



Corsa Coal Corp.
Unaudited Condensed Interim Consolidated Financial Statements
September 30, 2019 and 2018

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

Assets	September 30, 2019	December 31, 2018
Cash	\$ 3,739	\$ 10,124
Accounts receivable (note 3)	22,549	28,502
Prepaid expenses and other current assets	3,049	4,058
Inventories (note 4)	21,452	12,944
Current Assets	50,789	55,628
Restricted cash (note 5)	36,610	32,503
Advance royalties and other assets	4,086	3,564
Property, plant and equipment, net (note 6)	184,366	191,605
Total Assets	\$ 275,851	\$ 283,300
Liabilities		
Accounts payable and accrued liabilities (note 7)	\$ 26,313	\$ 28,354
Notes payable (note 8)	13	418
Lease liabilities – current (note 9)	1,290	2,543
Loan payable (note 10)	2,512	9,066
Other liabilities (note 11)	4,682	5,407
Reclamation and water treatment provision (note 12)	5,615	5,615
Current Liabilities	40,425	51,403
Revolving credit facility (note 10)	8,957	—
Loan payable (note 10)	8,951	21,386
Notes payable (note 8)	—	7
Lease liabilities – long-term (note 9)	3,856	1,982
Other liabilities (note 11)	4,834	5,825
Reclamation and water treatment provision (note 12)	49,239	51,701
Total Liabilities	116,262	132,304
Equity		
Share capital	180,130	180,130
Contributed surplus	2,784	2,244
Accumulated deficit	(75,415)	(81,274)
Total Shareholders' Equity	107,499	101,100
Non-controlling interest	52,090	49,896
Total Equity	159,589	150,996
Total Liabilities and Equity	\$ 275,851	\$ 283,300

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

Approved by the Board of Directors:

/s/ Robert C. Sturdivant
 Robert C. Sturdivant, Director

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

Corsa Coal Corp.

Unaudited Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss)

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Revenue (note 14)	\$ 58,085	\$ 61,561	\$ 178,393	\$ 199,340
Cost of sales (note 15)	(53,527)	(56,923)	(158,446)	(182,749)
Gross Margin	<u>4,558</u>	<u>4,638</u>	<u>19,947</u>	<u>16,591</u>
Selling, general and administrative expense (notes 16 and 17)	(4,013)	(4,960)	(12,723)	(16,517)
Income (loss) from operations	<u>545</u>	<u>(322)</u>	<u>7,224</u>	<u>74</u>
Net finance expense (note 18)	(1,783)	(2,181)	(3,170)	(5,455)
Other income (expense)	2,271	1,033	3,584	979
Income (loss) before tax	<u>1,033</u>	<u>(1,470)</u>	<u>7,638</u>	<u>(4,402)</u>
Current income tax (benefit) expense	—	—	—	—
Deferred income tax expense	—	—	—	—
Provision for income taxes	—	—	—	—
Net and comprehensive income (loss) from continuing operations	<u>\$ 1,033</u>	<u>\$ (1,470)</u>	<u>\$ 7,638</u>	<u>\$ (4,402)</u>
Net and comprehensive loss from discontinued operations, net	<u>—</u>	<u>—</u>	<u>—</u>	<u>(813)</u>
Net and comprehensive income (loss)	<u>\$ 1,033</u>	<u>\$ (1,470)</u>	<u>\$ 7,638</u>	<u>\$ (5,215)</u>
Attributable to:				
Shareholders	\$ 802	\$ (2,127)	\$ 5,444	\$ (6,238)
Non-controlling interest	\$ 231	\$ 657	\$ 2,194	\$ 1,023
Basic earnings (loss) per share (note 19)				
Earnings from continuing operations	\$ 0.01	\$ (0.02)	\$ 0.06	\$ (0.06)
Loss from discontinued operations	\$ —	\$ —	\$ —	\$ (0.01)
Basic earnings per share	<u>\$ 0.01</u>	<u>\$ (0.02)</u>	<u>\$ 0.06</u>	<u>\$ (0.07)</u>
Diluted earnings (loss) per share (note 19)				
Earnings (loss) from continuing operations	\$ 0.01	\$ (0.02)	\$ 0.06	\$ (0.06)
Loss from discontinued operations	\$ —	\$ —	\$ —	\$ (0.01)
Diluted earnings (loss) per share	<u>\$ 0.01</u>	<u>\$ (0.02)</u>	<u>\$ 0.06</u>	<u>\$ (0.07)</u>

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

Corsa Coal Corp.

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

	For the nine months ended September 30, 2019					
	Number of Corsa Common Shares (000's)	Share Capital	Contributed Surplus	Deficit	Non- Controlling Interest	Total Equity
Balance - January 1, 2019	94,759	\$ 180,130	\$ 2,244	\$ (81,274)	\$ 49,896	\$ 150,996
Stock based compensation (note 17)	—	—	955	—	—	955
Stock option expiration/forfeiture	—	—	(415)	415	—	—
Net and comprehensive income	—	—	—	5,444	2,194	7,638
Balance - September 30, 2019	<u>94,759</u>	<u>\$ 180,130</u>	<u>\$ 2,784</u>	<u>\$ (75,415)</u>	<u>\$ 52,090</u>	<u>\$ 159,589</u>

	For the nine months ended September 30, 2018					
	Number of Corsa Common Shares (000's)	Share Capital	Contributed Surplus	Deficit	Non- Controlling Interest	Total Equity
Balance - January 1, 2018	94,591	\$ 180,001	\$ 2,501	\$ (85,517)	\$ 47,297	\$ 144,282
Stock based compensation (note 17)	—	—	1,175	—	—	1,175
Stock option expiration/forfeiture	—	—	(819)	819	—	—
Exercise of Broker Warrants	168	129	—	—	—	129
Net and comprehensive income (loss)	—	—	—	(6,238)	1,023	(5,215)
Balance - September 30, 2018	<u>94,759</u>	<u>\$ 180,130</u>	<u>\$ 2,857</u>	<u>\$ (90,936)</u>	<u>\$ 48,320</u>	<u>\$ 140,371</u>

