are not consequential to the Company have been excluded.

*(a) IFRS 9 – Financial Instruments*

In July 2014, the IASB issued the complete IFRS 9 – *Financial Instruments* ("IFRS 9"), which introduced new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. IFRS 9 is effective for annual periods beginning January 1, 2018. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2018. The impact to the presentation of the Company's consolidated financial statements upon adoption of this standard has not yet been determined.

*(b) IFRS 15 – Revenue from contracts with customers*

In May 2014, the IASB issued IFRS 15 – *Revenue from contracts with customers* ("IFRS 15"). IFRS 15 is effective for periods beginning on or after January 1, 2018 and is to be applied retrospectively. IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. Management believes that adoption of this new guidance will not have a material impact on the Company's financial statements.

*(c) IFRS 16 – Leases*

In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"). IFRS 16 is effective for periods beginning on or after January 1, 2019 and early adoption is permitted if the company also applies IFRS 15. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The new standard eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying that model, a lessee is required to recognize (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) deprecation of the lease assets separately from interest on the lease liabilities in the statement of operations. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning January 1, 2019. The impact to the presentation of the Company's consolidated financial statements upon adoption of this standard has not yet been determined.

## 2. Financial Instruments

The Company's financial instruments consist of cash, restricted cash, warrant financial liability, accounts receivable, accounts payable and accrued liabilities, notes payable, finance lease payable, loan payable and other liabilities.

(a) Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks as described below.

*Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts. These bank accounts are held with high credit quality institutions in Canada and the United States. Restricted cash consists of certificates of deposit and interest bearing securities invested with highly rated financial institutions.

Accounts receivable consist of trade receivables, indemnification asset receivable and other receivables. The Company assesses the quality of its customers, taking into account their creditworthiness and reputation, past experience and other factors. The Company has not recorded any allowance for credit losses for the three months ended March 31, 2016 and 2015.

*Commodity Risk*

The value of the Company's mineral properties is related to the price of metallurgical and thermal coal and the outlook for these commodities, which is beyond the control of the Company.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At March 31, 2016 the Company had a consolidated cash balance of $12,869,000 and consolidated working capital of $7,652,000. However, the future operations of the Company are dependent on the continued generation of positive cash flows from operations which is dependent on stability of metallurgical and thermal coal prices and a reduction in the cost of production on a per ton basis. To the extent that demand and metallurgical and thermal coal prices do not stabilize, or additional liquidity enhancing measures are not successful, the Company will have to obtain additional debt or equity financing. Although debt and equity financings have been successful in the past, and the Company has lowered its fixed and variable cost structure, there is no assurance it will be able to successfully complete such financings in the future. At March 31, 2016 and December 31, 2015, the Company had available committed undrawn credit facilities amounting to $2,500,000 and $3,000,000, respectively, expiring on January 10, 2017.

The Company's commitments based on contractual terms are as follows:

| (in thousands) | Carrying Value at March 31, 2016 | Payments due by period | | | | |
|---|---|---|---|---|---|---|
| | | Total | Less Than 1 Year | 1 to 3 Years | 4 to 5 Years | After 5 Years |
| Accounts payable and accruals | $ 12,628 | $ 12,628 | $ 12,628 | $ — | $ — | $ — |
| Notes payable | 6,186 | 6,186 | 4,083 | 1,961 | 142 | — |
| Finance lease obligations | 8,200 | 8,200 | 3,742 | 3,875 | 583 | — |
| Loan payable | 25,140 | 29,687 | — | — | 29,687 | |
| Other liabilities | 22,509 | 23,182 | 8,441 | 7,364 | 3,282 | 4,095 |
| Water treatment trust funding | — | 9,903 | 3,391 | 6,512 | — | — |
| Operating leases and other obligations | — | 1,508 | 1,260 | 248 | — | — |
| Total | $ 74,663 | $ 91,294 | $ 33,545 | $ 19,960 | $ 33,694 | $ 4,095 |

(b) Fair Value

The estimated fair values of all financial instruments approximate their respective carrying values except for the loan payable. The loan payable is carried at amortized cost and the carrying amount and fair value is presented below (in thousands):

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Loan Payable | $ 25,140 | $ 16,001 | $ 24,440 | $ 14,764 |

The fair value of the loan payable was determined by discounting the future contractual cash flows at a discount rate that represents an approximation of the borrowing rates presently available to the Company which was 20%.

*Fair value hierarchy*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

The fair value hierarchy categorizes into three levels the inputs in valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are those other than quoted market prices in active markets, which are observable for the asset or liability, either directly or indirectly such as derived from prices.

Level 3 inputs are unobservable inputs for the asset or liability.

The following table provides an analysis of the Company's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on a degree to which the inputs used to determine the fair value are observable.

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| Financial assets | | | | |
| Cash | $ 12,869 | $ — | $ 9,493 | $ — |
| Restricted cash | 34,137 | — | 34,226 | — |
| | $ 47,006 | $ — | $ 43,719 | $ — |
| | | | | |
| Financial liabilities | | | | |
| Warrant financial liability | $ — | $ 1,061 | $ — | $ 220 |

The inputs used to measure the warrant financial liability (note 7(b)) are based on observable unadjusted market prices for identical assets and are therefore classified as Level 2 inputs under the financial instruments hierarchy.

At March 31, 2016 and December 31, 2015, the Company had no financial instruments which used Level 3 fair value measurements.

## 3. Accounts receivable

Accounts receivable consist of the following:

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Trade receivables | $ 5,424 | $ 6,586 |
| Indemnification asset receivable (note 8(c)) | 6,000 | 6,000 |
| Other | 443 | 650 |
| | $ 11,867 | $ 13,236 |

The Company has not recorded any allowance for credit losses for the periods presented above.

