



Corsa Coal Corp.
Unaudited Condensed Interim Consolidated Financial Statements
June 30, 2016 and 2015

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

Assets	June 30, 2016	December 31, 2015
Cash	\$ 10,690	\$ 9,493
Accounts receivable (note 3)	13,167	13,236
Prepaid expenses and other current assets	2,533	2,924
Inventories	12,790	11,576
Current Assets	39,180	37,229
Restricted cash (note 4)	33,805	34,226
Advance royalties and other assets	4,078	3,919
Property, plant and equipment (note 5)	123,123	127,486
Deferred income tax assets	—	—
Total Assets	\$ 200,186	\$ 202,860
Liabilities		
Accounts payable and accrued liabilities	\$ 12,951	\$ 10,833
Notes payable (note 6)	4,672	5,023
Finance lease obligations	3,564	3,733
Other liabilities (note 8)	8,341	8,027
Reclamation and water treatment provision (note 9)	4,219	4,399
Current Liabilities	33,747	32,015
Notes payable (note 6)	1,584	1,267
Finance lease obligations	3,684	5,079
Loan payable (note 7)	26,209	24,440
Other liabilities (note 8)	15,340	15,002
Reclamation and water treatment provision (note 9)	59,799	61,079
Warrant financial liability (note 7(b))	1,051	220
Total Liabilities	141,414	139,102
Equity		
Share Capital	163,465	153,172
Contributed Surplus	2,770	1,956
Retained earnings (deficit)	(139,042)	(123,004)
Total Shareholders' Equity	27,193	32,124
Non-controlling interest	31,579	31,634
Total Equity	58,772	63,758
Total Liabilities and Equity	\$ 200,186	\$ 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		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenue (note 11)	\$ 18,662	\$ 39,670	\$ 35,275	\$ 71,036
Cost of sales (note 12)	(22,560)	(46,641)	(42,236)	(99,317)
Gross Margin	(3,898)	(6,971)	(6,961)	(28,281)
Corporate and administrative expense (note 13 and 14)	(2,638)	(4,512)	(5,745)	(8,651)
Loss from operations	(6,536)	(11,483)	(12,706)	(36,932)
Net finance expense (note 15)	(1,654)	(1,650)	(4,088)	(2,219)
Other income	138	1,586	445	2,241
Loss before tax	(8,052)	(11,547)	(16,349)	(36,910)
Current income tax (benefit) expense	—	94	—	279
Deferred income tax expense	—	79	—	158
	—	173	—	437
Net and comprehensive loss	\$ (8,052)	\$ (11,720)	\$ (16,349)	\$ (37,347)
Attributable to:				
Shareholders	\$ (7,896)	\$ (12,056)	\$ (16,294)	\$ (35,230)
Non-controlling interest	\$ (156)	\$ 336	\$ (55)	\$ (2,117)
Basic loss per share (note 16)	\$ —	\$ (0.01)	\$ (0.01)	\$ (0.03)
Diluted loss per share (note 16)	\$ —	\$ (0.01)	\$ (0.01)	\$ (0.03)

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 six months ended June 30, 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)	—	—	941	—	—	941
Stock option expiration/forfeiture	—	—	(256)	256	—	—
Corsa equity financing (note 10)	270,744	10,410	—	—	—	10,410
Issuance of broker warrants	—	(129)	129	—	—	—
Equity issuance costs	—	(288)	—	—	—	(288)
Credit amendment fee shares (note 7(a))	7,791	300	—	—	—	300
Net and comprehensive loss	—	—	—	(16,294)	(55)	(16,349)
Balance - June 30, 2016	<u>1,657,776</u>	<u>\$ 163,465</u>	<u>\$ 2,770</u>	<u>\$ (139,042)</u>	<u>\$ 31,579</u>	<u>\$ 58,772</u>

For the six months ended June 30, 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)	—	—	1,481	—	—	1,481
Stock option expiration/forfeiture	—	—	(33)	33	—	—
Net and comprehensive loss	—	—	—	(35,230)	(2,117)	(37,347)
Balance - June 30, 2015	<u>1,190,770</u>	<u>\$ 145,980</u>	<u>\$ 3,827</u>	<u>\$ (21,531)</u>	<u>\$ 42,917</u>	<u>\$ 171,193</u>

