Corsa Coal Corp.

Unaudited Condensed Interim Consolidated Financial Statements

March 31, 2017 and 2016

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

Assets		**March 31, 2017**		**December 31, 2016**
Cash	$	32,386	$	25,757
Accounts receivable (note 3)		10,909		7,889
Prepaid expenses and other current assets		2,921		2,913
Inventories (note 4)		11,606		12,098
Current Assets		57,822		48,657
Restricted cash (note 5)		33,301		33,063
Advance royalties and other assets		3,522		3,255
Property, plant and equipment, net (note 6)		116,743		115,997
Deferred income tax assets		—		—
Total Assets	$	211,388	$	200,972
Liabilities				
Accounts payable and accrued liabilities	$	21,208	$	16,165
Notes payable (note 7)		4,132		5,475
Finance lease obligations (note 8)		3,176		3,574
Other liabilities (note 10)		2,336		1,750
Reclamation and water treatment provision (note 11)		6,226		6,200
Current Liabilities		37,078		33,164
Notes payable (note 7)		948		1,290
Finance lease obligations (note 8)		3,833		4,480
Loan payable (note 9)		28,761		28,435
Other liabilities (note 10)		12,574		14,166
Reclamation and water treatment provision (note 11)		57,022		57,649
Warrant financial liability (note 9(b))		1,559		2,805
Total Liabilities		141,775		141,989
Equity				
Share Capital		180,001		179,811
Contributed Surplus		1,825		1,484
Accumulated Deficit		(148,419)		(155,673)
Total Shareholders' Equity		33,407		25,622
Non-controlling interest		36,206		33,361
Total Equity		69,613		58,983
Total Liabilities and Equity	$	211,388	$	200,972

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

Approved by the Board of Directors:

/s/ Robert Scott
Robert Scott, Director

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

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

	For the three months ended March 31,	
	2017	**2016**
Revenue (note 13)	$ 59,039	$ 16,613
Cost of sales (note 14)	(44,981)	(19,676)
Gross Margin	14,058	(3,063)
Corporate and administrative expense (notes 15 and 16)	(4,187)	(3,107)
Income (loss) from operations	9,871	(6,170)
Net finance expense (note 17)	(121)	(2,434)
Other income (expense)	334	307
Income (loss) before tax	10,084	(8,297)
Current income tax (benefit) expense	—	—
Deferred income tax expense	—	—
	—	—
Net and comprehensive income (loss)	$ 10,084	$ (8,297)
Attributable to:		
Shareholders	$ 7,239	$ (8,398)
Non-controlling interest	$ 2,845	$ 101
Basic earnings (loss) per share (note 18)	$ 0.08	$ (0.12)
Diluted earnings (loss) per share (note 18)	$ 0.07	$ (0.12)

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

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

	For the three months ended March 31, 2017					
	Number of Corsa Common Shares (000's)	**Share Capital**	**Contributed Surplus**	**Deficit**	**Non-Controlling Interest**	**Total Equity**
Balance - January 1, 2017	94,389	$ 179,811	$ 1,484	$ (155,673)	$ 33,361	$ 58,983
Stock based compensation (note 16)	—	—	356	—	—	356
Stock option expiration/forfeiture	—	—	(15)	15	—	—
Stock option exercises	202	190	—	—	—	190
Net and comprehensive income	—	—	—	7,239	2,845	10,084
Balance - March 31, 2017	94,591	$ 180,001	$ 1,825	$ (148,419)	$ 36,206	$ 69,613

	For the three months ended March 31, 2016					
	Number of Corsa Common Shares (000's)	**Share Capital**	**Contributed Surplus**	**Deficit**	**Non-Controlling Interest**	**Total Equity**
Balance - January 1, 2016	68,962	$ 153,172	$ 1,956	$ (123,004)	$ 31,634	$ 63,758
Stock based compensation (note 16)	—	—	558	—	—	558
Stock option expiration/forfeiture	—	—	(9)	9	—	—
Corsa equity financing	10,387	8,000	—	—	—	8,000
Equity issuance costs	—	(47)	—	—	—	(47)
Credit amendment fee shares	390	300	—	—	—	300
Net and comprehensive income (loss)	—	—	—	(8,398)	101	(8,297)
Balance - March 31, 2016	79,739	$ 161,425	$ 2,505	$ (131,393)	$ 31,735	$ 64,272