## 4. Restricted cash

Restricted cash consists of the following:

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Water treatment trust funds (a) | $ 17,831 | $ 17,376 |
| Collateral posted for reclamation bonds (b) | 10,500 | 10,690 |
| Workers' compensation trust funds (c) | 5,770 | 6,123 |
| Other restricted deposits | 36 | 37 |
| | $ 34,137 | $ 34,226 |

a. The Company has signed certain agreements with United States environmental and regulatory agencies which require the perpetual monitoring and treatment of water in areas where the Company is operating or has operated in the past. As a result of these agreements, the Company was required to establish separate trust funds to ensure water treatment activities would continue after the Company ceased operating in the affected areas. At March 31, 2016 and December 31, 2015, the balance in these trust funds was $17,831,000 and $17,376,000, respectively. The cash is invested in fixed income and equities and income earned on such funds, under certain circumstances, may be used by the Company to pay for certain water treatment costs once the trust funds have been fully funded. As of March 31, 2016, the Company is required to contribute an additional $3,392,000 annually in quarterly installments of approximately $848,000 due in January, April, July and October until such trust funds meet the funding requirements. The Company is currently in discussions concerning the amount and timing of these additional contributions with the Pennsylvania Department of Environmental Protection.

b. The Company is required to post bonds to ensure reclamation is completed on its mining properties as required under USA state and federal regulations. The Company has agreements with insurers to provide the bonds. The cash collateral is invested in certificates of deposit that are insured by the U.S. Federal Deposit Insurance Corporation and are held in escrow.

c. The Company has established separate trust funds with its insurance carriers to pay potential awards and claims related to workers' compensation claims. At March 31, 2016 and December 31, 2015, the Company had $5,770,000 and $6,123,000, respectively, of funds held in trust included in restricted cash.

## 5. Property, plant and equipment

Property, plant and equipment consists of the following:

| | Mineral Properties (a) | Plant and Equipment | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance - January 1, 2015 | $ 172,882 | $ 147,176 | $ 320,058 |
| Additions | — | 14,372 | 14,372 |
| Capitalized development costs | 6,042 | — | 6,042 |
| Change in reclamation provision | 1,970 | — | 1,970 |
| Write-off of mineral properties (b) | (7,412) | 488 | (6,924) |
| Capitalized borrowing costs | 139 | — | 139 |
| Disposals | (415) | (1,605) | (2,020) |
| Other – including transfers | 3,039 | 8,494 | 11,533 |
| **Balance - December 31, 2015** | 176,245 | 168,925 | 345,170 |
| Additions | — | 1,389 | 1,389 |
| Capitalized development costs | 1,376 | — | 1,376 |
| Capitalized borrowing costs | 19 | — | 19 |
| Disposals | (1,020) | (230) | (1,250) |
| **Balance - March 31, 2016** | $ 176,620 | $ 170,084 | $ 346,704 |
| | | | |
| **Accumulated Amortization** | | | |
| Balance - January 1, 2015 | $ (12,665) | $ (37,464) | $ (50,129) |
| Amortization | (9,402) | (27,792) | (37,194) |
| Impairment of mineral properties (b) | (78,452) | (46,396) | (124,848) |
| Disposals | 341 | 1,339 | 1,680 |
| Other – including transfers | 6,442 | (13,635) | (7,193) |
| **Balance - December 31, 2015** | (93,736) | (123,948) | (217,684) |
| Amortization | (484) | (3,755) | (4,239) |
| Disposals | 1,020 | 186 | 1,206 |
| **Balance - March 31, 2016** | $ (93,200) | $ (127,517) | $ (220,717) |
| | | | |
| **Net Book Value** | | | |
| December 31, 2015 | $ 82,509 | $ 44,977 | $ 127,486 |
| March 31, 2016 | $ 83,420 | $ 42,567 | $ 125,987 |

a. Mineral properties include the cost of obtaining the mineral and surface rights required to conduct mining operations. The lease rights in the states of Tennessee, Kentucky, Maryland and Pennsylvania are separated for surface rights, which provide access to the surface of a specific property, and mineral rights, which provide the right to extract the minerals from a specific property. The Company either purchases outright or leases these rights from various vendors specific to each property. Mineral and surface rights which are leased are subject to royalty payments to the various vendors based on the tons of coal extracted from that specific property. Royalty rates on leased mineral rights range from 0.0% to 10.0% of the selling price of the coal. Mineral and surface rights which are owned by the Company are not subject to royalties.

b. Impairment of mineral properties for the year ended December 31, 2015 is as follows:

| **Cost** | **Mineral Properties** | **Plant and Equipment** | **Total** |
|---|---|---|---|
| Roytown (c) | $ (3,543) | $ — | $ (3,543) |
| NAPP Division (g) | (3,869) | 488 | (3,381) |
| | (7,412) | 488 | (6,924) |
| **Accumulated Amortization** | | | |
| Sarah E and Horning D (d) | (3,722) | — | (3,722) |
| CAPP Division (e) | (4,906) | (4,146) | (9,052) |
| Wells Creek (f) | (213) | — | (213) |
| NAPP Division (g) | (68,161) | (41,105) | (109,266) |
| CAPP Division (g) | (1,450) | (1,145) | (2,595) |
| | (78,452) | (46,396) | (124,848) |
| | | | |
| | $ (85,864) | $ (45,908) | $ (131,772) |

c. A triggering event was identified for the Roytown property of the NAPP Division. The value of the mineral properties was written off and a write-off charge of $3,543,000 was recognized in cost of sales. The write-off of the property was triggered as a result of management's decision to seal the mine due to the high cost of development and the decrease in coal prices.

d. A triggering event was identified for the Sarah E and Horning D properties of the NAPP Division. An impairment charge of $3,722,000 was recognized in cost of sales. The impairment losses on the properties were triggered as a result of management's decision to terminate certain leases relating to the properties.

e. The carrying amount of the CAPP Division mineral properties, plant and equipment was reduced by $9,052,000, with the resulting impairment charge of $9,052,000 recognized in cost of sales during the first quarter of 2015. The impairment loss reflects a strategic review of the CAPP Division performed by management, which resulted in an impairment analysis of the recoverable amount of CAPP's assets.

