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**Corsa Coal Corp.**  
**Consolidated Financial Statements**  
**December 31, 2016 and 2015**



**To the Shareholders of Corsa Coal Corp.**

We have audited the accompanying consolidated financial statements of Corsa Coal Corp. and its subsidiaries (“Corsa” or the “Company”), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive loss, changes in shareholders’ equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

***Management’s Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor’s Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Corsa Coal Corp. and subsidiaries at December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

A handwritten signature in blue ink that reads "Urish Popeck &amp; Co, LLC".

Certified Public Accountants  
March 7, 2017  
Pittsburgh, PA, USA

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

<b>Assets</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Cash	\$ 25,757	\$ 9,493
Accounts receivable (note 5)	7,889	13,236
Prepaid expenses and other current assets	2,913	2,924
Inventories (note 6)	12,098	11,576
<b>Current Assets</b>	<b>48,657</b>	<b>37,229</b>
Restricted cash (note 7)	33,063	34,226
Advance royalties and other assets	3,255	3,919
Property, plant and equipment (note 8)	115,997	127,486
<b>Total Assets</b>	<b>\$ 200,972</b>	<b>\$ 202,860</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 16,165	\$ 10,833
Notes payable (note 9)	5,475	5,023
Finance lease obligations (note 10)	3,574	3,733
Other liabilities (note 12)	1,750	8,027
Reclamation and water treatment provision (note 13)	6,200	4,399
<b>Current Liabilities</b>	<b>33,164</b>	<b>32,015</b>
Notes payable (note 9)	1,290	1,267
Finance lease obligations (note 10)	4,480	5,079
Loan payable (note 11)	28,435	24,440
Other liabilities (note 12)	14,166	15,002
Reclamation and water treatment provision (note 13)	57,649	61,079
Warrant financial liability (note 11(b))	2,805	220
<b>Total Liabilities</b>	<b>141,989</b>	<b>139,102</b>
<b>Equity</b>		
Share Capital	179,811	153,172
Contributed Surplus	1,484	1,956
Accumulated Deficit	(155,673)	(123,004)
<b>Total Shareholders' Equity</b>	<b>25,622</b>	<b>32,124</b>
Non-controlling interest	33,361	31,634
<b>Total Equity</b>	<b>58,983</b>	<b>63,758</b>
<b>Total Liabilities and Equity</b>	<b>\$ 200,972</b>	<b>\$ 202,860</b>

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

Approved by the Board of Directors:

/s/ Corbin J. Robertson III  
Corbin J. Robertson III, Director

/s/ Alan M. De'Ath  
Alan M. De'Ath, Director

**Corsa Coal Corp.****Consolidated Statements of Operations and Comprehensive Loss**

Expressed in United States dollars, tabular amounts in thousands except for per share amounts

	For the years ended	
	December 31,	
	2016	2015
Revenue (note 16)	\$ 96,986	\$ 129,342
Cost of sales (note 17)	(110,170)	(262,573)
<b>Gross Margin</b>	<b>(13,184)</b>	<b>(133,231)</b>
Corporate and administrative expense (note 18 and 19)	(13,234)	(15,514)
<b>Loss from operations</b>	<b>(26,418)</b>	<b>(148,745)</b>
Net finance (expense) income (note 20)	(9,812)	(6,528)
Other income (expense)	2,090	1,902
<b>Loss before tax</b>	<b>(34,140)</b>	<b>(153,371)</b>
Current income tax (benefit) expense (note 22)	—	(486)
Deferred income tax expense (note 22)	—	104
	—	(382)
<b>Net and comprehensive loss</b>	<b>\$ (34,140)</b>	<b>\$ (152,989)</b>
Attributable to:		
Shareholders	\$ (35,867)	\$ (139,589)
Non-controlling interest	\$ 1,727	\$ (13,400)
Basic loss per share (note 21)	\$ (0.44)	\$ (2.28)
Diluted loss per share (note 21)	\$ (0.44)	\$ (2.28)

Prior periods have been adjusted to reflect the impact of the one for twenty share consolidation which became effective on December 7, 2016, as discussed in Note 1.

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

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

**For the year ended December 31, 2016**

	<b>Number of Corsa Common Shares (000's)</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Accumulated Deficit</b>	<b>Non- Controlling Interest</b>	<b>Total Equity</b>
<b>Balance - January 1, 2016</b>	68,962	\$ 153,172	\$ 1,956	\$ (123,004)	\$ 31,634	\$ 63,758
Stock based compensation (note 19)	—	—	2,597	—	—	2,597
Stock option expiration/forfeiture (note 19)	—	—	(3,198)	3,198	—	—
Corsa equity financing (note 15)	25,037	27,601	—	—	—	27,601
Equity issuance costs	—	(1,133)	—	—	—	(1,133)
Issuance of broker warrants	—	(129)	129	—	—	—
Credit amendment fee shares	390	300	—	—	—	300
Net and comprehensive loss	—	—	—	(35,867)	1,727	(34,140)
<b>Balance - December 31, 2016</b>	<b>94,389</b>	<b>\$ 179,811</b>	<b>\$ 1,484</b>	<b>\$ (155,673)</b>	<b>\$ 33,361</b>	<b>\$ 58,983</b>

**For the year ended December 31, 2015**

	<b>Number of Corsa Common Shares (000's)</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Retained Earnings (Accumulated) (Deficit)</b>	<b>Non- Controlling Interest</b>	<b>Total Equity</b>
<b>Balance - January 1, 2015</b>	59,539	\$ 145,980	\$ 2,379	\$ 13,666	\$ 45,034	\$ 207,059
Stock based compensation (note 19)	—	—	2,496	—	—	2,496
Stock option expiration/forfeiture (note 19)	—	—	(2,919)	2,919	—	—
Corsa equity financing (note 15)	9,423	7,250	—	—	—	7,250
Equity issuance costs	—	(58)	—	—	—	(58)
Net and comprehensive loss	—	—	—	(139,589)	(13,400)	(152,989)
<b>Balance - December 31, 2015</b>	<b>68,962</b>	<b>\$ 153,172</b>	<b>\$ 1,956</b>	<b>\$ (123,004)</b>	<b>\$ 31,634</b>	<b>\$ 63,758</b>

The number of common shares has been adjusted to reflect the impact of the one-for-twenty share consolidation which became effective on December 7, 2016, as discussed in note 1.

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

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

	For the years ended	
	December 31,	
	2016	2015
<b>Operating Activities</b>		
Net and comprehensive loss	\$ (34,140)	\$ (152,989)
Items not affecting cash:		
Amortization	18,884	35,450
Stock-based compensation expense (note 19)	2,597	2,496
Net finance expense (note 20)	7,505	3,913
Change in estimate of reclamation and water treatment provision for non-operating properties (note 13)	2,769	(22,985)
Deferred income tax expense	—	104
Write-off of advance royalties and other assets	1,228	1,417
Impairment and write-off of mineral properties (note 8)	—	131,772
Other non-cash operating (income) expense	295	(1,458)
Cash spent on reclamation and water treatment activities	(4,755)	(5,877)
Changes in working capital balances related to operations (note 23)	2,898	17,138
<b>Cash (used in) provided by operating activities</b>	<b>(2,719)</b>	<b>8,981</b>
<b>Investing Activities</b>		
Restricted cash	195	(2,188)
Advance royalties and other assets	(541)	(1,553)
Proceeds on sale of assets	2,699	1,414
Property, plant and equipment additions	(6,407)	(12,612)
<b>Cash used in investing activities</b>	<b>(4,054)</b>	<b>(14,939)</b>
<b>Financing Activities</b>		
Proceeds from equity financing	27,601	7,250
Debt issuance costs	(42)	(143)
Share issuance costs	(1,133)	(58)
Proceeds from notes payable	2,150	2,000
Repayment of notes payable	(1,710)	(3,012)
Repayment of finance lease obligations	(3,829)	(4,511)
<b>Cash provided by financing activities</b>	<b>23,037</b>	<b>1,526</b>
<b>Net increase (decrease) in cash for the period</b>	<b>16,264</b>	<b>(4,432)</b>
<b>Cash, beginning of period</b>	<b>9,493</b>	<b>13,925</b>
<b>Cash, end of period</b>	<b>\$ 25,757</b>	<b>\$ 9,493</b>

Supplemental disclosure (note 23)

*The accompanying notes are an integral part of these 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 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 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 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 consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations as approved by the International Accounting Standards Board (“IASB”). The Company has consistently applied the same accounting policies throughout all periods presented.

