



Corsa Coal Corp.
Management's Discussion and Analysis
September 30, 2018

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For the three and nine months ended September 30, 2018

The purpose of the Corsa Coal Corp. (“Corsa” or the “Company”) Management’s Discussion and Analysis (“MD&A”) for the three and nine months ended September 30, 2018 is to provide a narrative explanation of Corsa’s operating and financial results for the period, Corsa’s financial condition at the end of the period and Corsa’s future prospects. This MD&A is intended to be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2018 and 2017 and the related notes thereto and the audited consolidated financial statements at and for the years ended December 31, 2017 and 2016 and the related notes thereto, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2018 and 2017 have been prepared in accordance with IFRS 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). Unless otherwise indicated, all dollar amounts in this MD&A are expressed in United States dollars, all ton amounts are short tons (2,000 pounds per ton) and all amounts are shown in thousands. Pricing and cost per ton information is expressed on a free on board (“FOB”) mine site basis. Please refer to “Cautionary Statement Regarding Forward-Looking Statements” and “Cautionary Statement Regarding Certain Measures of Performance”. This MD&A is dated as of November 7, 2018.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain information set forth in this MD&A contains “forward-looking statements” and “forward-looking information” (collectively, “forward looking statements”) under applicable securities laws. Except for statements of historical fact, certain information contained herein relating to projected sales, coal prices, coal production, mine development, the capacity and recovery of Corsa’s preparation plants, expected cash production costs, geological conditions, future capital expenditures and expectations of market demand for coal, constitutes forward-looking statements which include management’s assessment of future plans and operations and are based on current internal expectations, estimates, projections, assumptions and beliefs, which may prove to be incorrect. Some of the forward-looking statements may be identified by words such as “estimates”, “expects”, “anticipates”, “believes”, “projects”, “plans”, “capacity”, “hope”, “forecast”, “anticipate”, “could” and similar expressions. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause Corsa’s actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to: risks that the actual production or sales for the 2018 fiscal year will be less than projected production or sales for this period; risks that the prices for coal sales will be less than projected; liabilities inherent in coal mine development and production; geological, mining and processing technical problems; inability to obtain required mine licenses, mine permits and regulatory approvals or renewals required in connection with the mining and processing of coal; risks that Corsa’s preparation plants will not operate at production capacity during the relevant period, unexpected changes in coal quality and specification; variations in the coal mine or preparation plant recovery rates; dependence on third party coal transportation systems; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; changes in commodity prices and exchange rates; changes in the regulations in respect to the use, mining and processing of coal; changes in regulations on refuse disposal; the effects of competition and pricing pressures in the coal market; the oversupply of, or lack of demand for, coal; inability of management to secure coal sales or third party purchase contracts; currency and interest rate fluctuations; various events which could disrupt operations and/or the transportation of coal products, including labor stoppages and severe weather conditions; the demand for and availability of rail, port and other transportation services; the ability to purchase third party coal for processing and delivery under purchase agreements; the ability to resolve litigation and similar matters involving the Company and/or its assets; and management’s ability to anticipate and manage the foregoing factors and risks. The forward-looking statements and information contained in this MD&A are based on certain assumptions regarding, among other things, coal sales being consistent with expectations; future prices for coal; future currency and exchange rates; Corsa’s ability to generate sufficient cash flow from operations and access capital markets to meet its future obligations; the regulatory framework representing royalties, taxes and environmental matters in the countries in which Corsa conducts business; coal production levels; Corsa’s ability to retain qualified staff and equipment in a cost-efficient manner to meet its demand; and Corsa being able to execute its program of operational improvement and initiatives. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The reader is cautioned not to place undue reliance on forward-looking statements. Corsa does not undertake to update any of the forward-looking statements contained in this MD&A unless required by law. The statements as to Corsa’s capacity to produce coal are no assurance that it will achieve these levels of production or that it will be able to achieve these sales levels.

CAUTIONARY STATEMENT REGARDING CERTAIN MEASURES OF PERFORMANCE

This MD&A presents certain measures, including “EBITDA”; “Adjusted EBITDA”; “realized price per ton sold”; “cash production cost per ton sold”; “cash cost per ton sold”; and “cash margin per ton sold”, that are not recognized measures under IFRS. This data may not be comparable to data presented by other coal producers. For a definition and reconciliation of these measures to the most directly comparable financial information presented in the consolidated financial statements prepared in accordance with IFRS, see Non-GAAP Financial Measures starting on page 26 of this MD&A. The Company believes that these generally accepted industry measures are realistic indicators of operating performance and are useful in performing year-over-year comparisons. However, these non-GAAP measures should be considered together with other data prepared in accordance with IFRS, and these measures, taken by themselves, are not necessarily indicative of operating costs or cash flow measures prepared in accordance with IFRS.

SCIENTIFIC AND TECHNICAL INFORMATION

All scientific and technical information contained in this MD&A has been reviewed and approved by Peter V. Merritts, Professional Engineer and the Company’s President - NAPP Division, who is a qualified person within the meaning of National Instrument 43-101 - Standards of Disclosure for Mineral Projects.

FINANCIAL AND OPERATIONAL HIGHLIGHTS FOR THE QUARTER ENDED SEPTEMBER 30, 2018

- Corsa reported net and comprehensive loss from continuing operations of \$1.5 million, or \$0.02 per share, for the third quarter 2018, compared to net and comprehensive income from continuing operations of \$7.5 million, or \$0.07 per share, for the third quarter 2017. Net and comprehensive loss from continuing operations for the third quarter 2018 includes \$6.7 million of amortization expense of which \$2.7 million, or \$0.03 per share, resulted from the asset impairment reversal that took place in December 2017.
- Corsa's adjusted EBITDA⁽¹⁾ was \$9.9 million and \$8.5 million at its Northern Appalachia division ("NAPP" or "NAPP Division") and on a consolidated basis, respectively, for the third quarter 2018. Corsa's EBITDA⁽¹⁾ was \$9.5 million and \$6.9 million at its NAPP Division and on a consolidated basis, respectively, for the third quarter 2018.
- Operating cash flows provided by continuing operations for the third quarter 2018 were \$6.5 million, which was consistent with operating cash flows for the third quarter 2017.
- Total revenue from continuing operations was \$61.6 million for the third quarter 2018, a decrease of 2% as compared to the third quarter 2017. The decrease in revenue was attributable to the expiration of a thermal coal contract in December 2017.
- Corsa sold a total of 455,525 tons of metallurgical coal in the third quarter 2018. On a year-to-date basis, low volatile metallurgical coal sales volumes are up 17% versus 2017 comparable period levels, and total metallurgical sales volumes are up 22% as compared to year-to-date September 2017. This growth has been accomplished despite supply chain disruptions to export terminals and rail service.
- Corsa achieved an average realized price per ton of metallurgical coal sold⁽¹⁾ at its NAPP Division of \$106.99 for all metallurgical qualities in the third quarter 2018. This average realized price is the approximate equivalent of \$151 to \$157 on an FOB vessel basis⁽²⁾. For low volatile metallurgical coal sold, Corsa achieved the approximate equivalent of \$157 to \$162 on an FOB vessel basis⁽²⁾. Corsa's sales mix for the third quarter 2018 included 40% of sales to domestic customers and 60% of sales to international customers.
- Cash production cost per ton sold⁽¹⁾ was \$77.94 for the third quarter 2018, a decrease of \$15.52 per ton, or 17%, as compared to the second quarter 2018. Cash production cost per ton sold⁽¹⁾ increased \$7.65 per ton, or 11% as compared to the third quarter 2017.
- Corsa is at an advanced stage on discussions and expects to refinance or extend the maturity of our term loan beyond the August 2019 maturity date.

⁽¹⁾ This is a non-GAAP financial measure. See "Non-GAAP Financial Measures" starting on page 26 of this MD&A.

⁽²⁾ Similar to most U.S. metallurgical coal producers, Corsa reports sales and costs per ton on an FOB mine site basis and denominated in short tons. Many international metallurgical coal producers report prices and costs on a delivered-to-the-port basis, thereby including freight costs between the mine and the port. Additionally, Corsa reports sales and costs per short ton, which is approximately 10% lower than a metric ton. For the purposes of this figure, we have used an illustrative freight rate of \$30-\$35 per short ton. Historically, freight rates rise and fall as market prices rise and fall. The low volatile metallurgical coal sales price is approximated at 3-4% above the equivalent metallurgical coal price on an FOB Vessel basis. As a note, most published indices for metallurgical coal report prices on a delivered-to-the-port basis and denominated in metric tons.

BUSINESS OVERVIEW

Corsa is one of the leading United States suppliers of premium quality metallurgical coal, an essential ingredient in the production of steel. Corsa's core business is supplying premium quality metallurgical coal to domestic and international steel and coke producers. On March 13, 2018, Corsa divested its thermal and industrial coal division based in Tennessee (the "CAPP Division") by way of the sale of Kopper Glo Mining, LLC (the "CAPP Division Divestiture"). As a result of the CAPP Division Divestiture, the CAPP Division is classified as a discontinued operation. As of the date of this MD&A, Corsa produces coal from four mines, has one development mine, operates two preparation plants and has approximately 400 employees. Corsa's common shares ("Common Shares") are listed on the TSX Venture Exchange ("TSX-V") under the symbol "CSO".

The Company's coal operations are conducted through its NAPP Division based in Somerset, Pennsylvania, U.S.A. The NAPP Division is primarily focused on metallurgical coal production in the states of Pennsylvania and Maryland. Corsa markets and sells its NAPP coal to customers in North America, South America, and Asia.

Corsa's metallurgical coal sales figures are comprised of three types of sales: (i) selling coal that Corsa produces ("Company Produced"); (ii) selling coal that Corsa purchases and provides value added services (storing, washing, blending, loading) to make the coal saleable ("Value Added Services"); and (iii) selling coal that Corsa purchases on a clean or finished basis from suppliers outside the Northern Appalachia region ("Sales and Trading").

NAPP Division

Mines

NAPP currently operates the Casselman mine, an underground mine utilizing the room and pillar mining method; the Acosta Deep mine, an underground mine utilizing the room and pillar mining method; the Schrock Run mine, a surface mine using contour mining methods; and the Hamer mine, a surface mine using contour and highwall mining methods. In addition, the Horning mine is under development. The Quecreek mine exhausted the economically recoverable reserves during the third quarter 2018 and that mine is closed. The Casselman mine is located in Garrett County, Maryland and the Acosta Deep, Schrock Run, Hamer and Horning mines are located in Somerset County, Pennsylvania.