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

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

	For the three months ended March 31,	
	2017	**2016**
Operating Activities		
Net and comprehensive income (loss)	$ 10,084	$ (8,297)
Items not affecting cash:		
Amortization	4,250	4,587
Stock-based compensation expense (note 16)	356	558
Net finance (income) expense (note 17)	(1,004)	1,854
Write-off of advance royalties and other assets	58	126
Other non-cash operating expense (income)	245	(735)
Cash spent on reclamation and water treatment activities	(1,386)	(987)
Changes in working capital balances related to operations (note 19)	1,096	1,297
Cash provided by (used in) operating activities	13,699	(1,597)
Investing Activities		
Restricted cash	56	(235)
Advance royalties and other assets	(325)	(66)
Proceeds on sale of assets	720	622
Property, plant and equipment additions	(4,966)	(2,007)
Cash used in investing activities	(4,515)	(1,686)
Financing Activities		
Proceeds from equity financing	—	8,000
Proceeds from stock option exercises	190	—
Debt issuance costs	—	(42)
Share issuance costs	—	(47)
Proceeds from notes payable	—	500
Repayment of notes payable	(1,698)	(597)
Repayment of finance lease obligations	(1,047)	(1,155)
Cash (used in) provided by financing activities	(2,555)	6,659
Net increase in cash for the period	6,629	3,376
Cash, beginning of period	25,757	9,493
Cash, end of period	$ 32,386	$ 12,869

Supplemental disclosure (note 19)

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

1. Basis of Presentation and Nature of Operations

<u>Nature of Operations</u>

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

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

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

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

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

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

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

<u>Statement of Compliance</u>

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

These unaudited condensed interim consolidated financial statements are intended to be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016 and the related notes thereto.

These unaudited condensed interim consolidated financial statements were authorized by the Board of Directors of the Company on May 10, 2017.

Future accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after January 1, 2018. Updates that are not applied or are not consequential to the Company have been excluded.

(a) International Financial Reporting Standard ("IFRS") 9 – Financial Instruments

In July 2014, the IASB issued the complete IFRS 9 – *Financial Instruments* ("IFRS 9"), which introduced new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk

management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. IFRS 9 is effective for annual periods beginning January 1, 2018. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2018. The impact to the presentation of the Company's consolidated financial statements upon adoption of this standard has not yet been determined.

(b) IFRS 15 – Revenue from contracts with customers

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

(c) IFRS 16 – Leases

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

2. Financial Instruments

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

(a) Financial risk management

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

Credit Risk

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

Accounts receivable consist of trade receivables and other receivables. The Company assesses the quality of its customers, taking into account their creditworthiness and reputation, past experience and other factors. The Company has not recorded any allowance for credit losses for the three months ended March 31, 2017 and 2016.

Commodity Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At March 31, 2017 the Company had a consolidated cash balance of $32,386,000 and consolidated working capital of $20,744,000. 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 for metallurgical and thermal coal.

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

(in thousands)	Carrying Value at March 31, 2017	Payments due by period				
		Total	Less Than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Accounts payable and accruals	$ 21,208	$ 21,208	$ 21,208	$ —	$ —	$ —
Notes payable	5,080	5,080	4,132	937	11	—
Finance lease obligations	7,009	7,040	3,176	3,506	358	—
Loan payable	28,761	32,017	—	32,017	—	—
Other liabilities	14,910	16,000	2,336	4,142	6,515	3,007
Purchase order firm commitments	—	10,501	10,501	—	—	—
Water treatment trust funding	—	7,904	1,000	3,741	3,163	—
Operating leases and other obligations	—	1,433	674	759	—	—
Total	$ 76,968	$ 101,183	$ 43,027	$ 45,102	$ 10,047	$ 3,007

(b) Fair Value

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

	March 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loan Payable	$ 28,761	$ 22,456	$ 28,435	$ 21,667

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%.