*Key Assumptions*

The recoverable amount of $28,073,000 was determined based on the fair value less cost of disposal ("FVLCD") using discounted cash flow projections. Key assumptions used in the calculation of recoverable amounts include discount rates, coal prices, future timing of production including the date when a mineral property can be brought into production, the expected cost to produce coal, future care and maintenance, and operating costs.

The assumed thermal coal prices used to determine CAPP's estimated FVLCD were in a price range from $61-$80 per ton for the period 2015 through 2027. The Company used a post-tax discount rate of 12% based on the Company's estimated weighted-average cost of capital for discounting the cash flow projections. The tax rates applied to the projections were based on the current tax rates in effect in the state of Tennessee. Management's estimate of the FVLCD of CAPP is classified as level 3 in the fair value hierarchy.

*Sensitivity Assumptions*

The projected cash flows and estimated FVLCD can be affected by any one or more changes in the estimates used. Changes in coal prices and discount rates have the greatest impact on value, where a 1% change in the discount rate would change the FVLCD by $2,241,000, and a 1% change in thermal coal prices would change the FVLCD by $4,041,000.

f. A triggering event was identified for the Wells Creek property of the NAPP Division. An impairment charge of $213,000 was recognized in cost of sales. The impairment loss on the property was triggered as a result of management's decision to terminate certain leases relating to the property.

g. A triggering event was identified as a result of the carrying amount of the net assets of the Company exceeds the market capitalization along with the depressed market conditions for metallurgical and thermal coal. Accordingly, an impairment charge of $115,242,000 was recognized in cost of sales reducing the carrying values of mineral properties and plant and equipment. The impairment loss reflects a strategic review of the NAPP and CAPP Divisions performed by management, which resulted in an impairment analysis of the recoverable amount of both division's assets.

*Key Assumptions*

The recoverable amount of the NAPP and CAPP cash generating units was $100,825,000 and $26,598,000, respectively, and was determined based on the fair value less cost of disposal ("FVLCD") using discounted cash flow projections. Key assumptions used in the calculation of recoverable amounts include discount rates, coal prices, future timing of production including the date when a mineral property can be brought into production, the expected cost to produce coal, future care and maintenance, and operating costs.

The assumed metallurgical coal prices used to determine NAPP's estimated FVLCD were in a price range from $61-$94 per ton for the period 2016 through 2035 and thermal coal prices used to determine CAPP's estimated FVLCD were in a price range from $56-$81 per ton for the period 2016 through 2027. The Company used a post-tax discount rate of 17% based on the Company's estimated weighted-average cost of capital for discounting the cash flow projections. Management's estimate of the FVLCD of the NAPP and CAPP Divisions are classified as level 3 in the fair value hierarchy.

*Sensitivity Assumptions*

The projected cash flows and estimated FVLCD can be affected by any one or more changes in the estimates used. Changes in coal prices and discount rates have the greatest impact on value, where a 1% change impacts the FVLCD as follows:

| | **Change to FVLCD** | | | |
|---|---|---|---|---|
| **Cash Generating Unit** | **1% Decrease in Coal Prices** | **1% Increase in Coal Prices** | **1% Increase in Discount Rate** | **1% Decrease in Discount Rate** |
| NAPP Division | $ (10,790) | $ 10,790 | $ (5,806) | $ 6,266 |
| CAPP Division | (3,428) | 3,428 | (1,443) | 1,552 |
| | $ (14,218) | $ 14,218 | $ (7,249) | $ 7,818 |

## 6. Notes Payable

Notes payable consists of the following:

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Revolving credit facility (a) | $ 2,500 | $ 2,000 |
| Loans payable - equipment purchase (b) | 1,832 | 2,004 |
| Note payable (c) | 1,502 | 1,583 |
| Term loan (d) | 352 | 703 |
| Other notes payable | — | — |
| Balance, end of period | 6,186 | 6,290 |
| Less: Current portion | (4,083) | (5,023) |
| | $ 2,103 | $ 1,267 |

a. On October 29, 2015, Corsa entered into an amended and restated revolving credit facility which replaced the previous facility that was set to expire on October 31, 2015 at the CAPP Division. The credit facility allows the Company to borrow the lesser of $5,000,000 or the borrower's borrowing base as defined as (a) fifty percent of the inventory value of borrower's acceptable inventory; plus (b) seventy-five percent of acceptable accounts receivable; plus (c) sixty-five percent of the orderly liquidation value of the borrower's eligible equipment less the outstanding principal balance of the existing term loan. Interest is payable monthly on the outstanding borrowings at LIBOR plus 2.25%. At March 31, 2016 and December 31, 2015, the Company had available committed undrawn credit facilities amounting to $2,500,000 and $3,000,000, respectively. The facility will expire on January 10, 2017. Financial covenants of the credit facility include:

- Minimum Free Cash Flow Coverage Ratio of greater than 1.05 for the calendar quarter ended March 31, 2016; and greater than 1.10 for the calendar quarter ending June 30, 2016 and each calendar quarter thereafter (measured quarterly);
- Maximum Free Cash Flow Leverage Ratio of not more than 3.50 (measured annually); and
- Maximum Balance Sheet Leverage Ratio of not more than 1.50 (measured annually).

b. The NAPP Division has a loan payable which bears interest at 6.99% with an equipment provider. The equipment that was financed is pledged as collateral for the loan and is repayable in monthly installments of $56,000 until April 2018. The CAPP Division has a loan payable which bears no interest with an equipment provider. The equipment that was financed is pledged as collateral for the loan and is repayable in monthly installments of $11,000 until April 2020.