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		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Operating Activities				
Net and comprehensive loss	\$ (8,052)	\$ (11,720)	\$ (16,349)	\$ (37,347)
Items not affecting cash:				
Amortization	3,422	7,073	8,009	15,620
Stock-based compensation expense (note 14)	383	590	941	1,481
Net finance expense (note 15)	1,095	890	2,949	998
Change in estimate of reclamation provision for non-operating properties (note 9)	—	(452)	—	1,236
Deferred income tax expense	—	79	—	158
Write-off of advance royalties and other assets	70	69	196	895
Impairment and write-off of mineral properties (note 5)	—	3,756	—	16,246
Other non-cash operating (income) expense	952	(2,206)	217	(2,539)
Cash spent on reclamation activities	(1,111)	(1,965)	(2,098)	(3,360)
Changes in working capital balances related to operations (note 17)	313	7,052	1,610	13,430
Cash (used in) provided by operating activities	(2,928)	3,166	(4,525)	6,818
Investing Activities				
Restricted cash	502	(1,145)	267	(835)
Advance royalties and other assets	(266)	(430)	(332)	(840)
Proceeds on sale of assets	415	944	1,037	1,240
Property, plant and equipment additions	(1,047)	(3,314)	(3,054)	(8,468)
Cash used in investing activities	(396)	(3,945)	(2,082)	(8,903)
Financing Activities				
Proceeds from equity financing	2,410	—	10,410	—
Debt issuance costs	—	—	(42)	—
Share issuance costs	(241)	—	(288)	—
Proceeds from notes payable	650	1,000	1,150	1,000
Repayment of notes payable	(595)	(951)	(1,192)	(1,360)
Repayment of finance lease obligations	(1,079)	(2,021)	(2,234)	(2,798)
Cash provided by (used in) financing activities	1,145	(1,972)	7,804	(3,158)
Net (decrease) increase in cash for the period	(2,179)	(2,751)	1,197	(5,243)
Cash, beginning of period	12,869	11,433	9,493	13,925
Cash, end of period	\$ 10,690	\$ 8,682	\$ 10,690	\$ 8,682

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, Canada, M5L 1B9 and the head office of Corsa is located at 125 Technology Drive, Suite 100, Canonsburg, Pennsylvania, USA, 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, 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 August 10, 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) depreciation 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.

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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 and six months ended June 30, 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 June 30, 2016 the Company had a consolidated cash balance of \$10,690,000 and consolidated working capital of \$5,433,000. However, the future operations of the Company are dependent on the continued generation of positive cash flows from operations which is dependent on the future demand for coal and stability of metallurgical and thermal coal prices as well as 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 June 30, 2016 and December 31, 2015, the Company had available committed undrawn credit facilities amounting to \$1,850,000 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 June 30, 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	\$ 12,951	\$ 12,951	\$ 12,951	\$ —	\$ —	\$ —
Notes payable	6,256	6,256	4,671	1,475	110	—
Finance lease obligations	7,248	7,248	3,549	3,366	333	—
Loan payable	26,209	30,438	—	—	30,438	—
Other liabilities	23,681	25,424	8,341	4,979	8,988	3,116
Water treatment trust funding	—	9,645	3,391	6,254	—	—
Operating leases and other obligations	—	1,043	910	133	—	—
Total	\$ 76,345	\$ 93,005	\$ 33,813	\$ 16,207	\$ 39,869	\$ 3,116

(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):

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loan Payable	\$ 26,209	\$ 17,170	\$ 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%.

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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.