Preparation Plants

NAPP currently operates two preparation plants, the Cambria Plant and the Shade Creek Plant, and has one preparation plant idled, the Rockwood Plant. The raw metallurgical coal produced from the NAPP mines is trucked to the preparation plants where it is processed or “washed” using conventional coal processing techniques and stored for shipping. All plants have load out facilities adjacent to a rail line. Coal is usually shipped by rail, however, it can also be shipped by truck. All of the preparation plants are located in Somerset County, Pennsylvania. The Cambria Plant has an operating capacity of 325 tons of raw coal per hour, storage capacity for 130,000 tons of clean coal and 55,000 tons of raw coal and load out facilities adjacent to a CSX rail line. The Shade Creek Plant has an operating capacity of 450 tons of raw coal per hour, storage capacity for 75,000 tons of clean coal and 170,000 tons of raw coal and load out facilities adjacent to a Norfolk Southern rail line. The Rockwood Plant has an operating capacity of 325 tons of raw coal per hour, storage capacity of 24,000 tons of clean coal and 85,000 tons of raw coal and load out facilities adjacent to a CSX rail line.

Growth Projects

NAPP has several significant projects which are in various stages of permitting and development.

Name	Type of Mine	Status
Keyser Project	Underground	Permit in Process
North Mine Project	Underground	Permit in Process
Schrock Run Extension	Surface	Permit in Process
A Seam Project	Underground	Permitted

COAL PRICING TRENDS AND OUTLOOK

Over the past quarter market conditions have grown more constructive as there were several notable supply side-issues that constrained an already tight global supply chain. In addition to near term supply-side challenges, our global customer base expects continued growth in demand going into 2019. In response to supply disruptions and a positive demand outlook, prices have responded with United States East Coast export low volatile metallurgical coal pricing increasing 7% during the quarter and Australian premium low volatile metallurgical coal prices having increased by more than 6% for full-year calendar 2019 contracts. Corsa has been able to benefit from the strong global market by booking sales on indexed pricing mechanisms for the fourth quarter 2018 and into 2019.

Global steel production is up 4.8% year-to-date (“YTD”) and, excluding China, the rest of the world grew at 3.7%, according to the World Steel Association data. Chinese steel production grew 5.8% YTD while India is up 6.7% YTD. Global steel capacity utilization is approximately 79% and has been above 70% since early 2017. The strong global steel markets continue to drive a healthy US export market. US steel production is up approximately 4.0% YTD. Most of our domestic customers started the annual procurement process early this year as the global markets continued to tighten. We were able to capture increased sales prices from our domestic customer base while also growing our sales volumes.

We continue to watch rising global freights rates, trade tariffs and the effects of a strong US economy which has made it difficult to find qualified workers throughout the supply chain. US port congestion and rail road performance have been considerable challenges to export shipments this year, but we have witnessed a recent improvement in both areas. Given these points, the forward curve continues to focus on the global supply side risks and we continue to expect a constructive forward price environment.

The end use of our coal by our customers in coke plants and steel making, the combustion of fuel by equipment used in coal production and the transportation of our coal to our customers, are all sources of greenhouse gases (“GHGs”). As well, coal mining itself can release methane, which is considered to be a more potent GHG than CO₂, directly into the atmosphere. These emissions from coal consumption, transportation and production are subject to pending and proposed regulation as part of initiatives to address global climate change. As a result, numerous proposals have been made and are likely to continue to be made at the international, national, regional and state levels of government to monitor and limit emissions of GHGs. The market for our coal may be adversely impacted if comprehensive legislation or regulations focusing on GHG emission reductions are adopted, or if our customers are unable to obtain financing for their operations.

See “Risk Factors” in the Company’s annual information form dated March 13, 2018 for the year ended December 31, 2017 for an additional discussion regarding certain factors that could impact coal pricing trends and outlook, as well as the Company’s ongoing operations.

FINANCIAL AND OPERATIONAL RESULTS

(in thousands)	For the three months ended September 30,		
	2018	2017	Variance
Revenue	\$ 61,561	\$ 62,944	\$ (1,383)
Cost of sales	(56,923)	(48,681)	(8,242)
Gross margin	4,638	14,263	(9,625)
Selling, general and administrative expense	(4,960)	(4,473)	(487)
(Loss) income from operations	(322)	9,790	(10,112)
Net finance expense	(2,181)	(1,969)	(212)
Other income (expense)	1,033	(285)	1,318
(Loss) income before tax	(1,470)	7,536	(9,006)
Income tax expense (recovery)	—	—	—
Net and comprehensive (loss) income from continuing operations	\$ (1,470)	\$ 7,536	\$ (9,006)
Diluted (loss) earnings per share from continuing operations	\$ (0.02)	\$ 0.07	\$ (0.09)

(in thousands)	For the nine months ended September 30,		
	2018	2017	Variance
Revenue	\$ 199,340	\$ 169,661	\$ 29,679
Cost of sales	(182,749)	(128,100)	(54,649)
Gross margin	16,591	41,561	(24,970)
Selling, general and administrative expense	(16,517)	(11,787)	(4,730)
Income from operations	74	29,774	(29,700)
Net finance expense	(5,455)	(2,968)	(2,487)
Other income (expense)	979	(1,736)	2,715
(Loss) income before tax	(4,402)	25,070	(29,472)
Income tax expense (recovery)	—	—	—
Net and comprehensive (loss) income from continuing operations	\$ (4,402)	\$ 25,070	\$ (29,472)
Diluted (loss) earnings per share from continuing operations	\$ (0.06)	\$ 0.19	\$ (0.25)

Operations Summary

(in thousands)	For the three months ended September 30,		
	2018	2017	Variance
Coal sold - tons			
NAPP - metallurgical coal	456	488	(32)
Realized price per ton sold ⁽¹⁾			
NAPP - metallurgical coal	\$ 106.99	\$ 112.15	\$ (5.16)
Cash production cost per ton sold ⁽¹⁾⁽²⁾			
NAPP - metallurgical coal	\$ 77.94	\$ 70.29	\$ (7.65)
Cash cost per ton sold ⁽¹⁾⁽³⁾			
NAPP - metallurgical coal	\$ 82.42	\$ 80.29	\$ (2.13)
Cash margin per ton sold ⁽¹⁾			
NAPP - metallurgical coal	\$ 24.57	\$ 31.86	\$ (7.29)
EBITDA ⁽¹⁾			
NAPP	\$ 9,497	\$ 13,554	\$ (4,057)
Corporate	(2,607)	(1,402)	(1,205)
Total	<u>\$ 6,890</u>	<u>\$ 12,152</u>	<u>\$ (5,262)</u>
Adjusted EBITDA ⁽¹⁾			
NAPP	\$ 9,865	\$ 13,228	\$ (3,363)
Corporate	(1,360)	(984)	(376)
Total	<u>\$ 8,505</u>	<u>\$ 12,244</u>	<u>\$ (3,739)</u>

⁽¹⁾ This is a non-GAAP financial measure. See “Non-GAAP Financial Measures” starting on page 26 of this MD&A.

⁽²⁾ Cash production cost per ton sold excludes purchased coal. This non-GAAP Financial measure is defined in more detail in “Non-GAAP Financial Measures” starting on page 26 of this MD&A.

⁽³⁾ Cash cost per ton sold includes purchased coal. This non-GAAP Financial measure is defined in more detail in “Non-GAAP Financial Measures” starting on page 26 of this MD&A.

(in thousands)	For the nine months ended September 30,		
	2018	2017	Variance
Coal sold - tons			
NAPP - metallurgical coal	1,406	1,153	253
Realized price per ton sold ⁽¹⁾			
NAPP - metallurgical coal	\$ 113.92	\$ 126.48	\$ (12.56)
Cash production cost per ton sold ⁽¹⁾⁽²⁾			
NAPP - metallurgical coal	\$ 87.02	\$ 70.14	\$ (16.88)
Cash cost per ton sold ⁽¹⁾⁽³⁾			
NAPP - metallurgical coal	\$ 90.00	\$ 83.05	\$ (6.95)
Cash margin per ton sold ⁽¹⁾			
NAPP - metallurgical coal	\$ 23.92	\$ 43.43	\$ (19.51)
EBITDA ⁽¹⁾			
NAPP	25,087	40,521	(15,434)
Corporate	(6,804)	(2,668)	(4,136)
Total	<u>18,283</u>	<u>37,853</u>	<u>(19,570)</u>
Adjusted EBITDA ⁽¹⁾			
NAPP	\$ 27,744	\$ 42,491	\$ (14,747)
Corporate	(4,073)	(2,829)	(1,244)
Total	<u>\$ 23,671</u>	<u>\$ 39,662</u>	<u>\$ (15,991)</u>

(1) This is a non-GAAP financial measure. See “Non-GAAP Financial Measures” starting on page 26 of this MD&A.

(2) Cash production cost per ton sold excludes purchased coal. This non-GAAP Financial measure is defined in more detail in “Non-GAAP Financial Measures” starting on page 26 of this MD&A.

(3) Cash cost per ton sold includes purchased coal. This non-GAAP Financial measure is defined in more detail in “Non-GAAP Financial Measures” starting on page 26 of this MD&A.