c. The NAPP Division has a note payable which bears interest at 4.0%. The note is repayable in monthly payments until April 2017. The note carries a mortgage against the Alumbaugh property (owned portion of Acosta Deep project). The direct relationship between the note payable and use of the funds towards the acquisition of the Alumbaugh mineral property requires the borrowing costs to be capitalized as part of the development costs of the property. During the three months ended March 31, 2016 and 2015, $19,000 and $44,000 of finance and interest expense was capitalized to the cost of the mineral property, respectively.

d. The CAPP Division has a term loan which bears interest at a floating rate calculated at the one month LIBOR rate plus 2.25%. The note is repayable in monthly payments of $117,000 plus interest until June 1, 2016. All of the assets of CAPP are pledged as collateral for the loan except those pledged under finance leases of CAPP. Financial covenants for the term loan are the same as the revolving credit facility as noted in (a) above.

At March 31, 2016, the Company was in compliance with all covenants related to the notes payable.

## 7. Loan Payable

a. On August 19, 2014, the Company entered into a $25,000,000 secured term loan ("Facility") as amended on October 20, 2015 ("First Amending Agreement") and on March 21, 2016 ("Second Amending Agreement"). The Facility is for a five-year term and bears interest at 10% per annum compounded quarterly until March 31, 2017 and monthly thereafter. For the period up to and including March 31, 2017, the Company will have the option of adding any interest payable under the Facility to the principal amount or, subject to approval of the TSX Venture Exchange, satisfying any interest payment by the issuance of common shares of the Company ("Common Shares") (based on a five day volume weighted average trading price for Common Shares immediately prior to the last business day of the period multiplied by 105%). On the third and fourth anniversary of the acquisition of the PBS Coals business (including Rox Coal, Inc.) from OAO Severstal (the "PBS Transaction"), the Company is required to make an anniversary payment for an amount equal to 2% of the principal amount of the Facility then outstanding, if any. In addition, the Facility may be prepaid without penalty, in whole or in part, at any time after three months of interest has been paid. The First Amending Agreement, among other things, provides for: (i) the waiver of the requirement that the proceeds (A) of any equity financings by the Company prior to January 1, 2017 and (B) from the disposal of certain assets of the Company, be used to repay a portion of the Facility; and (ii) the payment of an additional three percent fee for any prepayment that is required in connection with a disposal of assets, change of control or refinancing event where, prior to such disposal, change of control or refinancing event, certain assets have been disposed of by the Company for in excess of $10 million in the aggregate. The Second Amending Agreement, among other things, provides for (i) a reduction in the minimum consolidated cash requirement under the Facility from $2,000,000 to $1,000,000 and the exclusion of the Company's CAPP Division from this calculation; (ii) an extension to April 2017 of the time during which interest due under the Facility can be paid by adding such interest to the principal amount of the Facility, and (iii) certain other amendments designed to provide the Company with increased flexibility under the Facility. The Facility requires the Company, excluding the CAPP Division, to maintain a minimum cash balance of $1,000,000 and positive working capital. The Company was in compliance with these covenants at March 31, 2016.

In consideration for the Facility, the Company issued 36,100,000 Common Share purchase warrants ("Bonus Warrants"). Each Bonus Warrant has a term of five years and is exercisable for one Common Share at an exercise price of Cdn$0.195. The effective interest rate, including accretion charged on the discounts of the loan payable, is 15.6%.

In consideration of the amending agreements, the Company capitalized $281,000 to the principal balance and issued 7,791,000 Common Shares (the "Fee Shares") to Sprott Resource Lending Corporation ("SRLC"). The Fee Shares payable to SRLC in connection with entering into the Second Amending Agreement represent consideration equivalent to $300,000 (based on a price per Common Share of Cdn$0.05).

The changes in the Loan Payable balance for the three months ended March 31, 2016 are as follows:

| | |
|---|---|
| Balance - January 1, 2015 | $ 20,793 |
| | |
| Accrued interest - capitalized to principal | 2,754 |
| Issuance costs of Loan Payable | (143) |
| Accretion on discount on Loan Payable | 1,036 |
| | |
| Balance - December 31, 2015 | 24,440 |
| | |
| Accrued interest - capitalized to principal | 736 |
| Issuance costs of Loan Payable Amending Agreement | (623) |
| Amendment fee - capitalized to principal | 281 |
| Accretion on discount on Loan Payable (note 15) | 306 |
| | |
| Balance - March 31, 2016 | $ 25,140 |

b. The Bonus Warrants qualify for recognition as a financial liability given the currency of the exercise price is different from the Company's functional currency. At initial recognition, the fair value of the Bonus Warrants was determined to be $4,829,000 using a Black-Scholes option pricing model (expected life of 5 years, exercise price of Cdn$0.195, risk-free interest rate of 1.59%, Common Share price of Cdn$0.29, expected volatility of 40%, dividend yield of 0%, forfeiture rate of 0% and CAD/USD exchange rate of 0.9139).

   The initial value was recorded as a reduction to the Loan Payable and an offsetting credit was recorded to the Warrant financial liability on the consolidated balance sheet. The Warrant financial liability is revalued to fair value at each reporting period. At March 31, 2016, the fair value was determined to be $1,061,000 using a Black Scholes option pricing model (expected life of 3.4 years, exercise price of Cdn$0.195, risk-free interest rate of 0.87%, Common Share price of Cdn$0.070, expected volatility of 114%, dividend yield of 0%, forfeiture rate of 0% and CAD/USD exchange rate of 0.7700). The revaluation amounted to expense of $841,000 for the three months ended March 31, 2016 and is included in net finance expense (note 15) on the unaudited condensed interim consolidated statements of operations and comprehensive loss. The revaluation amounted to income of $1,171,000 for the three months ended March 31, 2015.