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

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Operating Activities				
Net and comprehensive income (loss)	\$ 1,033	\$ (1,470)	\$ 7,638	\$ (5,215)
Items not affecting cash:				
Net and comprehensive loss from discontinued operations	—	—	—	813
Amortization	4,795	6,671	15,955	19,093
Stock-based compensation expense (note 17)	303	444	955	1,175
Net finance expense (income)	1,167	219	(36)	1,141
Write-off of advance royalties and other assets	48	33	48	38
Other non-cash operating expense	238	319	291	295
Cash spent on reclamation and water treatment activities (note 12)	(1,714)	(1,385)	(4,775)	(5,564)
Changes in working capital balances related to operations (note 20)	(3,698)	1,634	(3,432)	(2,096)
Cash provided by operating activities of continuing operations	2,172	6,465	16,644	9,680
Cash provided by operating activities of discontinued operations	—	—	—	2,469
Cash provided by operating activities	2,172	6,465	16,644	12,149
Investing Activities				
Restricted cash	(876)	(9)	(2,156)	(513)
Advance royalties and other assets	(194)	(285)	(667)	(600)
Proceeds on sale of assets	45	281	332	319
Property, plant and equipment additions	(2,519)	(4,209)	(5,873)	(18,246)
Cash used in investing activities of continuing operations	(3,544)	(4,222)	(8,364)	(19,040)
Cash used in investing activities of discontinued operations	—	—	—	(2,358)
Cash used in investing activities	(3,544)	(4,222)	(8,364)	(21,398)
Financing Activities				
Proceeds from revolving credit facility borrowings	31,503	—	31,503	—
Repayments of revolving credit facility borrowings	(22,547)	—	(22,547)	—
Proceeds from broker warrant exercise	—	—	—	129
Proceeds from issuance of loan payable	12,000	—	12,000	—
Repayment of loan payable	(29,422)	—	(32,422)	—
Debt issuance costs	(525)	—	(525)	—
Proceeds from issuance of notes payable	—	—	—	54
Repayment of notes payable	(7)	(256)	(411)	(772)
Repayment of lease liabilities	(791)	(621)	(2,263)	(1,522)
Cash used in financing activities of continuing operations	(9,789)	(877)	(14,665)	(2,111)
Cash used in financing activities of discontinued operations	—	—	—	(225)
Cash used in financing activities	(9,789)	(877)	(14,665)	(2,336)
Net (decrease) increase in cash for the period	(11,161)	1,366	(6,385)	(11,585)
Cash, beginning of period continuing operations	14,900	7,770	10,124	20,607
Cash, beginning of period discontinued operations	—	—	—	114
Cash, beginning of period	14,900	7,770	10,124	20,721
Cash, end of period continuing operations	\$ 3,739	\$ 9,136	\$ 3,739	\$ 9,136

Supplemental disclosure (note 20)

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

1. Basis of Presentation and Nature of Operations

Nature of Operations

Corsa Coal Corp. (“Corsa” or the “Company”) is in the business of mining, processing and selling of metallurgical coal, as well as exploring, acquiring and developing resource properties that are consistent with its existing coal business. The Company is a corporation existing under the *Canada Business Corporations Act* and is domiciled in Canada. The registered office of Corsa is located at 199 Bay Street, Suite 5300, Commerce Court West, Toronto, Ontario, Canada, M5L 1B9, and the head/corporate office of Corsa is located at 4600 J. Barry Court, Suite 220, Canonsburg, Pennsylvania, USA, 15317.

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

Unless otherwise indicated, all dollar amounts in these consolidated financial statements are expressed in United States dollars. References to “C\$” are to Canadian dollars.

At September 30, 2019, the Company had one operating division, Northern Appalachia (“NAPP Division” or “NAPP”). The NAPP Division, based in Somerset, Pennsylvania, USA, produces and sells low volatile metallurgical coal used for the production of coke from its mines in the Northern Appalachia coal region of the USA. The Company’s corporate office provides support and manages the mining investments, and is also deemed a reportable segment.

All scientific and technical information contained in these unaudited condensed interim consolidated financial statements has been reviewed and approved by Peter V. Merritts, Professional Engineer and the Company’s Chief Executive Officer, who is a qualified person within the meaning of National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*.

Statement of Compliance

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

Certain reclassifications of prior period data have been made to conform to the current interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements are intended to be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2018 and the related notes thereto.

These unaudited condensed interim consolidated financial statements were authorized by the Board of Directors of the Company on November 6, 2019.

Basis of Measurement

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

Recently adopted accounting pronouncements

In June 2017, the IASB issued International Financial Reporting Interpretations Committee Interpretation 23 – *Uncertainty over income tax treatments* (“IFRIC 23”). IFRIC 23 clarifies application of recognition and measurements requirements in International Accounting Standard 12 – *Income Taxes* when there is the 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. Corsa adopted IFRIC 23 on January 1, 2019 and the adoption of this interpretation did not have a material impact on the Company’s financial statements.

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In January 2016, the IASB issued IFRS 16 – *Leases* (“IFRS 16”). IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, and Corsa adopted IFRS 16 on January 1, 2019 by applying the cumulative catch-up approach as defined in IFRS 16. 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, Corsa has recognized: (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 for the period beginning January 1, 2019. The Company has not restated comparative financial information on transition to IFRS 16. The adoption of IFRS 16 resulted in an increase in the right-of-use asset of \$1,134 and additional lease liabilities of \$1,193. Refer to note 9 for additional discussion.

The following table presents the reconciliation of lease liabilities as of January 1, 2019:

Minimum lease payments under operating leases as of December 31, 2018	\$ 1,751
Recognition exemption:	
For leases of low-value assets	(61)
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(497)
Liabilities additionally recognized based on initial application of IFRS 16 as of January 1, 2019	1,193
Liabilities from finance leases as of December 31, 2018	4,525
Liabilities from leases as of January 1, 2019	<u>\$ 5,718</u>

Significant accounting policies updated with the adoption of IFRS 16

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount

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expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as rent expense on a straight-line basis over the lease term.

Future accounting pronouncements

No new standards, interpretations, amendments and improvements to existing standards issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that will impact the Company’s financial statements and are mandatory for future accounting periods have been issued. Updates that are not applied or are not consequential to the Company have been excluded.

2. Financial Instruments

The Company’s financial instruments consist of cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, notes payable, lease liabilities, revolving credit facility, 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 is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions. These deposit 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.

Customer credit risk is managed by the Company’s established policy, procedures and control relating to customer credit risk management. The Company trades only with recognized creditworthy third parties who are subject to credit verification procedures, and often times are backed by letters of credit or trade credit insurance. In addition, outstanding receivable balances are regularly monitored on an ongoing basis. The Company has not recorded any allowance for credit losses for the nine months ended September 30, 2019 and 2018.

At September 30, 2019 and December 31, 2018, the Company had six customers that owed the Company more than \$1,000 each and accounted for approximately 98% and 92%, respectively, of total accounts receivable. At December 31, 2018, there was one customer with a balance greater than \$10,000 accounting for 45% of total accounts receivable. There were no customers with a balance greater than \$10,000 at September 30, 2019. At September 30, 2019 and December 31, 2018, 70% and 90%, respectively, of the Company’s total accounts receivables were covered by letters of credit and other forms of credit insurance.

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.

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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, 2019, the Company had a consolidated cash balance of \$3,739, consolidated working capital of \$10,364 and availability under the revolving credit facility of \$9,819. 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. In August 2019, the Company entered into the New Credit Facilities to refinance the Sprott Facility (as both terms are defined in note 10). The Company plans to utilize expected operating cash flows to service the New Credit Facilities.

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.

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

	Carrying Value at September 30, 2019	Payments due by period				
		Total	Less Than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Accounts payable and accruals	\$ 26,313	\$ 26,313	\$ 26,313	\$ —	\$ —	\$ —
Notes payable	13	13	13	—	—	—
Lease liabilities	5,146	5,147	1,290	2,177	1,123	557
Revolving credit facility	8,957	8,957	—	8,957	—	—
Loan payable	11,463	11,595	2,545	5,918	3,132	—
Other liabilities	9,516	9,548	4,714	2,294	2,294	246
Asset retirement obligations - reclamation	28,497	28,497	4,027	3,839	4,301	16,330
Asset retirement obligations - water treatment	26,357	26,357	1,588	2,892	2,862	19,015
Purchase order firm commitments	—	3,458	3,458	—	—	—
Water treatment trust funding	—	3,102	1,871	1,231	—	—
Operating leases and other obligations	—	40	27	13	—	—
Total	\$ 116,262	\$ 123,027	\$ 45,846	\$ 27,321	\$ 13,712	\$ 36,148

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, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loan payable - Sprott Facility	\$ —	\$ —	\$ 30,452	\$ 27,444
Loan payable - 36 th Street Facility	\$ 11,463	\$ 9,522	\$ —	\$ —

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 10.0% at September 30, 2019 and 12.5% at December 31, 2018. Management's estimate of the fair value of the loan payable is classified as level 2 in the fair value hierarchy, as explained below.