	June 30, 2016		December 31, 2015	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Cash	\$ 10,690	\$ —	\$ 9,493	\$ —
Restricted cash	33,805	—	34,226	—
	<u>\$ 44,495</u>	<u>\$ —</u>	<u>\$ 43,719</u>	<u>\$ —</u>
Financial liabilities				
Warrant financial liability	<u>\$ —</u>	<u>\$ 1,051</u>	<u>\$ —</u>	<u>\$ 220</u>

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 June 30, 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:

	June 30, 2016	December 31, 2015
Trade receivables	\$ 6,172	\$ 6,586
Indemnification asset receivable (note 8(c))	6,746	6,000
Other	249	650
	<u>\$ 13,167</u>	<u>\$ 13,236</u>

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

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4. Restricted cash

Restricted cash consists of the following:

	June 30, 2016	December 31, 2015
Water treatment trust funds (a)	\$ 18,213	\$ 17,376
Collateral posted for reclamation bonds (b)	9,745	10,690
Workers' compensation trust funds (c)	5,810	6,123
Other restricted deposits	37	37
	<u>\$ 33,805</u>	<u>\$ 34,226</u>

- 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 June 30, 2016 and December 31, 2015, the balance in these trust funds was \$18,213,000 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 June 30, 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 US 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. During the three months ended June 30, 2016, the Company reached an agreement with an insurer to release certain portions of the cash collateral to fund certain reclamation projects. Accordingly, \$757,000 was released from the cash collateral and used to fund reclamation expenses during the three months ended June 30, 2016.
- c. The Company has established separate trust funds with its insurance carriers to pay potential awards and claims related to workers' compensation claims. At June 30, 2016 and December 31, 2015, the Company had \$5,810,000 and \$6,123,000, respectively, of funds held in trust included in restricted cash to pay potential awards and claims related to workers' compensation claims.

5. Property, plant and equipment

Property, plant and equipment consists of the following:

	Mineral Properties (a)	Plant and Equipment	Total
<u>Cost</u>			
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	—	2,100	2,100
Capitalized development costs	2,129	—	2,129
Capitalized borrowing costs	34	—	34
Disposals	(1,020)	(1,291)	(2,311)
Other	—	(92)	(92)
Balance - June 30, 2016	\$ 177,388	\$ 169,642	\$ 347,030
<u>Accumulated Amortization</u>			
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	(903)	(7,585)	(8,488)
Disposals	1,020	1,190	2,210
Other	—	55	55
Balance - June 30, 2016	\$ (93,619)	\$ (130,288)	\$ (223,907)
<u>Net Book Value</u>			
December 31, 2015	\$ 82,509	\$ 44,977	\$ 127,486
June 30, 2016	\$ 83,769	\$ 39,354	\$ 123,123

- 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.

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- 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)
	<u>(7,412)</u>	<u>488</u>	<u>(6,924)</u>
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)
	<u>(78,452)</u>	<u>(46,396)</u>	<u>(124,848)</u>
	<u>\$ (85,864)</u>	<u>\$ (45,908)</u>	<u>\$ (131,772)</u>

- 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.

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- 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 exceeding 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 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:

Cash Generating Unit	Change to FVLCD			
	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
	<u>\$ (14,218)</u>	<u>\$ 14,218</u>	<u>\$ (7,249)</u>	<u>\$ 7,818</u>

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6. Notes Payable

Notes payable consists of the following:

	June 30, 2016	December 31, 2015
Revolving credit facility (a)	\$ 3,150	\$ 2,000
Loans payable - equipment purchase (b)	1,664	2,004
Note payable (c)	1,442	1,583
Term loan (d)	—	703
Other notes payable	—	—
Balance, end of period	<u>6,256</u>	<u>6,290</u>
Less: Current portion	<u>(4,672)</u>	<u>(5,023)</u>
Total long-term notes payable	<u>\$ 1,584</u>	<u>\$ 1,267</u>

- 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 June 30, 2016 and December 31, 2015, the Company had available committed undrawn credit facilities amounting to \$1,850,000 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 and six months ended June 30, 2016, \$15,000 and \$34,000 of finance and interest expense was capitalized to the cost of the mineral property, respectively. During the three and six months ended June 30, 2015, \$60,000 and \$104,000 of finance and interest expense was capitalized to the cost of the mineral property, respectively.
- d. The CAPP Division had 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. This note was fully repaid in the three months ended June 30, 2016.