These consolidated financial statements were authorized by the Board of Directors of the Company on March 7, 2017.

### *Basis of Measurement*

These consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and liabilities which are measured at fair value.

### *Share Consolidation*

At the annual and special meeting of the shareholders of the Company that was held on August 10, 2016, the Shareholders, among other things, passed a special resolution approving a future consolidation of the Company’s issued and outstanding shares on the basis of one (1) post-consolidation share for up to 100 pre-consolidation shares if, and at such time following the date of the meeting. The board of directors approved the share consolidation on the basis of one post-consolidation share for each 20 pre-consolidation shares, which became effective on December 7, 2016. Accordingly, all common share, warrant, option and per share data included herein have been retroactively adjusted to reflect the one for twenty consolidation.

## **2. Summary of Significant Accounting Policies**

### *Functional and presentation currency*

The functional currency of the Company and each of its subsidiaries is the United States dollar, which is also the presentation currency of the consolidated financial statements. All amounts are rounded to the nearest thousand, except for share and per share data, or as otherwise noted.

**Corsa Coal Corp.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2016 and 2015**  
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*Basis of Consolidation*

The legal ownership structure for the Company's subsidiaries is presented below. All intercompany balances and transactions are eliminated upon consolidation including any income and expenses arising from such intercompany transactions.

<b>Legal Entity Name</b>	<b>Jurisdiction of Incorporation or Formation</b>	<b>Legal Parent</b>	<b>Operating Division</b>	<b>Corsa Indirect Ownership</b>
Corsa Coal Corp.	Canada	Publicly Traded	Corporate	N/A
Wilson Creek Holdings, Inc. ("WCH")	Delaware, USA	Corsa - 100%	Corporate	N/A
Corsa Coal Pennsylvania, Inc.	Pennsylvania, USA	Corsa - 100%	Corporate	100%
Wilson Creek Energy, LLC ("WCE")	Delaware, USA	WCH - 81%	NAPP	81%
Maryland Energy Resources, LLC	Delaware, USA	WCE - 100%	NAPP	81%
Mincorp Acquisition Corp. ("MAC")	Delaware, USA	WCH - 100%	NAPP	100%
Mincorp, Inc.	Delaware, USA	MAC - 100%	NAPP	100%
PBS Coals, Inc. ("PBS")	Delaware, USA	Mincorp, Inc - 100%	NAPP	100%
RoxCoal, Inc.	Pennsylvania, USA	Mincorp, Inc - 100%	NAPP	100%
Norwich Services, Inc.	Pennsylvania, USA	PBS Coals, Inc - 100%	NAPP	100%
Quecreek Mining, Inc.	Pennsylvania, USA	PBS Coals, Inc - 100%	NAPP	100%
Croner, Inc.	Pennsylvania, USA	PBS Coals, Inc - 100%	NAPP	100%
Elk Lick Energy, Inc.	Pennsylvania, USA	PBS Coals, Inc - 100%	NAPP	100%
Kopper Glo Mining, LLC	Delaware, USA	WCE - 100%	CAPP	81%

*Business Combination*

The Company uses the acquisition method of accounting to account for business combinations. The fair value of the acquisition of a subsidiary is based on the fair value of the assets acquired, the liabilities assumed, and the fair value of the consideration. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values on the acquisition date.

The excess, if any, of the consideration and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets is recorded as goodwill. In the case of a bargain purchase, where the total consideration and any non-controlling interest recognized are less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of operations and comprehensive loss.

*Subsidiaries*

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date control is acquired by the Company and are de-consolidated from the date control ceases. Financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. All intercompany balances, revenues, expenses, earnings and losses from intercompany transactions are eliminated upon consolidation.

*Non-controlling interest*

Non-controlling interests in the net assets of consolidated subsidiaries are a separate component of the Company's equity. Non-controlling interests consist of the non-controlling interests on the date of the original business combination, recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, plus the non-controlling interests' share of changes in equity since the date of acquisition.



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*Foreign currency translation*

Monetary assets and liabilities which are denominated in foreign currencies are translated into the Company's functional currency at the exchange rate prevailing at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical rates at each transaction date. Revenues and expenses are translated at exchange rates prevailing in the transaction period. All foreign exchange gains and losses are recognized in the consolidated statements of operations and comprehensive loss.

*Inventories*

Raw coal inventory is valued at the lower of the average mining cost (or average purchase cost) and net realizable value. Mining costs include contractor costs, direct labor, operating materials and supplies, transportation costs to the preparation plant, royalties and amortization of mining assets. Clean coal inventory is valued at the lower of average mining cost, including preparation plant costs and amortization of preparation plant assets, and net realizable value. Net realizable value represents the average selling price for coal less the costs to get the coal into saleable form and to the selling location. Parts and supplies inventory consists of parts, supplies and other consumables and is valued using the average cost method of accounting. Additionally, the Company evaluates its inventory in terms of excess and obsolete exposures. This evaluation includes such factors as anticipated usage, inventory turnover, inventory levels and ultimate market value.

*Accounts receivable*

Accounts receivable are recognized when they are probable to be recovered by the Company. Any allowance for uncollectible receivables are offset against the accounts receivable with an offsetting charge to the consolidated statement of operations.

*Advance royalties and other assets*

Advance royalties consist of royalty payments that are required on certain mineral properties in advance of actual coal production or sales from those mineral properties. These items will be outstanding for at least one year from the balance sheet date. When production or sales commence from the properties, the royalty payments are expensed on the basis of units-of-production or percentage of selling price, depending on the terms of the royalty.

Deposits and prepaids are included in advance royalties and other assets. Deposits are for payments made towards the purchase price of other assets where the physical asset has yet to be received by the Company.

*Property, plant and equipment*

Major parts of property, plant and equipment include mining and other equipment, preparation plants, land and mineral properties. Costs include expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are capitalized only when it is probable that future economic benefits will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Maintenance and repairs are expensed as incurred. Property, plant and equipment is measured at cost less accumulated amortization and accumulated impairment losses.

Mineral properties include the costs of acquiring the surface and mineral rights required to mine mineral properties, the costs of developing new surface and underground mines until commencement of commercial production, along with certain underground expansion projects and reclamation cost assets recognized at the same time as a reclamation provision for a specific mineral property.

Development costs, which are the costs incurred to make the mineral physically accessible, include costs for driving main entries for ventilation, haulage, personnel, construction of airshafts, roof protection and support facilities. All stripping costs incurred for surface mining operations are charged to cost of sales produced or included in the cost of inventories at period end.

Interest and financing costs relating to the construction or development of an item of property, plant and equipment as well as costs incurred to bring the asset to the condition intended by management are capitalized as part of the cost of mineral property, plant and equipment. Interest and financing costs are capitalized for projects for which a direct relationship between the borrowed funds and use of these funds towards the development or construction of an item of property, plant and equipment can be established. Interest and financing costs related to general borrowings are capitalized towards qualifying assets by applying a capitalization rate to the expenditures on that asset.

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The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Depletion of producing mineral properties and other development costs is provided using a unit-of-production method based upon the proven and probable mineral reserve position of the mine at the beginning of the fiscal year.

Plant, structures and equipment are amortized using the straight line method. The useful lives are generally three to five years for mobile equipment and five to twenty years for plant, structures and other equipment but do not exceed the related estimated mine life.

