



ALLEGIANCE COAL

LIMITED

ABN 47 149 490 353

Annual Report - 30 June 2018

Corporate Directory

Directors	David Fawcett - Chairman Mark Gray Malcolm Carson Jonathan Reynolds
Company secretary	Jonathan Reynolds
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Share register	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street Abbotsford VIC 3067 Telephone: 1300 787 272 Facsimile: +61 3 9473 2500
Auditor	SCS Audit & Corporate Services Pty Ltd Suite 802 309 Pitt Street Sydney 2000
Solicitors	Bellanhouse Level 19, Alluvion 58 Mounts Bay Road Perth WA 6000
Stock exchange listing	Allegiance Coal Limited shares are listed on the Australian Securities Exchange (ASX code: AHQ)
Website	www.allegiancecoal.com.au
Email address	info@allegiancecoal.com.au

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Directors' Report

30 June 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Allegiance Coal Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

The following persons were directors of Allegiance Coal Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

David Fawcett (Chairman)
Mark Gray
Malcolm Carson
Jonathan Reynolds

Principal activities

The continuing principal activity of the consolidated entity during the financial year was the acquisition, exploration and development of coal tenements.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The Company's primary focus has been on advancing the proposed Telkwa metallurgical coal project (Telkwa Project) to production. The Telkwa Project is located on the western side of British Columbia (BC), Canada, 375km by both rail and road to the deep water port of Prince Rupert and the Ridley Island Coal Terminal.

The key attractions of the Telkwa Project are its:

- relatively low mining strip ratio;
- relatively simple mining and coal washing process;
- access to rail, port, power, water, workforce and services; and
- existing large database of information obtained from exploration and evaluation by present and previous owners.

The Telkwa Project comprises three open pit areas all within close proximity of each other: Tenas, Goathorn, and Telkwa North. The JORC Code 2012 coal resource statement across all three coal deposits is as follows:

Coal Resource (Mt)	Measured	Indicated	Inferred	Total
Tenas	27.1	9.4	-	36.5
Goathorn	59.5	9.2	0.2	68.9
Telkwa North	15.7	3.7	1.0	20.4
Total	102.3	22.3	1.2	125.8

In July 2017 the Company completed a pre-feasibility study (PFS) declaring 42.5Mt of saleable coal reserves, positioning the Telkwa Project in the lowest five percentile of the global seaborne metallurgical coal cost curve.

The Company's initial focus is on developing the Tenas deposit (Tenas Project). Over the year, the Company has made solid progress advancing the Tenas Project towards permitting and production.

Acquisition of 100% interest in Telkwa Project

In 2014, The Company's wholly owned subsidiary Telkwa Coal Ltd (TCL) acquired farm-in rights to the Telkwa Project from a subsidiary of Altius Minerals Corporation (Altius), a TSX listed investment fund. TCL acquired the right to earn up to 90 percent project ownership. Altius retained a free carry on its remaining 10 percent project equity in relation to a small mine only (i.e. producing up to 250,000 saleable tonnes per annum (tpa)). Altius was to contribute its pro-rata share of the costs of a major mine. The farm-in obligations and payments are summarised in the table below.

	Milestone	Completion	Milestone Completions
1	Deliver NI 43-101 JORC compliant report	20 Mar 2015	Completed
	Complete internal scoping studies	20 Mar 2016	Completed
	Up-grade geo-model to a PFS standard	20 Mar 2016	Completed
	Incur C\$1M of expenditure	No time limit	Pay C\$200k for 20% project equity - Completed
2	Complete baseline studies	10 December 2018	
	Complete affected party agreements	10 December 2018	
	File small mine permit applications	10 December 2018	Pay C\$300k for further 30% project equity
3	Grant of small mine permits	No time limit	Pay C\$500k for further 40% project equity
4	Sale of 100k tonnes from a small mine	No time limit	Pay C\$2M
5	Grant of major mine permits	No time limit	Pay C\$2M
6	Sale of 500k tonnes from a major mine	No time limit	Pay C\$5M

In addition to the above, Altius will receive a 3% gross sales royalty on coal sold where the benchmark coal price is less than US\$100 per tonne; 3.5% where the benchmark coal price is US\$100-US\$109.99 per tonne; 4% where the benchmark coal price is US\$110-US\$119.99 per tonne; and 4.5% where the benchmark coal price is greater than US\$120 per tonne.

In December 2017, TCL entered into an agreement to acquire from Altius 100 percent ownership of all the rights to coal licences that make up the Telkwa Project (Acquisition). Up until the Acquisition, as set out above, TCL had earned 20 percent project ownership. In consideration for the issue to Altius of 40.6 million ordinary shares in the Company, with a deemed fair value of \$1.2 million, and the continued performance of the milestone obligations (as set out in the table below), Altius agreed to transfer full ownership of the Telkwa Project to TCL. As security against the performance of the milestone obligations, TCL has provided a charge over the Telkwa Project. The charge shall be subordinated to Project debt finance.

Milestone	Payment commitment *
Complete baseline studies and affected party agreements; and file small mine permit applications	C\$300,000
Grant of small mine permits	C\$500,000
Sale of 100,000 tonnes from a small mine	C\$2 million
Grant of major mine permits	C\$2 million
Sale of 500,000 tonnes from a major mine	C\$5 million

* payable, at Altius' option, in cash or shares in the Company.

Altius remains entitled to the royalty as described above.

Technical studies and project description

On 3 July 2017, the Company announced the results of its Staged Production PFS and on 11 September 2017, the Company announced the results of its Stage 1 PFS which included the results of a review of the Staged Production PFS.

The Staged Production PFS assessed the viability of the Telkwa Project across the entire reserve base of 42.5 million tonnes of saleable coal. It assumed the commencement of mining at 250,000 saleable tpa ramping to 1.75 million saleable tpa in four years.

The Stage 1 PFS assessed the viability of the Tenas Project at two levels:

- Mining at a rate of 250,000 saleable tpa; and
- Commencing mining at 250,000 saleable tpa and then increasing production to 500,000 saleable tpa on the basis such a ramp-up would involve limited additional capital expenditure.

The premise underlying the Stage 1 PFS is that under BC law, coal projects producing less than 250,000 saleable tpa may be permitted to avoid the environmental review process and allowed to advance directly to permitting thus achieving production sooner. In addition, the start-up capital requirements of such a mine would be lower than that of a larger mine.

Both the Staged Production PFS and the Stage 1 PFS were undertaken by SRK Consulting (Canada) Inc. (SRK) assisted by other mining and resources specialists. The three production scenarios assessed by SRK all delivered excellent economic results, summarised in the table below:

Annual Saleable Coal Production	Units	250,000t	500,000t	1.75Mt
All-in-FOB cash cost per sold tonne (pre-tax)	US\$/t	54	51	55
Start-up CAPEX (incremental from 250kt)	US\$M	35	2	162
Average annual revenue (US\$110/t)	US\$M	28	55	192
Average annual EBITDA	US\$M	14	30	97
Average EBITDA ratio to revenue	%	50	54	50
Unleveraged pre-tax NPV10	US\$M	51	83	416
Unleveraged pre-tax IRR	%	32	54	37

The PFSs indicated that at the three above selected levels of production, the project would have all-in-FOB cash costs of between US\$51/t and US\$55/t, and would be positioned firmly in the lowest five percentile of the global seaborne metallurgical coal cost curve.