REVIEW OF THIRD QUARTER FINANCIAL RESULTS

For the three months ended September 30, 2018

(in thousands)	NAPP	Corporate	Consolidated
Revenue	\$ 61,561	\$ —	\$ 61,561
Cost of sales	(56,923)	—	(56,923)
Gross margin	4,638	—	4,638
Selling, general and administrative expense	(2,743)	(2,217)	(4,960)
Income (loss) from operations	1,895	(2,217)	(322)
Net finance expense	(333)	(1,848)	(2,181)
Other income	1,033	—	1,033
Income (loss) before tax	2,595	(4,065)	(1,470)
Income tax expense (recovery)	—	—	—
Net and comprehensive income (loss) from continuing operations	<u>\$ 2,595</u>	<u>\$ (4,065)</u>	<u>\$ (1,470)</u>

For the three months ended September 30, 2017

(in thousands)	NAPP	Corporate	Consolidated
Revenue	\$ 62,944	\$ —	\$ 62,944
Cost of sales	(48,681)	—	(48,681)
Gross margin	14,263	—	14,263
Selling, general and administrative expense	(3,193)	(1,280)	(4,473)
Income (loss) from operations	11,070	(1,280)	9,790
Net finance expense	(389)	(1,580)	(1,969)
Other expense	(285)	—	(285)
Income (loss) before tax	10,396	(2,860)	7,536
Income tax expense (recovery)	—	—	—
Net and comprehensive income (loss) from continuing operations	<u>\$ 10,396</u>	<u>\$ (2,860)</u>	<u>\$ 7,536</u>

Dollar variance for the three months ended September 30, 2018 versus 2017

(in thousands)	NAPP	Corporate	Consolidated
Revenue	\$ (1,383)	\$ —	\$ (1,383)
Cost of sales	(8,242)	—	(8,242)
Gross margin	(9,625)	—	(9,625)
Selling, general and administrative expense	450	(937)	(487)
Loss from operations	(9,175)	(937)	(10,112)
Net finance income (expense)	56	(268)	(212)
Other income (expense)	1,318	—	1,318
Loss before tax	(7,801)	(1,205)	(9,006)
Income tax expense (recovery)	—	—	—
Net and comprehensive loss from continuing operations	<u>\$ (7,801)</u>	<u>\$ (1,205)</u>	<u>\$ (9,006)</u>

Operating Segments

Corsa's two distinct operating segments are NAPP and Corporate. Prior to the CAPP Division Divestiture on March 13, 2018, the Company also had a CAPP Division operating segment, which is now classified as a discontinued operation. The financial results of the continuing operating segments for the three months ended September 30, 2018 and 2017 are as follows:

NAPP Division

Revenue - NAPP Division

(in thousands)	For the three months ended September 30,		
	2018	2017	Variance
Metallurgical coal revenue (at preparation plant)	\$ 48,787	\$ 54,727	\$ (5,940)
Thermal coal revenue (at preparation plant)	170	1,867	(1,697)
Transportation revenue	10,934	5,056	5,878
Tolling revenue	1,670	1,294	376
	<u>\$ 61,561</u>	<u>\$ 62,944</u>	<u>\$ (1,383)</u>

- Metallurgical coal revenue, net of transportation charges, decreased \$5,940 as a result of decreased sales volumes which reduced revenue by \$3,589 and lower sales price per ton sold which decreased revenue by \$2,351. Metallurgical coal sold was 456 tons and 488 tons for the three months ended September 30, 2018 and 2017, respectively, a decrease of 32 tons. The decrease was primarily due to the timing of shipments. Realized price per ton sold decreased \$5.16 primarily due to a reduction in market prices for metallurgical coal.
- Thermal coal revenue decreased \$1,697 as a result of the expiration of thermal coal sales contracts for the NAPP Division.
- Revenue associated with the transportation of coal to the loading terminal or customer increased \$5,878 as a result of increased freight rates in the three months ended September 30, 2018 as compared to the 2017 period and increased demurrage charges incurred during the 2018 period due to rail and port congestion. Demurrage charges totaled \$569 in the three months ended September 30, 2018 compared to \$261 in the three months ended September 30, 2017.
- Tolling revenue increased \$376 as a result of the Company processing additional third party coal through its preparation plant during the three months ended September 30, 2018.

Cost of sales - NAPP Division

Cost of sales consists of the following:

(in thousands)	For the three months ended September 30,		
	2018	2017	Variance
Mining and processing costs	\$ 18,768	\$ 16,138	\$ 2,630
Purchased coal costs	17,089	23,516	(6,427)
Royalty expense	1,746	1,365	381
Amortization expense	6,671	2,999	3,672
Transportation costs from preparation plant to customer	10,934	5,056	5,878
Idle mine expense	368	225	143
Tolling costs	558	453	105
Write-off of advance royalties and other assets	33	133	(100)
Other costs	756	(1,204)	1,960
	<u>\$ 56,923</u>	<u>\$ 48,681</u>	<u>\$ 8,242</u>

- Mining and processing costs increased primarily due to less favorable geological conditions at the Casselman mine and the Acosta mine ramp up that occurred during the first half of 2018 as the higher cost tons included in inventory at the end of June 2018 were expensed during the third quarter 2018 as the coal was sold.
- Purchased coal costs decreased primarily due to lower volumes of purchased metallurgical coal sold during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. Additionally, as a result of the expiration of a thermal coal sales contract in December 2017, the Company's thermal coal purchased decreased significantly during the 2018 period.
- Amortization expense increased primarily as a result of increased carrying values of assets which resulted from the impairment reversal that was recorded in December 2017.
- Transportation costs increased due to increased freight rates on coal transported to the port during the 2018 period due to rail and port congestion.
- Other costs increased as a result of various items, none of which were individually material.

Selling, general and administrative expense - NAPP Division

Selling, general and administrative expense consists of the following:

(in thousands)	For the three months ended September 30,		
	2018	2017	Variance
Salaries and other compensations	\$ 1,263	\$ 1,036	\$ 227
Selling expense	566	1,429	(863)
Professional fees	169	140	29
Office expenses and insurance	614	431	183
Other	131	157	(26)
	<u>\$ 2,743</u>	<u>\$ 3,193</u>	<u>\$ (450)</u>

- Selling, general and administrative expense related to the NAPP Division decreased primarily due to reduced selling expense for export sales commissions paid to third party agents and letter of credit fees as a result of fewer export vessels loaded during the three months ended September 30, 2018. This decrease was partially offset by increased staffing requirements and increased information technology expenses.

Other income (expense) - NAPP Division

Other income was \$1,033 in the three months ended September 30, 2018 compared to expense of \$285 in the three months ended September 30, 2017, an increase of \$1,318. This increase was primarily due to gains on sale of surplus equipment, increased royalty income and various other items, none of which were individually material.

Corporate Division

Selling, general and administrative expense - Corporate Division

Selling, general and administrative expense consists of the following:

(in thousands)	For the three months ended September 30,		
	2018	2017	Variance
Salaries and other compensations	\$ 1,309	\$ 811	\$ 498
Professional fees	686	275	411
Office expenses and insurance	184	167	17
Other	38	27	11
	<u>\$ 2,217</u>	<u>\$ 1,280</u>	<u>\$ 937</u>

- Selling, general and administrative expenses increased primarily due to increased staffing levels and increased business development, legal and accounting professional services.

Net finance expense (income) - Corporate Division

Net finance expense (income) consists of the following:

	For the three months ended September 30,		
	2018	2017	Variance
Warrant financial liability (gain) loss	\$ 42	\$ (150)	\$ 192
Interest expense	1,458	1,458	—
Accretion of discount on loan payable	346	335	11
Foreign exchange (gain) loss	11	(20)	31
Interest income	(9)	(43)	34
	<u>\$ 1,848</u>	<u>\$ 1,580</u>	<u>\$ 268</u>

- The Warrant financial liability resulted in expense of \$42 in the three months ended September 30, 2018 compared with income of \$150 in the three months ended September 30, 2017 due to changes in the underlying assumptions used to value the liability.

REVIEW OF YEAR-TO-DATE FINANCIAL RESULTS

(in thousands)	For the nine months ended September 30, 2018		
	NAPP	Corporate	Consolidated
Revenue	\$ 199,340	\$ —	\$ 199,340
Cost of sales	(182,749)	—	(182,749)
Gross margin	16,591	—	16,591
Selling, general and administrative expense	(9,980)	(6,537)	(16,517)
Income (loss) from operations	6,611	(6,537)	74
Net finance expense	(2,120)	(3,335)	(5,455)
Other income	979	—	979
Income (loss) before tax	5,470	(9,872)	(4,402)
Income tax expense (recovery)	—	—	—
Net and comprehensive income (loss) from continuing operations	\$ 5,470	\$ (9,872)	\$ (4,402)

(in thousands)	For the nine months ended September 30, 2017		
	NAPP	Corporate	Consolidated
Revenue	\$ 169,661	\$ —	\$ 169,661
Cost of sales	(128,100)	—	(128,100)
Gross margin	41,561	—	41,561
Selling, general and administrative expense	(7,929)	(3,858)	(11,787)
Income (loss) from operations	33,632	(3,858)	29,774
Net finance expense	(1,090)	(1,878)	(2,968)
Other expense	(1,736)	—	(1,736)
Income (loss) before tax	30,806	(5,736)	25,070
Income tax expense (recovery)	—	—	—
Net and comprehensive income (loss) from continuing operations	\$ 30,806	\$ (5,736)	\$ 25,070

(in thousands)	Dollar variance for the nine months ended September 30, 2018 versus 2017		
	NAPP	Corporate	Consolidated
Revenue	\$ 29,679	\$ —	\$ 29,679
Cost of sales	(54,649)	—	(54,649)
Gross margin	(24,970)	—	(24,970)
Selling, general and administrative expense	(2,051)	(2,679)	(4,730)
Loss from operations	(27,021)	(2,679)	(29,700)
Net finance expense	(1,030)	(1,457)	(2,487)
Other income (expense)	2,715	—	2,715
Loss before tax	(25,336)	(4,136)	(29,472)
Income tax expense (recovery)	—	—	—
Net and comprehensive loss from continuing operations	\$ (25,336)	\$ (4,136)	\$ (29,472)

Operating Segments

Corsa's two distinct operating segments are NAPP and Corporate. Prior to the CAPP Division Divestiture on March 13, 2018, the Company also had a CAPP Division operating segment, which is now classified as a discontinued operation. The financial results of the continuing operating segments for the nine months ended September 30, 2018 and 2017 are as follows:

NAPP Division

Revenue - NAPP Division

(in thousands)	For the nine months ended September 30,		
	2018	2017	Variance
Metallurgical coal revenue (at preparation plant)	\$ 160,170	\$ 145,836	\$ 14,334
Thermal coal revenue (at preparation plant)	687	7,409	(6,722)
Transportation revenue	33,719	14,454	19,265
Tolling revenue	4,764	1,962	2,802
	<u>\$ 199,340</u>	<u>\$ 169,661</u>	<u>\$ 29,679</u>

- Metallurgical coal revenue, net of transportation charges, increased \$14,334 as a result of increased sales volumes which increased revenue by \$32,000 partially offset by decreased sales price per ton sold which decreased revenue by \$17,666. Metallurgical coal sold was 1,406 tons and 1,153 tons for the nine months ended September 30, 2018 and 2017, respectively, an increase of 253 tons. This increase was primarily due to increased market demand for metallurgical coal and the development of the Company's Sales and Trading platform. Realized price per ton sold decreased \$12.56 primarily due to a reduction in market prices for metallurgical coal.
- Thermal coal revenue decreased \$6,722 as a result of the expiration of thermal coal sales contracts for the NAPP Division.
- Revenue associated with the transportation of coal to the loading terminal or customer increased \$19,265 as a result of increased export sales volumes, increased freight rates and increased demurrage charges as a result of rail and port congestion. Demurrage charges totaled \$3,431 in the nine months ended September 30, 2018 compared to \$546 in the nine months ended September 30, 2017.
- Tolling revenue increased \$2,802 as a result of the Company processing additional third party coal through its preparation plant during the nine months ended September 30, 2018. The toll washing contract commenced in the second quarter of 2017.

