

**Registered number: 05315929**

**ATLANTIC CARBON GROUP PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2016**

# ATLANTIC CARBON GROUP PLC

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# ATLANTIC CARBON GROUP PLC

## COMPANY INFORMATION

For the year ended 31 December 2016

**Directors** Adam Wilson (Executive Chairman)  
Stephen Best (Managing Director)  
Peter Chinneck (Non-Executive Director)  
George Roskos (Executive Director) appointed 1 November 2016

**Company Secretary** Heytesbury Corporate LLP

**Registered Office** 200 Strand  
London WC2R 1DJ

**Company Number** 05315929

**Independent Auditor** PKF Littlejohn LLP  
Statutory Auditor  
1 Westferry Circus  
Canary Wharf  
London E14 4HD

# ATLANTIC CARBON GROUP PLC

## CHAIRMANS STATEMENT

For the year ended 31 December 2016

The acquisition of Hazleton Shaft Corporation ("HSC") was completed on 1<sup>st</sup> June, 2016 realising one of the Company's strategic objectives in that Atlantic Carbon Group plc ("ACG") is now the largest US producer of anthracite.

The excellent performance at Stockton Mine in 2015 represented the fruition of the Company's mining operations strategy with full commissioning of new plant and equipment and improved management and mining practice. Stockton, however, has limited reserves and the Company clearly needed the security of additional high quality reserves which the HSC acquisition gave us increasing reserves from 1.7 to over 9 million tons of anthracite product.

The latter half of 2016 saw us integrating the two companies and applying our successful approach at Stockton to the HSC operations. This involved major improvements to the Hazleton Shaft washing plant lifting its annual run of mine processing capacity to 1 million tons a year and the conversion of Jeansville Mine from dragline to shovel and truck operation with new Komatsu excavators and mine trucks acquired in a \$20 million asset backed lease deal. This also entailed over \$1.5 million one off expenditure but will stand us in very good stead for the future.

Weak anthracite prices were a significant negative feature of 2016 with average prices falling over 25% compared with 2015 due to a combination of yet another warm winter in north east USA and cheap anthracite exports from Russia and Breakaway East Ukraine (via Russia) which have depressed industrial prices.

A combination of the costs of the HSC acquisition and subsequent capital expenditure to upgrade and develop the HSC operations, depreciation on new mining plant, together with weak anthracite prices saw us make a loss of \$12.7 million. However, I am happy to report that in Q1 2017, with our improvements at ACG mining and processing operations now largely completed, we moved back to the performance levels we saw in 2015 with a very positive EBITDA of \$1 million.

The HSC 50% stake in the Hazleton Hiller anthracite drying plant on the Hazleton Shaft site also provides us with a secure market of 150,000 tons a year to the steel and foundry markets. This, and the possibility of a further expansion of the drying plant, gives the Company the confidence to further develop our operations.

While relatively low anthracite prices have clearly had a negative effect on our performance in 2016, the new US Government's focus on reviving American industries, particularly coal and steel, and our new export and North American marketing agreements, does give us optimism that prices will strengthen as Government policies are implemented.

All things considered we are therefore able to look forward positively for the remainder of 2017.

Finally, I would like to thank all our employees, including our new colleagues at HSC operations, and our new member of the ACG Board, George Roskos, for their cooperation and performance in 2016 which gives us great confidence going forward.



**Adam R Wilson**  
Chairman

16 May 2017

# ATLANTIC CARBON GROUP PLC

## STRATEGIC REPORT

For the year ended 31 December 2016

The Directors of the Company and its subsidiary undertakings (which together comprise 'the Group') present their Strategic Report for the year ended 31 December 2016.

### Business Review - Acquisition of Hazleton Shaft Corporation

The acquisition of Hazleton Shaft Corporation ("HSC"), an integrated anthracite mining and processing company operating in the Hazleton area of Pennsylvania near the Company's Stockton Mine, was completed on 1<sup>st</sup> June, 2016

HSC operates two anthracite surface mines: Hazleton Shaft, immediately adjacent and to the west of Stockton Mine and Hazleton Shaft South, also known as Jeansville, 3.5 miles south west of Stockton Mine. HSC also operates a washing plant at the Hazleton Shaft site and owns a 50% stake in the Hazleton Hiller anthracite drying plant on the Hazleton Shaft site.

As previously reported the Company has been seeking to expand its position in the Pennsylvania anthracite market for some time with a view to securing good quality reserves, increasing market share and achieving more efficient production. The HSC mines and preparation plants make the perfect fit to achieve this with high quality reserves and both primary and secondary preparation plants which will enable the Company to not only massively expand production but also to make inroads into the added value processed anthracite and carbons market."

Recoverable anthracite reserves on the HSC properties amounts to over 7,000,000 tons of clean anthracite. In addition, there are additional unquantified reserves of unmined anthracite, waste anthracite and silt on two further properties, Beaver Brook and Sandy Run. The Sandy Run silt deposit is currently being worked by a contractor which supplies anthracite to the HSC washing plant.

As well as integrating the mining, processing and administrative operations of HSC and Coal Contractors, the ACG wholly owned subsidiary which operates Stockton Mine, substantial capital investment also took place in H2 2016 to upgrade the HSC operations using best practice as developed at Stockton Mine.

Three project were of particular significance:

- (1) Jeansville Mine was operated by dragline operation which although relatively cheap in terms of excavation cost per cubic yard is not well suited to the steeply pitching and multi seam mines in much of the Pennsylvania anthracite coalfields being inflexible and resulting in considerable wastage of coal particularly from the thinner seams. Stockton was successfully converted from dragline to shovel and truck, ie hydraulic shovel and mine truck, operation utilising modern Komatsu mining equipment and the same approach was taken at Jeansville with \$20 million of new leased Komatsu plant. This also involved substantial re-engineering of the pit which took place August to October 2016 with one off expenditure of over \$1.2 million and will enable Jeansville Mine to operate efficiently for some years to come.
- (2) The Hazleton Shaft washing plant processed a combination of run of mine ("ROM") anthracite, bank material (anthracite spoil from underground mining) and silt (fine anthracite discard from old washing plants or "breakers" as they were known). ACG's strategy is to concentrate production on high quality anthracite and this required modifications and improvements to the Hazleton Shaft plant which were completed towards the end of 2016 with one off capital expenditure of approx. \$500,000. The plant now has an annual ROM processing capacity of 1 million tons.
- (3) A new rail loadout terminal was developed adjacent to the Hazleton Hiller Drying Plant and Hazleton Shaft washing plant shipping anthracite from both facilities.

### Reserves

The limited reserve base at Stockton was one of the main reasons driving the Company strategy to acquire new mining assets and the acquisition of HSC provided increased the Company's reserve base from 1.7 to over 9 million tons of clean anthracite with substantial, but unquantified, reserves of anthracite culm (bank material) and silt at Hazleton Shaft, Beaverbrook and Sandy Run.

The value of the Pott and Bannon reserve site was written off in 2016. When the site was acquired anthracite prices were over 40% higher than they are currently and developing a new mine on this site cannot be justified in the current circumstances. This situation was, together with the limited reserves at Stockton, instrumental in informing the Company's decision to acquire HSC. The acquisition of HSC with its two operational mines and processing plants provided the Company with both substantial reserves and a productive capability from "day one" obviating the need for substantial mine development costs as would have been the case at Pott and Bannon.

The Company has been advised that it has a compensation case against the lessor of the Pott and Bannon site, Reading Anthracite Company, and will be pursuing this in the current year.

# ATLANTIC CARBON GROUP PLC

## STRATEGIC REPORT

For the year ended 31 December 2016

### Mining Operations

Mining operations in 2016 were concentrated at the Stockton and Jeansville Mines.

Two “bottom of basin” cuts were completed at Stockton in 2015, the second of these being “coaled out” at the end of December producing a large inventory of ROM anthracite at the beginning of 2016. Mining operations continued at Stockton but were paused August to December, after the HSC acquisition, to concentrate on operations at Jeansville Mine.

A major abandoned mine reclamation project was already underway at Jeansville prior to the acquisition and this will continue through to completion in the latter part of 2017. This work is being undertaken as contractor to the Pennsylvania Department of Environmental Protection, Bureau of Abandoned Mine Reclamation. This is a significant revenue generator for the Company and together with the need to re-organise mining operations at Jeansville as described above and the healthy ROM inventory position a decision was made to concentrate mining operations at Jeansville.

To implement the Jeansville re-organisation plan a \$20 million value lease deal was completed with Midlantic, the wholly owned subsidiary of Komatsu Inc., to supply two PC3000 hydraulic excavators and six HD785-seven 100 ton haul trucks and these became operational in the period August to December 2016. The Company believes that, with the new mining equipment, the Jeansville Mine will achieve similar production performances as those being achieved by the Company at Stockton.

The Stockton basin cut was completed in May 2017 producing over 400,000 tons of high quality ROM with a high anthracite content due to the very low level of underground workings in this section of Stockton Mine.

Mining operations are continuing throughout 2017 at both Stockton and Jeansville Mines together with anthracite silt and fines extraction at Hazleton Shaft and Sandy Run. This will supply projected production for 2017 but a mine plan for Hazleton Shaft has recently been completed and production can recommence here at short notice should the need arise.

Production of hard rock aggregates has commenced at Stockton Mine, crushing hard sandstones which are extracted as part of the overburden removal to recover anthracite. The aggregates are shipped from the site via the Stockton rail terminal and provide a useful revenue stream for the Company.

### Processing Operations

As described above substantial modifications and improvements were made to the Hazleton Shaft washing plant in H2 2016 so that it now has the capacity to process up to 1 million tons of ROM a year.

On completion of this work in December 2016 all ROM from both Stockton and Jeansville Mines was processed at the Hazleton Shaft plant. Plans are now in place to relocate the Stockton washing plant to the Jeansville Mine which will eliminate ROM haulage cost from Jeansville to Hazleton Shaft with substantial cost savings.

The Hazleton Hiller Drying Plant at Hazleton Shaft is a 50% each joint venture between HSC (now ACG) and Hiller Carbon LLC. Hazleton Hiller is contracted to take 150,000 tons a year of processed anthracite from ACG for supply to the steel and foundry industries. Consideration is currently being given to expanding the plant to increase capacity to 250,000 tons a year. New rail loadout facility at Hazleton Shaft

### New rail loadout facility at Hazleton Shaft

A new rail loadout facility was constructed at Hazleton Shaft site adjacent to the Hazleton Shaft washing plant and Hazleton Hiller Drying plant. This became operational in January 2017 and all ACG rail shipped anthracite is now shipped via this facility.

The Stockton rail loadout facility is now used for shipping hard rock aggregates.

These rail loadout facilities complement the road truck loadout facilities and facilitate the Company supplying markets throughout the US and Canada.

### Market Review

Weak anthracite prices were a significant negative feature of 2016 with average prices falling over 25% compared with 2015 due to a combination of yet another warm winter in north east USA, weak industrial demand and cheap anthracite exports from Russia and Breakaway East Ukraine (via Russia) which have also depressed industrial prices.

Total sales, including Hazleton Shaft operations June to December, were 242,412 tons.

In 2017 Hazleton Hiller are contracted to take 150,000 tons of processed anthracite from ACG for drying and supply to the steel and foundry industries. This provides an important “baseload” contract for the Company and consideration is also currently being given to expanding the plant to increase capacity to 250,000 tons a year.

# ATLANTIC CARBON GROUP PLC

## STRATEGIC REPORT

For the year ended 31 December 2016

In January 2017, the Company announced an Export Sales Joint Venture with Atrium Coal NL but, to date no exports have taken place. The Company considers, that sales outside of the USA and Canada are unlikely in the short term given the current Russian and East Ukrainian export prices, however, these low prices are not considered to be sustainable and the Company and Atrium Coal NL continue to closely monitor the situation.

In May 2017, the Company announced that it had entered into a Coal Purchase and Marketing Agreement with Reading Anthracite Company for North American anthracite sales. Reading Anthracite Company is an important player in the Pennsylvania anthracite market and this agreement should prove to be beneficial to both companies.

The low anthracite prices have clearly had a negative effect on our performance in 2016, however, the new US Government's focus on reviving American industries, particularly coal and steel, does give us optimism that prices will strengthen as Government policies are implemented. This, together with good baseload contracts like Hazleton Hiller and our new export and North American marketing agreements provides us with cause for optimism going forward through 2017.

### Results and Financial Review

The loss of the Group for the year ended 31 December 2016 before taxation amounts to \$12,724,207 (year ended 31 December 2015: profit of \$5,446,168).

Key financial highlights for the year to 31 December 2016 are:

	<b>31 December 2016</b>	31 December 2015
Revenue	<b>\$26,737,456</b>	\$25,877,924
Gross profit	<b>\$1,519,109</b>	\$7,994,393
Gross margin	<b>5.6%</b>	31%
EBITDA	<b>(\$435,429)</b>	\$11,650,818
Adjusted EBITDA	<b>\$1,535,587</b>	-

Adjusted EBITDA is the EBITDA for the year with one off costs for the acquisition of Hazleton Shaft Corporation added back in.