## 8. Other Liabilities

Other liabilities consist of the following:

| | | March 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Workers' compensation provision (a) | $ | 7,050 | $ | 7,797 |
| Transportation contract liquidated damages (b) | | 6,284 | | 6,270 |
| EPA Consent Decree (c) | | 6,000 | | 6,000 |
| Processing fee payable (d) | | 2,443 | | 2,416 |
| Other | | 732 | | 546 |
| | | 22,509 | | 23,029 |
| Less: current portion (a,b,c) | | (8,441) | | (8,027) |
| Total Other Liabilities | $ | 14,068 | $ | 15,002 |

a. The provision relates to workers' compensation and occupational disease claims that have not yet been paid by the Company. The estimates use an actuarial valuation approach based on historical claims and known events, where such estimates may differ materially from the estimates used herein. The balance that is expected to be settled within one year of the reporting date is $891,000. The Company has established separate trust funds with its insurance carriers to pay potential awards and claims related to workers' compensation claims (note 4).

b. PBS Coals, Inc. had contractual agreements with a transportation provider, which indicated minimum levels of coal to be shipped vial rail over the contract period, which was not met. Upon the PBS Transaction, Corsa acquired these contractual agreements and at March 31, 2016, a provision of $6,284,000 has been made for the estimated amount of fees owed to this transportation provider. The balance that is expected to be settled within one year of the reporting date is $1,318,000.

c. An audit was performed by the United States Environmental Protection Agency ("EPA") and the United States Department of Justice into Clean Water Act violations of the PBS Coals business, made prior to the completion of the PBS Transaction. In connection with these investigations, on April 19, 2016, the EPA and the Pennsylvania Department of Environmental Protection filed a complaint for civil penalty and injunctive relief against the Company's wholly-owned subsidiaries PBS Coals, Inc., Croner, Inc., Elk Lick Energy, Inc., Quecreek Mining, Inc., and Rox Coal, Inc. (collectively, "PBS") alleging that PBS exceeded the discharge limits in its water permits primarily prior to Corsa's acquisition of PBS pursuant to the PBS Transaction, including principally from 2007 to 2012. The liability was estimated to be $6,000,000 at March 31, 2016 and is expected to be settled within one year of the reporting date. As part of the PBS acquisition, the Company funded $10,000,000 of cash into escrow accounts to cover the estimated penalty, and has the ability to make claims against OAO Severstal to reimburse the Company for the penalty paid. Accordingly, $6,000,000 has been recognized in accounts

receivable at March 31, 2016 and December 31, 2015. The Company expects that the claims for civil penalty under the complaint will be satisfied by this escrowed cash amount.

d. The processing fee payable represents an amount to be paid to a third party in relation to a royalty agreement signed historically by Corsa. Corsa is required to pay the third-party $3,000,000 in aggregate, $1,500,000 in both 2019 and 2020. The processing fee payable balance is being recorded at amortized cost with an effective interest rate of 1.21%.

## 9. Reclamation Provision

The Company's reclamation provision arises from its obligations to undertake site reclamation and remediation as well as certain water treatment activities in connection with its historical operations.

The changes to the reclamation provision were as follows:

| | Site Reclamation and Remediation (a) | Water Treatment Obligation (b) | Total Reclamation Provision |
|---|---|---|---|
| Balance - January 1, 2015 | $ 54,447 | $ 31,508 | $ 85,955 |
| Reclamation costs incurred | (3,535) | (2,342) | (5,877) |
| Change in estimate | (12,747) | (3,398) | (16,145) |
| Accretion expense | 747 | 798 | 1,545 |
| Balance - December 31, 2015 | $ 38,912 | $ 26,566 | $ 65,478 |
| Reclamation costs incurred | (395) | (592) | (987) |
| Change in estimate | — | — | — |
| Accretion expense | 185 | 148 | 333 |
| Balance - March 31, 2016 | $ 38,702 | $ 26,122 | $ 64,824 |
| Less: current portion | (1,868) | (2,400) | (4,268) |
| Long-Term Reclamation Provision | $ 36,834 | $ 23,722 | $ 60,556 |
| Estimated costs (undiscounted cash flow basis) | $ 46,906 | $ 46,071 | $ 92,977 |
| End of reclamation period | 1-17 years | Perpetual | |
| Discount rate | 0.65%-2.27% | 2.7% | |
| Inflation rate | 2.0% | 2.0% | |

a. Site reclamation and remediation

i. The portions of the change in estimate of reclamation relating to properties which have ceased operating are included in cost of sales in the unaudited condensed interim consolidated statement of operations and comprehensive loss. For the three months ended March 31, 2016 this amount was nil. Expense of $471,000 was recorded for the three months ended March 31, 2015.

ii. The current portion represents the amount expected to be incurred by the Company within one year from March 31, 2016.

iii. At March 31, 2016, the Company had $67,911,000 in surety bonds outstanding to secure reclamation obligations.

b. Water treatment obligation

The Company has signed certain agreements with United States environmental and regulatory agencies which require the monitoring and treatment of water in areas where the Company is operating or has operated in the past. The Company has the obligation to fund such water treatment activities and has recorded a provision for the total expected costs of such water treatment.

Water treatment costs incurred are offset against the water treatment provision. At each reporting period, the Company makes a determination of the estimated costs of water treatment using assumptions effective as of the end of the reporting period. The change in estimate within the reporting period is charged to cost of sales.

Certain factors may cause the expected water treatment costs to vary materially from the estimates included herein, including, but not limited to, changes in water quality and changes in laws and regulations. The estimates used herein represent management's best estimates as of the end of the reporting period.

i. The portions of the change in estimate of water treatment obligations are included in cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive loss. For the three months ended March 31, 2016 this amount was nil. Expense of $1,217,000 was recorded for the three months ended March 31, 2015.

ii. The current portion represents the amount expected to be incurred by the Company within one year from March 31, 2016.