*Exploration and evaluation costs*

Exploration and evaluation costs include expenditures for the acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling and other activities related to determining the technical feasibility and commercial viability of a specific property. Exploration costs not supported by geological evidence to support economically viable projects are expensed as incurred. Capitalized exploration and evaluation costs are carried initially at historical cost and are subject to impairment testing if there are indications of impairment identified.

*Impairment of non-financial assets*

Items of property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. For the purposes of recognition and measurement of an impairment loss, assets are grouped at the lowest levels for which there are identifiable separate cash flows referred to as cash generating units (“CGUs”). Recoverable amounts for impairment testing of assets to be held and used are measured by comparison of the carrying amount of an asset to the greater of the fair value less costs of disposal and value in use. Value in use is measured using the present value of the expected future cash flows to be derived for a specific asset or CGU that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition. Fair value less costs of disposal is measured using marketplace participant information for determining fair value.

An impairment loss is recognized when the carrying amount of the CGU exceeds the recoverable amount and is charged to the consolidated statements of operations and comprehensive loss. The Company evaluates impairment losses previously recognized for potential reversals when events or changes in circumstances warrant such consideration.

*Financial instruments*

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized at the time a substantial modification of the liability occurs or when the Company discharges any continuing or further obligation for the specific liability.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the nature of the items:

- i. Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized at fair value. Transaction costs are expensed in the consolidated statements of operations and comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statements of operations and comprehensive loss within net finance expense in the period in which they arise. Cash, restricted cash, and the warrant financial liability represent financial assets and liabilities at fair value through profit or loss.
- ii. Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized initially at fair

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value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Transaction costs are added to the value of the instrument at acquisition. The Company does not currently have any instruments designated as available-for-sale.

- iii. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables consist of accounts receivable. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- iv. Other financial liabilities: Other financial liabilities include accounts payable and accrued liabilities, tax distributions payable, notes payable, finance lease obligations, loan payable and other liabilities. Other financial liabilities are recognized initially at fair value net of transaction costs incurred and are subsequently measured at amortized cost.

*Impairment of financial assets*

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and the loss has an impact on the estimated cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is recognized in the consolidated statements of operations and comprehensive loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If, in a subsequent period, the estimated impairment loss decreases because of an event, any reversal would be credited to the consolidated statements of operations and comprehensive loss.

*Cash*

Cash consists of balances with banks and the carrying value approximates fair value.

*Restricted cash*

Cash which is subject to legal or contractual restrictions on its use is classified separately as restricted cash.

*Leases*

Leases that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are treated as operating leases with the required payments under the agreement charged to the consolidated statements of operations and comprehensive loss on a straight line basis over the term of the lease. For finance leases, the lesser of the present value of minimum lease payments and the fair value of the leased assets is recognized, at the time the lease is executed and an unavoidable obligation exists for the Company, as a finance lease obligation and an offsetting asset within property, plant and equipment.

The finance lease obligation is subsequently carried at amortized cost with payments made under the agreement reducing the carrying value. Interest on the outstanding finance lease obligation is charged to the statement of operations using the effective interest rate method and added to the carrying value of the finance lease obligation.

*Revenue recognition*

Revenue associated with the sale of coal is recognized when all significant risks and rewards of ownership are transferred to the customer and the amount of revenue can be measured reliably. Transportation costs from preparation plants to customers are included in cost of sales in the consolidated statements of operations and comprehensive loss and amounts billed by the Company to its customers for these transportation costs are included in revenue.

*Reclamation provision*

The Company recognizes a reclamation provision for the expected costs of reclamation at mining properties where the Company is legally or contractually responsible for such costs. Reclamation provisions arise from the Company's obligations to undertake site reclamation and remediation in connection with the ongoing operations, exploration and development of mineral properties and other facilities. The Company recognizes the estimated reclamation costs when environmental disturbance occurs and when a reasonable estimate of the estimated reclamation costs can be made.

The reclamation provision recognized is estimated based on the risk adjusted costs required to settle present obligations, discounted using a pre-tax risk free discount rate consistent with the expected timing of expected cash flows.

Changes in the estimated undiscounted cash flows and risk-free discount rate used in calculating the present value of the reclamation provision are recognized using the same present value technique as above at the time of the change in estimate, when such changes are not the result of current inventory production. An offsetting amount for the change in estimate is added to the reclamation cost asset previously recognized for the specific property. For such properties where mining has ceased, an offsetting charge for the change in estimate is recorded to cost of sales in the consolidated statements of operations and comprehensive loss.

Actual reclamation expenditures incurred reduce the carrying value of the reclamation provision as incurred.

*Water Treatment Provision*

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. 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.

The water treatment provision is estimated based on a determination of the estimated costs of treatment using assumptions effective as of the end of the reporting period discounted using a pre-tax risk free discount rate consistent with the expected timing of the cash flows.

Changes in the estimated undiscounted cash flows and risk-free discount rate used in calculating the present value of the water treatment provision are recognized at the time of the change in estimate and an offsetting charge is recorded to cost of sales in the consolidated statements of operations and comprehensive loss.

Actual water treatment expenditures incurred reduce the carrying value of the water treatment provision as incurred.

*Share-based payments*

All share-based payments, including stock options, are measured and recognized using a fair value based method. Accordingly, the fair value of the options at the date of the grant, adjusted for the number of options expected to vest, is charged to corporate and administrative expenses in the consolidated statements of operations and comprehensive loss, with the offsetting credit to contributed surplus over the vesting period. Each tranche is considered its own award with its own vesting period and fair value at grant date. The number of awards expected to vest is reviewed at least annually, with any impact being recognized to the consolidated statements of operations and comprehensive loss immediately.

If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. Should the stock-based awards expire before exercise, the appropriate amount of contributed surplus is reclassified within equity to retained earnings or accumulated deficit.

If and when the stock options are forfeited, the amount of stock based compensation recognized historically, to contributed surplus, for vested stock options is transferred to retained earnings or accumulated deficit. For stock options forfeited which have not yet vested, the amount of stock based compensation recognized historically is credited to corporate and administrative expenses.

*Income taxes*

Income taxes consist of current and deferred taxes. Income tax expense is recognized in the consolidated statements of operations and comprehensive loss except to the extent it relates to items recognized directly in equity, in which case the income tax is directly recognized in equity.

Current tax consists of the income tax payable by the Company on income, calculated using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The effect on deferred income taxes for a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. In addition, the method requires the recognition of future tax benefits to the extent that future benefit to the Company is probable. The Company records a valuation allowance to reduce deferred income tax assets to the amount that is believed more likely than not to be realized.

*Earnings per share*

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

Basic earnings (loss) per common share is calculated using the weighted-average number of shares outstanding during the period.

*Critical accounting estimates and judgments*

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual outcomes may differ from those estimates should different assumptions or conditions arise. Significant areas of estimation uncertainty that could cause a material adjustment to the carrying amounts of assets and liabilities within one year are presented below.

a. Property, plant and equipment

The useful life of property, plant and equipment is based on management's best estimate of the useful life at the time of acquisition. The useful lives are reviewed at least annually or when other changes or circumstances warrant this review. The useful lives impact the amortization expense recorded in the consolidated statements of operations and comprehensive loss and the carrying value of the items of property, plant and equipment. Accordingly, a significant departure from management's expectation, including the impact of any changes in economic, technological or regulatory circumstances beyond management's control, may impact the carrying value of items of property, plant and equipment.

b. Reserve and resource estimates

Coal reserve and resource estimates indicate the amount of coal that can be feasibly extracted from the Company's mineral properties. These estimates involve the inclusion of various complex inputs requiring interpretation by qualified geological personnel such as the size, shape and depth of the mineral deposit and other geological assumptions. Other estimates include commodity prices, production costs and capital expenditure requirements. Significant departures from the estimates utilized in management's calculations may impact the carrying value of the mineral properties, reclamation provisions and amortization expense.

c. Reclamation and water treatment provision estimates

Reclamation and water treatment provisions are recognized by the Company for the estimated costs to reclaim the site at the end of mine life and for treatment and monitoring of water in certain circumstances. The carrying amount of the reclamation and water treatment provision in the consolidated financial statements is subject to various estimates including mine life, undiscounted cash

flows to reclaim mineral properties, estimated water treatment costs, inflation and discount rates. The provision at the balance sheet date represents management's best estimate but significant departures from management's expectation, including the impact of any changes in economic, technological or regulatory circumstances, may impact the carrying value of the reclamation and water treatment provision and the associated reclamation cost asset included in property, plant and equipment.

d. Impairment of long-lived assets

The Company reviews and tests the carrying amounts of long-lived assets when an indicator of impairment is considered to exist. The Company considers both external and internal sources of information in assessing whether there are any indications that long-lived assets are impaired. External sources of information that the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amounts of long-lived assets. Internal sources of information that the Company considers include the manner in which long-lived assets are being used or are expected to be used and indications of economic performance of the assets.