Fair value hierarchy

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

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

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

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

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

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

	March 31, 2017		**December 31, 2016**	
	Level 1	**Level 2**	**Level 1**	**Level 2**
Financial assets				
Cash	$ 32,386	$ —	$ 25,757	$ —
Restricted cash	33,301	—	33,063	—
	$ 65,687	$ —	$ 58,820	$ —
Financial liabilities				
Warrant financial liability	$ —	$ 1,559	$ —	$ 2,805

The inputs used to measure the warrant financial liability (note 9(b)) are based on observable unadjusted market prices for identical assets and are therefore classified as Level 2 inputs under the financial instruments hierarchy.

At March 31, 2017 and December 31, 2016, the Company had no financial instruments which used Level 3 fair value measurements.

3. Accounts receivable

Accounts receivable consist of the following:

	March 31, 2017	**December 31, 2016**
Trade receivables	$ 10,847	$ 7,788
Other	62	101
	$ 10,909	$ 7,889

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

4. Inventories

Inventories consist of the following:

	March 31, 2017	December 31, 2016
Metallurgical coal		
Clean coal stockpiles	5,479	4,770
Raw coal stockpiles	855	1,504
	6,334	6,274
Thermal coal		
Clean coal stockpiles	712	865
Raw coal stockpiles	5	465
	717	1,330
Parts and supplies	4,555	4,494
	$ 11,606	$ 12,098

There was no net realizable value adjustment, measured as the inventory balances at full cost less the net realizable value at March 31, 2017.

5. Restricted cash

Restricted cash consists of the following:

	March 31, 2017	December 31, 2016
Water treatment trust funds (a)	$ 19,966	$ 19,050
Collateral posted for reclamation bonds (b)	8,294	8,912
Workers' compensation trust funds (c)	5,030	5,090
Other restricted deposits	11	11
	$ 33,301	$ 33,063

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 March 31, 2017, the Company is required to contribute an additional $7,904,000 over the course of the next five years to fully fund these trusts, with $1,000,000 due in the next twelve months.

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. The Company reached an agreement with an insurer to release certain portions of the cash collateral to fund certain reclamation projects. Accordingly, $620,000 was released from the cash collateral and used to fund reclamation expenses during the three months ended March 31, 2017.

c. The Company has established separate trust funds with its insurance carriers to pay potential awards and claims related to workers' compensation claims.

6. Property, plant and equipment

Property, plant and equipment consists of the following:

	Mineral Properties (a)	Plant and Equipment	Total
Cost			
Balance - January 1, 2016	$ 176,245	$ 168,925	$ 345,170
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)
Balance - December 31, 2016	178,206	167,773	345,979
Additions	—	2,791	2,791
Capitalized development costs	2,336	—	2,336
Change in reclamation provision	425	—	425
Capitalized borrowing costs	13	—	13
Disposals	(6,790)	(1,779)	(8,569)
Balance - March 31, 2017	$ 174,190	$ 168,785	$ 342,975
Accumulated Amortization			
Balance - January 1, 2016	$ (93,736)	$ (123,948)	$ (217,684)
Amortization	(4,399)	(15,212)	(19,611)
Disposals	1,020	6,238	7,258
Other	—	55	55
Balance - December 31, 2016	(97,115)	(132,867)	(229,982)
Amortization	(646)	(3,565)	(4,211)
Disposals	6,790	1,171	7,961
Balance - March 31, 2017	$ (90,971)	$ (135,261)	$ (226,232)
Net Book Value			
December 31, 2016	$ 81,091	$ 34,906	$ 115,997
March 31, 2017	$ 83,219	$ 33,524	$ 116,743

a. Mineral properties include the cost of obtaining the mineral and surface rights required to conduct mining operations. The two types of lease rights in the states of Tennessee, Kentucky, Maryland and Pennsylvania are 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 owners specific to each property. Mineral and surface rights which are leased are subject to royalty payments to the various owners based on the tons of coal extracted from that specific property. Royalty rates on leased mineral rights range from zero 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.