### Key Performance Indicators ("KPIs")

The Board monitors the activities and performance of the Group on a regular basis. The Board uses both financial and non-financial indicators based on budget versus actual to assess the performance of the Group. The indicators set out below were used during the year to 31 December 2016 and will continue to be used by the Board to assess performance over the year to 31 December 2017.

	<b>31 December 2016</b>	31 December 2015
Reserves (tons clean coal)	<b>9,300,000</b>	5,800,000
Washing plant capacity (ROM tons throughput)	<b>1,450,000</b>	450,000
Drying plant capacity (tons clean coal)	<b>150,000</b>	-
Health and Safety – number of reportable accidents (number)	-	1
Recovery rate	<b>52%</b>	55%
Environmental Incidents – breaches of environmental legislation (number)	<b>2</b>	-

The Group is obliged to report any health and safety incidents to the Pennsylvanian Department of Environmental Protection. Of the incidents reported during 2016, one resulted in hospital treatment. This was not a severe injury and no further action taken and no ongoing issues in relation to this incident.

### Principal Risks and Uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks.

Risks are formally reviewed by the Board, and appropriate processes are put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Group.

#### *Mining and processing risks*

The key business risks affecting the Group are set out below:

The Group's principal operation is the mining of coal. Its operations are subject to all of the hazards and risks normally encountered in mining and processing coal. These include unusual and unexpected geological formations, rock falls, flooding and other conditions involved in the extraction of material, any of which could result in damage to the mine and other producing

# ATLANTIC CARBON GROUP PLC

## STRATEGIC REPORT

For the year ended 31 December 2016

facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimise risk are taken, operations are subject to hazards, which may result in environmental pollution and consequent liability which could have a material adverse impact on the business, operations and financial performance of the Group.

As is common with all mining operations, there is uncertainty and therefore risk associated with the Group's operating parameters and costs. These can be difficult to predict and are often affected by factors outside the Group's control.

The Group may be required to undertake clean-up programmes resulting from any contamination from its operations or to participate in mine rehabilitation programmes which may vary from project to project. The Group follows all necessary laws and regulations and is not aware of any present material issues in this regard.

### ***Environment, health and safety***

While the Group believes that its operations are currently compliant, and will be in substantial compliance, with all relevant material environmental, health and safety laws and regulations, there can be no assurance that new laws and regulations, or amendments to, or stringent enforcement of, existing laws and regulations will not be introduced. This could have a material adverse impact on the Group. Dust, noise and chemical re-agents, among other factors, may pose a health risk to persons at the mine and the environment. There can be no assurance that all permits which the Group require will be retained or maintained on reasonable terms.

The Group is required to comply with Pennsylvanian Department of Environmental Protection regulations on mine reclamation and rehabilitation. Any breaches of these rules may result in the Group being fined or, in relation to serious offences, may result in the mining permit being cancelled.

### ***Reserve and resource estimates***

The Group's reported reserves and resources are only estimates. No assurance can be given that the estimated reserves and resources will be recovered or that they will be recovered at the rates estimated. Reserve and resource estimates are based on sampling and, consequently, are uncertain because the samples may not be representative. Reserve and resource estimates may require revision (either up or down) based on future actual production experience.

### ***Volatility of commodity prices***

Historically, commodity prices have fluctuated and are affected by numerous factors beyond the Group's control, including global demand and supply, international economic trends, currency exchange fluctuations, expectations for inflation, speculative activity, consumption patterns and global or regional political events. The aggregate effect of these factors is impossible to predict. Fluctuations in commodity prices, over the long term, may adversely impact the returns of the Group's investments.

A significant reduction in global demand for coal, leading to a fall in coal prices, could lead to a significant fall in the cash flow of the Group, which may have a material adverse impact on the operating results and financial condition of the Group.

### ***Dependence on key personnel***

The Group and Company are dependent upon the executive management team. Whilst it has entered into contractual agreements with the aim of securing the services of these personnel, the retention of their services cannot be guaranteed. The development and success of the Group depends on the Company's ability to recruit and retain high quality and experienced staff. The loss of the service of key personnel or the inability to attract additional qualified personnel as the Group grows could have an adverse effect on future business and financial conditions.

### ***Currency risk***

The Group reports its results in US Dollars, whilst the functional currency of the Parent Company is Pound Sterling. This may result in additions to the Group's reported costs. Fluctuations in exchange rates between currencies in which the Group invest, reports or derives income may cause fluctuations in its financial results that are not necessarily related to the Group's underlying operations.

### **Financial Instruments and Risk Management**

The Group's operations expose it to a variety of financial risks that include the effect of changes in debt market prices and foreign currency exchange rates, credit risk, liquidity risk and interest rate risk. The Group has a risk management programme in place that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs. The Group does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Details of the Group's financial risk management policies are set out in Note 1 to the Financial Statements.



# ATLANTIC CARBON GROUP PLC

## STRATEGIC REPORT

For the year ended 31 December 2016

### Outlook and Future Developments

The Directors believe anthracite is the most versatile and high quality metallurgical coal, with a range of applications in the steel and foundry industries. It also has a wide range of other industrial uses being used as a component in the sugar industry, as a process carbon in the manufacture of bricks, wire, silicon and glass, and in water purification and filtration. The home and industrial heating market situation proved to be disappointing in both the 2015/16 and 2016/17 winter seasons due to unusually mild weather and while this market sector will continue to be important we see our future primarily in the industrial sector.

Only 1% of the world's coal reserves is made up of anthracite, and even then few of the reserves are of as high a quality as the North East Pennsylvania Coalfield, or benefit from the same level of political stability, established infrastructure and an industry-friendly jurisdiction. This suggests a future supply imbalance, supporting future price increases. The new US Government's focus on reviving American industries, particularly coal and steel, also gives us optimism that prices will strengthen as Government policies are implemented.

The acquisition of Hazleton Shaft LLC will provide us with the capability to both better exploit our existing markets and enter new markets which we were previously unable to do due to lack of production capacity. The anthracite reserves associated with the acquisition also provide us with the security of a long term production capability.

All of this, together with the Company's good baseload contracts like Hazleton Hiller and our new export and North American marketing agreements which we look to develop further in 2017, provides us with cause for optimism going forward through 2017.

This report was approved by the Board on 16 May 2017 and signed on its behalf.



**Stephen Best**  
Managing Director

# ATLANTIC CARBON GROUP PLC

## DIRECTORS' REPORT

For the year ended 31 December 2016

On 11 January 2016, Atlantic Coal plc changed was renamed to Atlantic Carbon Group plc. The Directors present their Report, together with the Group Financial Statements and the Independent Auditor's Report, for the year ended 31 December 2016.

### Principal Activities and Business Review

The principal activity of the Company is that of a holding company. The principal activity of the Group is the development and operation of the Stockton Mine, Hazleton Shaft Mine, Jeansville Mine and an anthracite washing plant in Pennsylvania, USA.

### Dividends

The Directors are precluded from recommending a dividend.

### Directors

The names of the Directors are shown in the Company Information on page 2.

### Directors' Interests

The Directors who served during the year ended 31 December 2016 had the following beneficial interests in the shares of the Company:

	31 December 2016		1 January 2016	
	Ordinary Shares	Options	Ordinary Shares	Options
Stephen Best <sup>(1)</sup>	980,546,884	288,000,000	404,546,884	-
Adam Wilson <sup>(2)</sup>	241,954,506	-	241,954,506	-
Peter Chinneck <sup>(3)</sup>	312,551,282	-	250,051,282	-
George Roskos	269,166,667	-	-	-

(1) Stephen Best's shares are held as follows: 3,730,000 personally, 279,573,300 by his spouse, 18,096,148 by Willoughby (465) Limited, 576,000,000 by Mayford Equities, 103,147,436 through Mount Charles of which his spouse beneficially owns 50% and 288,000,000 options by Mayford Equities.

(2) Adam Wilson's shares are held as follows: 138,807,070 personally and 103,147,436 through Mount Charles which is 50% beneficially owned by him.

(3) Peter Chinneck's shares are held as follows: 94,500,000 personally and 218,051,282 by Alliance Trust Savings Limited.

Further details on options can be found in Note 11 to the Financial Statements.

### Environmental Responsibility

The Company recognises that the Group's activities require it to have regard to the potential impact that it and its subsidiary may have on the environment. Wherever possible, the Company ensures that its subsidiary complies with the local regulatory requirements with regard to the environment.

### Health and Safety

The Group operates a health and safety programme to ensure the wellness and security of its employees. The control and eventual elimination of all work related hazards requires a dedicated team effort involving the active participation of all employees. A comprehensive health and safety programme is the primary means for delivering best practices in health and safety management. This programme is regularly updated to incorporate employee suggestions, lessons learned from past incidents and new guidelines related to new projects with the aim of identifying areas for further improvement of health and safety management. Employee involvement is recognised as fundamental in recognising and reporting unsafe conditions and avoiding events that may result in injuries and accidents.

### Internal Controls

The Board recognises the importance of both financial and non-financial controls and has reviewed the Group's control environment and any related shortfalls during the year. Since the Group was established, the Directors are satisfied that, given the current size and activities of the Group, adequate internal controls have been implemented. Whilst they are aware that no system can provide absolute assurance against material misstatement or loss, in light of the current activity and proposed future development of the Group, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective.

# ATLANTIC CARBON GROUP PLC

## DIRECTORS' REPORT

For the year ended 31 December 2016

### Branches outside the UK

The Company has two wholly owned subsidiaries as follows:

- Coal Contractors (1991) Inc., which owns and operates the Stockton Colliery
- Atlantic Carbon Group LLC (formerly Luzerne Carbon Company LLC) which wholly owns Hazleton Shaft Corporation which owns and operates the Hazleton Shaft Mine.

Both subsidiaries are registered and operate in Pennsylvania, USA.

### Policy and Practice on Payment of Creditors

The Company and its subsidiary undertaking agree terms and conditions for their business transactions with suppliers. Payment is then made in accordance with these terms, subject to the terms and conditions being met by the supplier. As at 31 December 2016 the Group had an average of 132 days (2015 - 162 days) purchases outstanding in trade payables.

### Events after the Reporting Period

There were no such events to report.

### Going Concern

The Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future and, therefore, continue to adopt the going concern basis in preparing the Annual Report and Financial Statements. Further details on their assumptions and their conclusion thereon are included in the statement on going concern is included with the Accounting Policies.

### Directors' and Officers' Indemnity Insurance

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors and Officers. These were made during the previous period and remain in force at the date of this report.

### Provision of Information to Auditor

So far as each of the Directors is aware at the time this report is approved:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### Independent Auditor

PKF Littlejohn LLP has signified its willingness to continue in office as auditor.

This report was approved by the Board on 16 May 2017 and signed on its behalf.



**Stephen Best**  
Managing Director

## ATLANTIC CARBON GROUP PLC

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2016

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

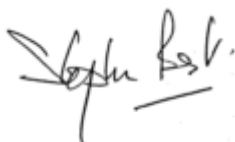
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company, and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, [www.atlanticcarbongroup.com](http://www.atlanticcarbongroup.com). Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

This Statement was approved by the Board on 16 May 2017 and signed on its behalf.



**Stephen Best**  
Managing Director

# ATLANTIC CARBON GROUP PLC

## INDEPENDENT AUDITOR'S REPORT For the year ended 31 December 2016

### Independent Auditor's Report to the Members of Atlantic Carbon Group Plc

We have audited the financial statements of Atlantic Carbon Group plc for the year ended 31 December 2016 which comprise the Group and Company Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity, The consolidated and Company Statement of Cashflows, accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The Group incurred a net loss of \$12,274,207 during the year ended 31 December 2016. The Company is subject to covenants from its principal lender that are over and above its requirement to maintain a positive working capital position. Based on the information provided at the time of audit, the compliance with these covenants throughout the going concern period requires that recent improvements in trading are maintained for the duration of the going concern period. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

## **ATLANTIC CARBON GROUP PLC**

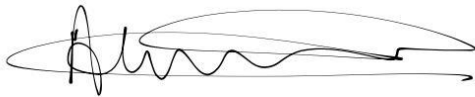
### **INDEPENDENT AUDITOR'S REPORT For the year ended 31 December 2016**

#### **Matters on which we are required to report by exception**

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Alastair Roberts (Senior statutory auditor)  
For and on behalf of PKF Littlejohn LLP  
Statutory auditor**