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Fair value hierarchy

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

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

Level 1 inputs are quoted 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 inputs derived from market 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, 2019		December 31, 2018	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Cash	\$ 3,739	\$ —	\$ 10,124	\$ —
Restricted cash	36,610	—	32,503	—
	\$ 40,349	\$ —	\$ 42,627	\$ —

At September 30, 2019 and December 31, 2018, the Company had no financial instruments which used Level 3 fair value measurements.

3. Accounts receivable

Accounts receivable consist of the following:

	September 30, 2019	December 31, 2018
Trade receivables	\$ 15,949	\$ 26,654
A-Seam condemnation judgement	5,074	—
Income tax refundable credit	1,379	1,379
Redevelopment Assistance Capital Program Receivable	—	150
Other	147	319
	<u>\$ 22,549</u>	<u>\$ 28,502</u>

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 of 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. (the “A-Seam Condemnation Judgement”) and directed further hearings regarding the tonnages, valuation and mineability of the support coal. On July 23, 2019, the SMC issued a ruling which confirmed that the support coal was mineable and awarded damages to PBS Coals, Inc. in the amount of \$3,530 together with delay damages calculated from April 27, 2010 to the date of payment at an annual rate equal to the prime rate as listed in the first edition of the Wall Street Journal published in the year plus 1%, adjusted annually not compounded. As the period for filing an appeal has lapsed, the Company has recognized a receivable from the Pennsylvania Department of Transportation. Additionally, the Company is obligated to pay contingent legal fees, which have been estimated at \$1,680, and are included in Other Liabilities in the condensed interim consolidated balance sheets. The Company expects that the settlement of this receivable will occur in the fourth quarter of 2019.

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

4. Inventories

Inventories consist of the following:

	September 30, 2019	December 31, 2018
Metallurgical coal		
Clean coal stockpiles	\$ 13,342	\$ 3,511
Raw coal stockpiles	3,591	5,067
	<u>16,933</u>	<u>8,578</u>
Thermal coal		
Clean coal stockpiles	—	74
Raw coal stockpiles	—	5
	<u>—</u>	<u>79</u>
Parts and supplies	4,519	4,287
	<u>\$ 21,452</u>	<u>\$ 12,944</u>

5. Restricted cash

Restricted cash consists of the following:

	September 30,	December 31,
	2019	2018
Water treatment trust funds (a)	\$ 25,968	\$ 22,276
Collateral posted for reclamation bonds (b)	5,461	5,390
Workers' compensation trust funds (c)	5,170	4,826
Other restricted deposits	11	11
	<u>\$ 36,610</u>	<u>\$ 32,503</u>

- (a) 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. As a result of these agreements, the Company was required to establish separate trust funds to ensure water treatment activities would continue after the Company ceased operating in the affected areas. The cash is invested in fixed income and equities and income earned on such funds, under certain circumstances, may be used by the Company to pay for certain water treatment costs once the trust funds have been fully funded. As of September 30, 2019, the Company is required to contribute an additional \$3,102 over the course of the next two years to fully fund the remaining unfunded trust, with \$1,871 due in the next 12 months.
- (b) The Company is required to post bonds to ensure reclamation is completed on its mining properties as required under U.S. state and federal regulations. The Company has agreements with insurers to provide these bonds. The cash collateral is invested in certificates of deposit that are insured by the U.S. Federal Deposit Insurance Corporation and are held in escrow.
- (c) The Company has established separate trust funds with its insurance carriers to pay potential awards and claims related to workers' compensation claims.

6. Property, plant and equipment

Property, plant and equipment consists of the following:

	Mineral Properties (a)	Plant and Equipment	Total
<u>Cost</u>			
Balance - January 1, 2018	\$ 176,199	\$ 182,653	\$ 358,852
Additions	—	18,162	18,162
Capitalized development costs	8,258	—	8,258
Change in reclamation provision	180	—	180
CAPP Division Divestiture	(28,227)	(37,149)	(65,376)
Disposals	—	(5,933)	(5,933)
Balance - December 31, 2018	156,410	157,733	314,143
Additions	—	8,697	8,697
Capitalized development costs	(13)	—	(13)
Change in reclamation provision	1,172	—	1,172
Disposals	—	(3,337)	(3,337)
Balance - September 30, 2019	\$ 157,569	\$ 163,093	\$ 320,662
<u>Accumulated Amortization</u>			
Balance - January 1, 2018	\$ (41,133)	\$ (120,680)	\$ (161,813)
Amortization	(8,797)	(17,939)	(26,736)
CAPP Division Divestiture	24,695	35,910	60,605
Disposals	—	5,406	5,406
Balance - December 31, 2018	(25,235)	(97,303)	(122,538)
Amortization	(3,872)	(12,939)	(16,811)
Disposals	—	3,053	3,053
Balance - September 30, 2019	\$ (29,107)	\$ (107,189)	\$ (136,296)
<u>Net Book Value</u>			
December 31, 2018	\$ 131,175	\$ 60,430	\$ 191,605
September 30, 2019	\$ 128,462	\$ 55,904	\$ 184,366

- (a) Mineral properties include the cost of obtaining the mineral and surface rights required to conduct mining operations. The two types of lease rights in the states of Maryland and Pennsylvania are surface rights, which provide access to the surface of a specific property, and mineral rights, which provide the right to extract the minerals from a specific property. The Company either purchases outright or leases these rights from various owners specific to each property. Mineral and surface rights which are leased are subject to royalty payments to the various owners based on the tons of coal extracted from that specific property. Royalty rates on leased mineral rights can range from 5% to 16%, although typically range from 6% to 7%, of the selling price of the coal. Mineral and surface rights which are owned by the Company are not subject to royalties.

Corsa Coal Corp.**Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the three and nine months ended September 30, 2019 and 2018****Expressed in United States dollars, amounts in thousands except for shares and per share amounts****7. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consists of the following:

	September 30, 2019	December 31, 2018
Trade payables	\$ 9,823	\$ 7,747
Purchased coal payables	5,106	8,112
Freight payables	5,586	4,625
Other accrued liabilities	5,798	7,870
	<u>\$ 26,313</u>	<u>\$ 28,354</u>

8. Notes Payable

Notes payable consists of the following:

	September 30, 2019	December 31, 2018
Notes payable - equipment purchase (a)	\$ 13	\$ 242
Note payable - mineral property (b)	—	183
Balance, end of period	13	425
Less: current portion	(13)	(418)
Total long-term notes payable	<u>\$ —</u>	<u>\$ 7</u>

(a) The NAPP Division has one note payable related to equipment purchases outstanding at September 30, 2019. The note, which bears no interest, is with a third-party equipment financing company and the equipment purchased is pledged as collateral for the note. This note is repayable in monthly installments of \$2 until March 2020. A second, zero-interest note payable that existed at December 31, 2018 was satisfied in June 2019.

(b) The NAPP Division had a 4.0% interest note payable which related to the purchase of a mineral property. The final payment was made in April 2019.

At September 30, 2019, there were no covenants related to the notes payable.