At June 30, 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”) with Sprott Resource Lending Corporation (“SRLC”). 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, Inc. 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 June 30, 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 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 six months ended June 30, 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	<u>24,440</u>
Accrued interest - capitalized to principal	1,487
Issuance costs of Loan Payable Amending Agreement	(623)
Amendment fee - capitalized to principal	281
Accretion on discount on Loan Payable (note 15)	624
Balance - June 30, 2016	<u><u>\$ 26,209</u></u>

- 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 June 30, 2016, the fair value was determined to be \$1,051,000 using a Black Scholes option pricing model (expected life of 3.1 years, exercise price of Cdn\$0.195, risk-free interest rate of 0.71%, Common Share price of Cdn\$0.07, expected volatility of 118%, dividend yield of 0%, forfeiture rate of 0% and CAD/USD exchange rate of 0.7742). The revaluation amounted to income of \$11,000 and expense of \$830,000 for the three and six months ended June 30, 2016, respectively, 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 \$399,000 and \$1,570,000 for the three and six months ended June 30, 2015, respectively.

8. Other Liabilities

Other liabilities consist of the following:

	June 30, 2016	December 31, 2015
Workers' compensation provision (a)	\$ 7,211	\$ 7,797
Transportation contract liquidated damages (b)	5,837	6,270
EPA Clean Water Act settlement (c)	6,500	6,000
Processing fee payable (d)	2,470	2,416
Other (e)	1,663	546
	<u>23,681</u>	<u>23,029</u>
Less: current portion (a,b,c)	(8,341)	(8,027)
Total Other Liabilities	<u>\$ 15,340</u>	<u>\$ 15,002</u>

- 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 \$819,000. 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 June 30, 2016, a provision of \$5,837,000 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 \$800,000.
- 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 by PBS (as defined below), 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 \$6,500,000 at June 30, 2016 and is expected to be settled within one year of the reporting date. As part of the PBS Transaction, the Company funded \$10,000,000 of cash into escrow accounts to cover the estimated penalty, and has the ability to make claims against a subsidiary of OAO Severstal to reimburse the Company for the penalty paid. Accordingly, \$6,500,000 has been recognized in accounts receivable at June 30, 2016 and December 31, 2015. The escrow agreement also allows for the reimbursement

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of legal fees incurred related to this matter, accordingly, the Company has recognized an additional \$246,000 in accounts receivable at June 30, 2016. 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%.
- e. Other liabilities include various accruals, none of which are individually material. Among other items, these accruals include the Company's estimate of exposure related to the Pennsylvania Department of Revenue's 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.

9. Reclamation and Water Treatment Provision

The Company's reclamation and water treatment 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 and water treatment provision were as follows:

	Site Reclamation and Remediation (a)	Water Treatment Obligation (b)	Total Reclamation and Water Treatment Provision
Balance - January 1, 2015	\$ 54,447	\$ 31,508	\$ 85,955
Reclamation and water treatment 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 and water treatment costs incurred	(979)	(1,120)	(2,099)
Change in estimate	—	—	—
Accretion expense	368	271	639
Balance - June 30, 2016	\$ 38,301	\$ 25,717	\$ 64,018
Less: current portion	(1,819)	(2,400)	(4,219)
Long-Term Reclamation and Water Treatment Provision	\$ 36,482	\$ 23,317	\$ 59,799
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%	

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- 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 and six months ended June 30, 2016 this amount was nil. A gain of \$171,000 and expense of \$364,000 was recorded for the three and six months ended June 30, 2015, respectively.
 - ii. The current portion represents the amount expected to be incurred by the Company within one year from June 30, 2016.
 - iii. At June 30, 2016, the Company had \$76,235,000 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 and six months ended June 30, 2016 this amount was nil. A gain of \$281,000 and expense of \$872,000 was recorded for the three and six months ended June 30, 2015.
- ii. The current portion represents the amount expected to be incurred by the Company within one year from June 30, 2016.

10. Share Capital

Authorized capital stock of the Company consists of an unlimited number of Common Shares without par value. At June 30, 2016 and December 31, 2015, the Company had 1,657,776,000 and 1,379,241,000 outstanding Common Shares, respectively. At June 30, 2016 and December 31, 2015, Legacy QKGI also owns 170,316,639 Redeemable Units of Wilson Creek Energy, LLC entitling it to a 19% minority interest in the net assets, income and expenses of Wilson Creek Energy, LLC.