Following completion of the PFSs and several months of discussions with key stakeholders, the Company finalised the terms of the Project Description for the Tenas Project (Project Description) in July 2018. The Project Description will be lodged with the relevant government agencies in September 2018 allowing the permitting process to commence.

Several important factors contributed to the Project Description:

- A clear indication from key stakeholders for the Tenas Project to participate in the BC environmental review process;
- A desire by the Company's shareholders and its potential joint venture partners that it capitalise on current strong demand and pricing for metallurgical coal to increase planned production beyond 250,000 saleable tpa;
- A preference from the local community for the transfer of saleable coal from the coal wash-plant to the rail load-out via a dedicated private haul road rather than a public highway;
- Canadian National Rail's requirement for a 3.5km train rail loop rather than the 1.5km rail siding incorporated into the 2017 PFSs;
- The maximum operating capacity of the coal wash-plant which would have an installed capacity of approximately 1,050,000 feed tpa;
- A preference to retain a small operating footprint; and
- An objective to maintain a low start-up capital expenditure requirement.

The following is a summary of key components of the Project Description:

- Total coal resource of 36.5 million tonnes.
- Of that total, an estimated 23.7 million tonnes of coal will be mined.
- Yield of 71% for an 8% ash product, recovering around 16.8 million tonnes of saleable coal.
- Production rate of 750,000 saleable tpa.
- Mine life of 22 years.
- Predicted average strip ratio of 3.2:1 BCM/ROMt.

The Project Description will be fed into the Tenas Project Definitive Feasibility Study (Tenas DFS), which is currently underway and is scheduled for completion in the coming months.

2018 Drill Programme

The Company completed a 34 drill hole programme from 18 drill pads within the Tenas Project comprising:

- Eight PQ diamond core holes: three for the installation of water monitoring wells and five for rock samples to support geochemistry studies and collect coal samples for testing;
- 12 sonic geotechnical holes to gather data to support the Tenas DFS; and
- 14, 150mm core drill holes, recovering 1,400 kilograms of coal.

The sample coal was sent to Birtley Coal & Minerals Testing in Calgary, Alberta (Birtley), for sizing, washability, and comprehensive coal quality analyses and to SGS Mineral Testing in Lakefield, Ontario, to undergo a pilot wash to generate product coal samples for coke oven tests by the Company and a number of Asian steel mills.

The Birtley test results, except in relation to the following two parameters, are consistent with the historical coal quality data, validating that data: the vitrinite mean maximum reflectance, commonly referred to as RoMax, is higher improving the rank of the coal considerably; and the calorific value, or heat content, is also higher, improving the coal's appeal for use for PCI.

Two of the Asian steel mills have completed their own coal quality analysis and have confirmed their interest in Tenas coal for use in the coke oven or in the blast furnace as a PCI coal.

Updated Geological Model

The Company updated the geological model for the Tenas deposit based on data collected from the February 2018 drill programme. The new geological model interpreted a small increase in the coal resource in the Tenas deposit but more importantly, interpreted a significant reduction in waste material, and in turn, a significant reduction in the ratio of waste material to raw coal.

Environmental Baseline Studies

The Company commenced its environmental baseline studies in relation to the Project in May 2017. All disciplines covering surface water quality, groundwater reconnaissance, terrestrial resources, fisheries and aquatics and culture and archaeology, are all well advanced.

The data collected, along with the substantial environmental data collected and recorded by previous Telkwa Project owners, will form a key component in the Company's environmental assessment process underpinning the permitting process. The studies are on schedule to be completed in the coming months.

Key Stakeholder Engagement

Over the year, meetings have been held with First Nations, the BC Ministry of Energy and Mines, the Mayor of Telkwa's office, and other regional special interest groups.

In May 2018, the Company held its first of five planned 'open houses' with the local and regional community. Under the environmental assessment process as it relates to permitting, an applicant is required to undertake at least two community meetings, or 'open houses'. The Company is planning five (including the one held) over the next 18 months. The open house involved 16 information boards, each of which was supervised by an environmental baseline consultant responsible for the relevant discipline.

Joint Venture Partner Discussions

Over the year ended 30 June 2018, the Company hosted site visits from two potential joint venture partners who are evaluating investing and participating in the Telkwa Project. A site visit from a third potential joint venture partner took place in August 2018.

Joint venture discussions have generally revolved around direct investment into TCL by way of a share subscription for a minority interest to meet part or all of the equity financing component, along with balance sheet support for the debt financing component, of mine construction, and the granting of the coal marketing rights to that party. Discussions remain on-going.

Kilmain and Back Creek Projects

Both the Kilmain and Back Creek Projects in Queensland remain under review. There were no activities of note during the year ended 30 June 2018.

Share capital

During the year ended 30 June 2018, the Company undertook the following capital raising initiatives:

- In October 2017, the Company completed a placement of 119.21 million ordinary shares to sophisticated and professional investors raising \$3.58 million, before costs. The capital was raised to commence the definitive feasibility study, complete environmental baseline studies, and to undertake a drilling programme at the Tenas Project.
- In December 2017, TCL increased its equity interest in the Telkwa Project to 100% through the allotment by the Company to Altius of 40.6 million shares, with a deemed value of \$1.2 million.
- In April 2018, the Company completed a placement of 79.39 million ordinary shares to sophisticated and professional investors raising \$4 million, before costs. The capital was raised to fund the studies and assessments required to support the Tenas Project mine permit application process.

Loans

Prior to its acquisition by the Company, TCL had issued promissory notes with a face value of \$100,000. The notes were repaid in December 2017.

Board

In March 2018, the Board reorganised itself to reflect the Company's focus on BC, with the elevation of David Fawcett to Non-executive Chairman and the relocation of its Managing Director, Mark Gray, to the town of Telkwa, BC.

Trading results

The loss for the consolidated entity after providing for income tax amounted to \$1,550,921 (30 June 2017: \$979,673).

Significant changes in the state of affairs

Significant changes in the state of the consolidated affairs during the current year are reflected under the review of operations above.

Matters subsequent to the end of the financial year

No matters or circumstances have arisen since 30 June 2018 that have significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The consolidated entity intends progressing development of the Telkwa metallurgical coal project as reflected under the review of operations above.

Environmental regulation

The consolidated entity is subject to and compliant with all aspects of environmental regulations of its exploration activities. Management is not aware of any environmental law that has not been complied with.