For the purposes of determining whether an impairment of a long-lived asset has occurred, and the amount of any impairment or its reversal, management uses key assumptions in estimating the recoverable value of a CGU which is calculated as the higher of the CGU's value in-use and fair value less costs of disposal.

Changes in these estimates which decrease the estimated recoverable amount of the CGU could affect the carrying amounts of the long-lived assets and result in an impairment charge. During the year ended December 31, 2015, the Company recognized an impairment charge of \$131,772,000.

e. Evaluation of exploration and evaluation costs

Management makes estimates as to when a known mineral deposit would provide future benefit sufficient enough to begin capitalization of exploration and evaluation costs. Actual results as to when a project provides future benefit may vary from management's estimate.

f. Deferred income tax assets

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered. There is no certainty that income tax rates will be consistent with current estimates. Changes in tax rates increase the volatility of the Company's earnings.

*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 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.

### **3. Capital Management**

The Company defines managed capital as its total equity. The objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders. At December 31, 2016 and 2015, total managed capital was \$58,983,000 and \$63,758,000, respectively.

The Company’s capital structure reflects the requirements of a company focused on sustaining cash flows from its current mining operations and financing both internal and external growth opportunities and development projects. The Company faces lengthy development lead times as well as risks associated with increasing capital costs and project completion due to unavailability of resources, permits and other factors beyond the Company’s control. The Company’s operations are also significantly affected by the market price of coal. There are no external restrictions on managed capital of the Company.

The Company continually assesses its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics associated with its underlying assets. In order to maintain or adjust the capital structure, the Company may issue new common shares or enter into new debt arrangements.

### **4. 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 obligations, 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 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 years ended December 31, 2016 and 2015.

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*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 December 31, 2016 the Company had a consolidated cash balance of \$25,757,000 and consolidated working capital of \$15,493,000. 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 and price of metallurgical and thermal coal.

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

(in thousands)	Carrying Value at December 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	\$ 16,165	\$ 16,165	\$ 16,165	\$ —	\$ —	\$ —
Notes payable	6,765	6,765	5,475	1,246	44	—
Finance lease obligations	8,054	8,086	3,574	4,092	420	—
Loan payable	28,435	32,013	—	32,013	—	—
Other liabilities	15,916	17,215	1,750	4,620	7,800	3,045
Purchase Order Firm Commitments	—	3,847	3,847	—	—	—
Water treatment trust funding	—	8,627	1,000	3,524	3,741	362
Operating leases and other obligations	—	371	351	20	—	—
<b>Total</b>	<b>\$ 75,335</b>	<b>\$ 93,089</b>	<b>\$ 32,162</b>	<b>\$ 45,515</b>	<b>\$ 12,005</b>	<b>\$ 3,407</b>

(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):

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loan Payable	\$ 28,435	\$ 21,667	\$ 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 16% and 20% at December 31, 2016 and 2015, respectively.

*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).



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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.

	December 31, 2016		December 31, 2015	
	Level 1	Level 2	Level 1	Level 2
<b>Financial assets</b>				
Cash	\$ 25,757	\$ —	\$ 9,493	\$ —
Restricted cash	33,063	—	34,226	—
	<u>\$ 58,820</u>	<u>\$ —</u>	<u>\$ 43,719</u>	<u>\$ —</u>
<b>Financial liabilities</b>				
Warrant financial liability	<u>\$ —</u>	<u>\$ 2,805</u>	<u>\$ —</u>	<u>\$ 220</u>

The inputs used to measure the warrant financial liability (note 11(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 December 31, 2016 and 2015, the Company had no financial instruments which used Level 3 fair value measurements.

## 5. Accounts receivable

Accounts receivable consist of the following:

	December 31, 2016	December 31, 2015
Trade receivables	\$ 7,788	\$ 6,586
Indemnification asset receivable (note 12(c))	—	6,000
Other	101	650
	<u>\$ 7,889</u>	<u>\$ 13,236</u>

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

**6. Inventories**

Inventories consist of the following:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Metallurgical coal</b>		
Clean coal stockpiles	\$ 4,770	\$ 879
Raw coal stockpiles	1,504	416
	<u>6,274</u>	<u>1,295</u>
<b>Thermal coal</b>		
Clean coal stockpiles	865	693
Raw coal stockpiles	465	774
	<u>1,330</u>	<u>1,467</u>
<b>Parts and supplies</b>	4,494	8,814
	<u>\$ 12,098</u>	<u>\$ 11,576</u>

The net realizable value adjustment, measured as the inventory balances at full cost less the net realizable value at December 31, 2016 and 2015 was \$185,000 and \$424,000, respectively. The net realizable value adjustment is included in cost of sales in the consolidated statements of operations and comprehensive loss.

During the year ended December 31, 2016, the Company provided for an obsolescence reserve against the parts and supplies inventory of \$3,523,000. The obsolete inventory reserve is included in cost of sales in the consolidated statements of operations and comprehensive loss.

**7. Restricted cash**

Restricted cash consists of the following:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2015</b>
Water treatment trust funds (a)	\$ 19,050	\$ 17,376
Collateral posted for reclamation bonds (b)	8,912	10,690
Workers' compensation trust funds (c)	5,090	6,123
Other restricted deposits	11	37
	<u>\$ 33,063</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. 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 December 31, 2016, the Company is required to contribute an additional \$8,627,000 over the course of the next five years to fully fund these trusts. The Company will contribute \$1,000,000 in 2017 in quarterly installments of \$250,000 due in January, April, July and October. Subsequent to 2017, the Company is obligated to fund \$1,653,000 in 2018 and \$1,871,000 in each successive year until 2021 and \$361,000 in 2022 or until such trust funds meet the funding requirements. Each annual amount due will be funded in quarterly installments.
- b. The Company is required to post bonds to ensure reclamation is completed on its mining properties as required under U.S. 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 year ended December 31, 2016, the Company reached an agreement with an insurer to release certain portions of the cash collateral to fund certain reclamation projects. Accordingly, \$1,560,000 was released from the cash collateral and used to fund reclamation expenses during the year ended December 31, 2016.
- c. The Company has established separate trust funds with its insurance carriers to pay potential awards and claims related to workers' compensation claims.