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9. Lease Liabilities

Lease liabilities consists of the following:

	<u>Interest Rate</u>	<u>Maturity</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Equipment - Underground (a)	5.6%	October 2019	\$ 136	\$ 1,328
Equipment - Preparation Plant (b)	11.0%	September 2023	1,186	1,855
Equipment - Preparation Plant (b)	11.0%	December 2021	446	567
Equipment - Surface	10.8% to 11%	May 2021- Feb. 2024	2,210	740
Equipment - Information Technology	11.0%	July 2022	30	35
Office lease	8.0%	November 2027	1,138	—
Balance, end of period			<u>5,146</u>	<u>4,525</u>
Less: Current portion			(1,290)	(2,543)
Total long-term lease liabilities			<u>\$ 3,856</u>	<u>\$ 1,982</u>

- (a) The terms of this lease are guided by a master lease agreement which requires a specified debt service coverage ratio of at least 1.25 to 1.00 measured on a quarterly basis to be met by Wilson Creek Energy, LLC and its subsidiaries based on historical results. Additionally, a minimum cash balance of \$2,000 is required to be maintained at all times on a consolidated basis. The value of the lease obligation is secured by the equipment being leased. At September 30, 2019, the Company was in compliance with all covenants under the lease agreement.
- (b) Contingent rent related to these lease obligations is payable if the equipment exceeds certain operating levels. The contingent rent recognized in the three and nine months ended September 30, 2019 was an expense of \$12 and \$94, respectively. The contingent rent recognized in the three and nine months ended September 30, 2018 was an expense of \$36 and \$6, respectively. Contingent rent is included in cost of sales in the condensed interim consolidated statements of operations and comprehensive income (loss).

Lease liabilities are payable as follows:

Less than 1 year	\$ 1,754
1-3 years	2,734
4-5 years	1,293
Thereafter	633
Total payments	<u>6,414</u>
Less: Amounts representing interest	(1,268)
Total finance lease obligations	<u>\$ 5,146</u>

For the three and nine months ended September 30, 2019, interest expense of \$130 and \$388, respectively, is included in net finance expense in the condensed interim consolidated statements of operations and comprehensive income (loss). For the three and nine months ended September 30, 2018, interest expense of \$111 and \$231, respectively, is included in net finance expense in the condensed interim consolidated statements of operations and comprehensive income (loss). For the three and nine months ended September 30, 2019, total cash outflows related to lease liabilities was \$921 and \$2,651, respectively. For the three and nine months ended September 30, 2018, total cash outflows related to lease liabilities was \$732 and \$1,753, respectively. The expense relating to leases of low value assets was not material.

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Right-of-use assets, which are included in property, plant and equipment, net, in the condensed interim consolidated balance sheets, consist of the following:

	Equipment					Office	Total
	U/G	Plant	Plant	Surface	IT	Lease	
Gross Right-of Use Asset							
Balance – January 1, 2018	\$ 22,030	\$ 1,696	\$ —	\$ —	\$ —	\$ —	\$ 23,726
Additions	15	—	2,200	838	37	—	3,090
Balance – December 31, 2018	22,045	1,696	2,200	838	37	—	26,816
IFRS 16 adoption	—	—	—	—	—	1,193	1,193
Accrued lease payments	—	—	—	—	—	(59)	(59)
Additions	—	—	—	1,682	—	—	1,682
Balance – September 30, 2019	<u>\$ 22,045</u>	<u>\$ 1,696</u>	<u>\$ 2,200</u>	<u>\$ 2,520</u>	<u>\$ 37</u>	<u>\$ 1,134</u>	<u>\$ 29,632</u>
Accumulated Amortization							
Balance – January 1, 2018	\$ (20,462)	\$ (339)	\$ —	\$ —	\$ —	\$ —	\$ (20,801)
Amortization	(1,032)	(339)	(177)	(105)	(3)	—	(1,656)
Balance – December 31, 2018	(21,494)	(678)	(177)	(105)	(3)	—	(22,457)
Amortization	(377)	(254)	(319)	(250)	(5)	(96)	(1,301)
Balance – September 30, 2019	<u>\$ (21,871)</u>	<u>\$ (932)</u>	<u>\$ (496)</u>	<u>\$ (355)</u>	<u>\$ (8)</u>	<u>\$ (96)</u>	<u>\$ (23,758)</u>
Net Book Value							
December 31, 2018	<u>\$ 551</u>	<u>\$ 1,018</u>	<u>\$ 2,023</u>	<u>\$ 733</u>	<u>\$ 34</u>	<u>\$ —</u>	<u>\$ 4,359</u>
September 30, 2019	<u>\$ 174</u>	<u>\$ 764</u>	<u>\$ 1,704</u>	<u>\$ 2,165</u>	<u>\$ 29</u>	<u>\$ 1,038</u>	<u>\$ 5,874</u>

For the three and nine months ended September 30, 2019, amortization expense of \$457 and \$1,301, respectively, related to the right-of-use assets, is included in cost of sales in the condensed interim consolidated statements of operations and comprehensive income (loss). For the three and nine months ended September 30, 2018, amortization expense of \$443 and \$1,215, respectively, related to the right-of-use assets, is included in cost of sales in the condensed interim consolidated statements of operations and comprehensive income (loss).

10. Debt

Revolving Credit Facility

On August 16, 2019, certain wholly-owned subsidiaries of the Company, as borrowers, entered into a three-year credit and security agreement (the “Credit Agreement”) with KeyBank National Association (“KeyBank”) for up to \$25 million (the “KeyBank Facility”). The KeyBank Facility bears interest at London Inter-Bank Offered Rate (“LIBOR”) plus 350 basis points or the Base Rate plus 150 basis points. The Base Rate is the rate per annum equal to the highest of (i) the rate of interest established by KeyBank, from time-to-time, as its “prime rate,” (ii) the Federal Funds Effective Rate, as defined in the Credit Agreement, in effect from time-to-time plus ½ of 1% per annum, and (iii) 100 basis points in excess of the LIBOR Rate for loans with an interest period of one month. The KeyBank Facility contains customary financial covenants. In connection with the arrangement of the KeyBank Facility, the Company paid a commitment fee, upfront fee and administration fees totaling \$390 which is included in prepaid expenses and other current assets and advance royalties and other assets in the condensed interim consolidated balance sheets. The KeyBank Facility is secured against all now owned and after acquired tangible and intangible assets of the borrowers and the guarantor. At September 30, 2019, the Company had outstanding borrowings on the KeyBank Facility of \$8,957 and additional availability which could have been borrowed of \$9,819. Total liquidity under the Key Bank Facility is subject to certain restrictions which include, among others, a percentage of accounts receivable and coal inventory. The Company was in compliance with all financial covenants at September 30, 2019.

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Notes to Unaudited Condensed Interim Consolidated Financial Statements
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Loan Payable

On August 16, 2019, Wilson Creek Holdings, Inc. (“WCH”), as lessee, and the Company along with all of the subsidiaries of WCH, as guarantors, entered into a lease financing agreement with Key Equipment Finance, as lessor and assignor, and 36th Street Capital Partners, LLC, as assignee (“36th Street”), for the sale and leaseback of various coal mining equipment (the “Leased Property”) for a funding amount of \$12 million (the “36th Street Facility” and together with KeyBank Facility, the “New Credit Facilities”). The 36th Street Facility has an effective interest rate of 9.50%, a lease term of 48 months and contains customary financial covenants. In connection with the 36th Street Facility, the Company paid certain fees in the amount of \$135. The 36th Street Facility is secured by the Leased Property. The Company was in compliance with all financial covenants at September 30, 2019.