Information on directors

Name:	David Fawcett
Title:	Non-Executive Chairman from March 2018 Independent Non-Executive Director from December 2016 to March 2018
Qualifications:	BSc. Eng, Pr. Eng.
Experience and expertise:	David is a mining engineer with over 40 years' experience in the coal industry, primarily in Western Canada. During his career he has had a broad range of responsibilities from early stage geology and exploration, through feasibility and regulatory processes, to operations, management and executive positions for major, intermediate and start-up companies. He was a co-founder and president of Western Canadian Coal Corp. from 1997 to 2003 which company was subsequently taken over by US based Walter Energy Inc. for C\$3.5 billion. He was chief operating officer of NEMI Northern Energy & Mining Inc. from 2003 to 2004 and senior vice president of Hillsborough Resources Limited from 2005 to 2009. He has been the recipient of several coal industry awards including the Coal Association of Canada's Award of Distinction in 2015. He was appointed to the Board on 9 December 2016.
Other current directorships	None
Former directorships (last 3 years):	None
Special responsibilities	None
Interests in shares:	No ordinary shares held directly (2,954,889 ordinary shares held indirectly)
Interests in options	No options held directly (750,000 options held indirectly)
Name:	Mark Gray
Title:	Managing Director
Qualifications:	LLB
Experience and expertise:	Mark secured the Telkwa Project and founded Telkwa Coal Limited (a wholly owned subsidiary of the Company) in September 2014. He is a corporate lawyer with 30 years' transactional experience gained as a lawyer with Herbert Smith in London, a partner with Bell Gully in New Zealand, and as a director of the London based investment bank Barclays de Zoette Wedd. For the last 13 years he has been an advisor to and company executive of mining companies and operations including underground coal in Australia and open pit mining in Africa, as well as exploration and development projects in several minerals including coal. He was appointed to the Board on 29 May 2017.
Other current directorships	None
Former directorships (last 3 years):	None
Special responsibilities	None
Interests in shares:	101,722 ordinary shares held directly (23,218,879 ordinary shares held indirectly)
Interests in options	No options held directly (2,000,000 options held indirectly)
Name:	Malcolm Carson
Title:	Independent Non-Executive Director from March 2018 Non-Executive Chairman from August 2016 to March 2018
Qualifications:	MSc, BSc, MAusIMM, AIG
Experience and expertise:	Malcolm has over 40 years' experience in the resource sector including field exploration geologist and commercial evaluation of resources and project finance. He has held senior positions in exploration and mining companies,

the West Australian Government, investment banks and executive roles in ASX and TSX publicly listed companies. He was appointed to the Board on 11 August 2016.

Other current directorships: Chairman of Dampier Gold Limited (ASX: DAU), Director Pacific Wildcat Corp (TSX), Director Compass Gold Corporation (TSX)

Former directorships (last 3 years): None

Special responsibilities: None

Interests in shares: Nil

Interests in options: No options held directly (750,000 options held indirectly)

Name: Jonathan Reynolds

Title: Finance Director

Qualifications: B.Com (Hons), CA, F Fin

Experience and expertise: Jonathan is a chartered accountant with more than 25 years' experience across many sectors spent mostly in financial management roles. Most recently, he has been finance director of a resource investment house, managing investments across a range of commodities, including coal. Prior to that he held the position of chief financial officer with a number of listed entities and before that was a senior manager with an international firm of chartered accountants. He is a member of Chartered Accountants Australia and New Zealand, a fellow of Financial Services Institute of Australia and holds a Bachelor of Commerce (Honours) degree. He was appointed to the Board on 11 August 2016.

Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities: None

Interests in shares: 1,410,000 ordinary shares held directly

Interests in options: 1,250,000 options held directly

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

Company secretary Jonathan Reynolds

Information on Jonathan Reynolds is included in 'Information on directors' above.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Attended	Held
Malcolm Carson	4	4
Mark Gray	4	4
David Fawcett	4	4
Jonathan Reynolds	4	4

Held: represents the number of meetings held during the time the director held office.

The roles of the Remuneration and Nomination Committee and Audit and Risk Committee are performed by the full Board.

Remuneration report (audited)

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the Company, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Share-based compensation
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's and Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with the market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Board is responsible for determining and reviewing remuneration arrangements for Directors and executives. The performance of the consolidated entity and Company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth and delivering constant or increasing return on assets
- attracts and retains high calibre executives

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive remunerations are separate.

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors receive a fixed fee for time, commitment and responsibilities and may be paid remuneration as the directors determine where the director performs services outside the scope of the ordinary duties of the director. Non-executive directors may also be paid expenses properly incurred in attending meetings or otherwise in connection with the Company's business.

The Company's constitution provides that the non-executive directors as a whole may be paid or provided fees or other remuneration for their services as a director of the Company, the total amount or value of which must not exceed \$500,000 (excluding mandatory superannuation) per annum or such other maximum amount periodically determined by the Company in a general meeting.

Fees for non-executive directors are not linked to individual performance. Given the Company is at an early stage of development and the financial restrictions placed on it, the Company may consider it appropriate to issue individual options to non-executive directors, subject to obtaining relevant shareholder approvals.

Executive remuneration

The consolidated entity and Company aim to reward executives with a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits are reviewed annually by the Board, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remuneration.

Executives can receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and adds additional value to the executive.

The short-term incentives ('STI') include bonus arrangements as may be approved by the Board.

The long-term incentives ('LTI') includes long service leave and share-based payments.

Consolidated entity performance and link to remuneration

There is no link between the consolidated entity's performance and remuneration.

Use of remuneration consultants

During the financial year ended 30 June 2018, the Company did not engage remuneration consultants to review its existing remuneration policies and provide recommendations on how to improve both the short-term incentives ('STI') and long-term incentives ('LTI') programs of the Company and consolidated entity.

Voting and comments made at the Company's 2017 Annual General Meeting ('AGM')

At the last AGM, the shareholders voted to adopt the remuneration report for the year ended 30 June 2017. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and key management personnel are set out in the following tables. Key management personnel are defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	Total
2018	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
David Fawcett	49,000	-	-	-	-	15,369	64,369
Malcolm Carson	36,000	-	-	-	-	15,369	51,369
<i>Executive Directors:</i>							
Mark Gray	267,501	-	11,825	-	-	40,985	320,311
Jonathan Reynolds	156,667	-	-	-	-	25,616	182,282
	509,168	-	11,825		-	97,339	618,332

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	Total
2017	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Malcolm Carson	43,800	-	-	-	-	-	43,800
David Deitz	49,149	-	-	145	-	-	49,294
David Fawcett	23,153	-	-	-	-	-	23,153
Anthony Howland-Rose	1,667	-	-	-	-	-	1,667
Peter Donkin	1,529	-	-	145	-	-	1,674
<i>Executive Directors:</i>							
Mark Gray*	150,000	15,000	-	-	-	-	165,000
Jonathan Reynolds	106,452	-	-	-	-	-	106,452
	375,750	15,000	-	290	-	-	391,040

* Managing Director of Telkwa Coal Ltd from date of acquisition to 29 May 2017 and Managing Director of the consolidated entity from 29 May 2017.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2018	2017	2018	2017	2018	2017
<i>Non-Executive Directors:</i>						
David Fawcett	76%	100%	-%	-%	24%	-%
Malcolm Carson	70%	100%	-%	-%	30%	-%
David Deitz	-	100%	-	-%	-	-%
Anthony Howland-Rose	-	100%	-	-%	-	-%
Peter Donkin	-	100%	-	-%	-	-%
<i>Executive Directors:</i>						
Mark Gray	87%	91%	-%	9%	13%	-%
Jonathan Reynolds	86%	100%	-%	-%	14%	-%

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2018 or 30 June 2017.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

4,750,000 options were granted to directors and other key management personnel as part of compensation during the year ended 30 June 2018 (year ended 30 June 2017: nil).

