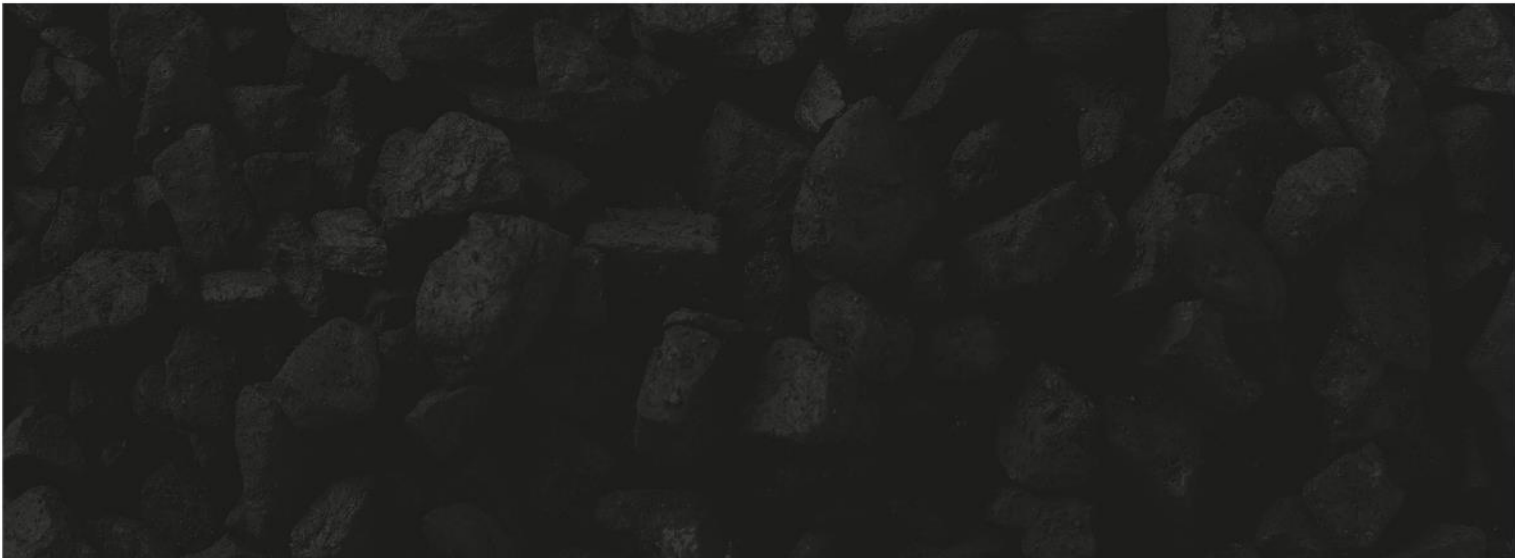


Annual Report 2016



DIRECTORS

Robert Bell (Executive Chairman) (appointed 31 August 2015)
James Chisholm (appointed 25 October 2011)
Cameron Vorias (appointed 3 July 2014)
Steven Boulton (appointed 22 August 2014)
John Wasik (appointed 31 August 2015)

COMPANY SECRETARY

Theo Renard (appointed 1 March 2015)

REGISTERED AND PRINCIPAL OFFICE

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Telephone: (08) 9315 2333

Facsimile: (08) 9315 2233

AUDITORS

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

SOLICITORS

Australia

Maddocks
Level 27, Angel Place
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Sydney NSW 2000

Minter Ellison
40 Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Canada

McCarthy Tetrault
777 Dunsmuir Street
Vancouver BC V7Y 1K2

AUSTRALIAN SECURITIES EXCHANGE

Atrum Coal NL shares (ATU) are listed on the Australian Securities Exchange.

Dear Shareholders,

Welcome to the 2016 Annual Report for Atrum Coal NL (ASX: ATU) (Atrum or the Company). While our Company faced a challenging year in some areas, we have also overcome a number of significant obstacles, and have successfully reached several important milestones in our development. We finished the year in a strong position, which has been reflected in a much better performing share price.