## 10. Share Capital

Authorized capital stock of the Company consists of an unlimited number of Common Shares without par value. At March 31, 2016 and December 31, 2015, the Company had 1,594,776,000 and 1,379,241,000 outstanding Common Shares, respectively. At March 31, 2016 and December 31, 2015, Legacy QKGI also owns 170,316,639 Redeemable Units of Wilson Creek Energy entitling them to a 19% minority interest in the net assets, income and expenses of Wilson Creek Energy.

In March 2016, Corsa completed a non-brokered private placement of 207,744,000 Common Shares for gross proceeds of $8,000,000 at Cdn$0.05 per Common Share (the "Private Placement"). The proceeds of the Private Placement are being used to fund working capital and for general corporate purposes. As part of the Private Placement, affiliates of Quintana Energy Partners II, L.P. acquired 51,936,000 Common Shares for a total of $2,000,000, Sprott Resource Partnership acquired 51,936,000 Common Shares for a total of $2,000,000, Lorito Holdings S.à r.l. and Zebra Holdings and Investments S.à r.l. acquired an aggregate of 51,936,000 Common Shares for a total of $2,000,000 and SRLC acquired 51,936,000 Common Shares for a total of $2,000,000. SRLC received an additional 7,791,000 Common Shares in connection with entering into the Second Amending Agreement of the secured term loan facility, see Note 7 for additional details.

## 11. Revenue

Revenue includes amounts realized for metallurgical coal sales from the NAPP Division, thermal coal sales from the NAPP and CAPP Division and tolling revenue. Tolling revenue is the fee charged to third parties for processing their coal through the Company's preparation plant.

Revenue consists of the following:

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Metallurgical coal sales | $ 8,307 | $ 15,662 |
| Thermal coal sales | 8,260 | 13,391 |
| Tolling revenue | 46 | 2,313 |
| | $ 16,613 | $ 31,366 |

## 12. Cost of Sales

Cost of sales consists of the following:

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Mining and processing costs | $ 11,463 | $ 22,599 |
| Purchased coal costs | 302 | 1,088 |
| Royalty expense | 1,410 | 2,409 |
| Amortization expense | 4,587 | 8,548 |
| Transportation costs from preparation plant to customer | 1,210 | 1,751 |
| Idle mine expense | 578 | 1,277 |
| Change in estimate of reclamation provision for non-operating properties | — | 1,688 |
| Impairment and write-off of mineral properties (note 5) | — | 12,490 |
| Write-off of advance royalties and other assets | 126 | 826 |
| | $ 19,676 | $ 52,676 |

## 13. Corporate and Administrative Expense

Corporate and administrative expense consists of the following:

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Salaries and other compensation | $ 1,848 | $ 2,874 |
| Professional fees | 819 | 315 |
| Office expenses and insurance | 353 | 702 |
| Other | 87 | 248 |
| | $ 3,107 | $ 4,139 |

## 14. Stock Based Compensation

The Company has a stock option plan and a restricted stock unit ("RSU") plan providing for the issuance of stock options and RSUs to directors, officers, employees and service providers. The number of Common Shares reserved for issuance under the stock option plan may not exceed 10% of the total number of issued and outstanding Common Shares on a non-diluted basis on the grant date. Additionally, the number of Common Shares that may be acquired under an option or RSU granted to a certain participant is determined by the Company's Board of Directors and may not exceed 5% of the total number of issued and outstanding Common Shares on the grant date on a non-diluted basis. The exercise price of the options granted shall comply with the requirements of the stock exchange on which the Company's Common Shares are listed. The maximum term of any option may not exceed five years. Generally, options vest over three years, however, options have historically been granted with vesting periods up to four years. Each RSU granted entitles the participant to receive, from the Company, payment in cash or, at the option of the Company, payment in fully paid Common Shares. For a cash payment, the RSUs will be redeemed by the Company for cash equal to the market value of the Common Shares, determined based on the volume weighted average trading price of a Common Share on the stock exchange during the five trading days immediately preceding the payment date. In the event that the Company elects to satisfy all or part of its payment obligation in fully paid Common Shares, the Company will satisfy the payment obligation with the issuance, or delivery, of fully paid Common Shares on the payment date. There were no stock options or RSUs granted during the three months ended March 31, 2016. At March 31, 2016 and 2015, there were 29,185,000 and 35,780,000 stock options available for issuance under the stock option plan, respectively.

The changes in issued and outstanding stock options during the period ended March 31, 2016 are as follows:

| | Number of Stock Options (000's) | Weighted Average Exercise Price (Cdn$) |
|---|---|---|
| Balance - January 1, 2015 | 81,596 | $ 0.26 |
| Options granted (i) (ii) (iii) | 71,913 | 0.06 |
| Options forfeited | (12,515) | 0.25 |
| Options expired | (10,071) | 0.50 |
| Balance - December 31, 2015 | 130,923 | 0.13 |
| Options expired | (630) | 1.06 |
| Balance - March 31, 2016 | 130,293 | $ 0.12 |

i. 2,400,000 stock options were granted on February 16, 2015 to an employee of the Company. These options were valued using a Black-Scholes pricing model at the date granted using the following valuation assumptions:

| | |
|---|---|
| Expected life in years: | 2 to 4 |
| Exercise price: | Cdn$0.175 |
| Risk-free interest rate: | 0.65% to 1.28% |
| Common Share price: | Cdn$0.175 |
| Expected volatility | 100% to 109% |
| Dividend yield: | —% |
| Forfeiture rate: | 4.0% |

ii. 1,800,000 stock options were granted on June 2, 2015 to an officer of the Company. These options were valued using a Black-Scholes pricing model at the date granted using the following valuation assumptions:

| | |
|---|---|
| Expected life in years: | 2 to 4 |
| Exercise price: | Cdn$0.12 |
| Risk-free interest rate: | 0.64% to 1.31% |
| Common Share price: | Cdn$0.12 |
| Expected volatility | 93% to 107% |
| Dividend yield: | —% |
| Forfeiture rate: | 8.85% |

iii. 67,712,500 stock options were granted on November 11, 2015 to directors, officers and employees of the Company. These options were valued using a Black-Scholes pricing model at the date granted using the following valuation assumptions:

| | |
|---|---|
| Expected life in years: | 2 to 4 |
| Exercise price: | Cdn$0.05 |
| Risk-free interest rate: | 0.87% to 1.46% |
| Common Share price: | Cdn$0.045 |
| Expected volatility | 88% to 96% |
| Dividend yield: | —% |
| Forfeiture rate: | 13.22% |