Grant date	Vesting and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
6 December 2017	See table below	6 December 2022	\$0.075	\$0.021

	Vesting and exercisable date					
	6 Dec 2018	*	**	6 Dec 2019	6 Dec 2020	Total
David Fawcett	250,000	-	-	250,000	250,000	750,000
Mark Gray	-	500,000	500,000	500,000	500,000	2,000,000
Malcolm Carson	250,000	-	-	250,000	250,000	750,000
Jonathan Reynolds	-	312,500	312,500	312,500	312,500	1,250,000
	500,000	812,500	812,500	1,312,500	1,312,500	4,750,000

* The date the Tenas Project mining permit applications are filed.

** The date the Tenas Project mining permits are issued.

Options granted carry no dividend or voting rights.

Values of options over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

Name	Value of options granted during the year \$	Value of options vested during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
David Fawcett	15,369	-	-	24%
Mark Gray	40,985	-	-	13%
Malcolm Carson	15,369	-	-	30%
Jonathan Reynolds	25,616	-	-	14%

Values of options over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

Name	Value of options granted during the year \$	Value of options vested during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
David Fawcett	-	-	-	-
Mark Gray	-	-	-	-
Malcolm Carson	-	-	-	-
Jonathan Reynolds	-	-	-	-

Service agreements

Key management personnel have no entitlements to termination payments in the event of removal for misconduct.

Additional disclosures relating to key management personnel

In accordance with Class Order 14/632, issued by the Australian Securities and Investments Commission, relating to 'Key management personnel equity instrument disclosures', the following disclosure relates only to equity instruments in the Company or its subsidiaries.

Name	Grant date	Vesting date	Number of options granted	Value of options granted \$	Value of options vested \$	Number of options lapsed	Value of options lapsed \$
David Fawcett	6 Dec 2017	Note 1	750,000	15,369	-	-	-
Mark Gray	6 Dec 2017	Note 1	2,000,000	40,985	-	-	-
Malcolm Carson	6 Dec 2017	Note 1	750,000	15,369	-	-	-
Jonathan Reynolds	6 Dec 2017	Note 1	1,250,000	25,616	-	-	-

Note 1: The options vest on the dates set out in the following table:

	Vesting and exercisable date					
	6 Dec 2018	*	**	6 Dec 2019	6 Dec 2020	Total
David Fawcett	250,000	-	-	250,000	250,000	750,000
Mark Gray	-	500,000	500,000	500,000	500,000	2,000,000
Malcolm Carson	250,000	-	-	250,000	250,000	750,000
Jonathan Reynolds	-	312,500	312,500	312,500	312,500	1,250,000
	500,000	812,500	812,500	1,312,500	1,312,500	4,750,000

* The date the Tenas Project mining permit applications are filed.

** The date the Tenas Project mining permits are issued.

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
David Fawcett	2,000,000	-	833,333	-	2,833,333
Mark Gray	20,013,696	-	2,923,666	-	22,937,362
Malcolm Carson	-	-	-	-	-
Jonathan Reynolds	400,000	-	933,333	-	1,333,333
	22,413,696	-	4,690,332	-	27,104,028

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
David Fawcett	-	750,000	-	-	750,000
Mark Gray	-	2,000,000	-	-	2,000,000
Malcolm Carson	-	750,000	-	-	750,000
Jonathan Reynolds	-	1,250,000	-	-	1,250,000
	-	4,750,000	-	-	4,750,000

	Vested and exercisable	Unvested and unexercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
David Fawcett	-	750,000	750,000
Mark Gray	-	2,000,000	2,000,000
Malcolm Carson	-	750,000	750,000
Jonathan Reynolds	-	1,250,000	1,250,000
	-	4,750,000	4,750,000

Loans to key management personnel and their related parties

There were no loans made to key management personnel and their related parties during the financial year ended 30 June 2018.

Other transactions with key management personnel and their related parties

Consultancy fees paid to related parties, included in remuneration disclosures above

- Murray River Coal Ltd, a related party of David Fawcett, totalling \$49,000
- Gray Corporate Law Ltd, a related party of Mark Gray, totalling \$37,500
- Gray Corporate Law Pty Ltd, a related party of Mark Gray, totalling \$180,000
- 1162238 B.C. Ltd, a related party of Mark Gray, totalling \$49,714
- Mineral Resource Consultants Pty Ltd, a related party of Malcom Carson, totalling \$36,000
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$156,667

Expenses reimbursements paid to related parties:

- Gray Corporate Law Pty Ltd, a related party of Mark Gray, totalling \$126,178
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$16,824

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Allegiance Coal Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
27 November 2013	27 November 2018	\$0.2475	820,000
6 December 2017	6 December 2020	\$0.05	5,000,000
6 December 2017	6 December 2022	\$0.075	8,250,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of Allegiance Coal Limited issued on the exercise of options during the year ended 30 June 2018 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

There were no non-audit services provided during the financial year by the auditor.

Officers of the Company who are former audit directors of SCS Audit & Corporate Services Pty Ltd

There are no officers of the Company who are former audit directors of SCS Audit & Corporate Services Pty Ltd.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 63.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors

David Fawcett
Chairman

7 September 2018
Sydney

Corporate governance statement

30 June 2018

The Company is committed to the pursuit of creating value for shareholders, while at the same time meeting shareholders' expectations of sound corporate governance practices. As with all its business activities, the Company is proactive in respect of corporate governance and puts in place those arrangements which it considers are in the best interests of shareholders, and consistent with its responsibilities to other stakeholders.

THE BOARD OF DIRECTORS

The Board determines the corporate governance arrangements of the Company.

This statement discloses the Company's adoption of the Corporate Governance Principles and Recommendations (3rd edition) (the Principles) released by the Australian Securities Exchange Corporate Governance Council in March 2014, effective 1 July 2014. The Principles can be viewed at www.asx.com.au. The Principles are not prescriptive; however, listed entities (including the Company) are required to disclose the extent of their compliance with the Principles, and to explain why they have not adopted a Principle (the 'if not, why not' approach). The Principles have operated throughout the year unless otherwise indicated.

The table at the end of this statement provides cross references between the disclosures and statements in this Corporate Governance Statement and the relevant Principles.

ROLE OF THE BOARD

The Directors must act in the best interest of the Company and in general are responsible for, and have the authority to determine, all matters relating to the policies, management and operations of the Company.

The Board's responsibilities, in summary, include:

- providing strategic direction and reviewing and approving corporate strategic initiatives;
- overseeing and monitoring organisational performance and the achievement of the Company's strategic goals and objectives;
- appointing, monitoring the performance of, and, if necessary, removing the Managing Director;
- ratifying the appointment or removal, and contributing to the performance assessment of the members of the senior management team;
- planning for Board and executive succession;
- ensuring there are effective management processes in place and approving major corporate initiatives;
- adopting an annual budget and monitoring management and financial performance and plans;
- monitoring the adequacy, appropriateness and operation of internal controls;
- identifying significant business risks and reviewing how they are managed;
- considering and approving the Company's Annual Financial Report and the interim financial and activities reports;
- enhancing and protecting the reputation of the Company;
- reporting to, and communicating with, shareholders; and
- setting business standards and standards for social and ethical practices.