## 8. Property, plant and equipment

Property, plant and equipment consists of the following:

	<b>Mineral Properties (a)</b>	<b>Plant and Equipment</b>	<b>Total</b>
<b><u>Cost</u></b>			
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 - Transfers	3,039	8,494	11,533
<b>Balance - December 31, 2015</b>	<b>176,245</b>	<b>168,925</b>	<b>345,170</b>
Additions	—	6,196	6,196
Capitalized development costs	3,883	—	3,883
Change in reclamation provision	(964)	—	(964)
Capitalized borrowing costs	62	—	62
Disposals	(1,020)	(7,244)	(8,264)
Other	—	(104)	(104)
<b>Balance - December 31, 2016</b>	<b>\$ 178,206</b>	<b>\$ 167,773</b>	<b>\$ 345,979</b>
<b><u>Accumulated Amortization</u></b>			
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 - Transfers	6,442	(13,635)	(7,193)
<b>Balance - December 31, 2015</b>	<b>(93,736)</b>	<b>(123,948)</b>	<b>(217,684)</b>
Amortization	(4,399)	(15,212)	(19,611)
Disposals	1,020	6,238	7,258
Other	—	55	55
<b>Balance - December 31, 2016</b>	<b>\$ (97,115)</b>	<b>\$ (132,867)</b>	<b>\$ (229,982)</b>
<b><u>Net Book Value</u></b>			
December 31, 2015	\$ 82,509	\$ 44,977	\$ 127,486
December 31, 2016	\$ 81,091	\$ 34,906	\$ 115,997

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- 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:

<b>Cost</b>	<b>Mineral Properties</b>	<b>Plant and Equipment</b>	<b>Total</b>
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>
<b>Accumulated Amortization</b>			
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.

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*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 exceeded 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 CGUs 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>

**9. Notes Payable**

Notes payable consists of the following:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Revolving credit facility (a)	\$ 4,150	\$ 2,000
Loans payable - equipment purchase (b)	1,295	2,004
Note payable (c)	1,320	1,583
Term loan (d)	—	703
Balance, end of period	6,765	6,290
Less: Current portion	(5,475)	(5,023)
	<u>\$ 1,290</u>	<u>\$ 1,267</u>

- a. On December 30, 2016, Corsa entered into a modification and extension agreement to, among other things, extend the termination date of the revolving credit facility until December 10, 2017. The previous facility was set to expire on January 10, 2017. Under the terms of the modification and extension agreement, the Company converted the revolving credit facility to a term loan and will amortize the principal balance over the extension period. Interest is payable monthly on the outstanding principal at LIBOR plus 2.50%. All of the assets of the CAPP Division are pledged as collateral for the loan except those pledged under finance leases. Financial covenants of the modification and extension agreement include a debt service coverage ratio of not less than 1.00 to 1.00. This covenant shall be measured each calendar quarter, beginning on March 31, 2017, based upon year to date trailing financial statements.
- b. The NAPP Division has a loan payable which bears interest at 6.99% with an equipment provider. The equipment purchase 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 purchase 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 2019. 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 years ended December 31, 2016 and 2015, \$62,000 and \$139,000 of finance and interest expense was capitalized to the cost of the mineral property, respectively.
- d. The CAPP Division had a term loan which was fully repaid during the year ended December 31, 2016.

At December 31, 2016, there were no financial covenants related to these notes payable.

## 10. Finance Lease Obligations

Finance lease obligations consists of the following:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
CAPP Division leases expiring from 2017-2020 (a)	\$ 2,008	\$ 2,191
NAPP Division leases expiring from 2017-2021 (b)	6,046	6,621
Balance, end of period	8,054	8,812
Less: Current portion	(3,574)	(3,733)
	<u>\$ 4,480</u>	<u>\$ 5,079</u>

- a. These finance lease obligations are for certain mobile equipment at the CAPP Division bearing interest ranging from 3.75% - 5.20%. There are no covenants under the terms of these lease agreements. The value of the lease obligation is securitized by the mobile equipment being leased.
- b. These finance lease obligations are for certain mobile equipment and preparation plant machinery at the NAPP Division bearing interest ranging from 5.62% - 15.87%. The terms of certain of these leases are guided by a master lease agreement which requires a specified debt service coverage ratio of at least 1.25 to 1.00 measured on a quarterly basis to be met by WCE and its subsidiaries based on historical results. Additionally a minimum cash balance of \$2,000,000 is required to be maintained at all times on a consolidated basis excluding the CAPP Division. The value of the lease obligation is securitized by the mobile equipment being leased. Contingent rent is payable related to certain finance lease obligations if the equipment exceeds certain operating levels.

Finance lease obligations are payable as follows:

Less than 1 year	\$ 3,963
1-3 years	4,410
4-5 years	468
Total payments	8,841
Less: Amounts representing interest	(787)
Total finance lease obligations	<u>\$ 8,054</u>

At December 31, 2016, the Company was in compliance with all covenants under the lease agreements.

The Company has entered into operating leases for various equipment used in production at the CAPP Division. The operating leases are recognized in cost of sales on a straight line basis over the lease period.

Operating lease payments are as follows:

Less than 1 year	\$ 351
1-3 years	20
4-5 years	—
Total operating lease payments	<u>\$ 371</u>



## 11. Loan Payable

- a. On August 19, 2014, the Company entered into a \$25,000,000 secured term loan (“Facility”), as subsequently amended, with Sprott Resource Lending Corp. (“SRLC”). The Facility is for a five-year term and bears interest at 10% per annum. For the period up to December 31, 2016, the Company had the option of adding any interest payable under the Facility to the principal amount. On the third and fourth anniversary of the acquisition of the PBS Coals, Inc. (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. 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 December 31, 2016.

In consideration for the Facility, the Company issued 1,805,000 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\$3.90. The effective interest rate, including accretion charged on the discounts of the loan payable, is 15.6%.

In consideration of certain amendments to the Facility, the Company capitalized \$281,000 to the principal balance and issued 389,550 Common Shares (the “Fee Shares”) to SRLC. The Fee Shares represent consideration equivalent to \$300,000 (based on a price per Common Share of Cdn\$1.00).

The changes in the Loan Payable balance for the year ended December 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	<u>24,440</u>
Accrued interest - capitalized to principal	3,062
Issuance costs of amending agreements	(623)
Amendment fee - capitalized to principal	281
Accretion on discount on Loan Payable (note 20)	1,275
Balance - December 31, 2016	<u><u>\$ 28,435</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\$3.90, risk-free interest rate of 1.59%, Common Share price of Cdn\$5.80, 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 December 31, 2016, the fair value was determined to be \$2,805,000 using a Black Scholes option pricing model (expected life of 2.6 years, exercise price of Cdn\$3.90, risk-free interest rate of 1.34%, Common Share price of Cdn\$3.11, expected volatility of 128%, dividend yield of 0%, forfeiture rate of 0% and CAD/USD exchange rate of 0.7448). The revaluation amounted to expense of \$2,585,000 for the year ended December 31, 2016 and is included in net finance expense (note 20) on the consolidated statements of operations and comprehensive loss. The revaluation amounted to income of \$1,747,000 for the year ended December 31, 2015.

## 12. Other Liabilities

Other liabilities consist of the following:

	December 31, 2016	December 31, 2015
Workers' compensation provision (a)	\$ 6,795	\$ 7,797
Transportation contract liquidated damages (b)	5,174	6,270
EPA Consent Decree (c)	—	6,000
Processing fee payable (d)	2,526	2,416
Other (e)	1,421	546
	<u>15,916</u>	<u>23,029</u>
Less: current portion (a,b,c,e)	<u>(1,750)</u>	<u>(8,027)</u>
Total Other Liabilities	<u>\$ 14,166</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 \$750,000. The Company has established separate trust funds with its insurance carriers to pay potential awards and claims related to workers' compensation claims (note 7).
- b. PBS 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 December 31, 2016, a provision of \$5,174,000 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. Prior to the consummation of the PBS Transaction, the United States Environmental Protection Agency ("EPA") initiated an audit of Clean Water Act compliance by PBS Coals, Inc., Croner, Inc., Elk Lick Energy, Inc., Quecreek Mining, Inc. and Rox Coal, Inc. (collectively, "PBS"). The Company acquired PBS as a result of the PBS Transaction. Based on the audit, on April 19, 2016, the EPA and the Pennsylvania Department of Environmental Protection ("PA DEP") filed a complaint for civil penalty and injunctive relief against PBS. The complaint alleged that PBS exceeded the permit effluent limitations in its water permits primarily during the period prior to the consummation of the PBS Transaction, including principally from 2007 to 2012.