Cost of sales - NAPP Division

Cost of sales consists of the following:

(in thousands)	For the nine months ended September 30,		
	2018	2017	Variance
Mining and processing costs	\$ 56,215	\$ 40,399	\$ 15,816
Purchased coal costs	65,650	57,675	7,975
Royalty expense	4,870	4,675	195
Amortization expense	19,093	9,142	9,951
Transportation costs from preparation plant to customer	33,719	14,454	19,265
Idle mine expense	608	773	(165)
Tolling costs	1,689	808	881
Write-off of advance royalties and other assets	38	303	(265)
Other costs	867	(129)	996
	<u>\$ 182,749</u>	<u>\$ 128,100</u>	<u>\$ 54,649</u>

- Mining and processing costs increased primarily due to less favorable geological conditions at the Casselman mine and the Acosta mine. The Casselman Mine completed the transition under a stream to access the northeastern part of the reserve base which resulted in increased costs for roof support and slowed advance rates in the 2018 period. The Acosta mine continued the ramp up during the first half of 2018 and reached its full forecasted production run-rate in June 2018, as goals related to staffing levels, mining equipment deliveries and regulatory approvals have been met.
- Purchased coal costs increased as additional volumes were purchased and sold as a result of the Company's Sales and Trading platform where coal is purchased to blend with the Company's production to ship a blended metallurgical coal product to export customers. The increase related to additional volumes purchased was partially offset by a lower cost per ton sold as a result of changes in the market for metallurgical coal. Additionally, as a result of the expiration of a thermal coal sales contract in December 2017, the Company's thermal coal purchased decreased significantly in the nine months ended September 30, 2018. For further details surrounding the Sales and Trading platform, see "Non-GAAP Financial Measures" on page 26 of this MD&A.
- Amortization expense increased primarily as a result of increased carrying values of assets which resulted from the impairment reversal that was recorded in December 2017.
- Transportation costs increased due to increased volumes of coal sold directly to customers in which Corsa is obligated to provide transportation to the vessel loading port, increased freight rates and increased demurrage charges as a result of rail and port congestion. Demurrage charges totaled \$3,431 in the nine months ended September 30, 2018 compared to \$546 in the nine months ended September 30, 2017.
- Tolling costs increased as a result of the Company processing additional third party coal through its preparation plant during the nine months ended September 30, 2018. The toll washing contract commenced in the second quarter of 2017.
- Other costs increased due to various items, none of which were individually material.

Selling, general and administrative expense - NAPP Division

Selling, general and administrative expense consists of the following:

(in thousands)	For the nine months ended September 30,		
	2018	2017	Variance
Salaries and other compensations	\$ 4,149	\$ 3,474	\$ 675
Selling expense	3,213	2,774	439
Professional fees	635	443	192
Office expenses and insurance	1,519	747	772
Other	464	491	(27)
	<u>\$ 9,980</u>	<u>\$ 7,929</u>	<u>\$ 2,051</u>

- Selling, general and administrative expense related to the NAPP Division increased primarily due to increased selling expense as a result of increased export sales commissions paid to third party agents, letters of credit fees, and additional staffing requirements.

Net finance expense (income) - NAPP Division

(in thousands)	For the nine months ended September 30,		
	2018	2017	Variance
Bond premium expense	\$ 1,035	\$ 988	\$ 47
Interest expense	524	573	(49)
Interest income	(25)	(9)	(16)
Accretion on reclamation provision	1,147	1,042	105
Change in market value of restricted cash expense (income)	(662)	(1,598)	936
Other	101	94	7
	<u>\$ 2,120</u>	<u>\$ 1,090</u>	<u>\$ 1,030</u>

- Net finance expense increased primarily due to the change in market value of the water treatment trust fund accounts. The value of these trust funds are marked to market on a monthly basis and market gains were recognized during the 2017 period and reduced market gains were recognized for the 2018 period.

Other income (expense) - NAPP Division

Other income was \$979 in the nine months ended September 30, 2018 compared to expense of \$1,736 in the nine months ended September 30, 2017, an increase of \$2,715. This increase was primarily due to increased royalty income, gains on sale of surplus equipment, income associated with limestone sales and various other items, none of which were individually material.

Corporate Division

Selling, general and administrative expense - Corporate Division

Selling, general and administrative expense consists of the following:

(in thousands)	For the nine months ended September 30,		
	2018	2017	Variance
Salaries and other compensations	\$ 3,457	\$ 2,446	\$ 1,011
Professional fees	2,398	891	1,507
Office expenses and insurance	602	445	157
Other	80	76	4
	<u>\$ 6,537</u>	<u>\$ 3,858</u>	<u>\$ 2,679</u>

- Selling, general and administrative expenses increased primarily due to increased business development, legal and accounting professional services as well as increased staffing levels.

Net finance expense (income) - Corporate Division

Net finance expense (income) consists of the following:

	For the nine months ended September 30,		
	2018	2017	Variance
Warrant financial liability (gain) loss	\$ (701)	\$ (1,914)	\$ 1,213
Interest expense	3,068	3,068	—
Accretion of discount on loan payable	1,019	990	29
Foreign exchange (gain) loss	13	(155)	168
Interest income	(64)	(111)	47
	<u>\$ 3,335</u>	<u>\$ 1,878</u>	<u>\$ 1,457</u>

- The Warrant financial liability resulted in income of \$701 in the nine months ended September 30, 2018 compared with \$1,914 in the nine months ended September 30, 2017 due to changes in the underlying assumptions used to value the liability.

FINANCIAL CONDITION

(in thousands)	September 30, 2018	December 31, 2017	Variance
Current assets	\$ 57,117	\$ 73,108	\$ (15,991)
Non-current assets	229,822	234,418	(4,596)
Total assets	<u>\$ 286,939</u>	<u>\$ 307,526</u>	<u>\$ (20,587)</u>
Current liabilities	\$ 78,794	\$ 55,432	\$ 23,362
Non-current liabilities	67,774	107,812	(40,038)
Total liabilities	<u>\$ 146,568</u>	<u>\$ 163,244</u>	<u>\$ (16,676)</u>
Total equity	<u>\$ 140,371</u>	<u>\$ 144,282</u>	<u>\$ (3,911)</u>

- Current assets decreased primarily due to cash and cash flows from operations being invested in capital equipment, growth projects and debt service costs. Current assets also decreased due to the CAPP Division Divestiture.
- Non-current assets decreased as a result of the CAPP Division Divestiture and increased accumulated amortization as a result of the asset impairment reversal recorded in December 2017. These decreases were partially offset by capital expenditures.
- Current liabilities increased primarily due to the reclassification of the five-year term loan payable to Sprott Resource Lending Corp. (“SRLC”) (the “Term Loan”) to current as the maturity of this debt is due within the next twelve months and various other increases, none of which were individually material. These increases were partially offset as a result of the CAPP Division Divestiture and reduced accounts payable and accrued liabilities as a result of the timing of payables.
- Non-current liabilities decreased as a result of the reclassification of the loan payable to current, reclamation and water treatment payments made, the impact of the CAPP Division Divestiture and various other decreases, none of which were individually material.
- Total equity decreased primarily due to the net and comprehensive loss that occurred during the period which was partially offset by the impact of stock based compensation and additional share issuance.

LIQUIDITY AND CAPITAL RESOURCES

Our historical sources of cash have been coal sales to customers, processing fees earned and proceeds received from the issuance of securities. Our primary uses of cash have been for funding existing operations, capital expenditures, reclamation and water treatment obligations, water treatment trust funding, debt service costs and professional fees. We expect to fund maintenance capital and liquidity requirements with cash on hand and projected cash flow from operations. Our future spending on growth capital expenditures and development of coal properties will be dependent upon market conditions, achieving acceptable rates of return on investment and financing availability. We are at an advanced stage on discussions and expect to refinance or extend the maturity of our term loan beyond the August 2019 maturity date and utilize expected operating cash flows to service the debt. There can be no assurance that we are able to refinance or extend the maturity at terms that are acceptable to the Company.

If our cash flows from operations are less than we require, we may need to incur additional debt or issue additional equity. From time to time we may need to access the long-term and short-term capital markets to obtain financing. Although we believe we can currently finance our operations on acceptable terms and conditions, our access to, and the availability of, financing on acceptable terms and conditions in the future will be affected by many factors, including the liquidity of the overall capital markets, the current state of the global economy and restrictions in our existing debt agreements and any other future debt agreements. There can be no assurance that we will have or continue to have access to the capital markets on terms acceptable to us.

(in thousands)	September 30, 2018	December 31, 2017	Variance
Cash	\$ 9,136	\$ 20,721	\$ (11,585)
Working capital	\$ (21,677)	\$ 17,676	\$ (39,353)
Total Debt			
Notes payable	\$ 682	\$ 1,562	\$ (880)
Finance lease obligations	5,188	4,502	686
Loan payable	30,782	29,763	1,019
	<u>\$ 36,652</u>	<u>\$ 35,827</u>	<u>\$ 825</u>

Working capital

Working capital decreased as a result of the reclassification of the Term Loan to current as a result of the maturity which will occur within the next twelve months, planned investments in capital equipment and the development of the Horning mine.