1 Westferry Circus  
Canary Wharf  
London E14 4HD

16 May 2017

# ATLANTIC CARBON GROUP PLC

## GROUP AND COMPANY STATEMENT OF FINANCIAL POSITION

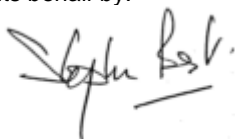
For the year ended 31 December 2016

Company number: 05315929

	Note	Group		Company	
		As at 31 December 2016	As at 31 December 2015	As at 31 December 2016	As at 31 December 2015
		\$	\$	\$	\$
<b>Non-Current Assets</b>					
Property, plant and equipment	4	54,212,335	26,972,153	-	56,166
Land, coal rights and restoration costs	5	13,898,161	10,452,581	-	6,000,000
Investment in subsidiaries	6	-	-	11,707,469	14,044,351
Investment in associate	26	328,423	-	-	-
Trade and other receivables	7	-	-	6,837,043	8,730,651
Other assets	9	-	206,339	-	-
		<b>68,438,919</b>	<b>37,631,073</b>	<b>18,544,512</b>	<b>28,831,168</b>
<b>Current Assets</b>					
Inventories	8	6,773,879	4,426,212	-	-
Trade and other receivables	7	4,258,337	3,203,593	53,286	68,049
Other assets	9	741,739	61,068	-	-
Cash and cash equivalents	10	503,870	329,391	5,447	27,686
		<b>12,227,825</b>	<b>8,020,264</b>	<b>58,733</b>	<b>95,735</b>
<b>Total Assets</b>		<b>80,716,744</b>	<b>45,651,337</b>	<b>18,603,245</b>	<b>28,926,903</b>
<b>Equity Attributable to Owners of the Parent and Shareholders</b>					
Share capital	11	6,932,640	5,769,335	6,932,640	5,769,335
Share premium	11	41,329,818	40,498,886	41,329,818	40,498,886
Merger reserve		15,326,850	15,326,850	12,489,738	12,489,738
Reverse acquisition reserve		(12,999,288)	(12,999,288)	-	-
Other reserves	12	44,301	42,901	44,301	42,901
Translation reserve		(4,188,794)	(4,100,633)	(11,104,826)	(7,356,681)
Retained losses		(43,988,091)	(31,313,240)	(31,781,873)	(27,061,395)
<b>Total Equity</b>		<b>2,457,436</b>	<b>13,224,811</b>	<b>17,909,798</b>	<b>24,382,784</b>
<b>Current Liabilities</b>					
Trade and other payables	13	8,309,470	7,481,733	220,182	3,744,119
Borrowings	14	10,693,389	4,624,899	-	800,000
Provision for restoration costs	15	15,658	50,420	-	-
		<b>19,018,517</b>	<b>12,157,052</b>	<b>220,182</b>	<b>4,544,119</b>
<b>Non-Current Liabilities</b>					
Borrowings	14	55,671,663	16,785,137	-	-
Trade and other payables	13	-	-	473,265	-
Provision for restoration costs	15	3,569,128	3,484,337	-	-
		<b>59,240,791</b>	<b>20,269,474</b>	<b>473,265</b>	<b>-</b>
<b>Total Liabilities</b>		<b>78,259,308</b>	<b>32,426,526</b>	<b>693,447</b>	<b>4,544,119</b>
<b>Total Equity and Liabilities</b>		<b>80,716,744</b>	<b>45,651,337</b>	<b>18,603,245</b>	<b>28,926,903</b>

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the Parent Company Income Statement and Statement of Comprehensive Income. The loss for the Parent Company for the year was \$4,769,834 (2015: profit of \$11,011,077) and the total comprehensive loss for the year was \$8,517,979 (2015: loss of \$10,907,103).

The Financial Statements were approved and authorised for issue by the Board of Directors on 16 May 2017 and were signed on its behalf by:



**Stephen Best**  
Managing Director

The Accounting Policies and Notes on pages 19 to 50 form part of these Financial Statements

# ATLANTIC CARBON GROUP PLC

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

		Group	
		For the year ended 31 December 2016	For the year ended 31 December 2015
		\$	\$
<b>Continuing operations</b>	<b>Note</b>		
Revenue	3	26,737,456	25,877,924
Cost of sales	17	(25,218,347)	(17,883,531)
<b>Gross Profit</b>		<b>1,519,109</b>	7,994,393
Administration expenses	17	(10,012,516)	(3,633,365)
Other gains/losses	18	(120,363)	873,938
Other income	21	1,455,094	1,469,404
<b>Operating Profit/(loss)</b>		<b>(7,158,676)</b>	6,704,370
Impairments	5	(2,153,957)	-
Finance Income		(2,992)	76
Finance costs	22	(3,360,697)	(1,258,278)
Share of loss from Hazleton Hiller	26	(47,885)	-
<b>Profit/(loss) Before Taxation</b>		<b>(12,724,207)</b>	5,446,168
Income tax expense	23	-	-
<b>Profit/(loss) for the Year</b>		<b>(12,724,207)</b>	5,446,168
<b>Profit/(loss) attributable to the owners of the Parent</b>		<b>(12,724,207)</b>	5,446,168

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

		Group	
		For the year ended 31 December 2016	For the year ended 31 December 2015
		\$	\$
Profit/(loss) for the year		(12,724,207)	5,446,168
<b>Other comprehensive income:</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Currency translation differences		(88,161)	(247,043)
<b>Total comprehensive income/ (loss) for the year</b>		<b>(12,812,368)</b>	5,199,125
<b>Total comprehensive income/ (loss) attributable to the owners of the Parent</b>		<b>(12,812,368)</b>	5,199,125

The Accounting Policies and Notes on pages 19 to 50 form part of these Financial Statements.



# ATLANTIC CARBON GROUP PLC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to the owners of the parent							Total equity \$
	Share capital \$	Share premium \$	Merger reserve \$	Reverse acquisition reserve \$	Other reserves \$	Translation reserve \$	Retained losses \$	
At 1 January 2015	5,510,300	40,359,710	13,898,706	(12,999,288)	101,077	(3,853,590)	(35,389,440)	7,627,475
Profit for the year	-	-	-	-	-	-	5,446,168	5,446,168
<b>Other comprehensive income for the year</b>								
Currency translation differences	-	-	-	-	-	(247,043)	-	(247,043)
<b>Total comprehensive income for the year</b>	-	-	-	-	-	(247,043)	5,446,168	5,199,125
Proceeds from share issue	259,035	229,440	-	-	-	-	-	488,475
Issue costs	-	(90,264)	-	-	-	-	-	(90,264)
Expiration of options & warrants	-	-	-	-	(58,176)	-	58,176	-
Transfer of merger reserve	-	-	1,428,144	-	-	-	(1,428,144)	-
<b>Transactions with owners, recognised directly in equity</b>	259,035	139,176	1,428,144	-	(58,176)	-	(1,369,968)	398,211
<b>At 31 December 2015</b>	<b>5,769,335</b>	<b>40,498,886</b>	<b>15,326,850</b>	<b>(12,999,288)</b>	<b>42,901</b>	<b>(4,100,633)</b>	<b>(31,313,240)</b>	<b>13,224,811</b>
At 1 January 2016	5,769,335	40,498,886	15,326,850	(12,999,288)	42,901	(4,100,633)	(31,313,240)	13,224,811
Loss for the year	-	-	-	-	-	-	(12,724,207)	(12,724,207)
<b>Other comprehensive income for the year</b>								
Currency translation differences	-	-	-	-	-	(88,161)	-	(88,161)
<b>Total comprehensive loss for the year</b>	-	-	-	-	-	(88,161)	(12,724,207)	(12,812,368)
Proceeds from share issue	1,163,305	830,932	-	-	-	-	-	1,994,237
Granting of options & warrants	-	-	-	-	50,756	-	-	50,756
Exercising of options & warrants	-	-	-	-	(23,098)	-	23,098	-
Expiration of options & warrants	-	-	-	-	(26,258)	-	26,258	-
<b>Transactions with owners, recognised directly in equity</b>	1,163,305	830,932	-	-	1,400	-	49,356	2,044,993
<b>At 31 December 2016</b>	<b>6,932,640</b>	<b>41,329,818</b>	<b>15,326,850</b>	<b>(12,999,288)</b>	<b>44,301</b>	<b>(4,188,794)</b>	<b>(43,988,091)</b>	<b>2,457,436</b>

The Accounting Policies and Notes on pages 19 to 50 form part of these Financial Statements.

# ATLANTIC CARBON GROUP PLC

## COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to the shareholders						Total equity \$
	Share capital \$	Share Premium \$	Merger reserve \$	Other reserves \$	Translation reserve \$	Retained losses \$	
At 1 January 2015	5,510,300	40,359,710	2,374,080	101,077	(7,252,707)	(28,014,990)	13,077,470
Profit for the year	-	-	-	-	-	11,011,077	11,011,077
<b>Other comprehensive income for the year</b>							
Currency translation differences	-	-	-	-	(103,974)	-	(103,974)
<b>Total comprehensive income for the year</b>	-	-	-	-	(103,974)	11,011,077	10,907,103
Proceeds from share issue	259,035	229,440	-	-	-	-	488,475
Issue costs	-	(90,264)	-	-	-	-	(90,264)
Expiry of options & warrants	-	-	-	(58,176)	-	58,176	-
Transfer of investment impairment	-	-	10,115,658	-	-	(10,115,658)	-
<b>Total contributions by and distributions to owners of the Company</b>	259,035	139,176	10,115,658	(58,176)	-	(10,057,482)	398,211
<b>As at 31 December 2015</b>	<b>5,769,335</b>	<b>40,498,886</b>	<b>12,489,738</b>	<b>42,901</b>	<b>(7,356,681)</b>	<b>(27,061,395)</b>	<b>24,382,784</b>
At 1 January 2016	5,769,335	40,498,886	12,489,738	42,901	(7,356,681)	(27,061,395)	24,382,784
Profit for the year	-	-	-	-	-	(4,769,834)	(4,769,834)
<b>Other comprehensive income for the year</b>							
Currency translation differences	-	-	-	-	(3,748,145)	-	(3,748,145)
<b>Total comprehensive income for the year</b>	-	-	-	-	(3,748,145)	(4,769,834)	(8,517,979)
Proceeds from share issue	1,163,305	830,932	-	-	-	-	1,994,237
Granting of options & warrants	-	-	-	50,756	-	-	50,756
Exercising of options & warrants	-	-	-	(23,098)	-	23,098	-
Expiration of options & warrants	-	-	-	(26,258)	-	26,258	-
<b>Total contributions by and distributions to owners of the Company</b>	1,163,305	830,932	-	1,400	-	49,356	2,044,993
<b>As at 31 December 2016</b>	<b>6,932,640</b>	<b>41,329,818</b>	<b>12,489,738</b>	<b>44,301</b>	<b>(11,104,826)</b>	<b>(31,781,873)</b>	<b>17,909,798</b>

The Accounting Policies and Notes on pages 19 to 50 form part of these Financial Statements.

# ATLANTIC CARBON GROUP PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	Group	
		For the year ended 31 December 2016	For the year ended 31 December 2015
		\$	\$
<b>Cash flows from operating activities</b>			
Profit/(loss) before taxation		(12,724,207)	5,446,168
Adjustments for:			
- Finance income		-	(76)
- Finance costs		-	1,258,278
- Depreciation	4	6,270,888	4,353,653
- Mine depletion and mineral depreciation	5	500,244	592,793
- Share option and warrants expense		50,756	-
- Impairments		2,153,957	-
- Loss on disposal of property, plant and equipment		(1,420,594)	(1,469,404)
- Accretion and accrued restoration costs		309,553	318,426
- Equity settled transactions		904,698	-
- Reclamation work performed		-	(107,680)
- Foreign exchange gains		268,979	(229,538)
Changes in working capital			
- Increase in trade and other receivables		(56,650)	(524,155)
- (Increase)/decrease in inventories		1,501,206	(4,385,161)
- (Decrease)/increase in trade and other payables		2,441,695	(589,178)
<b>Net cash generated from/(used) in operating activities</b>		<b>200,525</b>	<b>4,664,126</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(134,616)	(1,393,763)
Change in deposits	9	(474,332)	(9,717)
Capitalised land costs		(439,244)	-
Share of profit from joint ventures	26	47,885	-
Cash consideration for subsidiaries	25	(17,899,087)	-
Proceeds from sale of property plant and equipment		2,765,500	-
<b>Net cash used in investing activities</b>		<b>(16,133,894)</b>	<b>(1,403,404)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		1,089,539	398,211
Proceeds from borrowings		26,318,174	1,000,000
Repayments of borrowings		(1,150,000)	(3,498,391)
Interest paid		-	(552,358)
Finance lease payments		(2,856,450)	(1,190,158)
Repayment of loan in subsidiary undertaking		(7,100,921)	-
<b>Net cash used in financing activities</b>		<b>16,300,342</b>	<b>(3,842,696)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>366,979</b>	<b>(581,974)</b>
<b>Exchange losses on cash and cash equivalents</b>		<b>4,610</b>	<b>(11,256)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>132,287</b>	<b>725,517</b>
<b>Cash and cash equivalents at end of year</b>	10	<b>503,870</b>	<b>132,287</b>

The Accounting Policies and Notes on pages 19 to 50 form part of these Financial Statements.