7. Notes Payable

Notes payable consists of the following:

	March 31, 2017	December 31, 2016
Revolving credit facility (a)	$ 2,790	$ 4,150
Loans payable - equipment purchase (b)	1,108	1,295
Note payable (c)	1,182	1,320
Balance, end of period	5,080	6,765
Less: Current portion	(4,132)	(5,475)
Total long-term notes payable	$ 948	$ 1,290

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 installments until April 2019. The note carries a mortgage against the Alumbaugh mineral property (owned portion of Acosta Deep project). The direct relationship between the note payable and use of the funds towards the acquisition of the Alumbaugh mineral property requires the borrowing costs to be capitalized as part of the development costs of the property. During the three months ended March 31, 2017 and 2016, $13,000 and $19,000 of finance and interest expense was capitalized to the cost of the Alumbaugh mineral property, respectively.

At March 31, 2017, the Company was in compliance with all covenants related to the notes payable.

8. Finance Lease Obligations

Finance lease obligations consists of the following:

	March 31, 2017	December 31, 2016
NAPP Division leases expiring from 2017-2021 (a)	$ 5,446	$ 6,046
CAPP Division leases expiring from 2017-2020 (b)	1,563	2,008
Balance, end of period	7,009	8,054
Less: Current portion	(3,176)	(3,574)
Total long-term finance lease obligations	$ 3,833	$ 4,480

a. 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 Wilson Creek Energy, LLC 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 secured by the mobile equipment being leased. Contingent rent related to certain finance lease obligations is payable if the equipment exceeds certain operating levels. The contingent rent recognized in the three months ended March 31, 2017 was $514,000 and is included in cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive income (loss).

b. 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 the lease agreements. The value of the lease obligation is secured by the mobile equipment being leased.

Finance lease obligations are payable as follows:

Less than 1 year	$ 3,520
1-3 years	3,761
4-5 years	395
Total payments	7,676
Less: Amounts representing interest	(667)
Total finance lease obligations	$ 7,009

At March 31, 2017, the Company was in compliance with all covenants under the lease agreements.

9. Loan Payable

a. On August 19, 2014, the Company entered into a $25,000,000 secured term loan (the "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 closing of the acquisition of PBS Coals, Inc. (including Rox Coal, Inc.) from OAO Severstal by the Company on August 19, 2014, (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 March 31, 2017.

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 C$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 in March 2016, the Company capitalized $281,000 to the principal balance and issued 389,520 Common Shares (the "Fee Shares") to SRLC. The Fee Shares represent consideration equivalent to $300,000 (based on a price per Common Share of C$1.00).

The changes in the Loan Payable balance for the three months ended March 31, 2017 are as follows:

Balance - January 1, 2016	$ 24,440
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	1,275
Balance - December 31, 2016	28,435
Accrued interest	800
Interest paid	(800)
Accretion on discount on Loan Payable (note 17)	326
Balance - March 31, 2017	$ 28,761

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 C$3.90, risk-free interest rate of 1.59%, Common Share price of C$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 March 31, 2017, the fair value was determined to be $1,559,000 using a Black Scholes option pricing model (expected life of 2.4 years, exercise price of C$3.90, risk-free interest rate of 1.39%, Common Share price of C$2.00, expected volatility of 129%, dividend yield of 0%, forfeiture rate of 0% and CAD/USD exchange rate of 0.7513). The revaluation amounted to income of $1,247,000 and expense of $841,000 for the three months ended March 31, 2017 and 2016, respectively, and is included in net finance expense (note 17) on the unaudited condensed interim consolidated statements of operations and comprehensive income (loss).