Throughout the year, Atrum continued its work in advancing towards production at the Groundhog Project - the world's largest undeveloped anthracite deposit, located in British Columbia, Canada. With Groundhog as the cornerstone project, Atrum has the attributes to become a long-term supplier of choice to the global specialty carbon industry, and the potential to become the largest supplier of exported ultra-high grade anthracite globally.

Several significant milestones have been accomplished in recent months, the most notable of which was obtaining a Bulk Sample Permit for Groundhog North. This, and associated permits, allow the Company to commence mining activities and to extract up to 100,000 tonnes of anthracite to supply customers with trial cargoes of our premium product, Groundhog 10% ash anthracite. This important milestone brings to life the Groundhog North Mining Complex, marking the next important step in development of the mining project.

We have continued discussions with potential off-take partners throughout 2016. Subsequent to year-end, the Company signed a Memorandum of Understanding with a European supplier of high value carbon products, which is intended to support Atrum's strategy of developing sales channels for high-margin carbon products.

Atrum undertook a revised Pre-Feasibility Study for a large-scale underground mine within Groundhog North. A number of development options were identified and subsequently assessed, arriving at a preferred go-forward case. Supporting this study, several low-cost entry methods into production were also developed. These have the aim of providing earlier cashflows along with a reduced outlay of capital expenditure and provide Atrum with a lower-cost path to developing the overall plan as selected in the Pre-Feasibility Study.

Atrum has commenced engagements with potential strategic investors in relation to moving Groundhog through its next stages of development, and I look forward to providing details of the outcome of these discussions.

Earlier this year we reached settlement in regards to Western Australian Supreme Court and Federal Court proceedings involving former Atrum Directors and we are pleased the issue has now been settled amicably. As part of the settlement Atrum secured five additional tenements that will be amalgamated into Groundhog East and a future royalty payment from other adjacent tenements. We will now continue our focus toward the development of Groundhog North and the growth of our Company.

Atrum has worked to establish a strong leadership and management team that has the experience necessary to take our Company to the next phase of development and ultimately, production. I have joined the Board as Executive Director and Chairman with the hope of using my extensive background in the Canadian coal sector to the Company's advantage. Former Chairman James Chisholm remains on the Board as a Non-Executive Director, continuing to work closely with the Company, and I am thankful for his efforts while at the helm of Atrum and for his ongoing efforts to support the Company's success.

Another significant appointment was that of Ann Marie Hann as our Vice President External Relations. Ann Marie has significant advocacy experience, having previously served as President of the Coal Association of Canada and in senior provincial government roles. In her role with Atrum, Ann Marie is responsible for managing relations with governments, Aboriginal groups, communities and non-government organisations. We are very pleased to have her on board in a role so important to our continued success.

Post year-end, Atrum entered an agreement to acquire a 26.68 per cent stake in Atlantic Carbon Group PLC (ACG), a public, but unquoted, anthracite mining company operating in Pennsylvania, USA. The Company then advised ACG of its intention to conduct due diligence with the aim of making an offer for all the shares and warrants in the ACG. However, the tight timeframes required by the UK Takeover Code and the difficulty in conducting due diligence on various US subsidiaries has resulted in a decision by Atrum not to pursue the purchase of ACG shares and warrants either at a minority or controlling level. The Company is in discussions with ACG in relation to a possible alternative transaction involving ACG. At the same time, the Company entered an agreement with ACG to supply up to 100,000 tonnes of sized anthracite to export customers, which is intended to enhance Atrum's connectivity with European and Asian customers to establish the Company's presence in export markets as we develop the Groundhog Project.

The potential acquisition of a producing anthracite asset in eastern North America is of strategic interest to Atrum. It would provide immediate access to anthracite markets in Europe and eastern North America that are natural markets for that region, as well as South America and Asia. It would also provide the first step in Atrum becoming a global supplier of anthracite as we develop our first mine in Groundhog North.