We are at an advanced stage on discussions and expect to refinance or extend the maturity of the Term Loan beyond the August 2019 maturity date and utilize expected operating cash flows to service the debt. As a result, we may defer maintenance and growth capital expenditures in order to service the Term Loan.

We maintain a sufficient cash balance to enable us to purchase the required coal in order to advance our Sales and Trading platform. As a result of the additional export sales under this platform, we are required to purchase coal and incur transportation costs prior to receiving payment from the customer on the coal sale. To mitigate the timing risk, we maintain an adequate level of cash to support the Sales and Trading platform. There are no legal or practical restrictions on the ability of Corsa's subsidiaries to transfer funds to Corsa or for Corsa to transfer funds to its subsidiaries for liquidity management.

Total Debt

Debt increased as a result of additional borrowings related to equipment purchases and amortization of debt issuance costs. These increases were partially offset by payments made on the existing notes payable and finance lease obligations and the divestiture of the CAPP Division where the purchaser assumed these debt obligations.

Contingent Receivable - A Seam Condemnation

In December 2014, PBS Coals, Inc. filed a Petition with the Court of Common Pleas of Somerset County, Pennsylvania, seeking to convene a State Mining Commission (the "SMC") in order to determine the quantity and value of coal required to be left in place as a result Pennsylvania Department of Transportation's construction of State Route 219 over coal estates leased by PBS Coals, Inc. from Penn Pocahontas Coal Co. The SMC was convened in January 2015 and then bifurcated the proceedings into quantity and valuation phases. The SMC heard testimony on the quantity phase during dates between November 2016 and June 2017. On August 24, 2017, the SMC issued a ruling on the support quantity favorable to PBS Coals, Inc. and directed further

hearings regarding the tonnages, valuation and mineability of the support coal. The hearings were completed in September 2018 and a ruling from the SMC is expected within the next three months. Presently, the Company has not recognized this contingent receivable and cannot provide a reasonable estimate for the potential magnitude of the claim.

Cash Flows from Continuing Operations

	For the three months ended			For the nine months ended		
	September 30,			September 30,		
	2018	2017	Change	2018	2017	Change
Cash Flows:						
Provided by operating activities	\$ 6,465	\$ 6,297	\$ 168	\$ 9,680	\$ 24,192	\$ (14,512)
Used in investing activities	(4,222)	(6,727)	2,505	(19,040)	(18,543)	(497)
Used in financing activities	(877)	(871)	(6)	(2,111)	(2,582)	471
Increase (decrease) in cash	1,366	(1,301)	2,667	(11,471)	3,067	(14,538)
Cash at beginning of period	7,770	25,154	(17,384)	20,607	20,786	(179)
Cash at end of period	<u>\$ 9,136</u>	<u>\$ 23,853</u>	<u>\$ (14,717)</u>	<u>\$ 9,136</u>	<u>\$ 23,853</u>	<u>\$ (14,717)</u>

- Cash flow provided by operating activities remained consistent for the three months ended September 30, 2018 compared to the same period in the prior year. Cash flow provided by operating activities decreased \$14.5 million for the nine months ended September 30, 2018 compared to the prior year primarily due to the decrease in net and comprehensive income. This decrease was driven by the increase in mining costs as a result of difficult geological conditions encountered at the Casselman and Acosta mines partially offset by increased revenues as a result of higher sales volumes. The decrease was also impacted by increased spending on reclamation and water treatment activities as a result of a planned increase in reclamation activities and increased rainfall which resulted in additional water treatment costs. These decreases were partially offset by various changes in working capital.
- Cash used in investing activities was lower for the three months ended September 30, 2018 primarily due to reduced capital expenditures in the 2018 period as a result of receiving \$2.85 million from the Pennsylvania Redevelopment Assistance Capital Program during the 2018 period.
- Cash used in investing activities was higher for the nine months ended September 30, 2018 primarily due to increased capital expenditures in the 2018 period related to the Horning mine development and increased maintenance capital where the Company is investing in the mines to improve efficiency and replace equipment.
- Cash used in financing activities remained consistent for the three months ended September 30, 2018 and 2017 and was lower in the year-to-date period as a result of the expiration of certain finance lease obligations and notes payable.

Capital Expenditures

The equipment and development added to property, plant and equipment for the nine months ended September 30, 2018 were as follows:

	<u>NAPP</u>	<u>Corporate</u>	<u>Total</u>
Maintenance capital expenditures			
Deep mines	\$ 7,841	\$ —	\$ 7,841
Surface mines	1,430	—	1,430
Plant	2,937	—	2,937
Administrative	60	—	60
	<u>12,268</u>	<u>—</u>	<u>12,268</u>
Growth capital expenditures			
Deep mines	9,351	—	9,351
Surface mines	866	—	866
	<u>10,217</u>	<u>—</u>	<u>10,217</u>
	<u>\$ 22,485</u>	<u>\$ —</u>	<u>\$ 22,485</u>

Corsa's capital expenditures for the nine months ended September 30, 2018 were primarily focused on maintenance capital to replace mining equipment and growth capital to develop the Horning mine. Corsa's future spending on property, plant and equipment at its operations and development of coal properties will be dependent upon market conditions, achieving acceptable rates of return on investment and financing availability.

In September 2016, the Company was notified that it was awarded \$3,000 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. In June 2018, the Company received notification that the conditions of the grant had been met and recognized a reduction to property, plant and equipment. The Company received 95% of the grant, or \$2,850, in July 2018. The remaining 5% will be received upon completion of the final grant audit.

GUIDANCE⁽¹⁾

Corsa's updated guidance for the year ending December 31, 2018 is as follows:

(all dollar amounts in U.S. dollars and tonnage in short tons)

	Updated Guidance Full Year 2018	Previous Guidance ⁽²⁾ Full Year 2018	Change to Previous Guidance
Metallurgical Coal Sales Tons⁽³⁾			
Company Produced	1.0 million	1.0 million	—
Purchased - Value Added Services	0.4 million	0.4 - 0.5 million	(0.1) million
Purchased - Sales and Trading	0.5 million	0.7 - 0.8 million	(0.2) million
Total Metallurgical Coal Sales Tons	1.9 million	2.1 - 2.3 million	(0.3) million
Share of Metallurgical Coal Sales Tons			
% Domestic Sales at the mid-point	26%	27%	(1)%
% Export Sales at the mid-point	74%	73%	1%
Metallurgical Coal Sales Tons Commitments⁽⁷⁾			
Committed at the mid-point	100%	94%	6%
Committed and Priced at the mid-point	84%	79%	5%
Cash Production Cost per ton sold (FOB Mine)⁽⁴⁾			
NAPP Division Metallurgical Coal ⁽⁵⁾	\$82 - \$84	\$82 - \$84	—
General and Administrative Expenses⁽⁶⁾			
NAPP Division	\$8.5 - \$9.0 million	\$9.0 - \$10.0 million	(\$0.5) - (\$1.0) million
Corporate Division	\$6.5 - \$7.0 million	\$6.5 - \$7.0 million	—
Total Corsa	\$15.0 - \$16.0 million	\$15.5 - \$17.0 million	(\$0.5) - (\$1.0) million
Note: Selling expenses are forecasted to be covered by margins from Sales and Trading tons sold.			
Adjusted EBITDA⁽⁴⁾	\$34.7 - \$36.7 million	N/A	N/A
Maintenance Capital Expenditures per ton sold⁽⁸⁾			
2018 Full Year	\$10	\$9	\$1
2018-2020 Forecasted Average	\$4	\$4	—

(1) Guidance projections ("Guidance") are considered "forward-looking statements" and "forward looking information" and represent management's good faith estimates or expectations of future production and sales results as of the date hereof. Guidance is based upon certain assumptions, including, but not limited to, future cash production costs, future sales and production and the availability of coal from other suppliers that the Company may purchase. Such assumptions may prove to be incorrect and actual results may differ materially from those anticipated. Consequently, Guidance cannot be guaranteed. As such, investors are cautioned not to place undue reliance upon Guidance, forward-looking statements and forward looking information as there can be no assurance that the plans, assumptions or expectations upon which they are placed will occur.

(2) Previous Guidance was presented in the Company's MD&A for the three and six months ended June 30, 2018 dated August 28, 2018.

(3) Corsa's metallurgical coal sales figures are comprised of three types of sales: (i) selling coal that Corsa produces ("Company Produced"); (ii) selling coal that Corsa purchases and provides value added services (storing, washing, blending, loading) to make the coal saleable ("Value Added Services"); and (iii) selling coal that Corsa purchases on a clean or finished basis from suppliers outside the Northern Appalachia region ("Sales and Trading").

(4) This is a non-GAAP financial measure. See "Non-GAAP Financial Measures" starting on page 26 of this MD&A for more information.

(5) Cash Production Cost per ton sold excludes purchased coal.

(6) Exclusive of stock-based compensation and selling related commissions, bank fees and finance charges.

(7) Tons sold excludes purchased coal used in the Sales and Trading platform.

Corsa has revised the Value Added Services and Sales and Trading purchased coal as a result of the vessel schedule for the fourth quarter 2018 due to timing of shipments that are expected to occur. The domestic and export percentage share and the percent of sales committed and priced were adjusted based on information as of the date of this MD&A. The general and administrative expense range was reduced to reflect lower business development expenses and maintenance capital per ton sold was adjusted upwards to reflect the reduction in the tons associated with this calculation.

DEBT COVENANTS

Corsa has certain covenants it is required to meet under its credit facilities and finance lease obligations. Certain measures included in the covenant calculations are not readily identifiable from Corsa's unaudited condensed interim consolidated statements of operations and comprehensive income (loss) or condensed interim consolidated balance sheets. These measures are considered to be non-GAAP financial measures and, as such, a further description of the covenant calculations is included below. Corsa was in compliance with all covenants at September 30, 2018.

Corporate loan payable

The covenants required to be met under the Term Loan are described below. Such measurements are made with reference to the consolidated results of Corsa.

- Maintain a minimum cash balance of \$1 million (measured monthly)
- Maintain a positive working capital balance, exclusive of the Term Loan (measured monthly)

NAPP finance lease

In August 2016, Corsa entered into a Comprehensive Master Equipment Lease Financing Modification, Consolidation and Security Agreement (the "Modified Lease") regarding various mobile equipment that was previously leased under a finance lease at Wilson Creek Energy, LLC, effective as of June 1, 2016. The covenants required to be met are described below for the noted agreement. Such measurements are made on the consolidated results of Wilson Creek Energy, LLC, a subsidiary of Corsa.