The New Credit Facilities replaced the \$25 million senior secured term credit facility with Sprott Resource Lending Corp. entered into on August 19, 2014 (the “Sprott Facility”), which was repaid using a portion of the proceeds from the New Credit Facilities. As a result of the Sprott Facility refinancing, the Company recognized a loss on debt extinguishment of \$1,238 which is included in other income and expense in the condensed interim consolidated statements of operations and comprehensive income (loss). The loss on debt extinguishment includes \$1,024 of expense related to the unamortized fees on the Sprott Facility and \$214 of related legal expenses.

The changes in the loan payable balance for the nine months ended September 30, 2019 are as follows:

	36 th Street Facility			Sprott Facility			
	Unamortized			Unamortized			
	Principal	Discount	Total	Principal	Discount	Total	Total
Balance - January 1, 2018	\$ —	\$ —	\$ —	\$ 32,017	\$ (2,254)	\$ 29,763	\$ 29,763
Accrued interest	—	—	—	3,887	—	3,887	3,887
Interest paid	—	—	—	(3,887)	—	(3,887)	(3,887)
Accretion of discount	—	—	—	—	1,329	1,329	1,329
Issuance costs of amending agreements	—	—	—	—	(640)	(640)	(640)
Balance - December 31, 2018	—	—	—	32,017	(1,565)	30,452	30,452
Initial borrowing	12,000	—	12,000	—	—	—	12,000
Accrued interest	53	—	53	2,501	—	2,501	2,554
Interest paid	(53)	—	(53)	(2,501)	—	(2,501)	(2,554)
Issuance costs	—	(135)	(135)	—	—	—	(135)
Accretion of discount (note 18)	—	3	3	—	541	541	544
Loss on extinguishment	—	—	—	—	1,024	1,024	1,024
Principal repayment	(405)	—	(405)	(32,017)	—	(32,017)	(32,422)
Balance - September 30, 2019	<u>\$ 11,595</u>	<u>\$ (132)</u>	<u>\$ 11,463</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,463</u>
Less: current portion	<u>(2,545)</u>	<u>33</u>	<u>(2,512)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,512)</u>
Total long-term loan payable	<u>\$ 9,050</u>	<u>\$ (99)</u>	<u>\$ 8,951</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,951</u>

11. Other Liabilities

Other liabilities consist of the following:

	September 30, 2019	December 31, 2018
Workers' compensation provision (a)	\$ 5,981	\$ 6,219
Transportation contract liquidated damages (b)	968	1,657
A-Seam legal fees (c)	1,680	—
Lucchini litigation (d)	—	2,703
Other (e)	887	653
	<u>9,516</u>	<u>11,232</u>
Less: current portion (a,b,c,d,e)	<u>(4,682)</u>	<u>(5,407)</u>
Total Other Liabilities	<u>\$ 4,834</u>	<u>\$ 5,825</u>

- (a) The provision relates to workers' compensation and occupational disease claims that have not yet been paid by the Company. The estimates use an actuarial valuation approach based on historical claims and known events, where such estimates may differ materially from the estimates used herein. The balance that is expected to be settled within the next twelve months is \$1,147. The Company has established separate trust funds with its insurance carriers to pay potential awards and claims related to workers' compensation claims (note 5).
- (b) The Company's subsidiary, PBS Coals, Inc., had contractual agreements with a transportation provider, which indicated minimum levels of coal to be shipped via rail over an expired contract period, which was not met. Corsa acquired these contractual agreements as a result of the PBS Transaction (as defined in note 23) and at September 30, 2019, a provision of \$968 exists for the estimated amount of fees owed to this transportation provider. The balance that is expected to be settled within the next twelve months is \$968.
- (c) The provision relates to legal fees to be paid upon receipt of the A-Seam Condemnation Judgement. See note 3 for additional details on this matter.
- (d) This litigation arose in January 2016 and was related to coal purchase and sale transactions between PBS Coals, Inc. and Lucchini S.p.A. This matter was settled in January 2019, see note 23 for additional information.
- (e) Other includes various accruals based on management's best estimate of other matters.

12. Reclamation and Water Treatment Provision

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

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

	Site Reclamation and Remediation (a)	Water Treatment Obligation (b)	Total
Balance - January 1, 2018	\$ 36,124	\$ 33,776	\$ 69,900
Continuing operations:			
Costs incurred	(4,146)	(2,767)	(6,913)
Change in estimate	978	(4,525)	(3,547)
Accretion expense	748	785	1,533
	<u>(2,420)</u>	<u>(6,507)</u>	<u>(8,927)</u>
Discontinued operations:			
CAPP Division Divestiture	(3,657)	—	(3,657)
Balance - December 31, 2018	\$ 30,047	\$ 27,269	\$ 57,316
Continuing operations:			
Costs incurred	(3,318)	(1,457)	(4,775)
Change in estimate	1,172	—	1,172
Accretion expense	596	545	1,141
	<u>(1,550)</u>	<u>(912)</u>	<u>(2,462)</u>
Balance - September 30, 2019	\$ 28,497	\$ 26,357	\$ 54,854
Less: current portion	(4,027)	(1,588)	(5,615)
Long-Term Reclamation and Water Treatment Provision	<u>\$ 24,470</u>	<u>\$ 24,769</u>	<u>\$ 49,239</u>
Estimated costs (undiscounted cash flow basis)	<u>\$ 29,891</u>	<u>\$ 27,930</u>	<u>\$ 57,821</u>
End of reclamation period	<u>1-20 years</u>	<u>Perpetual</u>	
Discount rate	<u>1.76%-2.87%</u>	<u>2.63%-2.87%</u>	
Inflation rate	<u>2.0%</u>	<u>2.0%</u>	

(a) Site reclamation and remediation

- (i) The current portion represents the amount expected to be incurred by the Company within one year from September 30, 2019.
- (ii) At September 30, 2019, the Company had \$59,886 in surety bonds outstanding to secure reclamation obligations.

(b) Water treatment obligation

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

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

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

The Company was required to establish separate trust funds to ensure water treatment activities would continue after the Company ceased operating in the affected areas. The cash is invested in fixed income and equities and income earned on such funds, under certain circumstances, may be used by the Company to pay for certain water treatment costs once the trust funds have been fully funded. See note 5(a) for a further description of the water treatment trust funds.

The current portion represents the amount expected to be incurred by the Company within one year from September 30, 2019.

13. Share Capital

The authorized capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares issuable in series, with such rights, privileges, restrictions and conditions as the board of directors of the Company may determine from time to time. At September 30, 2019 and December 31, 2018, the Company had 94,759,245 Common Shares outstanding and no preferred shares outstanding. At September 30, 2019 and December 31, 2018, QKGI Legacy Holdings, LP ("Legacy QKGI") also owns 170,316,639 common membership units of Wilson Creek Energy, LLC ("Redeemable Units") entitling it to a 19% minority interest in the net assets, income and expenses of Wilson Creek Energy, LLC. Redeemable Units are redeemable at the option of Legacy QKGI for cash equal to the product of: (i) the number of membership units to be redeemed divided by 20; and (ii) the 10-day volume weighted average trading price, prior to date of notice of redemption, of the Company's Common Shares. The Company has the option to satisfy the redemption price for the Redeemable Units with Common Shares on a 20 to 1 basis. The Company is restricted from paying cash to Legacy QKGI for the redemption of Redeemable Units if a balance remains outstanding under the New Credit Facilities.