A further positive development that took place after year end was the successful initiation of a Joint Exploration Agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC) to evaluate the Panorama North Project area over three years. JOGMEC will invest \$5 million to earn up to a 35% equitable interest in Panorama North which is a highly prospective exploration area for anthracite. The exploration program has just been completed and initial results look encouraging. We are very excited to be evaluating another area of the massive Groundhog anthracite field adjacent to our flagship Groundhog North project area. We have been strongly supported by our joint venture partner JOGMEC, and our Aboriginal Partners, and for that Atrum is very appreciative.

I thank our staff, management, and my fellow Board members for their tireless efforts over the past twelve months. I would also like to express appreciation to our shareholders for their continued support. As metallurgical coal prices surge, the Company is well positioned for growth in 2017 and beyond. We expect the coming year to be another busy one for Atrum as we plan bulk sample mining at Groundhog to move the project closer to production, conduct more extensive drilling at Panorama North, and establish anthracite exports from Pennsylvania.

The plans for developing Atrum into a world-leader in anthracite supply are on track, and will continue to be realised throughout the coming year.

Robert Bell

OPERATIONS REVIEW

Company Overview

Atrum Coal NL (ASX:ATU) is an emerging metallurgical coal explorer and developer. The Company has a substantial coal position in British Columbia, Canada which, as a region boasts:

- Abundance of high quality anthracite coals
- Well-developed rail and port infrastructure with excess capacity
- Access to deep sea ports
- Competitive shipping distance to Asia
- Positive government stance on mining

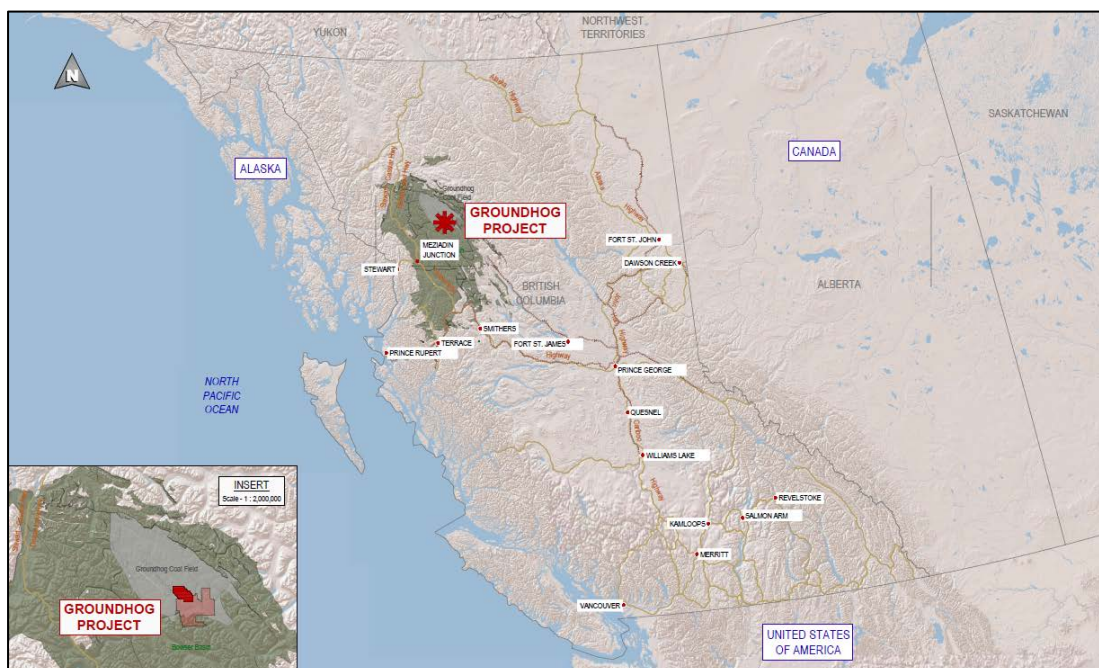
Atrum is developing the world's largest high grade anthracite deposit at Groundhog, which has a JORC resource of 1.57 billion tonnes of anthracite. Our Board of Directors and Management Team have a strong track record in identifying and developing world-class coal assets.