Day to day management of the Company and implementation of Board policies and strategies has been formally delegated to senior executives and management. It is the responsibility of the Board to oversee the activities of management in executing delegated tasks. In particular, the Board has delegated management responsibility for:

- delivering key objectives and milestones in accordance with market expectation as are set by the Board;
- developing project budgets for capital and operating expenditure for Board review and if appropriate, approval;
- developing and maintaining an effective risk management framework and keeping the Board and the market fully informed about risk;
- the prudent management of the Company's cash reserves in accordance with the approved annual operating budget;
- regulatory compliance across all jurisdictions in which the Company undertakes business covering amongst other things health and safety, tax, accounting and company reporting.

COMPOSITION OF THE BOARD

The Board currently comprises two non-executive Directors and two executive Directors with a broad range of skills, expertise and experience, and all of whom add value to the operation of the Board. Given the Company's current stage of development, the Board considers its structure effectively and efficiently meets the Company's requirements.

In considering new candidates, the nomination committee (presently the full Board) evaluates the range of skills, experience and expertise of the existing Board in accordance the Company's Board skills matrix. In particular, the nomination committee identifies the particular skills that will best increase the Board's effectiveness. Consideration is also given to the balance of independent Directors on the Board. Reference is made to the Company's size and operations as they evolve from time to time.

All Directors are required to consider the number and nature of their directorships and calls on their time from other commitments.

The following directors are considered by the Board to be independent directors:

David Fawcett – Non-executive Chairman
Malcolm Carson – Non-executive Director

The independence of Directors is important to the Board. Independence is determined by objective criteria acknowledged as being desirable to protect investor interests and optimise value to investors.

The Board regularly assesses the independence of its Directors. In determining the status of a Director, the Company considers that a Director is independent when he or she is independent of management and free of any business or other relationship (for example a significant shareholding) that could materially interfere with, or could reasonably be perceived to interfere with the exercise of unfettered and independent judgement. The Company's criteria for assessing independence are in line with standards set by the Principles.

The appointment and removal of Directors is governed by the Company's Constitution. Under the Constitution the Board must comprise of a minimum of three Directors. The nomination committee is responsible for selecting and approving candidates to fill any casual vacancies that may arise on the Board from time to time.

Directors who have been appointed to fill casual vacancies, other than the Managing Director, must offer themselves for re-election at the next annual general meeting of the Company. In addition, at each annual general meeting, at least one Director, other than the Managing Director, must be a candidate for re-election and no Director, other than the Managing Director, shall serve more than three years without being a candidate for re-election.

In making decisions regarding the appointment of Directors, the Board assesses the appropriate mix of skills, experience and expertise required by the Board and assesses the extent to which the required skills and experience are represented on the Board. When a vacancy exists, the Board

determines the selection criteria based on the skills deemed necessary. The Board identifies potential candidates, and if appropriate, will utilise an external consultant to assist in identifying potential candidates. The Board then appoints the most suitable candidate.

The composition of the Board is to be reviewed regularly against the Company's Board skills matrix prepared and maintained by the Board to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction.

The Board will undertake appropriate background checks and screening checks prior to nominating a Director for election by shareholders and provides to shareholders all material information in its possession concerning the Director standing for election or re-election in the explanatory notes to accompany the notice of meeting. New Directors will participate in an induction program to assist them to understand the Company's business and the particular issues it faces.

The Board collectively has the right to seek independent professional advice as it sees fit. Each Director individually has the right to seek independent professional advice, subject to the approval of the Chairman. All Directors have direct access to the Company Secretary.

Directors also have complete access to the senior management team. In addition to regular reports by senior management to the Board meetings, Directors may seek briefings from senior management on specific matters and are entitled to request additional information at any time when they consider it appropriate.

THE ROLE OF THE CHAIRMAN

- The Chairman is responsible for the leadership of the Board, ensuring it is effective, setting the agenda of the Board, conducting the Board meetings, ensuring then approving that an accurate record of the minutes of board meetings is held by the Company and conducting the shareholder meetings.
- Where practical, the Chairman should be a non-executive Director. If a Chairman ceases to be an independent Director then the Board will consider appointing a lead independent Director.
- Where practical, the Managing Director should not be the Chairman of the Company during his term as Managing Director or in the future.
- The Chairman must be able to commit the time to discharge the role effectively.
- The Chairman should facilitate the effective contribution of all Directors and promote constructive and respectful relations between Board members and management.

BOARD COMMITTEES

The Board generally operates as a whole across the range of its responsibilities but, to increase its effectiveness, uses committees where closer attention to particular matters is required given the nature and scale of the Company's operations.

The Board maintains two Board Committees covering Remuneration and Nomination, and Audit and Risk. Details regarding the number of Board and committee meetings held during the year and the attendance of each member is set out in the Annual Report.

The charter of each Board Committee must be approved by the Board and reviewed following any applicable regulatory changes.

Remuneration and Nomination Committee

As and when it is required a Remuneration and Nomination Committee will be established by resolution of the Board. Given the Company's size and stage of development, the Remuneration and Nomination Committee is comprised of the Board as a whole.

The Remuneration Committee advises the Board on remuneration and incentive policies and practices. It makes specific recommendations on remuneration packages and other terms of employment for Non-Executive and Executive Directors and senior executives.

Any increase in the maximum remuneration of Non-Executive Directors is the subject of shareholder resolution in accordance with the Company's constitution, the Corporations Act and the ASX Listing Rules, as applicable. The apportionment of Non-Executive remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each Non-Executive Director.

The Board may award additional remuneration to Non-Executive and Executive Directors called upon to perform extra services or undertake special duties on behalf of the Company.

Audit and Risk Committee

As and when it is required an Audit and Risk Committee will be established by resolution of the Board. Given the Company's size and stage of development, the Audit and Risk Committee is comprised of the Board as a whole.

The main responsibilities of the Audit and Risk Committee are to:

- review and report to the Board on the periodic reports and financial statements;
- provide assurance to the Board that it is receiving adequate, timely and reliable information;
- assist the Board in reviewing effectiveness of the Company's internal control environment covering compliance with applicable laws and regulations and reliability of financial reporting;
- liaise with the external auditors and ensure that the annual audit and half-year review are conducted in an efficient manner; and
- ensure that the Company has an effective risk management system and that major risks to the Company are reported to the Board and are appropriately managed.

The Committee reviews the performance of the external auditors on an annual basis. A representative of the committee meets with the auditors during the year to discuss the external audit plan, any significant problems that may arise, and to review the fees proposed for the audit work to be performed.

Any written matters raised by the auditors are discussed and dealt with at full Board meetings. The auditors, by request, may attend committee and Board meetings to discuss any matter that they believe warrants attention by the Board. The auditors also attend shareholder meetings of the Company.

BOARD MEETINGS

- The Directors may determine the quorum necessary for the transaction of business at a meeting, however, until otherwise determined, there must be two Directors present at a meeting to constitute a quorum.
- The Board will schedule formal Board meetings at least quarterly and hold additional meetings, including by telephone, as may be required.
- Non-executive Directors may confer at scheduled times without management being present.
- The minutes of each Board meeting shall be prepared by the Company Secretary, approved by the Chairman and circulated to Directors after each meeting.
- The Company Secretary shall ensure that the business at Board and committee meetings is accurately captured in the minutes.
- The Company Secretary shall co-ordinate the timely completion and distribution of Board and committee papers for each meeting of the Board and any committee.
- Minutes of meetings must be approved at the next Board meeting.
- Further details regarding Board meetings are set out in the Company's Constitution.