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14. Revenue

Revenue consists of the following:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Metallurgical coal sales	\$ 56,011	\$ 59,721	\$ 171,916	\$ 193,889
Thermal coal sales	104	170	627	687
Tolling revenue	1,970	1,670	5,850	4,764
	<u>\$ 58,085</u>	<u>\$ 61,561</u>	<u>\$ 178,393</u>	<u>\$ 199,340</u>

The following table displays revenue from contracts with customers and other sources:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Revenue from contracts with customers	\$ 58,047	\$ 61,537	\$ 178,105	\$ 199,087
Revenue from other sources	38	24	288	253
	<u>\$ 58,085</u>	<u>\$ 61,561</u>	<u>\$ 178,393</u>	<u>\$ 199,340</u>

Revenue from other sources is primarily thermal coal sold to various customers where control passes upon the loading of the coal at a point of sale transaction.

Corsa derives revenue from contracts with customers through the transfer of goods and services at a point in time in the following by type and geographical regions:

Geographic Region	For the three months ended September 30, 2019			
	Metallurgical	Thermal	Tolling	Total
	Coal	Coal	Revenue	
Asia	\$ 40,573	\$ —	\$ —	\$ 40,573
United States	15,438	66	1,970	17,474
South America	—	—	—	—
Europe	—	—	—	—
Total revenue from contracts with customers	<u>\$ 56,011</u>	<u>\$ 66</u>	<u>\$ 1,970</u>	<u>\$ 58,047</u>

Geographic Region	For the three months ended September 30, 2018			
	Metallurgical	Thermal	Tolling	Total
	Coal	Coal	Revenue	
Asia	\$ 38,054	\$ —	\$ —	\$ 38,054
United States	15,654	146	1,670	17,470
South America	6,013	—	—	6,013
Total revenue from contracts with customers	<u>\$ 59,721</u>	<u>\$ 146</u>	<u>\$ 1,670</u>	<u>\$ 61,537</u>

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Geographic Region	For the nine months ended September 30, 2019			
	Metallurgical	Thermal	Tolling	Total
	Coal	Coal	Revenue	
Asia	\$ 104,252	\$ —	\$ —	\$ 104,252
United States	47,543	339	5,850	53,732
South America	18,526	—	—	18,526
Europe	1,595	—	—	1,595
Total revenue from contracts with customers	<u>\$ 171,916</u>	<u>\$ 339</u>	<u>\$ 5,850</u>	<u>\$ 178,105</u>

Geographic Region	For the nine months ended September 30, 2018			
	Metallurgical	Thermal	Tolling	Total
	Coal	Coal	Revenue	
Asia	\$ 139,020	\$ —	\$ —	\$ 139,020
United States	40,007	434	4,764	45,205
South America	14,862	—	—	14,862
Total revenue from contracts with customers	<u>\$ 193,889</u>	<u>\$ 434</u>	<u>\$ 4,764</u>	<u>\$ 199,087</u>

15. Cost of Sales

Cost of sales consists of the following:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Mining and processing costs	\$ 20,300	\$ 18,768	\$ 67,599	\$ 56,215
Purchased coal costs	15,374	17,089	40,320	65,650
Royalty expense	1,772	1,746	5,178	4,870
Amortization expense	4,795	6,671	15,955	19,093
Transportation costs from preparation plant to customer	10,396	10,934	25,878	33,719
Idle mine expense	69	368	864	608
Tolling costs	792	558	2,663	1,689
Write-off of advance royalties and other assets	48	33	48	38
Other costs	(19)	756	(59)	867
	<u>\$ 53,527</u>	<u>\$ 56,923</u>	<u>\$ 158,446</u>	<u>\$ 182,749</u>

16. Selling, General and Administrative Expense

Selling, general and administrative expense consists of the following:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Salaries and other compensation	\$ 1,539	\$ 2,153	\$ 5,485	\$ 6,438
Employee benefits	333	354	1,048	1,031
Selling expense	831	566	2,593	3,213
Professional fees	547	942	1,546	3,191
Office expenses and insurance	617	798	1,591	2,121
Other	146	147	460	523
	<u>\$ 4,013</u>	<u>\$ 4,960</u>	<u>\$ 12,723</u>	<u>\$ 16,517</u>

17. Stock Based Compensation

The Company has a stock option plan and a restricted share unit (“RSU”) plan providing for the issuance of stock options and RSUs, respectively, to directors, officers, employees and service providers. The number of Common Shares reserved for issuance under the stock option plan may not exceed 10% of the total number of issued and outstanding Common Shares on a non-diluted basis on the grant date. Additionally, the number of Common Shares that may be acquired under a stock option or RSU granted to a certain participant is determined by the Company’s Board of Directors and may not exceed 5% of the total number of issued and outstanding Common Shares on the grant date on a non-diluted basis. The exercise price of the stock options granted shall comply with the requirements of the stock exchange on which the Common Shares are listed (currently the TSX Venture Exchange). The maximum term of any stock option may not exceed five years. Generally, stock options vest over three years. Each RSU granted entitles the participant to receive, from the Company, payment in cash or, at the option of the Company, payment in fully paid Common Shares. For a cash payment, the RSUs will be redeemed by the Company for cash equal to the market value of the Common Shares, determined based on the volume weighted average trading price of a Common Share on the stock exchange during the five trading days immediately preceding the payment date. In the event that the Company elects to satisfy all or part of its payment obligation in fully paid Common Shares, the Company will satisfy the payment obligation with the issuance, or delivery, of fully paid Common Shares on the payment date. No RSUs have been granted, including during the three and nine months ended September 30, 2019 and 2018. At September 30, 2019 and 2018, there were 584,518 and 2,150,590 stock options available for issuance under the stock option plan, respectively.

The following illustrates the changes in issued and outstanding stock options during the period ended September 30, 2019:

	Number of Stock Options (000’s)	Weighted Average Exercise Price (C\$)
Balance - January 1, 2018	8,618	\$ 1.76
Options granted (a) (b)	2,742	0.92
Options cancelled/forfeited	(1,401)	1.61
Options expired	(721)	3.10
Balance - December 31, 2018	9,238	1.43
Options cancelled/forfeited	(242)	1.40
Options expired	(105)	5.40
Balance - September 30, 2019	<u>8,891</u>	<u>\$ 1.39</u>

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The following illustrates the stock options granted. These options were valued using a Black-Scholes pricing model at the date granted using the following valuation assumptions:

	(a)	(b)
Date of Grant:	January 15, 2018	November 7, 2018
Options Granted (000's)	55	2,687
Expected life in years:	2 to 4	2 to 4
Exercise price:	C\$1.83	C\$0.90
Risk-free interest rate:	1.98% to 2.22%	2.94% to 3.03%
Common Share price:	C\$1.83	C\$0.90
Expected volatility	110% to 121%	66% to 112%
Dividend yield:	—%	—%
Forfeiture rate:	10.71%	11.16%

- (a) Stock options were granted to an employee of the Company.
(b) Stock options were granted to directors, officers and employees of the Company.

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

For the three and nine months ended September 30, 2019, the Company recorded stock-based compensation expense on the outstanding stock options to selling, general and administrative expense of \$303 and \$955, respectively. For the three and nine months ended September 30, 2018, the Company recorded stock-based compensation expense on the outstanding stock options to selling, general and administrative expense of \$444 and \$1,175, respectively.