Groundhog Project, British Columbia

Background

The Groundhog Anthracite Project (Groundhog) is located in the Groundhog Coalfield in the northern part of the Bowser Basin in north-western British Columbia, approximately 890km northwest of Vancouver, 150km northeast of Stewart, and 300km northeast of Prince Rupert. The project is located near key mining infrastructure including rail, port, road, power and water facilities. It is 150km north-east of a deep-sea port in the town of Stewart.

Groundhog now comprises 88 granted coal licenses covering an area of more than 800km². Forty-two (42) of these licenses were converted from license applications in September 2016. Our tenements are prospective for high-grade and ultra-high-grade anthracite suitable for use in blast furnace steelmaking, the manufacture of specialty steels and alloys in electric arc furnaces, as filter media, feedstock for chemical production and an economic alternative to graphite for industrial applications.



Groundhog Anthracite Project Location

The Company has devised plans for multiple production areas within the Groundhog Coalfield, beginning with the Groundhog North Mining Complex. Atrum completed studies after the 2014 drilling program to ascertain the scale of potential mines at the Groundhog North Mining Complex which comprises multiple mines feeding a common Coal Handling and Preparation Plant (CHPP). Since year-end, the Company has also entered an exploration agreement with JOGMEC to evaluate the Panorama North region, southwest of Groundhog North, which is highly prospective for ultra-high grade anthracite. The Company has also evaluated historical results and historical development plans for Groundhog Central, another highly prospective area that has a number of boreholes and a concept study already completed.

The Company is exploring possible engagements with partners in the region to help accelerate the development of the Groundhog North Mining Complex. A number of parties have expressed interest in possible joint ventures through the purchase of an interest in Groundhog North. A data room has been established, and the Company continues to update it with technical information. Several parties have expressed interest in reviewing the Company's information in addition to those that have already entered the data room.

Operational activities

Bulk Sample Permit

A significant achievement for Atrum this year was securing the permits necessary to allow the mining of up to 100,000 tonnes of anthracite from Groundhog North (refer to ASX Announcement dated 9 May 2016 'Bulk Sample Permit Received' for further information). Granted in May 2016, two key permits included:

- (a) an amendment to Atrum's Mineral & Coal Exploration Activities and Reclamation Permit (also known as "Bulk Sample Permit") to mine the bulk sample; and
- (b) a Special Use Permit to use an existing railbed subgrade for land access to move equipment to the mine site and to transport the sample to the railway connection point.

Receipt of these permits has enabled Atrum to advance more detailed planning of the bulk sample mining activities, with a total bulk sample size of up to 100,000 tonnes approved for extraction by surface and underground mining methods to supply customers' trial cargoes of Groundhog Ultra High Grade anthracite. The ultra-high grade lump and fine anthracite produced from the bulk sample are expected to be sold to customers for trials in blast furnace and sinter plants, with the potential to provide a portion of the product for beneficiation for specialty industrial users. These customer trials will assist the Company to secure long-term offtake agreements for supply of Groundhog Ultra High Grade anthracite.

Preliminary works, including engineering design, contractor selection and commercial discussions with the rail provider, are underway. Ground access to Groundhog will aid in reducing operating costs and creating the initial supply chain to the market place and customers.

Exploration

Exploration activities focused on consolidating knowledge of the two key economic target seams, namely the Discovery B seam and the lower Duke E seam. Significantly improved float sink yields for the Duke E seam (yields ~80%, compared to previous average yields of ~60%) were identified in the

Eastern Resource Block of Groundhog North that provide the potential for economic development once the area has been further explored.

Additional field mapping undertaken in the September Quarter 2015 identified more outcropping anthracite seams, this time very close to the planned Bulk Sample area. Geological interpretation, sampling and coinciding quality results validated it as the Duke E seam.

Updated Pre-Feasibility Study

The Company completed an updated Pre-Feasibility Study (PFS), which includes underground mines in the Discovery B and Duke E horizons, and low cost highwall options in Discovery B and Duke E seams (refer to ASX Announcement dated 22 June 2016 'Updated Pre-Feasibility Study' for further information).

A phased approach to entering into production is included in the development plan for Groundhog North, commencing with a low capital cost mine of 880,000 saleable tonnes per year (Phase 1).