In June 2016, Corsa completed a private placement of 63,000,000 Common Shares, 56,000,000 of which were closed on a brokered basis and 7,000,000 of which were closed on a non-brokered basis, for gross proceeds of Cdn\$3,150,000 at Cdn\$0.05 per Common Share (the "June Private Placement"). Paradigm Capital Inc. (the "Agent") acted as lead agent for the brokered portion of the June Private Placement. The Company paid the Agent aggregate cash commissions of Cdn\$168,000 and issued a total of 3,360,000 compensation warrants ("Compensation Warrants") in connection with the June Private Placement. Each Compensation Warrant entitles the Agent to purchase one Common Share at Cdn\$0.05, exercisable for a period of 24 months. The proceeds of the Private Placement are being used to fund working capital and for general corporate purposes.

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 "March Private Placement"). The proceeds of the March Private Placement were used to fund working capital and for general corporate purposes. As part of the March 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

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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.

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		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Metallurgical coal sales	\$ 9,656	\$ 24,397	\$ 17,963	\$ 40,059
Thermal coal sales	8,978	13,909	17,238	27,300
Tolling revenue	28	1,364	74	3,677
	<u>\$ 18,662</u>	<u>\$ 39,670</u>	<u>\$ 35,275</u>	<u>\$ 71,036</u>

12. Cost of Sales

Cost of sales consists of the following:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Mining and processing costs	\$ 15,409	\$ 26,642	\$ 26,872	\$ 49,241
Purchased coal costs	486	1,117	788	2,205
Royalty expense	1,500	2,463	2,910	4,872
Amortization expense	3,422	7,072	8,009	15,620
Transportation costs from preparation plant to customer	972	3,707	2,182	5,458
Idle mine expense	510	1,829	1,088	3,106
Change in estimate of reclamation provision for non-operating properties	—	(452)	—	1,236
Impairment and write-off of mineral properties (note 5)	—	3,756	—	16,246
Write-off of advance royalties and other assets	70	69	196	895
Other costs	191	438	191	438
	<u>\$ 22,560</u>	<u>\$ 46,641</u>	<u>\$ 42,236</u>	<u>\$ 99,317</u>

13. Corporate and Administrative Expense

Corporate and administrative expense consists of the following:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Salaries and other compensation	\$ 1,567	\$ 2,306	\$ 3,415	\$ 5,180
Professional fees	632	1,123	1,451	1,438
Office expenses and insurance	266	696	619	1,398
Other	173	387	260	635
	<u>\$ 2,638</u>	<u>\$ 4,512</u>	<u>\$ 5,745</u>	<u>\$ 8,651</u>

14. Stock Based Compensation

The Company has a stock option plan and a restricted share 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 (i.e., the TSX Venture Exchange). 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. No RSUs have been granted, including during the three or six months ended June 30, 2016 and 2015. At June 30, 2016 and 2015, there were 25,905,000 and 38,745,000 stock options available for issuance under the stock option plan, respectively.

The changes in issued and outstanding stock options during the period ended June 30, 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 granted (iv)	21,979	0.07
Options forfeited	(12,400)	0.12
Options expired	(630)	1.06
Balance - June 30, 2016	<u>139,872</u>	<u>\$ 0.12</u>

- 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%

- iv. 21,979,656 stock options were granted on May 18, 2016 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\$0.07
Risk-free interest rate:	0.80%
Common Share price:	Cdn\$0.07
Expected volatility	136%
Dividend yield:	—%
Forfeiture rate:	11.05%

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 and six months ended June 30, 2016, the Company recorded stock based compensation expense on the outstanding stock options to corporate and administrative expenses of \$383,000 and \$941,000, respectively. For the three and six months

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ended June 30, 2015, the Company recorded stock based compensation expense on the outstanding stock options to corporate and administrative expenses of \$590,000 and \$1,481,000, 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		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Warrant financial liability (note 7(b))	\$ 11	\$ 399	\$ (830)	\$ 1,570
Accretion of discount on Loan Payable (note 7(a))	(318)	(256)	(624)	(506)
Bond premium expense	(411)	(455)	(837)	(919)
Interest expense	(992)	(795)	(1,907)	(1,558)
Interest income	8	17	12	160
Foreign exchange gain (loss)	51	(38)	55	(40)
Accretion on reclamation provision	(306)	(399)	(638)	(797)
Other	303	(123)	681	(129)
	<u>\$ (1,654)</u>	<u>\$ (1,650)</u>	<u>\$ (4,088)</u>	<u>\$ (2,219)</u>