- Debt Service Coverage Ratio⁽¹⁾ must exceed 1.25 to 1.00 (measured quarterly).
- Maintain a minimum cash balance of \$2 million at all times, on a consolidated basis (measured monthly).

(1) Debt Service Coverage Ratio is measured as:

$$\frac{\text{Adjusted Net Income}^{(2)}}{\text{Total Payments Made on Financed Debt}^{(3)} + \text{Off-balance Sheet Obligations} + \text{Interest Expense}}$$

- (2) Adjusted net income is defined as Net Income plus the sum of (a) non-cash expenditures, (b) rent expense and (c) interest expense.
- (3) Financed debt includes notes payable, finance leases and other institutional debt.

CONTRACTUAL OBLIGATIONS

	Carrying Value at September 30, 2018	Payments due by period				
		Total	Less Than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Accounts payable and accruals	\$ 33,974	\$ 33,974	\$ 33,974	\$ —	\$ —	\$ —
Notes payable	682	682	669	13	—	—
Finance lease obligations	5,188	6,036	3,192	1,920	924	—
Loan payable	30,782	32,017	32,017	—	—	—
Other liabilities	13,801	14,188	5,155	5,990	1,990	1,053
Purchase order firm commitments	—	6,365	6,365	—	—	—
Water treatment trust funding	—	4,390	1,871	2,519	—	—
Operating leases and other obligations	—	1,801	196	406	374	825
Total	\$ 84,427	\$ 99,453	\$ 83,439	\$ 10,848	\$ 3,288	\$ 1,878

The purchase order firm commitments primarily relate to the procurement of replacement mining equipment to maintain Corsa's capacity and for its planned growth as well as purchased coal commitments. These expenditures will be funded from cash on hand or cash flows from operations.

NON-GAAP FINANCIAL MEASURES

The Company has included certain non-GAAP financial measures throughout this MD&A. These performance measures are employed by the Company to measure its performance internally and to assist in business decision-making as well as providing key performance information to senior management. The Company believes that, in addition to the conventional measures prepared in accordance with IFRS, certain investors and other stakeholders also use these non-GAAP financial measures to evaluate the Company's performance; however, these non-GAAP financial measures do not have any standardized meaning and therefore may not be comparable to similar measures presented by other issuers. Accordingly, these non-GAAP financial measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Commencing in the Company's first quarter for its 2017 fiscal year, the Company established a Sales and Trading platform which was not previously part of the Company's business model. In the Sales and Trading platform, the Company purchases and then sells coal on a clean or finished goods basis from suppliers outside of the Company's main operating area. The Company blends this coal, which primarily has a different quality basis than the coal the Company produces, to provide a blended product to customers who do not have the ability to purchase and blend different qualities of coal at their facilities. As a result of the addition of this platform to the Company's business model, new non-GAAP financial measures (i.e., cash production cost per ton sold and cash cost per sales and trading purchased coal per ton sold) were introduced to present the cost of the coal the Company produces and sells separately from the total costs of the coal sold, which total costs includes the coal we purchase under the Sales and Trading platform, i.e., Sales and Trading purchased coal. These are presented separately due to the purchases being derived from market prices that are considered to be higher than the Company's internal production costs. As the total cost per ton sold increases as a result of these coal purchases under the Sales and Trading platform, the Company believes that providing a breakdown of the cost of coal that the Company produces provides a meaningful metric to investors as this non-GAAP financial measure is utilized in evaluating the operational effectiveness of the Company's mines.

Management uses the following non-GAAP financial measures:

- **EBITDA** - earnings before deductions for interest, taxes, depreciation and amortization;
- **Adjusted EBITDA** - EBITDA adjusted for change in estimate of reclamation provision for non-operating properties, impairment and write-off of mineral properties and advance royalties, gain (loss) on sale of assets and other costs, stock-based compensation, non-cash finance expenses and other non-cash adjustments. Adjusted EBITDA is used as a supplemental financial measure by management and by external users of our financial statements to assess our performance as compared to the performance of other companies in the coal industry, without regard to financing methods, historical cost basis or capital structure; the ability of our assets to generate sufficient cash flow; and our ability to incur and service debt and fund capital expenditures. Management also uses adjusted EBITDA for the purposes of making decisions to allocate resources among segments or assessing segment performance.
- **Realized price per ton sold** - revenue from coal sales less transportation costs from the mine site to the loading terminal divided by tons of coal sold. Management evaluates our operations based on the volume of coal we can safely produce or purchase and sell in compliance with regulatory standards, and the prices we receive for our coal. Our sales volume and sales prices are largely dependent upon the terms of our contracts, for which prices generally are set based on an index. We evaluate the price we receive for our coal on an average realized price on an FOB mine site per short ton basis;
- **Cash production cost per ton sold** - cash production costs of sales excluding Sales and Trading purchased coal costs, all included within cost of sales, divided by tons of produced coal sold. Cash production cost is based on cost of sales and includes items such as manpower, royalties, fuel, and other similar production related items, pursuant to IFRS, but relate directly to the costs incurred to produce coal and sell it on an FOB mine site basis. Cash production cost per ton sold is used as a supplemental financial measure by management and by external users to assess our operating performance as compared to the operating performance of other companies in the coal industry. Sales and Trading purchased coal is excluded as the purchased coal costs are based on market prices of coal purchased not the cost to produce the coal;
- **Cash cost per sales and trading purchased coal per ton sold** - Sales and Trading purchased coal costs divided by tons of Sales and Trading purchased coal sold. Management uses this measure to assess coal purchases against the market price at which this coal will be sold and the performance of the Sales and Trading platform;
- **Cash cost per ton sold** - cash production costs of sales, included within cost of sales, divided by total tons sold. Management uses cash cost per ton sold to assess our overall financial performance on a per ton basis to include the Company's production and purchased coal cost in total;
- **Cash margin per ton sold** - calculated difference between realized price per ton sold and cash cost per ton sold. Cash margin per ton sold is used by management and external users to assess the operating performance as compared to the operating performance of other coal companies in the coal industry.

Since non-GAAP financial measures do not have a standardized meaning and may not be comparable to similar measures presented by other companies, the non-GAAP financial measures are clearly defined, quantified and reconciled with their nearest IFRS measure as follows:

EBITDA and Adjusted EBITDA for the three months ended September 30, 2018 and 2017

(in thousands)	For the three months ended September 30, 2018			For the three months ended September 30, 2017		
	NAPP	Corp.	Total	NAPP	Corp.	Total
Net and comprehensive income (loss) from continuing operations	\$ 2,595	\$ (4,065)	\$ (1,470)	\$ 10,396	\$ (2,860)	\$ 7,536
Add (Deduct):						
Amortization expense	6,671	—	6,671	2,999	—	2,999
Interest expense	231	1,458	1,689	159	1,458	1,617
Income tax expense	—	—	—	—	—	—
EBITDA	9,497	(2,607)	6,890	13,554	(1,402)	12,152
Add (Deduct):						
Write-off of advance royalties and other assets	33	—	33	133	—	133
Stock-based compensation	—	444	444	—	296	296
Net finance (income) expense, excluding interest expense	102	390	492	230	122	352
Gain on disposal of assets	(556)	—	(556)	(47)	—	(47)
Other costs	789	413	1,202	(642)	—	(642)
Adjusted EBITDA	<u>\$ 9,865</u>	<u>\$ (1,360)</u>	<u>\$ 8,505</u>	<u>\$ 13,228</u>	<u>\$ (984)</u>	<u>\$ 12,244</u>

EBITDA and Adjusted EBITDA for the nine months ended September 30, 2018 and 2017

(in thousands)	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	NAPP	Corp.	Total	NAPP	Corp.	Total
Net and comprehensive income (loss) from continuing operations	\$ 5,470	\$ (9,872)	\$ (4,402)	\$ 30,806	\$ (5,736)	\$ 25,070
Add (Deduct):						
Amortization expense	19,093	—	19,093	9,142	—	9,142
Interest expense	524	3,068	3,592	573	3,068	3,641
Income tax expense	—	—	—	—	—	—
EBITDA	25,087	(6,804)	18,283	40,521	(2,668)	37,853
Add (Deduct):						
Write-off of advance royalties and other assets	38	—	38	303	—	303
Stock-based compensation	—	1,175	1,175	—	1,029	1,029
Net finance (income) expense, excluding interest expense	1,596	267	1,863	517	(1,190)	(673)
Gain on disposal of assets	(628)	—	(628)	(146)	—	(146)
Other costs	1,651	1,289	2,940	1,296	—	1,296
Adjusted EBITDA	<u>\$ 27,744</u>	<u>\$ (4,073)</u>	<u>\$ 23,671</u>	<u>\$ 42,491</u>	<u>\$ (2,829)</u>	<u>\$ 39,662</u>

Realized price per ton sold for the three months ended September 30, 2018 and 2017

(in thousands except per ton amounts)	For the three months ended September 30, 2018			For the three months ended September 30, 2017		
	NAPP	NAPP	Total	NAPP	NAPP	Total
	Met	Thermal		Met	Thermal	
Revenue	\$ 61,391	\$ 170	\$ 61,561	\$ 61,077	\$ 1,867	\$ 62,944
Add (Deduct):						
Tolling revenue	(1,670)	—	(1,670)	(1,294)	—	(1,294)
Transportation costs from preparation plant to customer	(10,934)	—	(10,934)	(5,056)	—	(5,056)
Net coal sales (at preparation plant)	\$ 48,787	\$ 170	\$ 48,957	\$ 54,727	\$ 1,867	\$ 56,594
Coal sold - tons	456	4	460	488	40	528
Realized price per ton sold (at preparation plant)	\$ 106.99	\$ 42.50	\$ 106.43	\$ 112.15	\$ 46.68	\$ 107.19

Realized price per ton sold for the nine months ended September 30, 2018 and 2017