The smaller Phase 1 mine will allow the Company to:

- Establish operations in the area;
- Prove the logistics chain for transporting larger amounts of product;
- Continue to develop long term and sustainable relationships with the Company's Aboriginal Partners;
- Train Aboriginal and local personnel to build a workforce that will support sustainable, long-term operations;
- Establish customer channels;
- Investigate alternative high value markets;
- Increase debt funding potential for the larger mine development, providing superior shareholder returns by leveraging greater debt servicing ratios from cash reserves;
- Generate early cash flows, not just for the Company, but for local families, contractors, communities, and government; and
- Build credibility with a range of key stakeholders, including parties interested in the Company's growth and value potential.

The Company has started engaging with potential strategic investors in relation to funding the bulk sample extraction and, subject to permitting, a low capital cost Phase 1 mine development. Another option being considered by the Company at present is for a low cost 250,000tpa mine following the outcropping and shallow Duke E seam. This will be progressed in the coming year.

Marketing and Offtake Negotiations

Atrum has continued to discuss offtake agreements with multiple prospective anthracite consumers, and received a number of new enquiries from traditional ferrous industry participants. More recently, enquiries have been received from consumers of specialised carbon products. The bulk sample will assist customers to assess the suitability of Groundhog Ultra-High Grade anthracite in their processes. Potential customers are a key avenue to assist with funding of the development of the Phase 1 mine. Several groups have been investigating the technical details of the Groundhog project in Atrum's virtual data room. Given the continuing strong demand for anthracite in the seaborne market, the Company is investigating various ways to accelerate the Company's projects and supply ultra-high grade anthracite that remains structurally undersupplied.

Subsequent to year-end, Atrum entered into a non-binding Memorandum of Understanding with a European manufacturer and supplier of specialised carbon products, which set out the principles for negotiating an eventual Coal Sale and Purchase Agreement (refer to ASX Announcement dated 8 July 2016 'Update on Specialist Anthracite and Carbon Markets' for further information). This Agreement will support the sale of anthracite product from Groundhog North as feedstock for the counterparty's manufacturing process. This non-binding MoU is a key step in executing a diversified sales profile for Groundhog, and entering a growing market of highly valued specialised carbon products.

Routes to Export

Stewart World Port, where Atrum plans to load anthracite mined at Groundhog, completed construction of its berth during the September Quarter and began designing a loader capable of loading lump and fine anthracite. Discussions with Stewart World Port have highlighted the Port Authority's desire to service multiple customers in the region and meet the loading needs of this emerging minerals province.

Atrum also progressed discussions on the various routes to port. International consumers of anthracite are making contact with the Company to enquire as to timing of samples and deliveries of anthracite suitable for a range of applications.

Anthracite Market

Hard coking coal prices were subdued for much of the financial year, but demand for anthracite remained strong and anthracite prices continued to outperform other metallurgical coals. Since year end, hard coking coal prices have increased dramatically, and it is expected that anthracite pricing will follow, particularly as its principal competitor product, being metallurgical coke, increases in cost due to higher coking coal prices.

The supply of anthracite export production continued to decrease over the course of this year. Total exports in 2015 were ~19Mt, down more than 50 per cent in the past five years. The 2016 financial year closed at the end of June with anthracite prices reported for northern Europe at approximately US\$150/t for lumps and US\$100/t for fines. Since then prices have been on the rise reported as US\$160 – 170/tonne for lump and US\$120 – 130/tonne for fines landed into Northern Europe and further increases are expected as coking coal prices remain strong.

Panorama North Project, British Columbia

The Panorama North Project is approximately 15km southwest and contiguous with the Groundhog Project in British Columbia, Canada. It comprises 12 granted coal licenses over an area of approximately 7,359 hectares. Until last month, no drilling has been conducted in this area with the exception of shallow auger holes. Under JORC 2012 Guidelines, it is considered an area of interest only. The entire Panorama area comprises 30 coal licenses covering an area of 27,970 hectares including Panorama North, Panorama South and Panorama West.