10. Other Liabilities

Other liabilities consist of the following:

	March 31, 2017	December 31, 2016
Workers' compensation provision (a)	$ 6,752	$ 6,795
Transportation contract liquidated damages (b)	4,222	5,174
Processing fee payable (c)	2,555	2,526
Other (d)	1,381	1,421
	14,910	15,916
Less: current portion (a,b,d)	(2,336)	(1,750)
Total Other Liabilities	$ 12,574	$ 14,166

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 the next twelve months is $749,000. The Company has established separate trust funds with its insurance carriers to pay potential awards and claims related to workers' compensation claims (note 5).

b. PBS Coals, Inc. had contractual agreements with a transportation provider, which indicated minimum levels of coal to be shipped via rail over the contract period, which was not met. Corsa acquired these contractual agreements as a result of the PBS Transaction and at March 31, 2017, a provision of $4,222,000 has been made for the estimated amount of fees owed to this transportation provider. The balance that is expected to be settled within the next twelve months is $850,000.

c. 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 each in both 2019 and 2020. The processing fee payable balance is being recorded at amortized cost with an effective interest rate of 1.21%.

d. 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.

11. Reclamation and Water Treatment Provision

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

The changes to the reclamation and water treatment provision were as follows:

	Site Reclamation and Remediation (a)	Water Treatment Obligation (b)	Total Reclamation and Water Treatment Provision
Balance - January 1, 2016	$ 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
Reclamation and water treatment costs incurred	(768)	(618)	(1,386)
Change in estimate	425	—	425
Accretion expense	179	181	360
Balance - March 31, 2017	$ 34,755	$ 28,493	$ 63,248
Less: current portion	(4,626)	(1,600)	(6,226)
Long-Term Reclamation and Water Treatment Provision	$ 30,129	$ 26,893	$ 57,022
Estimated costs (undiscounted cash flow basis)	$ 44,249	$ 42,162	$ 86,411
End of reclamation period	1-19 years	Perpetual	
Discount rate	0.85%-2.76%	0.85%-2.79%	
Inflation rate	2.0%	2.0%	

a. Site reclamation and remediation

   i. The current portion represents the amount expected to be incurred by the Company within one year from March 31, 2017.

   ii. At March 31, 2017, the Company had $73,013,000 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 current portion represents the amount expected to be incurred by the Company within one year from March 31, 2017.

12. 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 March 31, 2017 and December 31, 2016, the Company had 94,591,245 and 94,388,784 Common Shares outstanding and no preferred shares outstanding, respectively. At March 31, 2017 and December 31, 2016, Legacy QKGI also owns 170,316,620 Redeemable Units of Wilson Creek Energy, LLC entitling it to a 19% minority interest in the net assets, income and expenses of Wilson Creek Energy, LLC. Redeemable Units are redeemable at the option of the holder 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 to one basis. The Company is restricted from paying cash to the holder for the redemption of Redeemable Units if a balance remains outstanding for the Facility (note 9).

13. Revenue

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

Revenue consists of the following:

	For the three months ended March 31,	
	2017	2016
Metallurgical coal sales	$ 49,050	$ 8,307
Thermal coal sales	9,989	8,260
Tolling revenue	—	46
	$ 59,039	$ 16,613

14. Cost of Sales

Cost of sales consists of the following:

	For the three months ended March 31,	
	2017	2016
Mining and processing costs	$ 19,336	$ 11,463
Purchased coal costs	14,587	302
Royalty expense	2,196	1,410
Amortization expense	4,250	4,587
Transportation costs from preparation plant to customer	2,995	1,210
Idle mine expense	352	578
Write-off of advance royalties and other assets	58	126
Other costs	1,207	—
	$ 44,981	$ 19,676

15. Corporate and Administrative Expense

Corporate and administrative expense consists of the following:

	For the three months ended March 31,	
	2017	2016
Salaries and other compensation	$ 2,464	$ 1,848
Professional fees	1,155	819
Office expenses and insurance	340	353
Other	228	87
	$ 4,187	$ 3,107