(in thousands except per ton amounts)	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	NAPP	NAPP	Total	NAPP	NAPP	Total
	Met	Thermal		Met	Thermal	
Revenue	\$198,653	\$ 687	\$199,340	\$162,252	\$ 7,409	\$169,661
Add (Deduct):						
Tolling revenue	(4,764)	—	(4,764)	(1,962)	—	(1,962)
Transportation costs from preparation plant to customer	(33,719)	—	(33,719)	(14,454)	—	(14,454)
Net coal sales (at preparation plant)	\$160,170	\$ 687	\$160,857	\$145,836	\$ 7,409	\$153,245
Coal sold - tons	1,406	14	1,420	1,153	166	1,319
Realized price per ton sold (at preparation plant)	\$ 113.92	\$ 49.07	\$ 113.28	\$ 126.48	\$ 44.63	\$ 116.18

Cash cost per ton sold, cash production cost per ton sold, and cash cost per sales and trading purchased coal per ton sold for the three months ended September 30, 2018 and 2017

(in thousands except per ton amounts)	For the three months ended September 30, 2018			For the three months ended September 30, 2017		
	NAPP	NAPP	Total	NAPP	NAPP	Total
	Met	Thermal		Met	Thermal	
Cost of Sales:						
Mining and processing costs	\$ 18,751	\$ 17	\$ 18,768	\$ 16,138	\$ —	\$ 16,138
Purchased coal costs	17,085	4	17,089	21,678	1,838	23,516
Royalty expense	1,746	—	1,746	1,365	—	1,365
Total cash costs of tons sold	\$ 37,582	\$ 21	\$ 37,603	\$ 39,181	\$ 1,838	\$ 41,019
Total tons sold	456	4	460	488	40	528
Cash cost per ton sold (at preparation plant)	\$ 82.42	\$ 5.25	\$ 81.75	\$ 80.29	\$ 45.95	\$ 77.69
Total cash costs of tons sold	\$ 37,582	\$ 21	\$ 37,603	\$ 39,181	\$ 1,838	\$ 41,019
Less: Sales and Trading purchased coal	(17,085)	—	(17,085)	(21,678)	—	(21,678)
Cash cost of produced coal sold	\$ 20,497	\$ 21	\$ 20,518	\$ 17,503	\$ 1,838	\$ 19,341
Tons sold - produced	263	4	267	249	40	\$ 289
Cash production cost per ton sold (at preparation plant)	\$ 77.94	\$ 5.25	\$ 76.85	\$ 70.29	\$ 45.95	\$ 66.92
Sales and Trading purchased coal	\$ 17,085	\$ —	\$ 17,085	\$ 21,678	\$ —	\$ 21,678
Tons sold - Sales and Trading	193	—	193	239	—	239
Cash cost per Sales and Trading purchased coal per ton sold (at preparation plant)	\$ 88.52	\$ —	\$ 88.52	\$ 90.70	\$ —	\$ 90.70

Cash cost per ton sold, cash production cost per ton sold, and cash cost per sales and trading purchased coal per ton sold for the nine months ended September 30, 2018 and 2017

(in thousands except per ton amounts)	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	NAPP	NAPP	Total	NAPP	NAPP	Total
	Met	Thermal		Met	Thermal	
Cost of Sales:						
Mining and processing costs	\$ 56,046	\$ 169	\$ 56,215	\$ 40,253	\$ 146	\$ 40,399
Purchased coal costs	65,626	24	65,650	50,873	6,802	57,675
Royalty expense	4,870	—	4,870	4,635	40	4,675
Total cash costs of tons sold	\$126,542	\$ 193	\$126,735	\$ 95,761	\$ 6,988	\$102,749
Total tons sold	1,406	14	1,420	1,153	166	1,319
Cash cost per ton sold (at preparation plant)	\$ 90.00	\$ 13.79	\$ 89.25	\$ 83.05	\$ 42.10	\$ 77.90
Total cash costs of tons sold	\$126,542	\$ 193	\$126,735	\$ 95,761	\$ 6,988	\$102,749
Less: Sales and Trading purchased coal	(65,626)	—	(65,626)	(50,873)	—	(50,873)
Cash cost of produced coal sold	\$ 60,916	\$ 193	\$ 61,109	\$ 44,888	\$ 6,988	\$ 51,876
Tons sold - produced	700	14	714	640	166	806
Cash production cost per ton sold (at preparation plant)	\$ 87.02	\$ 13.79	\$ 85.59	\$ 70.14	\$ 42.10	\$ 64.36
Sales and Trading purchased coal	\$ 65,626	\$ —	\$ 65,626	\$ 50,873	\$ —	\$ 50,873
Tons sold - Sales and Trading	706	—	706	513	—	513
Cash cost per Sales and Trading purchased coal per ton sold (at preparation plant)	\$ 92.95	\$ —	\$ 92.95	\$ 99.17	\$ —	\$ 99.17

Cash margin per ton sold for the three months ended September 30, 2018 and 2017

	For the three months ended September 30, 2018			For the three months ended September 30, 2017		
	NAPP	NAPP	Total	NAPP	NAPP	Total
	Met	Thermal		Met	Thermal	NAPP
Realized price per ton sold (at preparation plant)	\$ 106.99	\$ 42.50	\$ 106.43	\$ 112.15	\$ 46.68	\$ 107.19
Cash cost per ton sold (at preparation plant)	\$ 82.42	\$ 5.25	\$ 81.75	\$ 80.29	\$ 45.95	\$ 77.69
Cash margin per ton sold	\$ 24.57	\$ 37.25	\$ 24.68	\$ 31.86	\$ 0.73	\$ 29.50

Cash margin per ton sold for the nine months ended September 30, 2018 and 2017

	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	NAPP	NAPP	Total	NAPP	NAPP	Total
	Met	Thermal		Met	Thermal	NAPP
Realized price per ton sold (at preparation plant)	\$ 113.92	\$ 49.07	\$ 113.28	\$ 126.48	\$ 44.63	\$ 116.18
Cash cost per ton sold (at preparation plant)	\$ 90.00	\$ 13.79	\$ 89.25	\$ 83.05	\$ 42.10	\$ 77.90
Cash margin per ton sold	\$ 23.92	\$ 35.28	\$ 24.03	\$ 43.43	\$ 2.53	\$ 38.28

Below is a reconciliation of Adjusted EBITDA guidance, a non-GAAP financial measure, to the nearest Canadian GAAP financial measure:

<i>(in millions)</i>	Full Year 2018 Guidance	
	Low Range	High Range
Net and comprehensive loss from continuing operations	\$ (2,452)	\$ (1,402)
Add (Deduct):		
Amortization expense	25,593	26,093
Interest expense	4,642	4,692
Income tax expense	—	—
EBITDA	27,783	29,383
Add (Deduct):		
Write-off of advance royalties and other assets	38	38
Stock-based compensation	1,675	1,775
Net finance expense, excluding interest expense	2,863	3,163
Gain on disposal of assets	(628)	(628)
Other costs	2,940	2,940
Adjusted EBITDA	\$ 34,671	\$ 36,671

OUTSTANDING SHARE DATA

The following table sets forth the particulars of Corsa's fully diluted share capital as of the date of this MD&A.

	Number of Common Shares
Common Shares issued and outstanding	94,759,245
Common Shares issuable upon exercise of stock options	6,560,246
Common Shares issuable upon redemption of Redeemable Units	8,515,831
Common Shares issuable upon exercise of Bonus Warrants	1,805,000
Total	111,640,322

As of the date of this MD&A, QKGI Legacy Holdings LP, holds 170,316,639 common membership units ("Redeemable Units") of Wilson Creek Energy, LLC, a subsidiary of Corsa. Redeemable Units are redeemable at the option of the holder for cash equal to the product of: (i) the number of Redeemable Units to be redeemed divided by 20, and (ii) the 10-day volume weighted average trading price, prior to the date of notice of redemption, of the 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 (i.e., 20 Redeemable Units for one Common Share). The Company is restricted from paying cash to the holder for the redemption of Redeemable Units if a balance remains outstanding under the Term Loan.

In consideration for the Term Loan, Corsa issued 1,805,000 Common Share purchase warrants ("Bonus Warrants") to SRLC. Each Bonus Warrant has a term of five years (expiring on August 19, 2019) and is exercisable for one Common Share at an exercise price of C\$3.90.

SUMMARY OF QUARTERLY RESULTS

The following table sets out certain information derived from Corsa's audited consolidated financial statements or unaudited condensed interim consolidated financial statements for each of the eight most recently completed quarters. Numbers presented in the table were prepared in accordance with IFRS and interpretations approved by the IASB.

(in thousands except per share amounts)	Quarter Ended			
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Revenue from continuing operations	\$ 61,561	\$ 57,331	\$ 80,448	\$ 47,846
Net and comprehensive income (loss)				
Continuing operations	\$ (1,470)	\$ (4,889)	\$ 1,957	\$ 83,527
Discontinued operations	—	—	(813)	(21,293)
	<u>\$ (1,470)</u>	<u>\$ (4,889)</u>	<u>\$ 1,144</u>	<u>\$ 62,234</u>
Earnings (loss) per share:				
Basic - continuing operations	\$ (0.02)	\$ (0.05)	\$ 0.01	\$ 0.75
Basic - discontinued operations	—	—	(0.01)	(0.18)
Basic - total	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>	<u>\$ —</u>	<u>\$ 0.57</u>
Diluted - continuing operations	\$ (0.02)	\$ (0.05)	\$ 0.01	\$ 0.74
Diluted - discontinued operations	—	—	(0.01)	(0.18)
Diluted - total	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>	<u>\$ —</u>	<u>\$ 0.56</u>

(in thousands except per share amounts)	Quarter Ended			
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Revenue from continuing operations	\$ 62,944	\$ 54,338	\$ 52,379	\$ 28,844
Net and comprehensive income (loss)				
Continuing operations	\$ 7,536	\$ 5,665	\$ 11,869	\$ (10,442)
Discontinued operations	(721)	(1,114)	(1,785)	(243)
	<u>\$ 6,815</u>	<u>\$ 4,551</u>	<u>\$ 10,084</u>	<u>\$ (10,685)</u>
Earnings (loss) per share:				
Basic - continuing operations	\$ 0.07	\$ 0.04	\$ 0.1	\$ (0.13)
Basic - discontinued operations	(0.01)	(0.01)	(0.02)	—
Basic - total	<u>\$ 0.06</u>	<u>\$ 0.03</u>	<u>\$ 0.08</u>	<u>\$ (0.13)</u>
Diluted - continuing operations	\$ 0.07	\$ 0.04	\$ 0.08	\$ (0.13)
Diluted - discontinued operations	(0.01)	(0.01)	(0.01)	—
Diluted - total	<u>\$ 0.06</u>	<u>\$ 0.03</u>	<u>\$ 0.07</u>	<u>\$ (0.13)</u>

Our recent financial results reflect the impact of the improved metallurgical coal price environment. As a result of increased demand for the metallurgical coal we produce, we have been able to increase our sales volumes due to additional production from our existing mines as well as the establishment of a Sales and Trading platform which was not part of the Company's business model prior to 2017. In the Sales and Trading platform, the Company purchases and sells coal on a clean or finished goods basis from suppliers outside of our main operating area. The Company then blends this coal, which primarily has a different quality basis than the coal we produce, to provide a blended product to customers who do not have the ability to purchase and blend different qualities of coal at their facilities. As a result of this platform, we have been able to significantly increase our revenues by expanding our customer base. The most recent quarterly periods were impacted by increased costs at the Company's mines as a result of difficult geological conditions as well as increased demurrage expense as a result of port and rail congestion. These negatively impacted earnings. Net and comprehensive income for the quarter ended December 31, 2017 was also impacted by the net asset impairment reversal of \$66.2 million which is primarily due to the improvement in the metallurgical coal market partially offset by an impairment charge at the CAPP Division as a result of the CAPP Division Divestiture.