# ATLANTIC CARBON GROUP PLC

## COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	Company	
		For the year ended 31 December 2016	For the year ended 31 December 2015
		\$	\$
<b>Cash flows from operating activities</b>			
Profit/(loss) before tax		<b>(4,769,834)</b>	11,011,077
Adjustments for:			
- Finance income		-	(8)
- Finance expense		-	134,712
- Depreciation	4	<b>51,441</b>	60,764
- Reversal of impairment	6	-	(12,513,703)
- Impairments		<b>2,153,957</b>	-
- Share based payments		<b>51,824</b>	-
- Share option and warrants expense		<b>50,756</b>	-
- Fair value loss on derivative financial instruments		-	-
- Foreign exchange losses/(gains)		<b>387,383</b>	222,358
Changes in working capital:			
- Decrease/(increase) in trade and other receivables		<b>3,440</b>	173,882
- (Decrease)/increase in trade and other payables		<b>(23,505)</b>	(867,871)
<b>Net cash used in operating activities</b>		<b>(2,094,538)</b>	(1,778,789)
<b>Cash flows from investing activities</b>			
Loans to subsidiary		<b>1,041,763</b>	1,233,292
Interest received		-	8
<b>Net cash generated from investing activities</b>		<b>1,041,763</b>	1,233,300
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		<b>292,434</b>	398,211
Proceeds from borrowings		<b>733,492</b>	1,000,000
Repayment of borrowings		-	(1,200,000)
Interest paid		-	(134,712)
<b>Net cash generated from/(used in) financing activities</b>		<b>1,025,926</b>	63,499
<b>Net decrease in cash and cash equivalents</b>		<b>(26,849)</b>	(481,990)
<b>Exchange losses on cash and cash equivalents</b>		<b>4,610</b>	(11,256)
<b>Cash and cash equivalents at beginning of year</b>		<b>27,686</b>	520,932
<b>Cash and cash equivalents at end of year</b>	10	<b>5,447</b>	27,686

The Accounting Policies and Notes on pages 19 to 50 form part of these Financial Statements

# ATLANTIC CARBON GROUP PLC

## ACCOUNTING POLICIES

For the year ended 31 December 2016

### General Information

On 11 January 2016, Atlantic Coal plc changed was renamed to Atlantic Carbon Group plc. The Financial Statements presented are for Atlantic Carbon Group Plc (“the Company”) and its subsidiaries (together, “the Group”). The principal activity of the Company is that of a holding company. The principal activity of the Group is the development and operation of the Stockton Colliery, which comprises the Stockton and Hazleton Shaft Mine and an anthracite washing plant in Pennsylvania, USA.

The Company, the legal parent, is a public limited company and incorporated and domiciled in United Kingdom. The address of its registered office is 200 Strand, London, WC2R 1DJ. On 21 January 2016, the Company delisted from the AIM London Stock Exchange.

### Summary of Significant Accounting Policies

The principal Accounting Policies applied in the preparation of these Financial Statements are set out below. These Policies have been consistently applied to all the periods presented, unless otherwise stated.

#### a) Basis of Preparation of Financial Statements

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have also been prepared under the historical cost convention as modified by the revaluation of certain financial assets to fair value through the profit or loss.

The Financial Statements are presented in US Dollars rounded to the nearest dollar.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s Accounting Policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 2.

#### b) Changes in accounting policy

##### i) New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning 1 January 2016 that had a material impact on the Group or Company.

##### ii) New and amended standards and interpretations issued but not effective

The standards and interpretations that are issued, but not yet effective for the financial year beginning 1 January 2016 are listed below. Unless stated below, there are no IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group or Company.

Standard	Impact on initial application	Effective date
IAS 7 (Amendments)	Disclosure Initiative	*1 January 2017
IAS 12 (Amendments)	Recognition of Deferred Tax	*1 January 2017
IFRS 9	Financial Instruments	*1 January 2018
IFRS 4 (Amendments)	Applying IFRS 9 ‘with IFRS 4 ‘Insurance Contracts’	1 January 2018
IAS 40 (Amendments)	Transfer of Investment property	*1 January 2018
IFRIC Interpretation 22	Foreign currency transactions and advanced consideration	*1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 2 (Amendments)	Share-based payments – classification and measurement	*1 January 2018
Annual Improvements	2014 - 2016 Cycle	1 January 2018

\* Subject to EU endorsement

The Group is evaluating the impact of the new and amended standards above. The Directors believe that these new and amended standards are not expected to have a material impact on the Group’s results or shareholders’ funds. There is not expected to be any significant impact from the introduction of IFRS 15

# ATLANTIC CARBON GROUP PLC

## ACCOUNTING POLICIES

For the year ended 31 December 2016

### Summary of Significant Accounting Policies (continued)

#### c) Basis of Consolidation

The Group Financial Statements consolidate the Financial Statements of Atlantic Carbon Group Plc and the audited management accounts of its subsidiaries for the year ended 31 December 2016.

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Company acquired the Stockton Coal Group (consisting of Coal Contractors (1991) Inc, Stockton Anthracite LLC and Stockton Anthracite LP) on 19 November 2007 through a share exchange. As the shareholders of the Stockton Coal Group had control of the legal parent, Atlantic Carbon Group Plc, the transaction was accounted for as a reverse acquisition in accordance with IFRS 3 "Business Combinations". Consequently, although the Financial Statements are prepared in the name of the legal parent, they are in substance a continuation of those of the legal subsidiaries. The following accounting treatment was applied in respect of the reverse acquisition:

- the assets and liabilities of the legal subsidiaries within the Stockton Coal Group were and continue to be recognised and measured in the Consolidated Financial Statements at their pre-combination carrying amounts, without restatement to fair value;
- the equity structure appearing in the Consolidated Financial Statements reflected and continues to reflect the equity structure of the legal parent, Atlantic Carbon Group Plc, including the equity instruments issued to effect the business combination.

The cost of acquisition was measured as the fair value of the assets acquired, equity instruments issued and liabilities acquired or assumed at the date of exchange, plus certain costs directly attributable to the acquisition. Inter-company transactions, balances and unrealised gains on transactions between Group companies were eliminated.

On 31 December 2009 the activities of the companies within the Stockton Coal Group were merged into Coal Contractors (1991) Inc.

On 27 May 2016 the Company acquired Atlantic Carbon Group LLC (formerly "Luzerne Carbon LLC"), which fully owns Hazleton Shaft Corporation ("HS") for \$18,409,736. HS is registered in the USA and operates an anthracite mine and processing facility. The cost of acquisition was measured as the fair value of the assets acquired, equity instruments issued and liabilities acquired or assumed at the date of exchange, plus certain costs directly attributable to the acquisition. Inter-company transactions, balances and unrealised gains on transactions between Group companies were eliminated.

#### d) Going Concern

The Financial Statements have been prepared on a going concern basis notwithstanding that the Group incurred a net loss of \$12,724,207 (2015: net profit of \$5,446,168) during the year ended 31 December 2016.

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report. In addition, Note 1 to the Financial Statements includes the Group's and Company's objectives, policies and processes for managing their capital, their financial risk management objectives and their exposure to credit risk and liquidity risk.

The Directors have reviewed the cash flow forecast and the future requirements of the Group. The review has given consideration of recent sales, contracts agreed and the recent changes in the economic climate in the expected to lead to a future up turn of the coal market. The Group has entered in to significant sales contracts in early 2017 which are also expected to help increase revenues. As such, the directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Directors have also had due regard of their current debt covenants with their principal lenders and acknowledged that these covenants are likely to be more onerous than the working capital requirements of the business. These covenants have been reviewed alongside the covenants and the Directors are of the opinion that these covenants will be met and that it remains appropriate to continue to adopt the going concern basis of accounting in preparing the Financial Statements.

#### e) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

# ATLANTIC CARBON GROUP PLC

## ACCOUNTING POLICIES

For the year ended 31 December 2016

### Summary of Significant Accounting Policies (continued)

#### f) Foreign Currencies

##### (i) Functional and presentation currency

Items included in the Financial Statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of the UK parent entity is Pound Sterling and the functional currency of the US subsidiary is US Dollars. The Financial Statements are presented in US Dollars, rounded to the nearest dollar, which is the Group's functional and presentation currency.

##### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where such items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign currency gains and losses, including those relating to borrowings and cash and cash equivalents, are presented in the income statement within 'other gains'.

##### (iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities at each year-end are translated at the closing rate at the Statement of Financial Position date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of monetary items receivable from foreign subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future, are taken to other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

#### g) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less depreciation. Historic cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other maintenance and repairs are expensed as incurred.

Property, plant and equipment are depreciated using the straight-line method with estimated useful lives substantially as follows:

Land and buildings	Life of mine
Plant and machinery	1 to 20 years
Motor vehicles	2 to 7 years
Maps	5 years
Furniture and equipment	3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its estimated recoverable amount wherever applicable.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and recognised in the Income Statement.

# ATLANTIC CARBON GROUP PLC

## ACCOUNTING POLICIES

For the year ended 31 December 2016

### Summary of Significant Accounting Policies (continued)

#### h) Land, Coal Rights and Restoration Costs

Coal land, mine development costs, which include directly attributable construction overheads, land and coal rights are recorded at cost. Coal land and mine development are depleted and amortised, respectively, using the units of production method, based on estimated recoverable tonnage. The depletion of coal rights and depreciation of restoration costs are expensed by reference to the estimated amount of coal to be recovered over the expected life of the operation.

#### i) Coal Mine Reclamation Costs

Future cost requirements for land reclamation are estimated where surface operations have been conducted, based on the Group's interpretation of the technical standards of regulations enacted by the U.S. Office of Surface Mining, as well as Pennsylvanian State regulations. These costs relate to reclaiming the pit and support acreage at surface mines and sealing portals at deep mines. Other costs include reclaiming refuse and slurry ponds as well as related termination/exit costs.

The Group records asset retirement obligations that result from the acquisition, construction or operation of long-lived assets at fair value when the liability is incurred. Upon the initial recognition of a liability, that cost is capitalised as part of the related long-lived asset and expensed over the useful life of the asset. The asset retirement costs are recorded in Land, Coal Rights and Restoration Costs – see Note 5.

The Group expenses reclamation costs prior to the mine closure. The establishment of the end of mine reclamation and closure liability is based upon permit requirements and requires significant estimates and assumptions, principally associated with regulatory requirements, costs and recoverable coal lands. Annually, the end of mine reclamation and closure liability is reviewed and necessary adjustments are made, including adjustments due to mine plan and permit changes and revisions of cost and production levels to optimize mining and reclamation efficiency. The amount of such adjustments is reflected in the year end reclamation provision calculation – see Note 15; Provision for Restoration Costs.

#### j) Financial Assets

##### Classification

The Group's financial assets comprise loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents at the year-end.

##### Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchasing or selling the asset. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred, and the Group has transferred substantially all of the risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the Income Statement within "Other (Losses)/Gains" in the period in which they arise.

##### Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset, or a group of financial assets, is impaired. A financial asset, or a group of financial assets, is impaired and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a "loss event"), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset, or group of financial assets, that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal repayments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

The Group first assesses whether objective evidence of impairment exists.



# ATLANTIC CARBON GROUP PLC

## ACCOUNTING POLICIES

For the year ended 31 December 2016

### Summary of Significant Accounting Policies (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the loss is recognised in the Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the Income Statement.

### Impairment of Non-Financial Assets

The Group assesses whether an asset may be impaired when circumstances indicate that an impairment may exist. If any such indicator exists, the entity tests the asset for impairment by estimating the recoverable amount. If the recoverable amount is less than the carrying value of the asset, an impairment loss is required. In addition to this, assets with indefinite lives are tested for impairment at least annually.

### k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Components of inventories consist of coal, parts and supplies, net of allowance for obsolescence. Coal inventories represent coal contained in stockpiles, coal that has been mined and hauled to the wash plant (raw coal) for processing and coal that has been processed (crushed, washed and sized) and stockpiled for shipment to customers.

The cost of raw and prepared coal comprises extraction costs, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### l) Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### m) Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

### n) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand, on-demand deposits and bank overdrafts. In the Statement of Financial Position, bank overdrafts are shown within borrowings in current liabilities.

### o) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### p) Share Based Payments

The Group operates a number of equity-settled, share-based schemes, under which it receives services from employees or third party suppliers as consideration for equity instruments (options and warrants) of the Group. The Group may also issue warrants to share subscribers as part of a share placing. The fair value of the equity-settled share based payments is recognised as an expense in the income statement or charged to equity depending on the nature of the service provided or instrument issued. The total amount to be expensed or charged is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability or sales growth targets, or remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

In the case of warrants the amount charged to the share premium account is determined by reference to the fair value of the services received if available. If the fair value of the services received is not determinable, the warrants are valued by reference to the fair value of the warrants granted as described previously.

# ATLANTIC CARBON GROUP PLC

## ACCOUNTING POLICIES

For the year ended 31 December 2016

### Summary of Significant Accounting Policies (continued)

Non-market vesting conditions are included in assumptions about the number of options or warrants that are expected to vest. The total expense or charge is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement or equity as appropriate, with a corresponding adjustment to a separate reserve in equity.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

#### q) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method.

#### r) Borrowings

Borrowings are recognised initially at fair value. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

All borrowing costs are expensed in the period in which they are incurred and are included in finance costs in the Income statement.

#### s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The increase in provisions due to the passage of time is included in the consolidated statement of profit or loss and comprehensive loss.

#### Provision for Asset retirement obligation

The Group has also recorded an asset retirement obligation for its current mining operation for costs to reclaim the site when mining is completed.