In September 2016, PBS reached a settlement of this matter with the EPA and PA DEP in which PBS paid \$6.5 million as a civil penalty. As part of the PBS Transaction, \$10 million of the consideration was deposited into an escrow account (instead of being released to the seller) to address claims of this nature. As a result, \$6.5 million civil penalty payment that resolved the EPA and PA DEP's complaint was funded from such escrow account. An additional \$246,000 was released from the escrow account to the Company to reimburse it for PBS' legal fees related to the foregoing and the balance of the \$10 million of escrowed funds was released to the seller.

- 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.

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**13. Reclamation and Water Treatment 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:

	<b>Site Reclamation and Remediation (a)</b>	<b>Water Treatment Obligation (b)</b>	<b>Total Reclamation and Water Treatment Provision</b>
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	(2,645)	(2,110)	(4,755)
Change in estimate	(2,078)	3,883	1,805
Accretion expense	730	591	1,321
Balance - December 31, 2016	\$ 34,919	\$ 28,930	\$ 63,849
Less: current portion	(4,600)	(1,600)	(6,200)
Long-Term Reclamation and Water Treatment Provision	<u>\$ 30,319</u>	<u>\$ 27,330</u>	<u>\$ 57,649</u>
Estimated costs (undiscounted cash flow basis)	<u>\$ 43,825</u>	<u>\$ 42,162</u>	<u>\$ 85,987</u>
End of reclamation period	<u>1 - 19 years</u>	<u>Perpetual</u>	
Discount rate	<u>0.85%-2.76%</u>	<u>0.85%-2.79%</u>	
Inflation rate	<u>2.0%</u>	<u>2.0%</u>	

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 consolidated statements of operations and comprehensive loss for the years ended December 31, 2016 and 2015 was income of \$1,113,000 and \$15,285,000, respectively.
- ii. The current portion represents the amount expected to be incurred by the Company within one year from December 31, 2016.
- iii. At December 31, 2016, the Company had \$74,106,000 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 obligation relating to properties which have ceased operating are included in cost of sales in the consolidated statements of operations and comprehensive loss for the years ended December 31, 2016 and 2015 amounted to expense of \$3,882,000 and income of \$2,874,000, respectively.
- ii. The current portion represents the amount expected to be incurred by the Company within one year from December 31, 2016.

#### **14. Redeemable Units**

WCE had 897,265,035 membership units outstanding as at December 31, 2016. A majority of these membership units are owned by WCH which are eliminated upon consolidation of the financial results of the Company. The remaining membership units of WCE are owned by QKGI Legacy Holdings LP ("Legacy QKGI") which entitle them to a pro-rata interest in the net and comprehensive (loss) income and net assets of WCE and are redeemable at the option of Legacy QKGI for cash equal to the product of (i) the number of membership units to be redeemed; and (ii) the 10-day volume weighted average trading price, prior to date of notice of redemption, of the Company's Common Shares. The Company has the option to satisfy the redemption price for the Redeemable Units with Common Shares on a 20.0 to 1.0 basis (referred to as "Redeemable Units"). The Company is restricted from paying cash to Legacy QKGI for the redemption of Redeemable Units if a balance remains outstanding for the Facility (note 11).

a. Classification of Redeemable Units as non-controlling interest

On August 19, 2014, the terms of the Redeemable Units were modified to eliminate mandatory distributions previously required to be made to the holders of the Redeemable Units. As a result, the Redeemable Units no longer qualified for recognition as a financial liability. The Redeemable Unit financial liability was revalued on August 19, 2014 and subsequently recognized as a non-controlling interest on the consolidated balance sheet.

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The following illustrates the changes in the number of outstanding Redeemable Units by Legacy QKGI:

	<b>WCE Membership Units owned by Legacy QKGI (000's)</b>
Balance, January 1, 2015	170,317
Revaluation	—
Redemption	—
Balance, December 31, 2015	170,317
Revaluation	—
Redemption	—
Balance, December 31, 2016	170,317

## 15. Share Capital

Authorized capital stock of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares issuable in series, with such rights, privileges, restrictions and conditions as the board of directors of the Company may determine from time to time. At December 31, 2016 and 2015, the Company had 94,389,000 and 68,962,000 outstanding Common Shares and no outstanding preferred shares, respectively. At December 31, 2016 and 2015, Legacy QKGI also owns 170,316,620 Redeemable Units of Wilson Creek Energy entitling them to a 19% minority interest in the net assets, income and expenses of Wilson Creek Energy (note 14).

In October 2016, Corsa completed a private placement of 11,500,000 Common Shares, 10,694,000 of which were closed on a brokered basis and 806,000 of which were closed on a non-brokered basis, for gross proceeds of Cdn\$23,000,000 at Cdn\$2.00 per Common Share (\$17,191,000 U.S. dollars) (the “October Private Placement”). Paradigm Capital Inc., GMP Securities Inc., and Pareto Securities Limited (the “Agents”) acted as agents for the brokered portion of the October Private Placement. The Company paid the Agents aggregate cash commissions of Cdn\$923,000 (\$690,000 U.S. dollars) in connection with the October Private Placement. The proceeds of the October Private Placement will be primarily used for mine development, general corporate and working capital purposes.

In June 2016, Corsa completed a private placement of 3,150,000 Common Shares, 2,800,000 of which were closed on a brokered basis and 350,000 of which were closed on a non-brokered basis, for gross proceeds of Cdn\$3,150,000 at Cdn\$1.00 per Common Share (\$2,410,000 U.S. dollars) (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 (\$129,000 U.S. dollars) and issued a total of 168,000 compensation warrants (“Compensation Warrants”) in connection with the June Private Placement. Each Compensation Warrant entitles the Agent to purchase one Common Share at Cdn\$1.00, exercisable for a period of 24 months. The proceeds of the June 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 10,387,200 Common Shares for gross proceeds of \$8,000,000 at Cdn\$1.00 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 2,596,800 Common Shares for a total of \$2,000,000, Sprott Resource Partnership acquired 2,596,800 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 2,596,800 Common Shares for a total of \$2,000,000 and SRLC acquired 2,596,800 Common Shares for a total of \$2,000,000. SRLC received an additional 389,550 Common Shares in connection with entering into the Second Amending Agreement in connection with the Facility.

In October 2015, Corsa completed a non-brokered private placement of 9,423,550 common shares for gross proceeds of \$7,250,000 at Cdn\$1.00 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 6,823,950 Common Shares for a total of \$5,250,000, Sprott Resource Partnership acquired 1,299,800 Common Shares for a total

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of \$1,000,000 and Lorito Holdings S.à r.l. and Zebra Holdings and Investments S.à r.l. acquired an aggregate of 1,299,800 Common Shares for a total of \$1,000,000.

**16. 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 plants.

Revenue consists of the following:

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Metallurgical coal sales	\$ 56,602	\$ 67,651
Thermal coal sales	40,301	56,577
Tolling revenue	83	5,114
	<u>\$ 96,986</u>	<u>\$ 129,342</u>

**17. Cost of Sales**

Cost of sales consists of the following:

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Mining and processing costs	\$ 62,913	\$ 89,353
Purchased coal costs	8,459	3,693
Royalty expense	5,561	8,766
Amortization expense	18,884	35,450
Transportation costs from preparation plant to customer	4,097	10,592
Idle mine expense	1,658	4,077
Change in estimate of reclamation and water treatment provision for non-operating properties	2,769	(22,985)
Impairment and write-off of mineral properties (note 8)	—	131,772
Write-off of advance royalties and other assets	1,228	1,417
Obsolete inventory reserve - parts & supply inventory (note 6)	3,523	—
Other costs	1,078	438
	<u>\$ 110,170</u>	<u>\$ 262,573</u>

### 18. Corporate and Administrative Expense

Corporate and administrative expense consists of the following:

	For the years ended	
	December 31,	
	2016	2015
Salaries and other compensation	\$ 8,832	\$ 9,436
Professional fees	2,595	2,954
Office expenses and insurance	1,267	2,297
Other	540	827
	<u>\$ 13,234</u>	<u>\$ 15,514</u>

### 19. 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 years ended December 31, 2016 and 2015. At December 31, 2016 and 2015, there were 2,405,000 and 350,000 stock options available for issuance under the stock option plan, respectively.