16. Earnings per Share

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Basic and diluted loss attributable to common shareholders	<u>\$ (7,896)</u>	<u>\$ (12,056)</u>	<u>\$ (16,294)</u>	<u>\$ (35,230)</u>
Basic and diluted weighted average number of Common Shares outstanding (000's)	<u>1,614,853</u>	<u>1,190,770</u>	<u>1,506,521</u>	<u>1,190,770</u>
Basic loss per share	<u>\$ —</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>
Diluted loss per share	<u>\$ —</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>

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		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Change in working capital balances related to operations:				
Accounts receivable	(800)	(1,654)	\$ 429	\$ 10,575
Prepaid expenses and other	(282)	2,657	368	2,994
Inventories	1,568	4,717	(1,282)	2,658
Accounts payable and accrued liabilities	323	1,332	2,309	(2,797)
Other liabilities	(496)	—	(214)	—
	<u>\$ 313</u>	<u>\$ 7,052</u>	<u>\$ 1,610</u>	<u>\$ 13,430</u>
Non-cash financing activities:				
Issuance of Common Shares – term loan amendment (note 7(a))	\$ —	\$ —	\$ 300	\$ —
Issuance of broker warrants (note 10)	<u>\$ 129</u>	<u>—</u>	<u>\$ 129</u>	<u>\$ —</u>
Cash paid for interest	<u>\$ 202</u>	<u>\$ 159</u>	<u>\$ 380</u>	<u>\$ 286</u>
Cash paid (received) for income taxes	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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.

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		For the six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Royalties and property taxes (i)	\$ 417	\$ 793	\$ 1,194	\$ 1,505
Mining equipment lease (ii)	—	181	—	364
Supplies purchase (iii)	24	97	56	275
	<u>\$ 441</u>	<u>\$ 1,071</u>	<u>\$ 1,250</u>	<u>\$ 2,144</u>

- i. During the three and six months ended June 30, 2016 and 2015, the Company paid royalties and property taxes to related parties who are commonly controlled by QEP 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 and six months ended June 30, 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. 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.

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- iii. During the three and six months ended June 30, 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. 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 six months ended June 30, 2016.

Included in accounts payable and accrued liabilities at June 30, 2016 and December 31, 2015 is \$218,000 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 June 30, 2016 and December 31, 2015, the Company had a loan payable to SRLC of \$26,209,000 and \$24,440,000, respectively. SRLC is a minority shareholder of the Company. 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 six months ended June 30, 2016			
	NAPP	CAPP	Corporate	Total
Total assets	\$ 156,173	\$ 34,951	\$ 9,062	\$ 200,186
Total liabilities	\$ 101,036	\$ 12,235	\$ 28,143	\$ 141,414
Revenues	\$ 22,767	\$ 12,508	\$ —	\$ 35,275
Cost of sales	(29,571)	(12,665)	—	(42,236)
Gross margin	(6,804)	(157)	—	(6,961)
Corporate and administrative expenses	(2,382)	(726)	(2,637)	(5,745)
(Loss) income from operations	(9,186)	(883)	(2,637)	(12,706)
Net finance expense	(971)	(242)	(2,875)	(4,088)
Other income (expense)	281	164	—	445
Loss before tax	(9,876)	(961)	(5,512)	(16,349)
Current income tax (benefit) expense	—	—	—	—
Deferred income tax expense	—	—	—	—
	—	—	—	—
Net and comprehensive loss	\$ (9,876)	\$ (961)	\$ (5,512)	\$ (16,349)

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	For the three months ended June 30, 2016			
	NAPP	CAPP	Corporate	Total
Revenues	\$ 12,562	\$ 6,100	\$ —	\$ 18,662
Cost of sales	(15,892)	(6,668)	—	(22,560)
Gross margin	(3,330)	(568)	—	(3,898)
Corporate and administrative expenses	(1,204)	(319)	(1,115)	(2,638)
(Loss) income from operations	(4,534)	(887)	(1,115)	(6,536)
Net finance expense	(529)	(126)	(999)	(1,654)
Other income (expense)	(31)	169	—	138
Loss before tax	(5,094)	(844)	(2,114)	(8,052)
Current income tax (benefit) expense	—	—	—	—
Deferred income tax expense	—	—	—	—
Net and comprehensive loss	\$ (5,094)	\$ (844)	\$ (2,114)	\$ (8,052)