The amount provided for restoration of a site previously mined by the Group and currently being restored is based on an independent third party appraisal of current costs to reclaim the site. The liability for the total estimated restoration costs is adjusted as estimates are revised.

The third party appraisal of reclamation costs reviews site specific information related to total cubic yards of material required to be placed at the mine, support area restoration and total acres to be re-seeded. Costs are derived from recent Pennsylvania State mine reclamation project bids by qualified contractors, Pennsylvania State Bond Rates required for annual recalculation of reclamation bonds and comparable company reclamation projects.

The provision for future asset retirement obligations is the best estimate of the present value of the expenditure required to settle the rehabilitation obligation at the reporting date, based on current legal and other requirements and technology. Future costs are reviewed annually and any changes in the estimate are reflected in the present value of the provision at each reporting date.

The initial estimate of the provision relating to exploration, development and production facilities is capitalised into the cost of the related asset and depreciated or amortised on the same basis as the related asset.

# ATLANTIC CARBON GROUP PLC

## ACCOUNTING POLICIES

For the year ended 31 December 2016

### Summary of Significant Accounting Policies (continued)

#### t) Leases

The Group leases certain plant and equipment. Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised on the lease's commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in long-term borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets obtained under finance leases are depreciated over their useful lives.

#### u) Employee Benefits

The Group sponsors a 401(K) savings and retirement defined contribution plan for substantially all employees based in the USA. The plan matches voluntary contributions of participants up to a maximum contribution based upon a percentage of a participants' salary with an additional matching contribution possible at the discretion of the Group.

The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in current and prior years. Agreed contributions are charged to the Income Statement as they become payable.

#### v) Revenue Recognition

Revenue comprises sales to customers of coal produced by the Group. It is measured at the fair value of consideration received or receivable, and represents amounts receivable for goods and services supplied net of sales taxes, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the entity. Revenue from the sale of coal is recognised at the time delivery occurs and title passes to the customer, which is either upon shipment or upon customer receipt of coal based on contractual terms. Also, the sale price must be determinable and collection reasonably assured.

#### w) Taxation

Deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

#### x) Exceptional Items

Exceptional items are disclosed separately in the Financial Statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of expense that have been shown separately due to their significance and nature.

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 1. Financial Risk Management

#### Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### Market Risk

##### a) Currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and Pound Sterling. Foreign exchange risk arises from future commercial transactions denominated in a foreign currency. The Group maintains bank accounts in these currencies to reduce its exposure to this risk. The volume of transactions is not deemed sufficient to enter into forward contracts.

##### b) Fair value interest risk

The Group has both interest-bearing assets and liabilities. Interest-bearing assets include only cash balances, all of which earn interest. The Group has a policy of maintaining the majority of its debt at a fixed rate to ensure certainty of future interest cash flows. The effect of fluctuations in rates on debt at variable rates is not expected to have a material effect. Thus the Group is only exposed to fair value interest rate risk, which is not expected to have a significant impact on profit or loss or equity.

##### c) Price Risk

The Group is exposed to commodity price risk as a result of its operations. However, given the size of the Group's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. If there had been any changes in individual commodity prices at the year-end date they would not have had any significant effect upon profit or loss or equity.

#### Credit Risk

Credit risk arises from cash and cash equivalents as well as exposure to customers including outstanding receivables. The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. Where debt finance is utilised, this is subject to pre-approval by the Board of Directors. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Board. The Group considers the credit ratings of banks in which it holds funds in order to reduce exposure to credit risk. All of the Group's cash at bank is held with institutions with an AA credit rating.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

#### Liquidity Risk

The Group actively maintains a mixture of long-term and short-term debt finance that is designed to ensure that it has sufficient available funds for operations and planned expansions.

The following table analyses the Group's financial liabilities, which will be settled on a net basis, into relevant maturity groupings, based on the remaining period to maturity at the year-end date. The amounts disclosed are the contractual undiscounted cash flows:

<b>At 31 December 2016</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Borrowings	4,865,871	2,100,000	19,199,409	-
Finance lease liabilities	5,827,518	7,655,343	23,064,857	3,652,055
Trade and other payables	8,309,470	-	-	-
<b>At 31 December 2015</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Borrowings	997,104	-	-	-
Finance lease liabilities	3,627,795	3,655,366	11,095,771	2,034,000
Trade and other payables	7,481,733	-	-	-

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 1. Financial Risk Management (continued)

#### Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide future returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the Statement of Financial Position less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position plus net debt.

The gearing ratios at 31 December 2016 and 2015 were as follows:

	As at 31 December 2016 \$	As at 31 December 2015 \$
Total Borrowings (note 14)	<b>66,365,052</b>	21,410,036
Less: cash and cash equivalents (note 10)	<b>(503,870)</b>	(132,287)
Net debt	<b>65,861,182</b>	21,277,749
Total equity	<b>2,457,436</b>	13,224,811
<b>Total capital</b>	<b>68,318,618</b>	34,502,560
<b>Gearing ratio</b>	<b>4%</b>	62%

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 2. Critical Accounting Estimates and Judgements

The preparation of the Financial Statements in conformity with IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the year. Actual results may vary from the estimates used to produce the Financial Statements.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant items subject to such estimates and assumptions include, but are not limited to:

#### *Valuation of provision for restoration costs*

The Group's provision for restoration costs has a carrying value at 31 December 2016 of \$3,584,786 (2015: \$3,534,757) and relate to the Group's reclamation obligations at the Gowen and Stockton mines.

The Group obtained a third party estimate of the expected costs of reclamation from an independent consultant. The third party appraisal of reclamation costs reviews site specific information related to total cubic yards of material required to be placed at the mine, support area restoration and total acres to be re-seeded. Costs are derived from recent Pennsylvanian State mine reclamation project bids by qualified contractors, Pennsylvanian State Bonding Rates required for annual recalculation of reclamation bonds and comparable company reclamation projects.

For the Stockton mine this estimate was based on the anticipated future size of the mine pit at the completion of the mine's life. Reclamation is already taking place at the Gowen site and, therefore, the estimation is based on the Group's remaining obligations. See Note 15 for further details.

The costs of reclamation are calculated on a cubic yard basis and taking into account Pennsylvanian State Bonding Rates, comparable reclamation projects and historical data from the Group's existing reclamation activities. For the Stockton mine Management increases reclamation costs estimates at an annual inflation rate to the anticipated future mine closure date. This inflation rate is based on the historical rate for the industry for a comparable period and further details are given in Note 16. The future reclamation provision is discounted to its present value based on the Group's incremental cost of borrowing. If the actual inflation rate for the industry was 2% higher or 2% lower than Management's estimates, the carrying value of accrued restoration costs at 31 December 2016 would be approximately \$4,564,133 higher or \$2,782,36 lower respectively.

#### *Valuation of coal inventory*

The amount of coal held in inventory in the Group's Financial Statements at 31 December 2016 has a carrying value of \$6,773,879 (2015: \$4,426,212). The Group values inventory in accordance with the stated accounting policy. The tonnage of coal included within coal inventory at the year-end date is estimated by an independent third party. The estimate of tonnage is based on survey data and sample densities of the year end coal piles.

#### *Impairment of investment in subsidiary*

The Company's investment in its subsidiary has a carrying value at 31 December 2016 of \$11,707,469 (2015: \$14,044,351).

Management tests annually whether the investment in subsidiary has future economic value in accordance with the accounting policies. The investment is subject to an annual impairment review by an independent consultant. This review calculates the net present value of future cash flows of the subsidiary's operations over the life of the Stockton mine, which is the subsidiary's main cash generating asset. The review takes into consideration constant long term coal prices, anticipated resource volumes, sales volumes and costs of production as well as supply and demand outlook. The estimated future cash flows are discounted to their present value at the Company's cost of capital in order to determine the recoverable amount of the mine.

#### *Fair value of the acquisition of Hazleton Shaft Corporation*

The cost of acquisition was measured as the fair value of the assets acquired, equity instruments issued and liabilities acquired or assumed at the date of exchange, plus certain costs directly attributable to the acquisition. The fair value of the assets was determined by reference to an independent evaluation of the assets acquired. The asset appraisal was then used as a basis upon which to allocate a fair value to the property, plant and equipment and assets in the ground acquired.

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 3. Segmental Information

Management has determined the operating segments based on reports reviewed by the Board of Directors that are used to make strategic decisions. During the year the Group had interests in two geographical segments, the United Kingdom and the United States of America ("USA"). Activities in the UK are mainly administrative in nature whilst the activities in the USA relate to coal production and sale of coal.

The reportable operating segments derive their revenue from the sale of prepared coal to industrial and retail customers.

	For the year ended 31 December 2016				For the year ended 31 December 2015			
	USA \$	UK \$	Intra- segment balances \$	Total \$	USA \$	UK \$	Intra- segment balances \$	Total \$
Revenue from external customers	26,737,456	-	-	26,737,456	25,877,924	-	-	25,877,924
Gross profit	1,519,109	-	-	1,519,109	7,994,393	-	-	7,994,393
Operating profit/(loss)	(4,399,166)	(2,612,625)	(146,885)	(7,158,676)	8,051,613	11,145,781	(12,493,022)	6,704,372
Depreciation	6,219,447	51,441	-	6,270,888	4,292,889	60,764	-	4,353,653
Depletion	500,244	-	-	500,244	592,793	-	-	592,793
M&A Expenses	1,923,131	-	-	1,923,131	-	-	-	-
EBITDA*	4,243,656	(2,561,184)	(146,885)	1,535,587	12,937,295	11,206,545	(12,493,022)	11,650,818
Capital expenditure	42,308,927	-	-	42,308,927	16,258,756	-	-	16,258,756
Total assets	88,806,612	18,603,245	(26,693,113)	80,716,744	39,499,437	28,926,903	(22,775,003)	45,651,337
Total liabilities	85,735,600	220,182	(7,696,474)	78,259,308	36,613,055	4,544,119	(8,730,648)	32,426,526

\* EBITDA has been adjusted for the one off transaction costs of \$1,923,131 associated with the acquisition of Hazleton Shaft Corporation.

Included in the UK segment for 2016 is the reversal of impairment of investment in subsidiary and amounts due from group undertakings as described in Note 6.

A reconciliation of operating loss to loss before taxation is provided as follows:

	For the year ended 31 December 2016 \$	For the year ended 31 December 2015 \$
Operating profit/(loss) for reportable segments	(8,317,659)	6,569,658
Finance income	(2,992)	76
Finance costs	(3,360,697)	(1,123,566)
Profit/(loss) before tax	(11,681,348)	5,446,168

#### Information about major customers

On the basis of a cut off of \$1 million, revenues of approximately \$13.19 million (2015: \$8.705 million) were derived from four (2015: three) external customers. These revenues were all generated in the USA.

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 4. Property, Plant and Equipment

	Group					Total \$
	Land and buildings \$	Plant and machinery \$	Motor vehicles \$	Maps \$	Furniture and equipment \$	
<b>Cost</b>						
As at 1 January 2015	1,087,690	28,804,335	645,643	311,860	195,867	31,045,395
Additions	595,087	15,408,891	250,695	-	4,053	16,258,726
Disposals	(185,350)	(8,145,323)	(138,277)	-	(26,770)	(8,495,720)
Exchange differences	-	-	-	(15,820)	(1,356)	(17,176)
<b>As at 31 December 2015</b>	<b>1,497,427</b>	<b>36,067,903</b>	<b>758,061</b>	<b>296,040</b>	<b>171,794</b>	<b>38,791,225</b>
Additions	915,498	41,013,769	252,198	-	127,462	42,308,927
Goodwill from acquisition	-	5,393,607	-	-	-	5,393,607
Disposals	-	(4,578,697)	(164,511)	-	-	(4,743,208)
Exchange differences	-	-	-	(49,259)	(4,222)	(53,481)
<b>As at 31 December 2016</b>	<b>2,412,925</b>	<b>77,896,582</b>	<b>845,748</b>	<b>246,781</b>	<b>295,034</b>	<b>81,697,070</b>
<b>Depreciation</b>						
As at 1 January 2015	559,243	12,918,719	531,097	190,320	101,017	14,300,396
Charge for the year	182,644	4,017,623	74,729	59,208	19,449	4,353,653
Disposals	(58,695)	(6,600,308)	(138,277)	-	(26,770)	(6,824,050)
Exchange differences	-	-	-	(9,654)	(1,273)	(10,927)
<b>As at 31 December 2015</b>	<b>683,192</b>	<b>10,336,034</b>	<b>467,549</b>	<b>239,874</b>	<b>92,423</b>	<b>11,819,072</b>
Charge for the year	233,015	5,872,534	87,031	51,441	26,867	6,270,888
Acquisition related	217,303	12,438,700	122,636	-	54,309	12,832,948
Disposals	-	(3,269,405)	(120,012)	-	-	(3,389,417)
Exchange differences	-	-	-	(44,534)	(4,222)	(48,756)
<b>As at 31 December 2016</b>	<b>1,133,510</b>	<b>25,377,863</b>	<b>557,204</b>	<b>246,781</b>	<b>169,377</b>	<b>27,484,735</b>
<b>Net Book Value</b>						
As at 31 December 2015	814,235	25,731,869	290,512	56,166	79,371	26,972,153
<b>As at 31 December 2016</b>	<b>1,279,415</b>	<b>52,518,719</b>	<b>288,543</b>	<b>-</b>	<b>125,657</b>	<b>54,212,335</b>

The Group leases various vehicles and machinery under non-cancellable finance lease agreements. The lease terms are between 1 and 6 years, and ownership of the assets lie within the Group. The net book value of assets under finance leases is \$37,164,209 (31 December 2015: \$21,544,823).