COMPANY SECRETARY

- When requested by the Board, the Company Secretary will facilitate the flow of information of the Board, between the Board and its Committees and between senior executives and non-executive Directors.
- The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.
- The Company Secretary is to facilitate the induction and professional development of Directors.
- The Company Secretary is to facilitate and monitor the implementation of Board policies and procedures.
- The Company Secretary is to provide advice to the Board on corporate governance matters, the application of the Company's Constitution, the ASX Listing Rules and applicable other laws.
- All Directors have access to the advice and services provided by the Company Secretary.
- The Board has the responsibility for the appointment and removal, by resolution, of the Company Secretary.

PERFORMANCE EVALUATION AND REMUNERATION

Performance Evaluation

The Company has a documented performance evaluation policy. The Chairman has undertaken a formal performance evaluation of the Board, its Committees and its individual Directors. At an informal level, the Chairman frequently consults in each reporting period with the other Directors seeking guidance on ways in which the Board as a whole, as well as each individual Director, can improve its contribution and performance to the execution by the Board of its responsibilities.

The performance of the Managing Director is reviewed by the Chairman in consultation with other non-executive directors.

The performance of the Company's senior executives is reviewed by the Managing Director as part of the annual remuneration review process and reported to the Remuneration Committee.

Director and Executive Remuneration

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced personnel.

Performance, duties and responsibilities, market comparison and independent advice are all considered as part of the remuneration process. The total remuneration paid to Directors and key management personnel for the reporting period is set out in the Remuneration Report.

Directors' fees are reviewed annually and are benchmarked against fees paid to Directors of similar organisations. Directors are not provided with retirement benefits other than statutory superannuation and do not participate in employee incentive schemes although they may be granted options as set out in the Directors' Report of the Annual Report.

To ensure that the Company's senior executives properly perform their duties, the following procedures are in place:

- performance is formally assessed each year as part of the Company's formal employee performance review process;
- all senior management are assessed in terms of their achievement of agreed KPIs (both financial and non-financial) for the period;
- there is a strong link between the outcomes of this performance review process and the subsequent remuneration review as outlined in the Remuneration Report; and
- senior management are provided with access to continuing education to update and enhance their skills and knowledge.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Company presently does not have an internal audit function. The Company has a formalised risk management framework encompassing market, financial, liquidity and corporate governance risk, which it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. The identification and effective management of risk, including calculated risk taking is viewed as an essential part of the Company's approach to creating long term shareholder value. Compliance with risk management policies is monitored by the Board.

GOVERNANCE POLICIES

Integrity, ethical standards and compliance

The Company has adopted a formal Code of Conduct for its Directors and employees. The Code seeks to set the standards for dealing ethically with employees, investors, customers, regulatory bodies and the financial and wider community, and the responsibility and accountability of individuals for reporting and investigating reports of unethical behaviour.

The Company is committed to being a good corporate citizen within all jurisdictions that it undertakes its business activities, and the Board has undertaken to ensure that the Company implements:

- practices necessary to maintain confidence in the Company's integrity;
- practices necessary to take into account its legal obligations and the reasonable expectations of its stakeholders; and
- responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Directors are provided with Board reports in advance of Board meetings which contain sufficient information to enable informed discussion of all agenda items.

The Board has the responsibility for the integrity of the Company's financial reporting. To assist the Board in fulfilling its responsibility, the processes discussed above have been adopted with a view to ensuring that the Company's financial reporting is a truthful and factual presentation of the Company's financial performance and position.

Dealing in Securities

The Company has in place a formal Securities Trading Policy which regulates the manner in which Directors and staff involved in the management of the Company can deal in Company securities. It requires that they conduct their personal investment activities in a manner that is lawful and avoids conflicts between their own interests and those of the Company and contains all contents suggested in the ASX Corporate Governance Principles and Recommendations.

The policy specifies trading blackouts as the periods during which trading securities cannot occur.

Trading is always prohibited if the relevant person is in possession of non-public price sensitive information regarding the Company. A copy of the current Security Trading Policy is available on the Company's website.

Diversity

The Board has adopted a Diversity Policy which describes the Company's commitment to ensuring a diverse mix of skills and talent exists amongst its directors, officers and employees, to enhance Company performance. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of directors, officers and employees. The Diversity Policy outlines the process by which the Board may set measurable objectives to achieve the aims of its Diversity Policy. The Board is responsible for monitoring Company performance in meeting the Diversity Policy requirements, including the achievement of any diversity objectives.

The Company actively values and embraces the diversity of its employees and is committed to creating an inclusive workplace where everyone is treated equally and fairly and where discrimination, harassment and inequity is not tolerated. The Company is committed to fostering diversity at all levels. However, due to the Company's current stage of development, measurable objectives have yet to be set.

Health, safety and environment

The Company has continued its emphasis on health and safety in the workplace with the aim of ensuring that people achieve outcomes in a safe manner, thereby contributing to operational effectiveness and business sustainability.

During the reporting period there were no reported environmental incidents and no Lost Time Injuries (LTIs).

CONTINUOUS DISCLOSURE AND COMMUNICATIONS WITH SHAREHOLDERS

The Company is committed to providing relevant and timely information to its shareholders and to the broader market, in accordance with its obligations under the ASX continuous disclosure regime.

The Board complies with the following processes to ensure that information is communicated to shareholders and the wider market:

- the Company's website is updated regularly with business activity information and is linked to all announcements published on the ASX www.allegiancecoal.com.au;
- the Annual Report is distributed to eligible shareholders. The Board ensures that the Annual Report includes relevant information about the operations of the group during the year, changes in the state of affairs of the group and details of future developments, in addition to other disclosures required by *Corporations Act 2001*;
- quarterly reports and half-yearly financial statements are lodged with the ASX and copies are sent to any shareholder upon request;
- any proposed major changes in the group which may impact on the share ownership rights would be submitted to a vote of shareholders;
- the Board ensures that the continuous disclosure requirements of the ASX are fully complied with, ensuring that shareholders are kept informed on significant events affecting the group; and
- investor roadshows are held periodically throughout Australia and internationally. Where they contain new information, investor and roadshow presentations are released to the ASX and included on the Company's website.

CONTINUOUS REVIEW OF CORPORATE GOVERNANCE

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as Directors of the Company. Such information must be sufficient from time to time in light of changing circumstances and economic conditions. The Directors recognise that mineral exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

ASX CORPORATE GOVERNANCE COUNCIL'S PRINCIPLES AND RECOMMENDATIONS

	ASX Corporate Governance Council Principle	Compliance
	Principle 1: Lay solid foundation for management and oversight	
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its Board and management; and (b) those matters expressly reserved to the Board and those delegated to	Comply

	management.	
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.	Comply
1.3	A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.	Comply
1.4	The Company Secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.	Comply
1.5	A listed entity should: (a) have a diversity policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the Board or a relevant Committee of the Board in accordance with the entity's diversity policy and its progress towards achieving them, and either: (1) the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	Does not comply. Refer to "Diversity" in the Corporate Governance Statement
1.6	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Comply
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Comply
	Principle 2: Structure the Board to add value	
2.1	The Board of a listed entity should have a nomination committee which: (a) has at least three members, a majority of whom are independent Directors; and (b) is chaired by an independent Director, and disclose: (i) the charter of the committee; (ii) the members of the committee; and (iii) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.	Does not comply. Refer to "Composition of the Board" and "Remuneration and Nomination Committee" in the Corporate Governance Statement
2.2	A listed entity should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.	Comply
2.3	A listed entity should disclose: (a) the names of the Directors considered by the Board to be independent Directors;	Comply