	For the six months ended June 30, 2015			
	NAPP	CAPP	Corporate	Total
Revenues	\$ 45,055	\$ 25,981	\$ —	\$ 71,036
Cost of sales	(62,666)	(36,651)	—	(99,317)
Gross margin	(17,611)	(10,670)	—	(28,281)
Corporate and administrative expenses	(3,577)	(793)	(4,281)	(8,651)
Loss from operations	(21,188)	(11,463)	(4,281)	(36,932)
Net finance (expense) income	(1,757)	(240)	(222)	(2,219)
Other income	2,223	18	—	2,241
Loss before tax	(20,722)	(11,685)	(4,503)	(36,910)
Current income tax expense	—	—	279	279
Deferred income tax expense	—	—	158	158
	—	—	437	437
Net and comprehensive loss	\$ (20,722)	\$ (11,685)	\$ (4,940)	\$ (37,347)

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	For the three months ended June 30, 2015			
	NAPP	CAPP	Corporate	Total
Revenues	\$ 27,079	\$ 12,591	\$ —	\$ 39,670
Cost of sales	(33,447)	(13,194)	—	(46,641)
Gross margin	(6,368)	(603)	—	(6,971)
Corporate and administrative expenses	(1,701)	(416)	(2,395)	(4,512)
Loss from operations	(8,069)	(1,019)	(2,395)	(11,483)
Net finance (expense) income	(1,014)	(119)	(517)	(1,650)
Other income	1,580	6	—	1,586
Loss before tax	(7,503)	(1,132)	(2,912)	(11,547)
Current income tax expense	—	—	94	94
Deferred income tax expense	—	—	79	79
	—	—	173	173
Net and comprehensive loss	\$ (7,503)	\$ (1,132)	\$ (3,085)	\$ (11,720)

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 six months ended June 30, 2016			For the six months ended June 30, 2015		
	USA	Canada	Total	USA	Canada	Total
Revenue	\$ 35,275	\$ —	\$ 35,275	\$ 71,036	\$ —	\$ 71,036
Net loss	\$ (10,837)	\$ (5,512)	\$ (16,349)	\$ (32,407)	\$ (4,940)	\$ (37,347)
	For the three months ended June 30, 2016			For the three months ended June 30, 2015		
	USA	Canada	Total	USA	Canada	Total
Revenue	\$ 18,662	\$ —	\$ 18,662	\$ 39,670	\$ —	\$ 39,670
Net loss	\$ (5,938)	\$ (2,114)	\$ (8,052)	\$ (8,635)	\$ (3,085)	\$ (11,720)
	At June 30, 2016			At December 31, 2015		
	USA	Canada	Total	USA	Canada	Total
Non-current assets	\$ 160,958	\$ 48	\$ 161,006	\$ 165,567	\$ 64	\$ 165,631
Total assets	\$ 191,124	\$ 9,062	\$ 200,186	\$ 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 (the “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 Coals, Inc. The Lucchini Claim alleges that during the relevant time period, both PBS Coals, Inc. 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, Inc. 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 Coals Inc. was part of the OAO Severstal/Mordashov Group at all relevant times, (v) PBS Coal Inc.’s knowledge of the insolvency can be imputed and (vi) PBS Coals Inc. had actual knowledge of the insolvency.

PBS Coals Inc. 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.

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.

21. Subsequent Event

In August 2016, Corsa entered into a Comprehensive Master Equipment Lease Financing Modification, Consolidation and Security Agreement (the “Modified Lease”) regarding various mobile equipment that was previously leased under a finance lease at Wilson Creek Energy, LLC, effective as of June 1, 2016. The Modified Lease bears interest at 5.62% and requires a specified debt service coverage ratio of at least 1.25 to 1.00 measured on a quarterly basis as well as a minimum cash balance of \$2,000,000 at all times, each covenant excludes the CAPP Division.