The following illustrates the changes in issued and outstanding stock options during the period ended December 31, 2016:

	Number of Stock Options (000’s)	Weighted Average Exercise Price (Cdn\$)
Balance - January 1, 2015	4,080	\$ 5.12
Options granted (i) (ii) (iii)	3,596	1.12
Options forfeited	(626)	4.94
Options expired	(504)	10.02
Balance - December 31, 2015	<u>6,546</u>	<u>2.56</u>
Options granted (iv) (v)	2,559	1.91
Options forfeited/canceled	(2,021)	3.50
Options expired	(50)	20.02
Balance - December 31, 2016	<u>7,034</u>	<u>\$ 1.93</u>

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- i. 120,000 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\$3.50
Risk-free interest rate:	0.65% to 1.28%
Common Share price:	Cdn\$3.50
Expected volatility	100% to 109%
Dividend yield:	—%
Forfeiture rate:	4.0%

- ii. 90,000 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\$2.40
Risk-free interest rate:	0.64% to 1.31%
Common Share price:	Cdn\$2.40
Expected volatility	93% to 107%
Dividend yield:	—%
Forfeiture rate:	8.85%

- iii. 3,385,625 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\$1.00
Risk-free interest rate:	0.87% to 1.46%
Common Share price:	Cdn\$0.90
Expected volatility	88% to 96%
Dividend yield:	—%
Forfeiture rate:	13.2%

- iv. 1,098,967 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\$1.40
Risk-free interest rate:	0.80%
Common Share price:	Cdn\$1.40
Expected volatility	136%
Dividend yield:	—%
Forfeiture rate:	11.05%



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- v. 1,460,000 stock options were granted on November 9, 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\$2.30
Risk-free interest rate:	0.90% to 1.30%
Common Share price:	Cdn\$2.30
Expected volatility	119% to 137%
Dividend yield:	—%
Forfeiture rate:	12.61%

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. The weighted average fair value per option for the options issued during the period ended December 31, 2016 was Cdn \$1.31.

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2016:

<b>Exercise Price (Cdn\$)</b>	<b>Stock Options Outstanding (000's)</b>	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Weighted Average Exercise Price (Cdn\$)</b>	<b>Stock Options Exercisable (000's)</b>	<b>Weighted Average Exercise Price (Cdn\$)</b>
\$1.00	3,031	3.86	\$ 1.00	1,010	\$ 1.00
\$1.40	1,090	4.38	\$ 1.40	1,090	\$ 1.40
\$2.30	1,460	4.86	\$ 2.30	—	\$ —
\$3.40	843	1.81	\$ 3.40	843	\$ 3.40
\$3.50	318	2.92	\$ 3.50	212	\$ 3.50
\$5.00	150	0.83	\$ 5.00	150	\$ 5.00
\$5.40	105	2.63	\$ 5.40	70	\$ 5.40
\$10.00	37	0.24	\$ 10.00	37	\$ 10.00
<b>\$1.00 to \$10.00</b>	<b>7,034</b>	<b>3.59</b>	<b>\$ 1.93</b>	<b>3,412</b>	<b>\$ 2.24</b>

For the years ended December 31, 2016 and 2015, the Company recorded stock based compensation expense on the outstanding stock options to corporate and administrative expenses of \$2,597,000 and \$2,496,000, respectively. For the year ended December 31, 2016, stock based compensation expense includes the acceleration of the vesting requirements due to the cancellation of certain stock options that was approved by the Company's shareholders. This cancellation resulted in an acceleration of \$524,000 of stock based compensation expense immediately upon cancellation of these stock options.

## 20. Net Finance (Expense) Income

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

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Warrant financial liability (note 11(b))	(2,585)	1,747
Accretion of discount on Loan Payable (note 11(a))	(1,275)	(1,036)
Bond premium expense	(1,686)	(1,783)
Interest expense	(4,075)	(3,429)
Interest income	39	162
Foreign exchange gain (loss)	135	(43)
Accretion on reclamation and water treatment provision (note 13)	(1,321)	(1,586)
Other income (expense)	956	(560)
	<u>\$ (9,812)</u>	<u>\$ (6,528)</u>

## 21. Earnings per Share

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

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Basic and diluted loss attributable to common shareholders	<u>\$ (35,867)</u>	<u>\$ (139,589)</u>
Basic and diluted weighted average number of Common Shares outstanding (000's)	<u>81,242</u>	<u>61,345</u>
Basic loss per share	<u>\$ (0.44)</u>	<u>\$ (2.28)</u>
Diluted loss per share	<u>\$ (0.44)</u>	<u>\$ (2.28)</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.

## 22. Income Taxes

### *Rate Reconciliation*

Major items causing the Company's income tax rate to differ from the combined federal and provincial statutory rate were as follows:

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Net loss before income taxes	\$ (34,140)	\$ (153,371)
Statutory tax rate	26.5%	26.5%
Expected income tax recovery based on statutory rate	(9,047)	(40,643)
Increase (decrease) resulting from:		
Unrecognized future tax benefits	13,075	60,916
Accounting expenses disallowed for tax	384	759
Impact of taxable income passed through to Legacy QKGI (i)	771	48
Foreign tax rate differential	(5,183)	(21,462)
Income tax expense (benefit)	\$ —	\$ (382)
Effective tax rate	—%	0.2%

- i. WCE is a limited liability company and is treated as a partnership for U.S. federal and state tax purposes. The taxable income and loss of WCE is passed through to its two partners WCH and Legacy QKGI in proportion to their respective percentage interest in WCE. The current tax expense recognized in the consolidated financial statements includes only the income tax expense of WCH on its share of the taxable income or losses passed through from WCE.

### *Income tax receivable (payable)*

The Company had no income tax payable at December 31, 2016 and 2015 and income tax receivable of \$125,000 at December 31, 2016 and 2015 which is included in accounts receivable.

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*Deferred tax assets and liabilities*

	December 31, 2016	December 31, 2015
Deferred tax assets:		
Property, plant and equipment	\$ 4,689	\$ 8,160
Asset retirement obligations	12,972	13,048
Water treatment reserves	12,407	11,453
Intercompany interest expense	13,211	10,107
Accrued expenses	2,856	3,222
Reserve for supply inventory	1,422	—
Acquisition costs	413	459
Finance expenses	663	136
Coal reserves	194	564
Loss carry forwards and unused tax credits (i)	66,411	54,337
Other deferred tax assets	2,464	517
Gross deferred income tax assets	117,702	102,003
Unrecognized tax benefit related to tax losses	(113,622)	(99,212)
Total deferred income tax assets	4,080	2,791
Deferred tax liabilities:		
Mine development costs	(3,597)	(1,425)
Capital assets	—	(163)
Unrealized foreign exchange gain	(162)	(92)
Finance expenses	—	(942)
Other deferred tax liabilities	(321)	(169)
Total deferred income tax liabilities	(4,080)	(2,791)
Net deferred tax assets (liabilities) (ii)	\$ —	\$ —

- i. At December 31, 2016 and 2015, the Company had Canadian non-capital losses of \$2,755,000 and \$515,000, respectively. At December 31, 2016 and 2015 the Company had United States non-capital losses of \$163,152,000 and \$134,040,000, respectively, expiring between 2030 and 2036 for which no deferred income tax assets had been recognized.
- ii. Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

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The movement of net deferred tax assets and amount of deferred tax expense is summarized as follows:

	December 31,	
	2016	2015
Balance, beginning of year	\$ —	\$ 104
Recognized in net income (loss) as deferred tax expense due to reversal of temporary differences	—	—
Recognized in net income (loss) as deferred tax expense due to de-recognition of the deferred tax assets that were recognized in previous period	—	(104)
Balance, end of year	<u>\$ —</u>	<u>\$ —</u>

**23. Supplemental Cash Flow Information**

	For the years ended	
	December 31,	
	2016	2015
Change in working capital balances related to operations:		
Accounts receivable	\$ 5,708	\$ 19,438
Prepaid expenses and other	(12)	1,949
Inventories	(452)	8,862
Accounts payable and accrued liabilities	5,523	(12,551)
Other liabilities	(7,869)	(560)
	<u>\$ 2,898</u>	<u>\$ 17,138</u>
Non-cash financing activities:		
Issuance of Common Shares - loan payable amendment (note 11)	<u>\$ 300</u>	<u>\$ —</u>
Issuance of broker warrants (note 15)	<u>\$ 129</u>	<u>\$ —</u>
Cash paid for interest	<u>\$ 935</u>	<u>\$ 676</u>
Cash paid (received) for income taxes	<u>\$ —</u>	<u>\$ —</u>

## 24. 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"), transactions with close family members of key management personnel and transactions with companies who are affiliated with the Company's minority shareholder, Sprott Resource Corp.