Depreciation expense of \$6,270,888 (2015: \$4,273,495) has been charged in 'cost of sales' and nil (2015: \$80,158) in administration expenses.



ATLANTIC CARBON GROUP PLC

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. Property, Plant and Equipment (continued)

	Company		
	Maps \$	Furniture and equipment \$	Total \$
<b>Cost</b>			
As at 1 January 2015	311,860	26,731	338,591
Exchange differences	(15,820)	(1,356)	(17,176)
As at 31 December 2015	<b>296,040</b>	<b>25,375</b>	<b>321,415</b>
Exchange differences	(49,259)	(4,222)	(53,481)
<b>As at 31 December 2016</b>	<b>246,781</b>	<b>21,153</b>	<b>267,934</b>
<b>Depreciation</b>			
As at 1 January 2015	190,320	25,092	215,412
Charge for the year	59,208	1,556	60,764
Exchange differences	(9,654)	(1,273)	(10,927)
As at 31 December 2015	<b>239,874</b>	<b>25,375</b>	<b>265,249</b>
Charge for the year	51,441	-	51,441
Exchange differences	(44,534)	(4,222)	(48,756)
<b>As at 31 December 2016</b>	<b>246,781</b>	<b>21,153</b>	<b>267,934</b>
<b>Net Book Value</b>			
As at 31 December 2015	<b>56,166</b>	-	<b>56,166</b>
<b>As at 31 December 2016</b>	-	-	-

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS For the year ended 31 December 2016

### 5. Land, Coal Rights and Restoration Costs

	Group						Total \$
	Stockton mine costs \$	Railway relocation costs \$	Hazleton Shaft cost \$	Jeansville cost \$	Land, surface and mineral costs \$	Other exploration assets \$	
<b>Cost</b>							
As at 1 January 2015	5,668,899	3,198,727	-	-	3,550,000	6,000,000	18,417,626
Decrease in retirement obligation estimate	(750,785)	-	-	-	-	-	(750,785)
As at 31 December 2015	4,918,114	3,198,727	-	-	3,550,000	6,000,000	17,666,841
Additions	-	-	664,737	4,581,523	-	-	5,246,260
Fair value uplift on acquisition	-	-	-	-	8,915,412	-	8,915,412
Retirement obligation estimate	(607,084)	(799,429)	(267,019)	(1,641,699)	(900,617)	-	(4,215,848)
Impairment / Loan write off	-	-	-	-	-	(6,000,000)	(6,000,000)
<b>As at 31 December 2016</b>	<b>4,311,030</b>	<b>2,399,298</b>	<b>397,718</b>	<b>2,939,824</b>	<b>11,564,795</b>	<b>-</b>	<b>21,612,665</b>
<b>Mine depletion and mineral depreciation</b>							
As at 1 January 2015	3,912,561	692,766	-	-	2,016,140	-	6,621,467
Charge for the year	168,848	246,175	-	-	177,770	-	592,793
As at 31 December 2015	4,081,409	938,941	-	-	2,193,910	-	7,214,260
Charge for the year	37,008	126,849	-	270,623	65,764	-	500,244
<b>As at 31 December 2016</b>	<b>4,118,417</b>	<b>1,065,790</b>	<b>-</b>	<b>270,623</b>	<b>2,259,674</b>	<b>-</b>	<b>7,714,504</b>
<b>Net Book Value</b>							
As at 31 December 2015	836,705	2,259,786	-	-	1,356,090	6,000,000	10,452,581
<b>As at 31 December 2016</b>	<b>192,613</b>	<b>1,333,508</b>	<b>397,718</b>	<b>2,669,201</b>	<b>9,305,121</b>	<b>-</b>	<b>13,898,161</b>

The retirement and depreciation provision for the Stockton mine property is calculated using current cost estimates provided by an independent third party consultant. The current cost estimates are applied to the required reclamation activities up to the date of closure of the mine.

	Company	
	Other exploration assets \$	Total \$
<b>Cost</b>		
As at 1 January 2015 and 31 December 2015	6,000,000	6,000,000
Impairments	(6,000,000)	(6,000,000)
<b>As at 31 December 2016</b>	<b>-</b>	<b>-</b>
<b>Mine depletion and mineral depreciation</b>		
As at 1 January 2015 and 31 December 2015	-	-
Charge for the year	-	-
<b>As at 31 December 2015</b>	<b>-</b>	<b>-</b>
<b>Net Book Value</b>		
As at 31 December 2015	6,000,000	6,000,000
<b>As at 31 December 2016</b>	<b>-</b>	<b>-</b>

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 5. Land, Coal Rights and Restoration Costs

No mine depletion or mineral depreciation charge has been made against this asset as it has not yet been brought into use. The Directors concluded as at the 31 December 2016 the full amount of the asset should be written down. This is because the Directors are not intending to begin work or incurring further costs to develop this asset in the short or medium term.

### 6. Investment in Subsidiaries

	Company	
	As at 31 December 2016	As at 31 December 2015
	\$	\$
<b>Shares in Group Undertaking</b>		
At 1 January	14,044,351	-
Additions in the year	-	12,000,000
Reversal of impairment	-	2,353,178
Foreign currency translation	(2,336,882)	(308,827)
<b>At 31 December</b>	<b>11,707,469</b>	<b>14,044,351</b>

Investments in Group undertakings are stated at cost less impairment.

#### Details of Subsidiaries

Details of the subsidiaries at 31 December 2016 are as follows:

Name of subsidiary	Country of incorporation	Share capital held by Parent	Share capital held by Group	Principal activities
Coal Contractors (1991), Inc.	USA	100%	100%	Anthracite mining and processing
The Pennsylvanian Anthracite Company LLC	USA	Nil	100%	Dormant
Atlantic Carbon Group LLC	USA	Nil	100%	Holding
Hazleton Shaft Corporation	USA	Nil	100%	Anthracite mining and processing
Hazleton Hiller LLC	USA	Nil	50%	Anthracite processing

#### Impairment review

An impairment review of the investment in Coal Contractors (1991), Inc and Hazleton Shaft Corporation. is carried out on an annual basis in order to ensure that it is valued at the lower of cost and recoverable amount. The main asset of the Company's subsidiaries is the Stockton mine and Hazleton Shaft mine. The value of the investment will naturally decline over the life of the mine as coal reserves are extracted.

The recoverable amount of the investment in Coal Contractors (1991), Inc and Hazleton Shaft Corporation has been determined based on value in use calculations prepared by an independent third party. These calculations use pre-tax cash-flow projections based on financial budgets approved by Management covering the useful life of the estimated resource at the Stockton mine and Hazleton Shaft Mine. Management compares the recoverable amount resulting from the calculations to the carrying value of the investment, after accounting for the recovery of the inter-company loan balance, to determine whether an impairment charge is required. For the year ended 31 December 2016 the following impairment was recorded:

	Company	
	As at 31 December 2016	As at 31 December 2015
	\$	\$
Investment in subsidiaries impairment reversal	-	2,353,178
Amount due from group undertaking impairment reversal	-	10,160,525
	-	12,513,703

The discount rate used was 10% in 2015, which reflects the cost of capital for the Company and the Group.

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS For the year ended 31 December 2016

### 7. Trade and Other Receivables

	Group		Company	
	As at 31 December 2016 \$	As at 31 December 2015 \$	As at 31 December 2016 \$	As at 31 December 2015 \$
Trade receivables	4,169,375	2,691,673	-	-
Less: provision for impairment of trade receivables	(315,975)	(93,000)	-	-
Trade receivables net	3,853,400	2,598,673	-	-
Other receivables	19,881	9,215	7,681	9,215
Prepayments	256,537	586,105	33,401	49,234
VAT receivable	12,203	9,600	12,203	9,600
Loans to related parties (Note 25 and 26)	116,316	-	6,837,043	8,730,651
	4,258,337	3,203,593	6,890,329	8,798,700
Less non-current portion	-	-	(6,837,043)	(8,730,651)
<b>Current portion</b>	<b>4,258,337</b>	<b>3,203,593</b>	<b>53,286</b>	<b>68,049</b>

The fair value of all current receivables is as stated above. Non-current receivables have no fixed date of repayment and as such the Directors believe a calculation of a reliable estimate of their fair value cannot be made at the Statement of Financial Position date.

#### Group

At 31 December 2016, trade receivables of \$2,066,132 (2015: \$1,485,661) were fully performing.

At 31 December 2016, trade receivables of \$1,528,646 (2015: \$1,068,833) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing of these receivables is:

	As at 31 December 2016 \$	As at 31 December 2015 \$
Up to 3 months	1,316,547	787,114
3 to 6 months	127,802	281,719
6 to 12 months	84,297	-
<b>Total</b>	<b>1,528,646</b>	<b>1,068,833</b>

At 31 December 2016, trade receivables of \$574,595 (2015: \$137,179) were impaired and provided for. The amount of the provision was \$315,975 as of 31 December 2015 (2015: \$93,000). The individually impaired receivables mainly relate to customers who are in unexpectedly difficult economic circumstances.

The ageing of these receivables is as follows:

	As at 31 December 2016 \$	As at 31 December 2015 \$
Over 12 months	574,595	137,179
<b>Total</b>	<b>574,595</b>	<b>137,179</b>

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 7. Trade and Other Receivables (continued)

The creation and release of provisions for impaired receivables has been included in administration expenses in the income statement.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group's and Company's trade and other receivables are denominated in the following currencies:

	Group		Company	
	As at 31 December 2016 \$	As at 31 December 2015 \$	As at 31 December 2016 \$	As at 31 December 2015 \$
US dollar	4,205,051	2,848,953	-	-
UK pound	53,286	9,600	6,890,329	8,730,651
<b>Total</b>	<b>4,258,337</b>	<b>2,858,553</b>	<b>6,890,329</b>	<b>8,730,651</b>

### 8. Inventories

	Group		Company	
	As at 31 December 2016 \$	As at 31 December 2015 \$	As at 31 December 2016 \$	As at 31 December 2015 \$
Coal	6,653,984	4,307,275	-	-
Supplies	119,895	118,937	-	-
	<b>6,773,879</b>	<b>4,426,212</b>	<b>-</b>	<b>-</b>

The value of inventories recognised as a credit and included in cost of sales was \$3,235,645 (31 December 2015: expense of \$2,811,727).

### 9. Other assets

	Group		Company	
	As at 31 December 2016 \$	As at 31 December 2015 \$	As at 31 December 2016 \$	As at 31 December 2015 \$
Certificates of deposit:				
<b>Non-Current</b>	<b>741,739</b>	206,339	-	-
<b>Current</b>	-	61,068	-	-

The Group has provided certificates of deposit as collateral to secure mine reclamation obligations as required by the Pennsylvania Department of Environmental Protection. The certificates are not released until the underlying reclamation obligations have been completed by the Group to the satisfaction of the Department of Environmental Protection. See also Note 24: Commitments.

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS For the year ended 31 December 2016

### 10. Cash and Cash Equivalents

	Group		Company	
	As at 31 December 2016 \$	As at 31 December 2015 \$	As at 31 December 2016 \$	As at 31 December 2015 \$
Cash at bank and in hand	503,870	329,391	5,447	27,686
Cash and cash equivalents (excluding bank overdrafts)	503,870	329,391	5,447	27,686

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	Group		Company	
	As at 31 December 2016 \$	As at 31 December 2015 \$	As at 31 December 2016 \$	As at 31 December 2015 \$
Cash and cash equivalents	503,870	329,391	5,447	27,686
Bank overdraft (note 14)	-	(197,104)	-	-
Cash and cash equivalents	503,870	132,287	5,447	27,686

### 11. Share Capital and Share Premium

Authorised	Number	£
Ordinary shares of 0.07p each	20,000,000,000	14,000,000

There has been no movement in the authorised share capital during the year.

#### Group and Company

Issued	Number of shares	Ordinary shares \$	Share premium \$	Total \$
At 1 January 2015	4,662,538,502	5,510,300	40,359,710	45,870,010
At 31 December 2015	4,912,538,502	5,769,335	40,498,886	46,268,221
Shares issued – September 2016	576,000,000	497,510	355,364	852,874
Shares issued – September 2016	288,000,000	248,755	177,682	426,437
Shares issued – September 2016	482,833,334	417,040	297,886	714,926
<b>At 31 December 2016</b>	<b>6,259,371,836</b>	<b>6,932,640</b>	<b>41,329,818</b>	<b>48,262,458</b>

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 11. Share Capital and Share Premium (continued)

#### Share options and warrants

Share options and warrants outstanding at the end of the year have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price in £ per share	Shares	
			2016	2015 restated*
24 January 2013	24 January 2018	0.0075	263,157,894	263,157,894
27 July 2013	21 July 2016	0.0018	-	844,913
1 November 2013	31 October 2016	0.0028	-	353,566
4 December 2014	3 December 2017	0.0018	109,724,137	109,724,137
22 June 2016	21 June 2026	0.0012	288,000,000	-
			<b>660,882,031</b>	<b>374,080,510</b>

- *Prior year figures have been adjusted due to a clerical error in prior year accounts.*

The options and warrants are exercisable starting immediately from the date of grant and lapse between two and five years from the date of grant. The Company and Group have no legal or constructive obligation to settle or repurchase the options in cash.