16. 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. Each RSU granted entitles the participant to receive, from the Company, payment in cash or, at the option of the Company, payment in fully paid Common Shares. For a cash payment, the RSUs will be redeemed by the Company for cash equal to the market value of the Common Shares, determined based on the volume weighted average trading price of a Common Share on the stock exchange during the five trading days immediately preceding the payment date. In the event that the Company elects to satisfy all or part of its payment obligation in fully paid Common Shares, the Company will satisfy the payment obligation with the issuance, or delivery, of fully paid Common Shares on the payment date. No RSUs have been granted, including during the three months ended March 31, 2017 and 2016. At March 31, 2017 and 2016, there were 2,582,000 and 1,459,000 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 March 31, 2017:

	Number of Stock Options (000's)	**Weighted Average Exercise Price (C$)**
Balance - January 1, 2016	6,546	$ 2.56
Options granted (i) (ii)	2,559	1.91
Options forfeited	(2,021)	3.50
Options expired	(50)	20.02
Balance - December 31, 2016	7,034	1.93
Options granted (iii)	150	2.40
Options exercised	(202)	1.26
Options canceled/forfeited	(82)	1.66
Options expired	(23)	10.00
Balance - March 31, 2017	6,877	$ 1.94

i. 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:	C$1.40
Risk-free interest rate:	0.80%
Common Share price:	C$1.40
Expected volatility	136%
Dividend yield:	—%
Forfeiture rate:	11.05%

ii. 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:	C$2.30
Risk-free interest rate:	0.90% to 1.30%
Common Share price:	C$2.30
Expected volatility	119% to 137%
Dividend yield:	—%
Forfeiture rate:	12.61%

iii. 150,000 stock options were granted on March 7, 2017 to 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:	C$2.40
Risk-free interest rate:	1.31% to 1.83%
Common Share price:	C$2.40
Expected volatility	117% 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.

For the three months ended March 31, 2017 and 2016, the Company recorded stock based compensation expense on the outstanding stock options to corporate and administrative expenses of $356,000 and $558,000, respectively.

17. Net Finance (Expense) Income

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

	For the three months ended March 31,	
	2017	**2016**
Warrant financial liability (note 9(b))	$ 1,247	$ (841)
Accretion of discount on Loan Payable (note 9(a))	(326)	(306)
Bond premium expense	(391)	(426)
Interest expense	(1,081)	(915)
Interest income	32	4
Foreign exchange gain	124	4
Accretion on reclamation provision	(360)	(332)
Other	634	378
	$ (121)	$ (2,434)

18. Earnings per Share

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

	For the three months ended March 31,	
	2017	**2016**
Basic and diluted earnings (loss) attributable to common shareholders	$ 7,239	$ (8,398)
Basic weighted average number of Common Shares outstanding (000's)	94,435	69,909
Dilutive effect of redeemable unit conversion (000's)	8,515	—
Dilutive effect of stock options (000's)	2,632	—
Dilutive effect of compensation warrants (000's)	106	—
Diluted weighted average number of Common Shares outstanding (000's)	105,688	69,909
Basic earnings (loss) per share	$ 0.08	$ (0.12)
Diluted earnings (loss) per share	$ 0.07	$ (0.12)

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. For the three months ended March 31, 2016, 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.

19. Supplemental Cash Flow Information

	For the three months ended March 31,	
	2017	**2016**
Change in working capital balances related to operations:		
Accounts receivable	$ (3,020)	$ 1,229
Prepaid expenses and other	(8)	650
Inventories	286	(2,850)
Accounts payable and accrued liabilities	5,043	1,986
Other liabilities	(1,205)	282
	$ 1,096	$ 1,297
Non-cash financing activities:		
Issuance of Common Shares – term loan amendment (note 9(a))	$ —	$ 300
Cash paid for interest	$ 1,089	$ 178
Cash paid (received) for income taxes	$ —	$ —