18. Net Finance (Expense) Income

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Warrant financial liability	\$ —	\$ (42)	\$ —	\$ 701
Accretion of discount on loan payable (note 10)	(83)	(346)	(544)	(1,019)
Accretion of revolving credit facility fees	(17)	—	(17)	—
Bond premium expense	(381)	(352)	(1,110)	(1,035)
Interest expense	(1,349)	(1,689)	(3,338)	(3,592)
Interest income	34	17	101	89
Foreign exchange (loss) gain	(4)	(11)	(6)	(13)
Accretion on reclamation and water treatment provision (note 12)	(385)	(389)	(1,141)	(1,149)
Change in market value of restricted cash	405	664	2,893	662
Other	(3)	(33)	(8)	(99)
	<u>\$ (1,783)</u>	<u>\$ (2,181)</u>	<u>\$ (3,170)</u>	<u>\$ (5,455)</u>

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19. Earnings per Share

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Basic and diluted earnings (loss) attributable to common shareholders				
Continuing operations	802	(2,127)	\$ 5,444	\$ (5,570)
Discontinued operations	—	—	—	(668)
Total basic and diluted earnings attributable to common shareholders	<u>\$ 802</u>	<u>\$ (2,127)</u>	<u>\$ 5,444</u>	<u>\$ (6,238)</u>
Basic weighted average number of Common Shares outstanding (000's)	<u>94,759</u>	<u>94,759</u>	<u>94,759</u>	<u>94,672</u>
Dilutive effect of stock options (000's)	—	—	—	—
Diluted weighted average number of Common Shares outstanding (000's)	<u>94,759</u>	<u>94,759</u>	<u>94,759</u>	<u>94,672</u>
Basic earnings per share - continuing operations	\$ 0.01	\$ (0.02)	\$ 0.06	\$ (0.06)
Basic loss per share - discontinued operations	—	—	—	(0.01)
Basic earnings per share - total	<u>\$ 0.01</u>	<u>\$ (0.02)</u>	<u>\$ 0.06</u>	<u>\$ (0.07)</u>
Diluted earnings per share - continuing operations	\$ 0.01	\$ (0.02)	\$ 0.06	\$ (0.06)
Diluted loss per share - discontinued operations	—	—	—	(0.01)
Diluted earnings per share - total	<u>\$ 0.01</u>	<u>\$ (0.02)</u>	<u>\$ 0.06</u>	<u>\$ (0.07)</u>

In periods of net loss, the number of shares used to calculate diluted earnings per share is the same as basic earnings per share; therefore, the effect of the dilutive securities is zero for such periods. For the three and nine months ended September 30, 2018, there were no instruments, including stock options, which would result in the issuance of Common Shares whose effect would be dilutive on loss per share.

20. Supplemental Cash Flow Information

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Change in working capital balances related to operations:				
Accounts receivable	\$ (1,640)	\$ 489	\$ 5,953	\$ (1,196)
Prepaid expenses and other current assets	1,019	481	1,494	2,055
Inventories	(3,722)	(1,559)	(7,745)	1,238
Accounts payable and accrued liabilities	(921)	2,261	(1,595)	(3,950)
Deferred revenue	—	246	—	246
Other liabilities	1,566	(284)	(1,539)	(489)
	<u>\$ (3,698)</u>	<u>\$ 1,634</u>	<u>\$ (3,432)</u>	<u>\$ (2,096)</u>
Cash paid for interest	<u>\$ 1,282</u>	<u>\$ 1,689</u>	<u>\$ 3,271</u>	<u>\$ 3,592</u>
Cash paid (received) for income taxes	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Noncash investing and financing activities:				
CAPP Division Divestiture				
Change in assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (11,730)</u>
Change in liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (11,730)</u>
Lease liabilities				
Change in assets	<u>\$ 841</u>	<u>\$ 2,236</u>	<u>\$ 2,829</u>	<u>\$ 3,074</u>
Change in liabilities	<u>\$ 841</u>	<u>\$ 2,236</u>	<u>\$ 2,829</u>	<u>\$ 3,074</u>
Purchase of property, plant and equipment				
Change in assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (400)</u>	<u>\$ 417</u>
Change in liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (400)</u>	<u>\$ 417</u>
Change in estimate of reclamation liability				
Change in assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,172</u>	<u>\$ —</u>
Change in liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,172</u>	<u>\$ —</u>

21. Related Party Transactions

Related party transactions include any transactions with employees, other than amounts earned as a result of their employment, transactions with companies that employees or directors either control or have significant influence over, transactions with companies who are under common control with the Company's controlling shareholder, Quintana Energy Partners L.P. ("QEP") and transactions with close family members of key management personnel. Related party activities which took place before the completion of the divestiture of the Company's thermal and industrial coal division in Tennessee by way of the sale of Kopper Glo Mining, LLC (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.

Transactions with related parties included in the condensed interim consolidated statement of operations and comprehensive income (loss) and 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,	
	2019	2018	2019	2018
Royalties and property taxes (a)	\$ —	\$ —	\$ —	\$ 185
Supplies purchase (b)	—	100	189	281
Equipment servicing fees (c)	—	185	—	1,185
Purchased coal (d)	—	3,372	74	9,131
	<u>\$ —</u>	<u>\$ 3,657</u>	<u>\$ 263</u>	<u>\$ 10,782</u>

- (a) During the nine months ended September 30, 2018, 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. This amount was included in net and comprehensive loss from discontinued operations, net, in the condensed interim consolidated statements of operations and comprehensive income (loss). No related party royalties and property taxes were paid during the three and nine months ended September 30, 2019.
- (b) During the three months ended September 30, 2018 and nine months ended September 30, 2019 and 2018, 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 nine months ended September 30, 2019, amounts purchased by the NAPP Division totaled \$189 and were included in cost of sales in the condensed interim consolidated statements of operations and comprehensive income (loss). During the three and nine months ended September 30, 2018, amounts purchased by the NAPP Division, totaled \$100 and \$274, respectively. Additionally, amounts purchased by the CAPP Division totaled \$7 and were included in net and comprehensive loss from discontinued operations, net, in the condensed interim consolidated statements of operations and comprehensive income (loss) for the nine months ended September 30, 2018.
- (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 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, 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 for the nine months ended September 30, 2018. These amounts were reflected in net and comprehensive loss from discontinued operations, net in the 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. There were no related party coals purchased during the three months ended September 30, 2019. For the nine months ended September 30, 2019, the Company recognized \$74 in cost of sales in the condensed interim consolidated statements of operations

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and comprehensive income (loss). For the three and nine months ending September 30, 2018, the Company recognized \$3,372 and \$7,981, respectively, in cost of sales in the condensed interim consolidated statements of operations and comprehensive income (loss) related to these coal purchases.

Included in accounts payable and accrued liabilities at December 31, 2018 is \$43 due to related parties, as a result of the transactions noted above. No accounts payable and accrued liabilities due to related parties existed at September 30, 2019. Included in accounts receivable at September 30, 2019 is \$10 related to tax withholdings on behalf of QEP, which are to be reimbursed to the Company. These amounts are unsecured and non-interest bearing.

22. Segment Disclosures

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

NAPP is a distinct operating segment based on its metallurgical coal operations and location in the U.S. along the Northern Appalachia coal belt. The Company’s corporate office provides support and manages the mining investments. The amounts charged for transactions between reportable segments were measured at the exchange value, which represented the amount of consideration established and agreed to by the reportable segments.