	(b) if a Director has an interest, position, association or relationship of the type described in Box 2.3 but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and (c) the length of service of each Director.	
2.4	A majority of the Board of a listed entity should be independent Directors.	Does not comply. Refer to "Composition of the Board" in the Corporate Governance Statement
2.5	The chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.	Comply
2.6	A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.	Comply
	Principle 3: Act ethically and responsibly	
3.1	A listed entity should: (a) have a code of conduct for its Directors, senior executives and employees; and (b) disclose that code or a summary of it.	Comply
	Principle 4: Safeguard integrity in corporate reporting	
4.1	The Board of a listed entity should have an Audit Committee which: (1) has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and (2) is chaired by an independent Director, who is not the chair of the Board, and disclose: (i) the charter of the committee; (ii) the relevant qualifications and experience of the members of the committee; and (iii) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.	Does not comply. Refer to "Audit and Risk Committee" in the Corporate Governance Statement
4.2	The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Comply
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Comply
	Principle 5: Make timely and balanced disclosure	
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	Comply
	Principle 6: Respect the rights of security holders	
6.1	A listed entity should provide information about itself and its governance to investors via its website.	Comply
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Comply

6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Comply
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Comply
	Principle 7: Recognise and manage risk	
7.1	The Board of a listed entity should have a committee or committees to oversee risk, each of which: (a) has at least three members, a majority of whom are independent Directors; and (b) is chaired by an independent Director, and disclose: (i) the charter of the committee; (ii) the members of the committee; and (iii) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.	Does not comply. Currently risk and risk mitigation is managed by the Board as a whole.
7.2	The Board or a committee of the Board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place.	Comply
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	Comply
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Comply
	Principle 8: Remunerate fairly and responsibly	
8.1	The Board of a listed entity should have a remuneration committee which: (a) has at least three members, a majority of whom are independent Directors; and (b) is chaired by an independent Director, and disclose: (i) the charter of the committee; (ii) the members of the committee; and (iii) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.	Does not comply. Refer to "Remuneration and Nomination Committee" in the Corporate Governance Statement
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.	Comply
8.3	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	Comply

All references are to sections of this Corporate Governance Statement unless otherwise stated.

Statement of comprehensive income

For the year ended 30 June 2018

		Consolidated	
	Note	2018	2017
		\$	\$
Revenue	5	9,621	9,734
Expenses			
Employee benefits expense	6	(722,950)	(393,078)
Impairment of assets	6	-	(218,410)
Finance costs credit / (expense)	6	(39,307)	71,432
Legal fees		(13,588)	(108,606)
Listing expense		(36,582)	(33,618)
Net foreign exchange loss		(183,542)	(62,856)
Travel expenses		(134,598)	(66,357)
Other expenses		(429,975)	(177,914)
Loss before income tax benefit		(1,550,921)	(979,673)
Income tax benefit	7	-	-
Loss after income tax benefit for the year attributable to the owners of Allegiance Coal Limited		(1,550,921)	(979,673)
<i>Other comprehensive income for the year, net of tax</i>			
Foreign exchange movement		(65,327)	(4,948)
Total comprehensive loss for the year attributable to the owners of Allegiance Coal Limited		(1,616,248)	(984,621)
		Cents	Cents
Basic loss per share	30	(0.46)	(0.80)
Diluted loss per share	30	(0.33)	(0.43)

* The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June 2018

	Note	Consolidated 2018 \$	2017 \$
Assets			
Current assets			
Cash and cash equivalents	8	2,935,188	1,637,343
Trade and other receivables	9	213,349	94,832
Other	10	50,829	127,120
Total current assets		<u>3,199,366</u>	<u>1,859,295</u>
Non-current assets			
Exploration and evaluation asset	11	<u>9,065,712</u>	<u>3,218,003</u>
Total non-current assets		<u>9,065,712</u>	<u>3,218,003</u>
Total assets		<u>12,265,078</u>	<u>5,077,298</u>
Liabilities			
Current liabilities			
Trade and other payables	12	735,942	245,115
Borrowings	13	-	104,895
Total current liabilities		<u>735,942</u>	<u>350,010</u>
Non-current liabilities			
Borrowings	13	<u>619,378</u>	<u>583,222</u>
Total non-current liabilities		<u>619,378</u>	<u>583,222</u>
Total liabilities		<u>1,355,320</u>	<u>933,232</u>
Net assets		<u>10,909,758</u>	<u>4,144,066</u>
Equity			
Issued capital	14	22,775,212	14,650,402
Reserves	15	563,641	371,838
Accumulated losses	16	<u>(12,429,095)</u>	<u>(10,878,174)</u>
Total equity		<u>10,909,758</u>	<u>4,144,066</u>

* The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June 2018

Consolidated	Issued capital \$	General reserve \$	Share based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2017	14,650,402	16	376,770	(4,948)	(10,878,174)	4,144,066
Loss after income tax benefit for the year	-	-	-	-	(1,550,921)	(1,550,921)
Other comprehensive income for the year, net of tax	-	-	-	(65,327)	-	(65,327)
<i>Total comprehensive income for the year</i>	-	-	-	(65,327)	(1,550,921)	(1,616,248)
<i>Transactions with owners in their capacity as owners:</i>						
Share issues for cash	7,545,798	-	-	-	-	7,545,798
Share issues other than for cash	1,218,000	-	-	-	-	1,218,000
Costs of share issues	(638,988)	-	-	-	-	(638,988)
Share based payments	-	-	257,130	-	-	257,130
Balance at 30 June 2018	22,775,212	16	633,900	(70,275)	(12,429,095)	10,909,758

Consolidated	Issued capital \$	General reserve \$	Share based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016	9,137,801	16	376,770	-	(9,898,501)	(383,914)
Loss after income tax benefit for the year	-	-	-	-	(979,673)	(979,673)
Other comprehensive income for the year, net of tax	-	-	-	(4,948)	-	(4,948)
<i>Total comprehensive income for the year</i>	-	-	-	(4,948)	(979,673)	(984,621)
<i>Transactions with owners in their capacity as owners:</i>						
Share issues for cash	4,502,584	-	-	-	-	4,502,584
Share issues other than for cash	1,250,000	-	-	-	-	1,250,000
Costs of share issues	(239,983)	-	-	-	-	(239,983)
Balance at 30 June 2017	14,650,402	16	376,770	(4,948)	(10,878,174)	4,144,066

* The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June 2018

	Note	Consolidated 2018 \$	2017 \$
Cash used in operating activities			
Payments to suppliers (inclusive of GST)		(1,462,949)	(1,056,559)
		(1,462,949)	(1,056,559)
Interest received		9,621	9,734
Interest and other finance costs paid		(3,151)	(4,346)
Net cash used in operating activities	29	(1,456,479)	(1,051,171)
Cash used in investing activities			
Payments for exploration and evaluation		(4,140,554)	(1,697,479)
Contribution from Joint Venture		-	31,590
Net cash used in investing activities		(4,140,554)	(1,665,889)
Cash used in financing activities			
Share issues, net of costs		6,994,878	4,262,601
Loans raised		-	200,000
Repayments of borrowings		(100,000)	(1,526,390)
Net cash from financing activities		6,894,878	2,936,211
Net increase in cash and cash equivalents		1,297,845	219,151
Cash and cash equivalents at the beginning of the financial year		1,637,343	1,418,192
Cash and cash equivalents at the end of the financial year		<u>2,935,188</u>	<u>1,637,343</u>

* The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

30 June 2018

Note 1. General Information

The financial statements cover Allegiance Coal Limited as a consolidated entity consisting of Allegiance Coal Limited and its subsidiaries.