20. 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 unaudited condensed interim consolidated statement of operations and comprehensive income (loss) of the Company are summarized below:

	For the three months ended March 31,	
	2017	**2016**
Royalties and property taxes (i)	$ 327	$ 777
Supplies purchase (ii)	84	32
Purchased coal (iii)	1,514	—
	$ 1,925	$ 809

i. During the three months ended March 31, 2017 and 2016, the Company paid royalties and property taxes to related parties who are commonly controlled by QEP for coal extracted from mineral properties where the surface or mineral right of the specific property are leased by the Company and owned by the related party. These amounts were included in cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive income (loss).

ii. During the three months ended March 31, 2017 and 2016, the Company purchased from related parties, who are significantly influenced by key management personnel of QEP, supplies used in the coal separation process. These amounts were included in cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive income (loss).

iii. During the three months ended March 31, 2017, the Company purchased 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 cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive income (loss).

Included in accounts payable and accrued liabilities at March 31, 2017 and December 31, 2016 is $16,000 and $1,308,000, 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 March 31, 2017 and December 31, 2016, the Company had a loan payable to SRLC of $28,761,000 and $28,435,000, respectively. SRLC is a minority shareholder of the Company. For additional details related to this loan payable see note 9.

21. Segment Disclosures

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

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

The required disclosures for the operating segments are presented below.

	At and for the three months ended March 31, 2017			
	NAPP	CAPP	Corporate	Total
Total assets	$ 158,776	$ 33,777	$ 18,835	$ 211,388
Total liabilities	$ 98,603	$ 12,116	$ 31,056	$ 141,775
Revenues	$ 52,379	$ 6,660	$ —	$ 59,039
Cost of sales	(36,879)	(8,102)	—	(44,981)
Gross margin	15,500	(1,442)	—	14,058
Corporate and administrative expenses	(2,310)	(471)	(1,406)	(4,187)
Income (loss) from operations	13,190	(1,913)	(1,406)	9,871
Net finance (expense) income	(262)	(136)	277	(121)
Other income	70	264	—	334
Income (loss) before tax	12,998	(1,785)	(1,129)	10,084
Current income tax (benefit) expense	—	—	—	—
Deferred income tax expense	—	—	—	—
	—	—	—	—
Net and comprehensive income (loss)	$ 12,998	$ (1,785)	$ (1,129)	$ 10,084

	For the three months ended March 31, 2016			
	NAPP	CAPP	Corporate	Total
Revenues	$ 10,205	$ 6,408	$ —	$ 16,613
Cost of sales	(13,679)	(5,997)	—	(19,676)
Gross margin	(3,474)	411	—	(3,063)
Corporate and administrative expenses	(1,178)	(407)	(1,522)	(3,107)
Loss from operations	(4,652)	4	(1,522)	(6,170)
Net finance expense	(442)	(116)	(1,876)	(2,434)
Other income (expense)	312	(5)	—	307
Loss before tax	(4,782)	(117)	(3,398)	(8,297)
Current income tax expense	—	—	—	—
Deferred income tax expense	—	—	—	—
	—	—	—	—
Net and comprehensive loss	$ (4,782)	$ (117)	$ (3,398)	$ (8,297)

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

	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
	USA	Canada	Total	USA	Canada	Total
Revenue	$ 59,039	$ —	$ 59,039	$ 16,613	$ —	$ 16,613
Net income (loss)	$ 11,213	$ (1,129)	$ 10,084	$ (4,899)	$ (3,398)	$ (8,297)

	At March 31, 2017			At December 31, 2016		
	USA	Canada	Total	USA	Canada	Total
Non-current assets	$ 153,566	$ —	$ 153,566	$ 152,294	$ 21	$ 152,315
Total assets	$ 192,859	$ 18,529	$ 211,388	$ 181,017	$ 19,955	$ 200,972

22. 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 April 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/or 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 October 2010 and November 2011, (ii) under Italian law, 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 Lucchini claim is without merit and is defending 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 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.