The risk-free interest rate used is the United States Treasury Yield Curve Rate for the time period relating to the expected life of the options granted. The expected volatility is based on historic market data for the Company using a look-back period equivalent to the expected life of the options granted. The estimated forfeiture rate is based on the historical forfeiture rate.

For the three months ended March 31, 2016 and 2015, the Company recorded stock based compensation expense on the outstanding stock options to corporate and administrative expenses of $558,000 and $891,000, respectively.

## 15. Net Finance (Expense) Income

Net finance (expense) income of the Company included in the unaudited condensed interim consolidated statements of operations and comprehensive loss are summarized below.

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Warrant financial liability (note 7(b)) | $ (841) | $ 1,171 |
| Accretion of discount on Loan Payable (note 7(a)) | (306) | (250) |
| Bond premium expense | (426) | (464) |
| Interest expense | (915) | (763) |
| Interest income | 4 | 143 |
| Foreign exchange gain (loss) | 4 | (2) |
| Accretion on reclamation provision | (332) | (398) |
| Other | 378 | (6) |
| | $ (2,434) | $ (569) |

## 16. Earnings per Share

Basic and diluted loss per Common Share is summarized as follows:

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Basic and diluted loss attributable to common shareholders | $ (8,398) | $ (23,174) |
| Basic and diluted weighted average number of Common Shares outstanding (000's) | 1,398,189 | 1,190,770 |
| Basic loss per share | $ (0.01) | $ (0.02) |
| Diluted loss per share | $ (0.01) | $ (0.02) |

In periods of net loss, the number of shares used to calculate diluted earnings per share is the same as basic earnings per share; therefore, the effect of the dilutive securities is zero for such periods. There were no instruments, including stock options and warrants, which would result in the issuance of Common Shares whose effect would be dilutive on loss per share.

## 17. Supplemental Cash Flow Information

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Change in working capital balances related to operations: | | |
| Accounts receivable | $ 1,229 | $ 12,229 |
| Prepaid expenses and other | 650 | 337 |
| Inventories | (2,850) | (2,059) |
| Accounts payable and accrued liabilities | 1,986 | (4,129) |
| Other liabilities | 282 | — |
| | $ 1,297 | $ 6,378 |
| Non-cash financing activities: | | |
| Issuance of Common Shares – term loan amendment (note 7(a)) | $ 300 | $ — |
| Cash paid for interest | $ 178 | $ 127 |
| Cash paid (received) for income taxes | $ — | $ — |

## 18. Related Party Transactions

Related party transactions include any transactions with employees, other than amounts earned as a result of their employment, transactions with companies that employees or directors either control or have significant influence over, transactions with companies who are under common control with the Company's controlling shareholder, Quintana Energy Partners L.P. ("QEP") and transactions with companies who are a minority shareholder and affiliated with the Company's minority shareholder, Sprott Resource Corp.

Transactions with related parties included in the unaudited condensed interim consolidated statement of operations and comprehensive loss of the Company are summarized below:

| | For the three months ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Royalties and property taxes (i) | $ 777 | $ 712 |
| Mining equipment lease (ii) | — | 183 |
| Supplies purchase (iii) | 32 | 178 |
| | $ 809 | $ 1,073 |

i. During the three months ended March 31, 2016 and 2015, the Company paid royalties and property taxes to related parties who are commonly controlled by QEP in the amount of $777,000 and $712,000, respectively, for coal extracted from mineral properties where the surface or mineral right of the specific property are leased by the Company and owned by the related party. These amounts were included in cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive loss.

ii. During the three months ended March 31, 2015, the Company made lease payments to related parties controlled by an officer of the Company for use of mining equipment owned by the related party amounting to $183,000. This amount was included in cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive loss. The lease expired in December 2015.

iii. During the three months ended March 31, 2016 and 2015, the Company purchased from related parties, who are significantly influenced by key management personnel of QEP, supplies used in the coal separation process amount to $32,000 and $178,000, respectively. These amounts were included in cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive loss.

At December 31, 2015, the Company had a note receivable of $120,000 from an employee of the Company, this note was satisfied during the three months ended March 31, 2016.

Included in accounts payable and accrued liabilities at March 31, 2016 and December 31, 2015 is $538,000 and $415,000, respectively, due to related parties, as a result of the transactions noted above, who are employees, directors and companies either controlled or significantly influenced by QEP. These amounts are unsecured and non-interest bearing.

At March 31, 2016 and December 31, 2015, the Company had a loan payable to Sprott Resource Lending Corporation of $25,140,000 and $24,440,000, respectively. Sprott Resource Lending Corporation is a minority shareholder and affiliated with another minority shareholder, Sprott Resource Corporation For additional details related to this loan payable see note 7.

## 19. Segment Disclosures

Management has identified its operating segments based on geographical location and product offerings. Management has identified three distinct operating segments which require separate disclosures under IFRS 8 – *Operating Segments*. All three segments below are reported on the same basis as the internal reporting of the Company using accounting policies consistent with the annual consolidated financial statements.