On 29 August 2016 the Company announced it entered into a Joint Exploration Agreement (JEA) with Japan Oil, Gas and Metals National Corporation (JOGMEC). Under the agreement, JOGMEC will spend up to C\$5.0 Million in cash or in kind over three years in return for an up to 35% equitable interest in the Panorama North Project. A small drilling program was completed at Panorama North over a four-week period in October 2016 and the Company looks forward to providing results later in the year.



Drilling operation at Panorama North



Panorama North core logging operation – coal intersection

CORPORATE

Financing

During the September Quarter, the Company raised approximately \$8 million via an Entitlement Issue and Placement (refer to ASX Announcement dated 3 September 2015 'Atrium Coal closes \$3m discretionary placement' for further information). Amongst other uses, this allowed Atrium to make

other payments in relation to past tenement acquisitions, site activities to prepare Groundhog for winter, submissions of supporting environmental reports relating to the Bulk Sample, and legal and administration costs.

In the December Quarter, the Company elected to extend the repayment term for the Anglo Pacific PLC promissory note by issuing 1,000,000 (\$0.80) options to Anglo Pacific PLC (refer to ASX Announcement dated 29 January 2016 'December 2015 Quarterly Activities and Cash Flow Report' for further information).

Anglo Pacific Promissory Note

The balance of Atrum's promissory note, payable to Anglo Pacific Group PLC, valued at US\$1.4 million (including principal and accrued interest), was settled by the way of US\$0.6 million in cash along with the issue of the following new royalty:

- 0.5% of FOB port selling price royalty ("Royalty") over all production within Atrum's Groundhog Anthracite Project tenements for a period of 10 years from the date that Atrum commences commercial production on the project; and subsequently
- 0.1% Royalty from production within the Groundhog North Mining Complex,

(refer to ASX Announcement dated 4 April 2016 'Settlement of Anglo Pacific Promissory Note' for further information).

Any Royalties payable will not materially impact Atrum's revenue, financial performance, or shareholders as they will only be payable once commercial production commences on the project.

Convertible Notes

In the March Quarter, Atrum entered into convertible notes for a total of A\$2,902,393. Convertible note holders had the option to convert at \$0.50 at any time or a 10% discount to the 10-day VWAP of ATU shares, whichever is higher. By 16 May 2016, most note holders had already converted their notes, with Atrum issuing 3,694,000 fully paid ordinary shares to the investors plus the same amount of options for fully paid ordinary shares with an exercise price of \$0.60 each, with an exercise period from issue until 2 July 2018 (unless extended for each day of a trading halt or voluntary suspension). (Refer to ASX Announcement dated 21 April 2016 'Issue of Shares on conversion of Convertible Notes' and ASX Announcement dated 16 May 2016 'Conversion of Convertible Notes' for further information).

The convertible notes also include a royalty component in respect of Atrum's Groundhog North project whereby each investor is entitled to A\$2.00 for each tonne of high-grade or ultra-high-grade anthracite produced for the first 1 million tonnes of production over and above a threshold production of 100,000 tonnes, multiplied by that investor's proportion (expressed as a percentage) that their commitment under the relevant Convertible Note bears on the aggregate of all of the investors' commitments under the Convertible Notes.

In the June Quarter, further convertible notes were converted. Atrum issued a total of 8,198,786 fully paid ordinary Atrum shares at a price of \$0.50 per share and an equal amount of options for fully paid ordinary Atrum shares with an exercise price of \$0.60 each and an expiry date of 7 July 2018 (refer to ASX Announcement dated 29 July 2016 'Quarterly Activities and Cashflow Report' for further information).

The conversion of these notes and issue of shares raised \$4,100,000. After year-end, Atrum confirmed that it had issued a further 541,964 fully paid ordinary Atrum shares at a price of \$0.54

per share (refer to ASX Announcement dated 15 August 2016 'Convertible Notes and Conversion of Advance and Money Owing under Convertible Notes' for further information). With these conversions, Atrum has no further convertible notes on issue.

Exercise of Options

A total of 4,300,000 options at an exercise price of \$0.30 each were exercised during the June Quarter, raising \$1,290,000. Atrum had 199,451,746 shares on issue at 30 June 2016.