Transactions with related parties included in the consolidated statement of operations and comprehensive loss or the consolidated balance sheets of the Company are summarized below:

	For the years ended	
	December 31,	
	2016	2015
Royalties (i)	\$ 1,993	\$ 2,865
Mining equipment lease (ii)	—	733
Supplies purchase (iii)	97	283
Purchased coal (iv)	1,098	—
	<u>\$ 3,188</u>	<u>\$ 3,881</u>

- i. During the years ended December 31, 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 consolidated statements of operations and comprehensive loss.
- ii. During the year ended December 31, 2015, the Company made lease payments to a related party controlled by an officer of the Company for use of mining equipment owned by the related party. These amounts were included in cost of sales in the consolidated statements of operations and comprehensive loss. The lease expired in December 2015.
- iii. During the years ended December 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. These amounts were included in cost of sales in the consolidated statements of operations and comprehensive loss.
- iv. During the year ended December 31, 2016, the Company purchased coal in an arm's length transaction from a related party who is a close family member of key management personnel of the Company. These amounts were included in inventory in the consolidated balance sheets.

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 year ended December 31, 2016.

Included in accounts payable and accrued liabilities at December 31, 2016 and 2015 is \$1,308,000 and \$415,000, respectively, due to related parties, as a result of the transactions noted above, who are employees, directors, close family members and companies either controlled or significantly influenced by QEP or key management personnel of the Company. These amounts are unsecured and non-interest bearing.

At December 31, 2016 and 2015, the Company had a loan payable to SRLC of \$28,435,000 and \$24,440,000, respectively. SRLC is a minority shareholder of the Company. For additional details related to this loan payable see note 11.

## 25. Key Management Personnel and Other Employee Benefits

Key management personnel are comprised of senior management and executives of the Company. The following is a summary of compensation awarded to key management personnel for the periods presented.

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Salaries and short-term benefits	\$ 1,923	\$ 1,688
Post-employment benefits	52	58
Share-based payments	1,707	1,481
	<u>\$ 3,682</u>	<u>\$ 3,227</u>

### Other Employee Benefits

The Company has a personal retirement savings plan at each division available to all employees. The Company contributes 3% of total salary for each employee of the NAPP Division and 3% of total salary and 0.5% of each 1% that the employee contributes up to 6% at the CAPP Division. Total Company contributions to these 401(k) plans were \$730,000 and \$1,029,000 for the years ended December 31, 2016 and 2015, respectively.

## 26. 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 coal operations and location in the USA along with 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.

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The required disclosures for the operating segments are presented below.

	<b>At and for the year ended December 31, 2016</b>			
	<b>NAPP</b>	<b>CAPP</b>	<b>Corporate</b>	<b>Total</b>
<b>Total assets</b>	\$ 143,648	\$ 37,369	\$ 19,955	\$ 200,972
<b>Total liabilities</b>	\$ 95,170	\$ 14,560	\$ 32,259	\$ 141,989
Revenues	\$ 67,072	\$ 29,914	\$ —	\$ 96,986
Cost of sales	(80,059)	(30,111)	—	(110,170)
<b>Gross margin</b>	(12,987)	(197)	—	(13,184)
Corporate and administrative expenses	(5,513)	(1,794)	(5,927)	(13,234)
<b>Loss from operations</b>	(18,500)	(1,991)	(5,927)	(26,418)
Net finance expense	(2,563)	(500)	(6,749)	(9,812)
Other income	1,039	1,051	—	2,090
<b>Loss for the period before tax</b>	(20,024)	(1,440)	(12,676)	(34,140)
Current income tax (benefit) expense	—	—	—	—
Deferred income tax expense	—	—	—	—
<b>Net and comprehensive loss for the period</b>	\$ (20,024)	\$ (1,440)	\$ (12,676)	\$ (34,140)

	<b>For the year ended December 31, 2015</b>			
	<b>NAPP</b>	<b>CAPP</b>	<b>Corporate</b>	<b>Total</b>
<b>Total assets</b>	\$ 162,670	\$ 34,821	\$ 5,369	\$ 202,860
<b>Total liabilities</b>	\$ 101,990	\$ 11,555	\$ 25,557	\$ 139,102
Revenues	\$ 78,710	\$ 50,632	\$ —	\$ 129,342
Cost of sales	(198,300)	(64,273)	—	(262,573)
<b>Gross margin</b>	(119,590)	(13,641)	—	(133,231)
Corporate and administrative expenses	(6,710)	(1,604)	(7,200)	(15,514)
<b>Loss from operations</b>	(126,300)	(15,245)	(7,200)	(148,745)
Net finance expense	(3,924)	(525)	(2,079)	(6,528)
Other income (expense)	2,066	(164)	—	1,902
<b>Loss for the period before tax</b>	(128,158)	(15,934)	(9,279)	(153,371)
Current income tax expense (benefit)	—	—	(486)	(486)
Deferred income tax expense	—	—	104	104
<b>Net and comprehensive loss for the period</b>	\$ (128,158)	\$ (15,934)	\$ (8,897)	\$ (152,989)



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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 year ended December 31, 2016			For the year ended December 31, 2015		
	USA	Canada	Total	USA	Canada	Total
Revenue	\$ 96,986	\$ —	\$ 96,986	\$ 129,342	\$ —	\$ 129,342
Net loss	\$ (21,464)	\$ (12,676)	\$ (34,140)	\$ (144,092)	\$ (8,897)	\$ (152,989)

  

	At December 31, 2016			At December 31, 2015		
	USA	Canada	Total	USA	Canada	Total
Non-current assets	\$ 152,294	\$ 21	\$ 152,315	\$ 165,567	\$ 64	\$ 165,631
Total assets	\$ 181,017	\$ 19,955	\$ 200,972	\$ 197,491	\$ 5,369	\$ 202,860

The CAPP Division had two customers which accounted for 69% and 16%, respectively, of total CAPP revenue for the year ended December 31, 2016 and two customers which accounted for 74% and 19%, respectively, of total CAPP revenue for the year ended December 31, 2015. The NAPP Division had five customers which accounted for 18%, 17%, 16%, 12% and 10%, respectively, of total NAPP revenue for the year ended December 31, 2016 and three customers which accounted for 38%, 21%, and 10%, respectively, of total NAPP revenue for the year ended December 31, 2015.

## 27. 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.

*Redevelopment Assistance Capital Award*

In September 2016, the Company was notified that it was awarded \$3,000,000 in funding under the Pennsylvania Redevelopment Assistance Capital Program (the "RCAP) to develop an underground coal mine in Somerset County subject to certain conditions, including but not limited to, (i) completing the Redevelopment Assistance application, (ii) confirmation that at least 50% of the required non-state funds necessary to complete the project are secured at the time of application, (iii) execution of a grant agreement, and (iv) commencement of construction within six months of the final grant agreement. Once all the aforementioned conditions have been met, the grant will be released on a periodic basis and the Company will be reimbursed for certain expenditures. The Company will offset the receipts from this program against the capitalized development costs as they are received.