The fair value of the share options was determined using the Black Scholes valuation model.

A reconciliation of options granted and lapsed during the year ended 31 December 2016 and 2015 are shown below:

	2016		2015	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding as at 1 January	<b>374,080,510</b>	0.0058	344,363,583	0.0050
Granted	<b>576,000,000</b>	0.0012	-	-
Exercised	<b>(288,000,000)</b>	0.0012	-	-
Lapsed	<b>(1,198,479)</b>	0.0058	(29,716,927)	0.0050
Outstanding as at 31 December	<b>660,882,031</b>	0.0033	374,080,510	0.0058
Exercisable at 31 December	<b>660,882,031</b>	0.0033	374,080,510	0.0058

The total fair value of the options and warrants granted in the current year resulted in a charge of \$50,756 to the Consolidated Statement of Comprehensive Income. No share options were issued in 2015.

Range of exercise prices (£)	2016			2015				
	Weighted average exercise price (£)	Number of shares	Weighted average remaining life expected (years)	Weighted average remaining life contracted (years)	Weighted average exercise price (£)	Number of shares	Weighted average remaining life expected (years)	Weighted average remaining life contracted (years)
<b>0 – 0.01</b>	<b>0.0033</b>	<b>660,882,031</b>	<b>1.146</b>	<b>1.146</b>	0.0050	374,080,510	2.64	2.64

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS For the year ended 31 December 2016

### 12. Other Reserves

Group and Company	Share option reserve \$	Total \$
At 1 January 2015	101,077	101,077
Issue of share options and warrants (Note 11)	-	-
Expiration of options	(58,176)	(58,176)
At 31 December 2015	42,901	42,901
Issue of share options and warrants (Note 11)	50,756	50,756
Expiration of options	(26,258)	(26,258)
Options Exercised	(23,098)	(23,098)
<b>At 31 December 2016</b>	<b>44,301</b>	<b>44,301</b>

### 13. Trade and Other Payables

	Group		Company	
	As at 31 December 2016 \$	As at 31 December 2015 \$	As at 31 December 2016 \$	As at 31 December 2015 \$
Trade payables	3,630,386	2,761,348	160,874	181,450
Other payables	2,076,030	3,488,007	-	3,488,007
Payroll, social security and other taxes	3,232	-	10,413	-
Accrued expenses	2,599,822	1,232,378	48,895	74,662
	<b>8,309,470</b>	<b>7,481,733</b>	<b>220,182</b>	<b>3,744,119</b>



# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS For the year ended 31 December 2016

### 13. Trade and Other Payables(continued)

#### Non-current

	Group		Company	
	As at 31 December 2016	As at 31 December 2015	As at 31 December 2016	As at 31 December 2015
	\$	\$	\$	\$
Loans from related parties (Note 25)	-	-	473,265	-
	-	-	473,265	-

### 14. Borrowings

	Group		Company	
	As at 31 December 2016	As at 31 December 2015	As at 31 December 2016	As at 31 December 2015
	\$	\$	\$	\$
<b>Non-Current</b>				
Debentures and other loans	21,299,408	-	-	-
Finance lease liabilities	34,372,255	16,785,137	-	-
	55,671,663	16,785,137	-	-
<b>Current</b>				
Bank borrowings	-	197,104	-	-
Debentures and other loans	4,865,871	800,000	-	800,000
Finance lease liabilities	5,827,518	3,627,795	-	-
	10,693,389	4,624,899	-	800,000

At 31 December 2016, debentures and other loans include secured liabilities of \$29,200,843 (31 December 2015: \$nil). The loan was secured on specific plant and machinery owned by of the Group and was repayable within 3 years.

The fair value of current borrowings equals their carrying amounts, as the impact of discounting is not significant.

The carrying amounts and fair value of the non-current borrowings are:

	Carrying amount		Fair value	
	As at 31 December 2016	As at 31 December 2015	As at 31 December 2016	As at 31 December 2015
	\$	\$	\$	\$
Debenture and other loans	21,299,408	-	16,313,388	-
Finance lease liabilities	34,372,255	16,785,137	16,057,472	14,074,161
	55,671,663	16,785,137	32,370,860	14,074,161

The fair values are based on cash flows discounted using the borrowing rate of 9.81% (2015: 5.50%), which represents the cost of capital of the Group.

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS For the year ended 31 December 2016

### 14. Borrowings (continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Group	
	As at 31 December 2016 \$	As at 31 December 2015 \$
US dollar	66,365,052	21,410,036
<b>Total</b>	<b>66,365,052</b>	<b>21,410,036</b>

#### Finance Lease Liabilities

Lease liabilities are effectively secured, as the rights to the leased asset revert to the lessor in the event of default.

	Group	
	As at 31 December 2016 \$	As at 31 December 2015 \$
<b>Finance lease liabilities – minimum lease payments</b>		
- no later than one year	7,731,884	4,656,523
- later than one year and no later than five years	34,996,862	16,869,278
- later than five years	3,749,435	2,075,313
	<b>46,478,181</b>	23,601,114
Future finance charges on finance lease liabilities	<b>(6,278,411)</b>	(3,188,182)
Present value of finance lease liabilities	<b>40,199,770</b>	20,412,932

The present value of finance lease liabilities is as follows:

	Group	
	As at 31 December 2016 \$	As at 31 December 2015 \$
No later than one year	5,827,518	3,627,795
Later than one year and no later than five years	30,720,198	14,751,137
Later than five years	3,652,054	2,034,000
Present value of finance lease liabilities	<b>40,199,770</b>	20,412,932

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS For the year ended 31 December 2016

### 15. Provision for Restoration Costs

	Group	
	As at 31 December 2016 \$	As at 31 December 2015 \$
<b>Non-Current</b>		
Stockton (see below)	1,521,521	3,484,337
Hazleton Shaft (see below)	2,047,607	-
	<b>3,569,128</b>	3,484,337
<b>Current</b>		
Gowen (see below)	15,658	50,420
	<b>15,658</b>	50,420
<b>Total reclamation costs</b>	<b>3,584,786</b>	3,534,757
<b>Gowen total costs</b>		
As at 1 January	50,420	158,100
Expense reclamation costs offset	(34,762)	(107,680)
As at 31 December	15,658	50,420
<b>Stockton total costs</b>		
As at 1 January	3,484,337	3,916,696
Accretion	344,315	318,426
Decrease in estimated reclamation liability	(2,307,131)	(750,785)
As at 31 December	1,521,521	3,484,337
<b>Hazleton Shaft total costs</b>		
As at acquisition	3,956,325	-
Accretion	-	-
Decrease in estimated reclamation liability	(1,908,718)	-
As at 31 December	2,047,607	-

The asset provision for the Stockton mine property is calculated using current cost estimates provided by an independent third party consultant. The current cost estimates are applied to the required reclamation activities up to the date of closure of the mine. The cost estimates are increased at 2.35% for Stockton and 4.96% for Jeansville (2015: 5.78%) annually to the anticipated future mine closure date. The escalation factor was derived from the prior 10 year average increase for Stockton and 15 year average for Jeansville. in the US Producer Price Index for Anthracite producers. The future reclamation cost value is discounted by 9.81% (2015: 5.5%) (incremental cost of borrowing) to arrive at the recorded reclamation liability.

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS For the year ended 31 December 2016

### 16. Financial Instruments by Category

<b>Group - 31 December 2015</b>		
<b>Assets per Statement of Financial Position</b>	<b>Loans and receivables</b>	<b>Total</b>
Trade and other receivables (excluding prepayments)	2,617,488	<b>2,617,488</b>
Cash and cash equivalents	329,391	<b>329,391</b>
	<b>2,946,879</b>	<b>2,946,879</b>
<b>Group - 31 December 2015</b>		
<b>Liabilities per Statement of Financial Position</b>	<b>At amortised cost</b>	<b>Total</b>
Borrowings (excluding finance leases)	997,104	<b>997,104</b>
Finance lease liabilities	20,412,932	<b>20,412,932</b>
Trade and other payables (excluding non-financial liabilities)	7,481,733	<b>7,481,733</b>
<b>Total</b>	<b>28,891,769</b>	<b>28,891,769</b>
<b>Group - 31 December 2016</b>		
<b>Assets per Statement of Financial Position</b>	<b>Loans and receivables</b>	<b>Total</b>
Trade and other receivables (excluding prepayments)	4,001,800	<b>4,001,800</b>
Cash and cash equivalents	503,870	<b>503,870</b>
	<b>4,505,670</b>	<b>4,505,670</b>
<b>Group - 31 December 2016</b>		
<b>Liabilities per Statement of Financial Position</b>	<b>At amortised cost</b>	<b>Total</b>
Borrowings (excluding finance leases)	26,165,278	<b>26,165,278</b>
Finance lease liabilities	40,199,774	<b>40,199,774</b>
Trade and other payables (excluding non-financial liabilities)	7,798,812	<b>7,798,812</b>
<b>Total</b>	<b>74,163,864</b>	<b>74,163,864</b>
<b>Company - 31 December 2015</b>		
<b>Assets per Statement of Financial Position</b>	<b>Loans and receivables</b>	<b>Total</b>
Trade and other receivables (excluding prepayments)	8,749,466	<b>8,749,466</b>
Cash and cash equivalents	27,686	<b>27,686</b>
<b>Total</b>	<b>8,777,152</b>	<b>8,777,152</b>
<b>Company - 31 December 2015</b>		
<b>Liabilities per Statement of Financial Position</b>	<b>At amortised cost</b>	<b>Total</b>
Borrowings	800,000	<b>800,000</b>
Trade and other payables (excluding non-financial liabilities)	3,744,119	<b>3,744,119</b>
<b>Total</b>	<b>4,544,119</b>	<b>4,544,119</b>

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

Company - 31 December 2016 Assets per Statement of Financial Position	Loans and receivables	Total
Trade and other receivables (excluding prepayments)	6,856,928	<b>6,856,928</b>
Cash and cash equivalents	5,447	<b>5,447</b>
<b>Total</b>	<b>6,862,375</b>	<b>6,862,375</b>
Company - 31 December 2016 Liabilities per Statement of Financial Position	At amortised cost	Total
Borrowings	-	-
Trade and other payables (excluding non-financial liabilities)	693,447	<b>693,447</b>
<b>Total</b>	<b>693,447</b>	<b>693,447</b>

### 17. Expenses by Nature

	Group	
	For the year ended 31 December 2016 \$	For the year ended 31 December 2015 \$
Staff and related costs (Note 19)	<b>7,940,718</b>	6,271,414
Other staff related costs	<b>2,605,883</b>	2,103,332
Depreciation, depletion and impairment charges	<b>6,270,888</b>	4,946,447
Reclamation costs	<b>623,781</b>	318,427
Fuel and oil	<b>2,419,524</b>	3,184,926
Blasting	<b>1,321,582</b>	1,720,952
Rental expenses	<b>249,737</b>	630,182
Royalties	<b>859,070</b>	392,196
Maintenance	<b>2,384,554</b>	1,374,729
Mine fire expense	<b>528,782</b>	-
M&A Expenses	<b>1,361,016</b>	-
Coal transport	<b>584,027</b>	-
Insurance	<b>481,747</b>	361,884
Supplies	<b>1,826,458</b>	1,268,983
Consulting fees	<b>1,673,113</b>	789,373
Inventory movement	<b>1,563,795</b>	(2,859,398)
Utilities	<b>795,564</b>	289,969
Other expenses	<b>1,740,624</b>	723,480
<b>Total cost of sales, administration and other expenses</b>	<b>35,230,863</b>	21,516,896

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 17. Expenses by Nature (continued)

During the year, the Group (including overseas subsidiaries) obtained the following services from the Company's auditor and its associates:

	Group	
	For the year ended 31 December 2016	For the year ended 31 December 2015
	\$	\$
Fees payable to the Company's auditor and its associates for the audit of the Parent Company and the Consolidated Financial Statements	32,000	32,000
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiary	60,000	60,000
- Tax compliance services	4,000	4,000
- Other assurance services	27,500	21,000

### 18. Other gains/(losses)

	Group	
	For the year ended 31 December 2016	For the year ended 31 December 2015
	\$	\$
Net foreign exchange gains	69,607	624,345
Fair value loss on derivative financial instruments	-	-
Other gains	50,756	249,593
	<b>120,363</b>	<b>873,938</b>