Board and Management Changes

On 27 July 2015, Atrum announced the appointment of Mr. Robert (Bob) Bell as Non-Executive Director. Mr. Bell's appointment was approved by Atrum shareholders at the 2015 Annual General Meeting along with the appointment of Mr. John Wasik as Non-Executive Director. On 17 November 2015, Mr. Bell was appointed Executive Chairman, taking over the role from James Chisholm, who remains a Non-Executive Director.

Mr. Bell is a Mining Engineer with more than 28 years' experience in the Canadian coal industry and international coal markets. He has executive management experience with a strong focus on coal marketing and rail, port and marine logistics. In addition, he brings experience in mine planning and operations, finance and treasury, capital projects oversight and business development.

Mr. Wasik has worked in the mining sector over 40 years, holds a BSc in Minerals Exploration and is a graduate member of the Australian Institute of Company Directors. He was Group Executive for Peabody Energy Corporation's Southwest Operations in North America for five years overseeing more than 20 Mtpa of coal production in Arizona, New Mexico and Colorado. Mr. Wasik is also a Non-Executive Director of Kuro Coal Ltd., a subsidiary of Atrum, and Cobbora Holding Co., a permitted coal mine in NSW owned by the NSW State Government.

Ann Marie Hann, former head of the Coal Association of Canada, was appointed Vice President External Relations on 7 December 2015. Ann Marie has extensive experience working with stakeholders in the coal and energy industries and with senior levels of government. Her addition to the Company ranks is already paying dividends, with her engagement with the BC Government instrumental in securing the Bulk Sample Permit. She is building on positive working relationships with a number of aboriginal groups who have interests in our project areas.

Settlement of Litigation

Subsequent to year-end, Atrum announced that an agreed settlement had been reached in both Western Australia Supreme Court proceedings (CIV 1866 of 2015) and the Federal Court of Australia proceedings (NSD1334 of 2015) involving former Company directors Messrs. Moran and D'Anna. These have been dismissed by consent by both parties.

As part of the settlement, Atrum secured five tenements that will be amalgamated with the Company's Groundhog East tenure. As well, Atrum has secured future royalty payment from BC Anthracite tenements. This includes a 1.5% ex-mine gate royalty over twenty-five BC Anthracite tenements and a 0.5% ex-mine gate royalty over six tenements.

Both companies have also agreed to work together to develop infrastructure solutions for the Groundhog region, with the aim of sharing the costs of infrastructure development.

Acquisition of Shares in Atlantic Carbon Group PLC

Post year-end, Atrum entered an agreement to acquire a 26.68% stake in Atlantic Carbon Group PLC (ACG), a public, but unquoted, anthracite mining company operating in Pennsylvania, USA. The acquisition was subject to certain conditions including, inter alia, final due diligence, funding and Atrum shareholder approval.

ACG is a high grade and ultra-high grade anthracite producer with operations in north eastern Pennsylvania, USA. It operates mines and processing plants near the town of Hazleton, Pennsylvania. The Stockton mine is an established anthracite mine and is the top anthracite producing pit in the USA, according to ACG's records.

On 11 August 2016, Atrum announced it had entered into an Option Agreement with ACG to supply Atrum with up to 100,000 tonnes of size anthracite which Atrum intends to sell to various Atrum target customers in Europe, South America and Asia in the Fall of 2016. The companies will share profits from these sales on a 50/50 basis.

On 20 September 2016, the Company announced that it had approached ACG in relation to making a possible takeover offer for all of the shares issued by ACG. Under the UK City Code on Takeovers and Mergers, following an application to the UK Takeover Panel, Atrum had until 5 pm on 26 October 2016 (UK time) before it was required to either announce its intention to proceed with the takeover offer (and announce the terms of the offer) or announce that no offer would be submitted.

Due to the time constraints of the UK City Code and the difficulty in sourcing information from regulators in relation to ACG's US subsidiaries, the Company announced on 27 October 2016 that no offer will be submitted for all of the shares of ACG and that it has terminated the agreement to purchase a 26.68% minority stake. As of the end of October, the Company is in discussions with ACG in relation to a possible alternative transaction involving ACG.