	For the three months ended September 30, 2019		
	NAPP	Corporate	Total
Revenues	\$ 58,085	\$ —	\$ 58,085
Cost of sales	(53,495)	(32)	(53,527)
Gross margin	4,590	(32)	4,558
Selling, general and administrative expenses	(2,994)	(1,019)	(4,013)
Income (loss) from operations	1,596	(1,051)	545
Net finance expense	(534)	(1,249)	(1,783)
Other income (expense)	3,636	(1,365)	2,271
Income (loss) before tax	4,698	(3,665)	1,033
Current income tax (benefit) expense	—	—	—
Deferred income tax expense	—	—	—
Provision for income taxes	—	—	—
Net income (loss) from continuing operations	4,698	(3,665)	1,033
Net loss from discontinued operations, net	—	—	—
Net income (loss)	\$ 4,698	\$ (3,665)	\$ 1,033

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	For the nine months ended September 30, 2019		
	NAPP	Corporate	Total
Revenues	\$ 178,393	\$ —	\$ 178,393
Cost of sales	(158,350)	(96)	(158,446)
Gross margin	20,043	(96)	19,947
Selling, general and administrative expenses	(8,626)	(4,097)	(12,723)
Income (loss) from operations	11,417	(4,193)	7,224
Net finance income (expense)	108	(3,278)	(3,170)
Other income (expense)	4,949	(1,365)	3,584
Income (loss) before tax	16,474	(8,836)	7,638
Current income tax (benefit) expense	—	—	—
Deferred income tax expense	—	—	—
Provision for income taxes	—	—	—
Net income (loss) from continuing operations	16,474	(8,836)	7,638
Net loss from discontinued operations, net	—	—	—
Net income (loss)	\$ 16,474	\$ (8,836)	\$ 7,638

	For the three months ended September 30, 2018			
	NAPP	Discontinued Operations	Corporate	Total
Revenues	\$ 61,561	\$ —	\$ —	\$ 61,561
Cost of sales	(56,923)	—	—	(56,923)
Gross margin	4,638	—	—	4,638
Selling, general and administrative expenses	(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)
Current income tax (benefit) expense	—	—	—	—
Deferred income tax expense	—	—	—	—
Provision for income taxes	—	—	—	—
Net income (loss) from continuing operations	2,595	—	(4,065)	(1,470)
Net loss from discontinued operations, net	—	—	—	—
Net income (loss)	\$ 2,595	\$ —	\$ (4,065)	\$ (1,470)

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	For the nine months ended September 30, 2018			
	NAPP	Discontinued Operations	Corporate	Total
Revenues	\$ 199,340	\$ —	\$ —	\$ 199,340
Cost of sales	(182,749)	—	—	(182,749)
Gross margin	16,591	—	—	16,591
Selling, general and administrative expenses	(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)
Current income tax (benefit) expense	—	—	—	—
Deferred income tax expense	—	—	—	—
Provision for income taxes	—	—	—	—
Net income (loss) from continuing operations	5,470	—	(9,872)	(4,402)
Net loss from discontinued operations, net	—	(813)	—	(813)
Net income (loss)	\$ 5,470	\$ (813)	\$ (9,872)	\$ (5,215)

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

	For the three months ended September 30, 2019			For the three months ended September 30, 2018		
	USA	Canada	Total	USA	Canada	Total
Revenue	\$ 58,085	\$ —	\$ 58,085	\$ 61,561	\$ —	\$ 61,561
Net income (loss) from continuing operations	\$ 1,731	\$ (698)	\$ 1,033	\$ (123)	\$ (1,347)	\$ (1,470)
	For the nine months ended September 30, 2019			For the nine months ended September 30, 2018		
	USA	Canada	Total	USA	Canada	Total
Revenue	\$ 178,393	\$ —	\$ 178,393	\$ 199,340	\$ —	\$ 199,340
Net income (loss) from continuing operations	\$ 9,946	\$ (2,308)	\$ 7,638	\$ (236)	\$ (4,166)	\$ (4,402)
	At September 30, 2019			At December 31, 2018		
	USA	Canada	Total	USA	Canada	Total
Non-current assets	\$ 225,062	\$ —	\$ 225,062	\$ 227,672	\$ —	\$ 227,672
Total assets	\$ 275,766	\$ 85	\$ 275,851	\$ 283,215	\$ 85	\$ 283,300

23. Commitments and Contingencies

Litigation

In January 2016, Italian steel company, Lucchini S.p.A. (“Lucchini”), filed a claim (the “Lucchini Claim”) for \$52,000 against PBS Coals, Inc. in the Livorno (Italy) Tribunal. The Lucchini Claim arose from coal purchase and sale transactions between PBS Coals, Inc., as seller, and Lucchini, as purchaser. The transactions all occurred between November 2010 and April 2012, before Corsa acquired PBS Coals, Inc. in August 2014 (the “PBS Transaction”). The Lucchini Claim alleged that during the relevant time period, both PBS Coals, Inc. and Lucchini were owned and/or controlled by OAO Severstal and/or entities controlled by Alexey Mordashov (the “Mordashov Group”). According to the Lucchini Claim, among other things; (i) PBS Coals, Inc. sold Lucchini \$52,000 of coal between October 2010 and November 2011; (ii) under Italian law, insolvent companies, such as Lucchini, may claw back payments from a group of companies without regard to value given; (iii) Lucchini was insolvent at all relevant times; (iv) PBS Coals, Inc. was part of the OAO Severstal/ Mordashov Group at all relevant times; (v) PBS Coals, Inc.’s knowledge of the insolvency can be imputed, and (vi) PBS Coals, Inc. had actual knowledge of the insolvency.

In January 2019, PBS Coals, Inc. settled the Lucchini Claim for a cash payment of \$2,500 and legal fees and other expenses of \$211.

Miscellaneous Litigation

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

Redevelopment Assistance Capital Award

In September 2016, the Company was notified that it was awarded \$3,000 in funding under the Pennsylvania Redevelopment Assistance Capital Program to develop an underground coal mine in Somerset County subject to certain conditions, including but not limited to: (i) completing the Redevelopment Assistance application; (ii) confirmation that at least 50% of the required non-state funds necessary to complete the project are secured at the time of application; (iii) execution of a grant agreement; and (iv) commencement of construction within six months of the final grant agreement. Once all the conditions have been met, the grant will be released on a periodic basis and the Company will be reimbursed for certain expenditures. 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%, or \$150 was received in the third quarter of 2019.

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 the SMC in order to determine the quantity and value of coal required to be left in place as a result of 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. On July 23, 2019, the SMC issued a ruling which confirmed that the support coal was mineable and awarded damages to PBS Coals, Inc. in the amount of \$3,530 together with delay damages calculated from April 27, 2010 to the date of payment at an annual rate equal to the prime rate as listed in the first edition of the Wall Street Journal published in the year plus 1%, adjusted annually not compounded. After considering the contingent legal fees the Company is obligated to pay, the award to PBS Coals, Inc. is currently estimated at \$3,394 and has been included in other income in the condensed interim consolidated financial statements as no appeal of the SMC ruling was filed.

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In addition to the SMC proceeding, PBS Coals, Inc. also filed certain Petitions for the Appointment of Board of Viewers Where No Declaration of Taking Has Been Filed. A Board of Viewers has been formed but no hearings will take place until after the SMC ruling and other related appellate filings become final. As such, the Company has not recognized this contingent receivable and cannot provide a reasonable estimate for the potential magnitude of these claims.