### 19. Employees

	Group		Company	
	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ended 31 December 2015
	\$	\$	\$	\$
Staff Costs (including Executive Directors)				
Wages and salaries	7,322,840	5,585,604	734,013	665,753
Social security costs	580,253	631,275	-	-
Pensions – defined contribution plan	37,625	54,535	33,456	46,231
	<b>7,940,718</b>	<b>6,271,414</b>	<b>767,469</b>	<b>711,984</b>

	Group	
	For the year ended 31 December 2016	For the year ended 31 December 2015
Average Number of Employees (including Executive Director)		
Directors	4	3
Administration	8	6
Coal miners	98	73
Total average headcount	<b>84</b>	<b>82</b>

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS For the year ended 31 December 2016

### 20. Directors' Remuneration

	Directors' Fees		Company pension contributions		Other employment benefits		Total	
	For the year ended 31 Dec 2016	For the year ended 31 Dec 2015	For the year ended 31 Dec 2016	For the year ended 31 Dec 2015	For the year ended 31 Dec 2016	For the year ended 31 Dec 2015	For the year ended 31 Dec 2016	For the year ended 31 Dec 2015
	\$	\$	\$	\$	\$	\$	\$	\$
Adam Wilson	649,141	372,000	-	14,597	268,297	206,983	917,438	593,580
Peter Chinneck	107,608	68,774	-	-	-	-	107,608	68,774
Stephen Best	374,821	231,530	32,537	36,679	-	-	407,358	268,209
George Roskos	347,636	-	-	-	-	-	347,636	-
	<b>1,479,206</b>	672,304	<b>32,537</b>	51,276	<b>268,297</b>	206,983	<b>1,780,040</b>	930,563

### 21. Other Income

	Group	
	For the year ended 31 December 2016	For the year ended 31 December 2015
	\$	\$
Profit on disposal of property, plant and equipment	1,455,094	1,469,404
	<b>1,455,094</b>	1,469,404

### 22. Finance Costs

	Group	
	For the year ended 31 December 2016	For the year ended 31 December 2015
	\$	\$
<b>Interest Expense:</b>		
Finance leases	880,968	705,920
Other borrowings	2,479,729	552,358
	<b>3,360,697</b>	1,258,278

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 23. Income Tax Expense

	Group	
	For the year ended 31 December 2016 \$	For the year ended 31 December 2015 \$
<b>Profit/(Loss) before tax</b>	<b>(12,724,207)</b>	5,446,168
Tax at the applicable rate of 35.88% (2014: 31.60%)	<b>(4,565,445)</b>	1,721,037
Expenses not deductible for tax purposes	<b>203,354</b>	141,907
Tax losses utilised	-	(2,189,345)
Net tax effect of losses carried forward	<b>4,362,091</b>	326,401
<b>Income tax charge</b>	-	-

No tax charge or credit arises on the loss for the year.

The tax rate used is a combination of 20% (2015: 20.25 %) standard rate of corporation tax in the UK, 34% (2015: 34%) US federal tax rate and 10% (2015:10%) Pennsylvania state tax rate for the Stockton Coal Group, to give an applicable rate of 35.88% (2015: 31.60 %).

The Group has tax losses of approximately \$38,838,304 (2015: \$27,089,000) available to carry forward against future taxable profits. No deferred tax asset has been recognised in view of the uncertainty over the timing of future taxable profits against which the losses may be offset.

### 24. Commitments

The Group has provided certificates of deposit as collateral to secure mining bonds required to provide mine reclamation obligations. The certificates will not be released until the underlying reclamation obligations have been completed by the Group to the satisfaction of the Pennsylvania Department of Environmental Protection. See Note 9 for further details.



# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 25. Business Combinations

#### Atlantic Carbon Group LCC and Hazleton Shaft Corporation

On 27 May 2016, the Group acquired 100% of the share capital of Hazleton Shaft Corporation ('HS') for \$17,899,078. HS is registered in the USA and operates an anthracite mine and processing facility. As a result of this acquisition the Group is expected to increase its presence in this market and commodity.

The following table summarises the consideration paid for HS and the values of the assets acquired and liabilities assumed at the acquisition date.

<b>Consideration at 27 May 2016</b>	\$
Cash	17,899,078
Amounts owed to sellers on finalisation of acquisition	510,659
<b>Total consideration</b>	<b>18,409,737</b>

<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	\$
Cash and cash equivalents	35,857
Trade and other receivables	794,514
Inventory	3,848,873
Property, plant & equipment	7,428,507
Investment in joint venture	323,784
Assets in ground	3,956,324
Trade and other payables	(1,153,932)
Borrowings	(7,100,921)
Reclamation provision	(4,032,290)
<b>Total identifiable net assets</b>	<b>4,100,716</b>
Fair value uplift of property, plant & equipment	5,393,607
Fair value uplift of assets in ground	8,915,414
<b>Fair value uplift</b>	<b>14,309,020</b>
<b>Total consideration</b>	<b>18,409,737</b>

The fair value of the property, plant and equipment of £21,737,527 was estimated by applying a number of valuation metrics which include; market benchmarks, current valuations, resale value and net present value. In the Directors' opinion, the value of the consideration paid to effect the acquisition does not accurately reflect the value of the property plant and equipment. Therefore, the fair value of the assets acquired, after consideration of tax implications and the removal of the fair value of other identifiable assets acquired, has been estimated by the Directors as if the transaction was an orderly sale by the vendors on an open market. This resulted in a \$14.3 million fair value adjustment before consideration of the tax implications.

Had HSC been consolidated from 1 January 2016, the revenue shown in the Consolidated Income Statement attributable to HSC would have been \$4,860,294 and an additional loss for the period of \$2,624,273 would have been recorded.

# ATLANTIC CARBON GROUP PLC

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 26. Investment in Joint Venture

On 5 August 2013 Hazleton Shaft Corporation acquired a 50% equity interest in Hazleton Hiller. Hazleton Hiller is an anthracite washing plant located in Hazleton, Pennsylvania. The Group's investment in Hazleton Hiller remains a key part of its plans to expand its operations.

Hazleton Hiller is accounted for as a joint venture because, while Atlantic Carbon Group plc has significant influence over Hazleton Hiller, it does not have control, only receives a 50% share of the return on investment, has 50% voting rights and it is accounted for on an equity accounting basis.

The carrying value of the investment and loan in joint venture is determined as follows:

	Group	
	As at 31 December 2016	As at 31 December 2015
	\$	\$
Opening balance	376,308	-
Share of loss in joint venture	(47,885)	-
	328,423	-

The Group's share of Hazleton Hiller's result for the year was £47,885 (2015: nil).

### 27. Related Party Transactions

#### Shareholder Loans

Included within borrowings and trade and other payables are the following amounts owed to shareholders:

	Group	
	As at 31 December 2016	As at 31 December 2015
	\$	\$
YA Global Master SPV Limited <sup>(1)</sup>	-	800,000
Loan from George Roskos	1,950,590	-
Seller note in relation to acquisition of HSC	4,609,437	-
	6,560,027	800,000

<sup>(1)</sup> YA Global Masters SPV Limited is a shareholder in Atlantic Carbon Group PLC

In September 2015 the Company drew down a fourth tranche of the loan agreement with Yorkville of \$1,000,000. As at 31 December 2016 the loan has been repaid in full with no balance outstanding.

On acquisition of HSC there was amount owed to, George Roskos of \$400,000. 286,000 of this remains unpaid at year end. As part of the acquisition of Atlantic Carbon Group LLC, George Roskos advanced a \$1,664,590 restricted loan to Atlantic Carbon Group LLC. Both loans remain fully outstanding as at 31 December 2016.

As part of the amounts raised to fund the acquisition of HSC a Seller note was entered in to for \$4,000,000. This is a commercial secured subordinated promissory note with an interest rate of 7% per annum. The maturity date is no later than 6 months after satisfaction of all amounts due to White Oak Global Advisors. In the year, interest of \$609,437 has been capitalised in to the loan amount in line with the terms of the agreement.

#### Intercompany Transactions

All group transactions and balances have been eliminated on consolidation.

## ATLANTIC CARBON GROUP PLC

### NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

#### 27. Related Party Transactions (continued)

##### **Loan from Atlantic Carbon Group Plc to Coal Contractors (1991) Inc**

As at 31 December 2016 there were amounts receivable of \$6,039,940 (31 December 2015: \$8,730,651) due from Coal Contractors (1991) Inc to the Company. The amounts were interest free and repayable in Sterling when sufficient cash resources are available in the subsidiary.

During the year ended 31 December 2016 the Company charged fees of \$146,884 (31 December 2015: \$540,854) to Coal Contractors (1991) Inc., for certain administrative and consulting services.

##### **Loan to Atlantic Carbon Group Plc from Atlantic Carbon Group LLC**

As at 31 December 2016 there were amounts payable of \$473,265 (31 December 2015: nil) due to Atlantic Carbon Group LLC to the Company. The amounts were interest free and repayable in Sterling when required by the subsidiary,

##### **Loan from Atlantic Carbon Group Plc to Hazleton Shaft LLC**

As at 31 December 2016 there were amounts receivable of \$797,102 (31 December 2015: \$Nil) due from Hazleton Shaft LLC. The amounts were interest free and repayable in Sterling when sufficient cash resources are available in the subsidiary.

##### **Loan from Coal Contractors to Atlantic Carbon Group LLC**

As at 31 December 2016 there were amounts receivable of \$726,575 (31 December 2015: nil) due from Coal Contractors (1991) Inc to Atlantic Carbon Group LLC to. The amounts were interest free and repayable in US Dollars when sufficient cash resources are available in the subsidiary. The amounts receivable includes \$744,303 of interest on borrowings which was paid for by Coal Contractors (1991) Inc on behalf of Atlantic Carbon Group LLC.

All Group transactions have been eliminated on consolidation.

##### **Loans between Hazleton Shaft LLC and Coal Contractors (1991) Inc**

As at 31 December 2016 there were amounts receivable of \$9,654,367 (31 December 2015: nil) due from Coal Contractors (1991) Inc to Hazleton Shaft LLC. The amounts were interest free and repayable in US Dollars when sufficient cash resources are available in the subsidiary.

As at 31 December 2016 there were amounts receivable of \$5,216,547 (31 December 2015: nil) due from Hazleton Shaft LLC to Coal Contractors (1991) Inc. The amounts were interest free and repayable in US Dollars when sufficient cash resources are available in the subsidiary.

During the year ended 31 December 2016 the Coal Contractors (1991) Inc. charged fees of \$469,995 (31 December 2015: \$nil) to Hazleton Shaft LCC, for certain administrative and consulting services.

##### **Loan from Atlantic Carbon Group LLC to Hazleton Shaft LLC**

As at 31 December 2016 there were amounts receivable of \$7,100,921 (31 December 2015: \$Nil) due from Hazleton Shaft LLC to Atlantic Carbon Group LLC. The amounts were interest free and repayable in US Dollars when sufficient cash resources are available in the subsidiary.

All Group transactions have been eliminated on consolidation.

##### **Coal Sales between Coal Contractors (1991) Inc and Hazleton Shaft LCC**

During the year Coal Contractors (1991) Inc sold run of mine coal with a total value of \$4,256,266 to Hazleton Shaft LCC. Hazleton Shaft LLC sold run of mine coal with a total value of \$217,468 to Coal Contractors (1991) Inc.

## ATLANTIC CARBON GROUP PLC

### NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

#### 27. Related Party Transactions (continued)

##### Other Transactions

During the year George Roskos made advanced coal purchases of \$400,000 of run of mine coal which remains fully outstanding as at 31 December 2016. During the year, Peter Chinneck made advanced coal purchases of \$90,000 of run of mine coal from Coal Contractors (1991) Inc. No coal has been delivered or reserved as part of this transactions and amounts owed are included in trade and other creditors.

MC Best Rents, a company of which Mary Catherine Best (the wife of Stephen Best), was paid a fee of £10,150 for offices rented to Atlantic Carbon Group plc. No balance was outstanding at the year-end.

Mayford Equities Limited, a company of which Stephen Best is a Director, was paid a fee of £474,827 for underwriting services to Atlantic Carbon Group plc. No balance was outstanding at the year-end.

#### 28. Ultimate Controlling Party

The Directors believe there to be no ultimate controlling party.

#### 29. Subsequent Events

On 9 March 2017, the Group negotiated terms with White Oak Global Advisors LLC ("White Oak") whereby Coal Contractors (1991), Inc and Luzerne Carbon Company, LLC will amend the existing Loan and Security Agreement with White Oak dated 27 May 2016 and amended on 27 July 2016. Under the terms of the amendment White Oak will forbear for a limited period of time their rights and remedies with respect the Events of Default under the existing loan agreement to be replaced by new covenants and events of default. In addition a further loan of \$1,500,000 was made to the Company for working capital purposes.

On 10 March 2017, Atlantic Carbon Group plc issued 341,530,055 new ordinary shares in the Company at a price of £0.0012 per share raising \$500,000 USD (£408,836 GBP).

On 28 December 2016, Coal Contractors (1991) Inc sold 20,000 tonnes of run of mine coal to Atrum Coal NL for \$2,000,000 to be delivered and paid for in 2017.