NAPP is a distinct operating segment based on its metallurgical and thermal coal operations and location in the USA along the Northern Appalachia coal belt. CAPP is a distinct operating segment based on its thermal coal operations and location in the USA along the Central Appalachia coal belt. The Company's corporate office provides support and manages the mining investments. Management analyzes the operations of each segment noted above on a standalone basis for key decisions related to such operations. The amounts charged for transactions between reportable segments were measured at the exchange value, which represented the amount of consideration established and agreed to by the reportable segments.

The required disclosures for the operating segments are presented below.

| | At and for the three months ended March 31, 2016 | | | |
|---|---|---|---|---|
| | NAPP | CAPP | Corporate | Total |
| **Total assets** | $ 158,329 | $ 36,302 | $ 10,189 | $ 204,820 |
| **Total liabilities** | $ 100,601 | $ 12,952 | $ 26,995 | $ 140,548 |
| | | | | |
| Revenues | $ 10,205 | $ 6,408 | $ — | $ 16,613 |
| Cost of sales | (13,679) | (5,997) | — | (19,676) |
| **Gross margin** | (3,474) | 411 | — | (3,063) |
| | | | | |
| Corporate and administrative expenses | (1,178) | (407) | (1,522) | (3,107) |
| **(Loss) income from operations** | (4,652) | 4 | (1,522) | (6,170) |
| | | | | |
| Net finance expense | (442) | (116) | (1,876) | (2,434) |
| Other income (expense) | 312 | (5) | — | 307 |
| **Loss before tax** | (4,782) | (117) | (3,398) | (8,297) |
| | | | | |
| Current income tax (benefit) expense | — | — | — | — |
| Deferred income tax expense | — | — | — | — |
| | — | — | — | — |
| **Net and comprehensive loss** | $ (4,782) | $ (117) | $ (3,398) | $ (8,297) |

| | For the three months ended March 31, 2015 | | | |
|---|---|---|---|---|
| | NAPP | CAPP | Corporate | Total |
| Revenues | $ 17,976 | $ 13,390 | $ — | $ 31,366 |
| Cost of sales | (29,219) | (23,457) | — | (52,676) |
| **Gross margin** | (11,243) | (10,067) | — | (21,310) |
| | | | | |
| Corporate and administrative expenses | (1,876) | (377) | (1,886) | (4,139) |
| **Loss from operations** | (13,119) | (10,444) | (1,886) | (25,449) |
| | | | | |
| Net finance (expense) income | (743) | (121) | 295 | (569) |
| Other income | 643 | 12 | — | 655 |
| **Loss before tax** | (13,219) | (10,553) | (1,591) | (25,363) |
| | | | | |
| Current income tax expense | — | — | 185 | 185 |
| Deferred income tax expense | — | — | 79 | 79 |
| | — | — | 264 | 264 |
| **Net and comprehensive loss** | $ (13,219) | $ (10,553) | $ (1,855) | $ (25,627) |

All of the Company's mining properties are located in the USA. The following geographic data includes revenues, net income (loss), non-current assets and total assets:

| | For the three months ended March 31, 2016 | | | For the three months ended March 31, 2015 | | |
|---|---|---|---|---|---|---|
| | USA | Canada | Total | USA | Canada | Total |
| Revenue | $ 16,613 | $ — | $ 16,613 | $ 31,366 | $ — | $ 31,366 |
| Net loss | $ (4,899) | $ (3,398) | $ (8,297) | $ (23,772) | $ (1,855) | $ (25,627) |

| | At March 31, 2016 | | | At December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | USA | Canada | Total | USA | Canada | Total |
| Non-current assets | $ 163,951 | $ 55 | $ 164,006 | $ 165,567 | $ 64 | $ 165,631 |
| Total assets | $ 194,631 | $ 10,189 | $ 204,820 | $ 197,491 | $ 5,369 | $ 202,860 |

## 20. Commitments and Contingencies

*Litigation*

In January 2016, Italian steel company, Lucchini S.p.A. ("Lucchini") filed a claim ("Lucchini Claim") for $52 million against PBS Coals, Inc. in the Livorno (Italy) Tribunal. The Lucchini Claim arises from coal purchase and sale transactions between PBS Coals, Inc., as seller, and Lucchini, as purchaser. The transactions all occurred between November 2010 and January 2012, before Corsa acquired PBS. The Lucchini Claim alleges that during the relevant time period, both PBS and Lucchini were owned and/ or controlled by OAO Severstal and entities controlled by Alexey Mordashov (the "Mordashov Group"). According to the Lucchini Claim, among other things, (i) PBS Coals sold Lucchini $52 million of coal between February 2011 and January 2012, (ii) insolvent companies, such as Lucchini, may claw back payments from a group of companies without regard to value given, (iii) Lucchini was insolvent at all relevant times, (iv) PBS was part of the OAO Severstal/ Mordashov Group at all relevant times, (v) PBS' knowledge of the insolvency can be imputed and (vi) PBS had actual knowledge of the insolvency.

PBS is currently analyzing the jurisdiction issues and merits of the claim, and whether it or Corsa has the right to make a claim against OAO Severstal, Alexey Mordashov or others. Corsa believes that the case is without merit and intends to defend it vigorously.

*Tax Matters*

The Pennsylvania Department of Revenue is conducting an audit of PBS Coals, Inc.'s sales and use tax returns filed for the period January 1, 2011 through June 30, 2014. Management believes that the resolution of this matter will not be significant to the Company.

*Miscellaneous Litigation*

The Company and its subsidiaries are parties to a number of other lawsuits arising in the ordinary course of their businesses. The Company records costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on the Company's future results of operations cannot be predicted with certainty as any such effect depends on future results of operations and the amount and timing of the resolution of such matters. While the results of litigation cannot be predicted with certainty, the Company believes that the final outcome of such other litigation will not have a material adverse effect on the Company's consolidated financial statements.