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 Coal Holdings Corp. Related party activities which took place before the completion of the CAPP Division Divestiture on March 13, 2018 are reflected in the amounts below. Post-divestiture, Kopper Glo Mining, LLC is considered a related party as key management of QEP have significant influence over this entity. As such, transactions with Kopper Glo Mining, LLC after March 13, 2018 are considered related party transactions and reflected in the amounts below. Refer to note 2 for additional discussion.

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Royalties and property taxes (a)	\$ —	\$ 304	\$ 185	\$ 999
Supplies purchase (b)	100	102	281	247
Equipment servicing fees (c)	185	—	1,185	—
Purchased coal (d)	3,372	1,481	9,131	3,268
	<u>\$ 3,657</u>	<u>\$ 1,887</u>	<u>\$ 10,782</u>	<u>\$ 4,514</u>

- (a) During the three and nine months ended September 30, 2018 and 2017, the Company paid royalties and property taxes to WPP, LLC, a subsidiary of Natural Resource Partners L.P., which is 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 net and comprehensive loss from discontinued operations, net in the unaudited condensed interim consolidated statements of operations and comprehensive income (loss).
- (b) During the three and nine months ended September 30, 2018 and 2017, the Company purchased supplies used in the coal separation process from Quality Magnetite, which is significantly influenced by key management personnel of QEP. During the three and nine months ended September 30, 2018, amounts purchased by the NAPP Division, totaling \$99 and \$274, respectively, were included in cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive income (loss). Amounts purchased by the CAPP Division, totaling \$7, were included in net and comprehensive loss from discontinued operations, net in the unaudited condensed interim consolidated statements of operations and comprehensive income (loss).
- (c) During the three and nine months ended September 30, 2018, subsequent to the completion of the CAPP Division Divestiture, the Company purchased services to rebuild a continuous haulage system from Kopper Glo Mining, LLC, which is now considered a related party as it is significantly influenced by key management personnel of QEP. The continuous haulage system, has been capitalized and included in property, plant and equipment.
- (d) During the nine months ended September 30, 2018 and 2017, the Company purchased coal from Smoky Mountain Coal Company, a company determined to be a related party as a result of their sales representative being a close family member of the former president of the CAPP Division, Hunter Hobson. These amounts totaled \$1,150 and \$3,268 for the nine months ended September 30, 2018 and 2017, respectively. During the three months ended September 30, 2017, purchased coal from Smoky Mountain Coal Company totaled \$1,481. These amounts were reflected in net and comprehensive loss from discontinued operations, net in the unaudited condensed interim consolidated statements of operations and comprehensive income (loss). Subsequent to the completion of the CAPP Division Divestiture, the Company purchased coal from Kopper Glo Mining, LLC, which is now considered a related party as it is significantly influenced by key management personnel of QEP. During the three and nine months ended September 30, 2018, the Company recognized \$3,372 and \$7,981 in cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive income (loss) related to these coal purchases.

Included in accounts payable and accrued liabilities at September 30, 2018 and December 31, 2017 are \$33 and \$327, respectively, due to related parties, as a result of the transactions noted above. These amounts are unsecured and non-interest bearing. At September 30, 2018, included in inventory was \$190 for coal purchased from related parties. This amount will be expensed as the coal inventories are sold.

At September 30, 2018 and December 31, 2017, the Company had a loan payable to SRLC of \$30,782 and \$29,763, respectively. SRLC is a minority shareholder of the Company as a result of the issuance of shares to SRLC in connection with an amendment of the Facility.

CRITICAL ACCOUNTING ESTIMATES

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.

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 statement of operations 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.

Reserve and resource estimates

Coal reserve and resource estimates indicate the amount of coal that can be feasibly extracted from Corsa's mineral properties. The 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.

Reclamation provision estimates

Reclamation provisions are recognized by Corsa for the estimated costs to reclaim the site at the end of mine life. The carrying amount of the reclamation provision in the consolidated financial statements is subject to various estimates including mine life, undiscounted cash flows to reclaim mineral properties, 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 provision and associated reclamation cost asset included in property, plant and equipment.

Water treatment provision estimates

The Company has signed certain agreements with U.S. 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. The provision at the balance sheet date represents management's best estimate as of such date but may result in 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 water treatment provision.

Impairment of long-term assets

Corsa reviews and tests the carrying amounts of long-lived assets when an indicator of impairment is considered to exist. Corsa 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 Corsa considers include changes in the market, economic and legal environment in which Corsa operates that are not within its control and affect the recoverable amounts of long-term assets. Internal sources of information that Corsa 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 an asset has occurred, and the amount of any impairment or its reversal, management uses key assumptions in estimating the recoverable value of a cash generating unit (“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 assets and result in an impairment charge.

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.

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 Corsa’s earnings.

CHANGES IN ACCOUNTING POLICIES

Recently adopted accounting pronouncements

In May 2014, the IASB issued International Financial Reporting Standard (“IFRS”) 15 – *Revenue from contracts with customers* (“IFRS 15”). IFRS 15 clarifies the principles for recognizing revenue from contracts with customers and Corsa adopted IFRS 15 on January 1, 2018 utilizing the full retrospective method of transition. Adoption of IFRS 15 resulted in changes to our accounting policies for revenue recognition and accounts receivable. The guidance requires disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. The adoption of IFRS 15 had an immaterial impact on our financial statements. Refer to note 15 for additional discussion.

Significant accounting policies updated with the adoption of IFRS 15

- (a) Accounts receivable – a receivable is recognized when coal is delivered to the customer at the delivery point indicated in the customer contract, or coal is processed at the Company’s processing facility, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Any allowance for uncollectible receivables are offset against the accounts receivable with an offsetting charge to the consolidated statement of operations.
- (b) Revenue recognition – revenue associated with the sale of coal or processing service is recognized when control passes to the customer and the amount of revenue can be measured reliably. Coal is sold under fixed price, spot or index linked contracts. Transportation costs from preparation plants to customers are included in cost of sales in the consolidated statements of operations and comprehensive income (loss) and amounts billed by the Company to its customers for these transportation costs are included in revenue.

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) 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 Company is currently evaluating this guidance and currently believes that this new guidance will not have a material impact on its financial results when adopted, but will require additional assets and liabilities to be recognized for certain agreements where the Company has the rights to use assets.

(b) IFRIC 23 – Uncertainty over income tax treatments

In June 2017, the IASB issued International Financial Reporting Interpretations Committee interpretation 23 – *Uncertainty over income tax treatments* (“IFRIC 23”). IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. IFRIC 23 clarifies application of recognition and measurements requirements in International Accounting Standard 12 – *Income Taxes* when there is uncertainty over income tax treatments. IFRIC 23 specifically addresses whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The Company intends to adopt IFRIC 23 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 interpretation has not yet been determined.

FINANCIAL INSTRUMENTS AND OTHER 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.

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 has exposure to credit risk 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 and nine months ended September 30, 2018 and 2017.

Commodity Risk

The value of the Company’s mineral properties is related to the price of metallurgical coal and the outlook for this commodity, 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 September 30, 2018 the Company had a consolidated cash balance of \$9,136 and consolidated working capital deficit of \$21,677. 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 coal. The Company is at an advanced stage on discussions and expects to refinance or extend the maturity of the Term Loan beyond the August 2019 maturity date and utilize expected operating cash flows to service the debt. There can be no assurance that the Company is able to refinance or extend the maturity at terms that are acceptable.

If our cash flows from operations are less than we require, we may need to incur additional debt or issue additional equity. From time to time we may need to access the long-term and short-term capital markets to obtain financing. Although we believe we can currently finance our operations on acceptable terms and conditions, our access to, and the availability of, financing on acceptable terms and conditions in the future will be affected by many factors, including the liquidity of the overall capital markets, the current state of the global economy and restrictions in our existing debt agreements and any other future debt agreements. There can be no assurance that we will have or continue to have access to the capital markets on terms acceptable to us.

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:

	September 30, 2018		December 31, 2017	
	Carrying		Carrying	
	Amount	Fair Value	Amount	Fair Value
Loan Payable	\$ 30,782	\$ 28,420	\$ 29,763	\$ 25,676

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 14.5% at September 30, 2018 and December 31, 2017.

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.

	September 30, 2018		December 31, 2017	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Cash	\$ 9,136	\$ —	\$ 20,721	\$ —
Restricted cash	34,454	—	34,526	—
	<u>\$ 43,590</u>	<u>\$ —</u>	<u>\$ 55,247</u>	<u>\$ —</u>
Financial liabilities				
Warrant financial liability	<u>\$ —</u>	<u>\$ 67</u>	<u>\$ —</u>	<u>\$ 769</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 September 30, 2018 and December 31, 2017, the Company had no financial instruments which used Level 3 fair value measurements.

ADDITIONAL INFORMATION

Additional information regarding Corsa is available under Corsa’s profile at www.sedar.com.