Allegiance Coal Limited is a listed public company whose shares are publicly traded on the Australian Securities Exchange, limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 107, 109 Pitt Street
Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The principal accounting policies adopted in the preparation of the financial statements are set out below.

Going concern

The consolidated entity is involved in the exploration and evaluation of mineral tenements. Further expenditure will be required upon these tenements to finally ascertain whether they contain economically recoverable reserves and can be commercially developed.

For the year ended 30 June 2018 the consolidated entity reported a net loss of \$1,550,921 (2017: \$979,673) and net operating cash outflows of \$1,456,479 (2017: \$1,051,171). The operating cash outflows have been funded by cash inflows from equity raisings of \$6,994,878 (2017: \$4,262,601) during the year. As at 30 June 2018 the consolidated entity had net current assets of \$2,463,424 (2017: \$1,509,285) including cash reserves of \$2,935,188 (2017: \$1,637,343).

The balance of these cash reserves may not be sufficient to meet the consolidated entity's planned expenditure and evaluation budget, including exploration activities, evaluation, operating and administrative expenditure, for the 12 months to 30 September 2019. In order to fully implement its exploration and evaluation strategy, the consolidated entity will require additional funds.

The existence of these conditions indicates a material uncertainty that may cast doubt on the consolidated entity's ability to continue as a going concern.

Notwithstanding the above, the financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

To continue as a going concern, the consolidated entity requires additional funding to be secured from sources including but not limited to:

- Further equity capital raisings;
- The potential farm-out of participating interests in the consolidated entity's tenements and rights; and / or
- Other financing arrangements.

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding, the consolidated entity's ability to effectively manage its expenditures and cash flows from operations and the opportunity to farm-out participating interests in existing permits and rights, the Directors believe that the consolidated entity will continue to operate as a going concern for the foreseeable

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future. Therefore, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

In the event that the assumptions underpinning the basis of preparation do not occur as anticipated, as noted above, there is material uncertainty that may cast significant doubt whether the consolidated entity will continue to operate as a going concern. If the consolidated entity is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

No adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and interpretations and complies with other requirements of the law.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the Group consisting of Allegiance Coal Limited and its subsidiaries.

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity'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 3.

Adoption of new and revised standards

In the year ended 30 June 2018, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current annual reporting period.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change is necessary to Group accounting policies.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2018. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change necessary to Group accounting policies.

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Statement of Compliance

The financial report was authorised for issue, in accordance with a resolution of directors, on 7 September 2018. The directors have the power to amend and reissue the financial statements.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 25.

Note 2. Significant accounting policies

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Allegiance Coal Limited ('Company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Allegiance Coal Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over

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the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in the normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in the normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Other receivables are recognised at amortised cost, less any provision for impairment.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes

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significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including interest on short-term and long-term borrowings.

Foreign currency translation

The functional and presentation currency of Allegiance Coal Limited and its Australian subsidiaries is Australian dollars (A\$). Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the financial reporting period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

The functional currency of the overseas subsidiary is Canadian dollars (C\$). At the reporting date, the assets and liabilities of the overseas subsidiary are translated into the presentation currency of Allegiance Coal Limited at the closing rate at the end of the financial reporting period and income and expenses are translated at the weighted average exchange rates for the period. All resulting exchange differences are recognised as other comprehensive income or expense and in a separate component of equity (foreign exchange translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities

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in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits may be provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

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Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued 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.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

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Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Allegiance Coal Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Income tax

The benefit of the tax losses has not been brought to account at 30 June 2018 because the directors do not believe it is appropriate to regard realisation of the deferred tax asset as being probable at this point in time. These tax losses are also subject to final determination by the Taxation authorities when the consolidated entity derives a taxable income. The benefits will only be realised if:

- the Company and its subsidiaries derive future assessable income of a nature and of an amount sufficient to enable the benefit of the deduction for the losses to be realised;
- the Company and its subsidiaries continue to comply with the conditions for the deductibility imposed by law; and
- no changes in the tax legislation adversely affect the Company and its subsidiaries in realising the benefit of the losses.

Australian tax losses are subject to further review by the consolidated entity to determine if they satisfy the necessary legislative requirements under the Income Tax legislation for the carry forward and recoupment of tax losses.

Exploration and evaluation asset

The consolidated entity capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage that permits reasonable assessment of the existence of reserves.

The ultimate recoupment of capitalised expenditure in relation to each area of interest is dependent on the successful development and commercial exploitation or, alternatively, sale of the respective areas the results of which are still uncertain.

The Telkwa metallurgical coal project has yet to reach a stage of development where a determination of the technical feasibility or commercial viability can be finally assessed. Whilst the project is not currently generating cash flow, the Company is of the view that the area of interest will contribute significant value in the future and that this value will be in excess of the current value of the capitalised costs. In these circumstances, whether there is any indication that the asset has been impaired is a matter of judgement, as is the determination of the quantum of any required impairment adjustment. The Directors have used their experience to conclude that no impairment adjustment is required in the current year ended 30 June 2018 (refer to note 11).

The Kilmain and Back Creek projects in Queensland have yet to reach a stage of development where a determination of the technical feasibility or commercial viability can be assessed. In these circumstances, whether there is any indication that the assets have been impaired is a matter of

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30 June 2018

judgement, as is the determination of the quantum of any required impairment adjustment. The Directors have resolved that it is not appropriate to capitalise any further exploration expenditure in relation to the Kilmain and Back Creek projects. In addition they resolved, in the year ended 30 June 2017, to fully impair the remaining balance of exploration expenditure incurred in respect of these permit areas in an amount of \$218,410. (Refer to note 11).

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Note 4. Segment reporting

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM, which is the Board of Directors, is responsible for the allocation of resources to operating segments and assessing their performance.

Identification of reportable operating segments

The consolidated entity is organised into one operating segment being the acquisition, exploration and evaluation of coal tenements. The operating segment information is as disclosed in the statements and notes to the financial statements throughout the report.

The principal business and geographical segment of the consolidated entity is mineral exploration within British Columbia, Canada. The consolidated entity has its head office, which represents a non-reportable business segment, in Australia.

Major customers

During the year ended 30 June 2018 there were no major customers who derive more than 10% of the consolidated entity's revenue (30 June 2017: none derived from major customers). Interest from cash deposits in banking institutions account for \$9,621 (2017: \$9,734).

Note 5. Revenue

	Consolidated	
	2018	2017
	\$	\$
Interest	9,621	9,734
Other revenue	-	-
Revenue	<u>9,621</u>	<u>9,734</u>

Notes to the financial statements

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Note 6. Expenses

	Consolidated	
	2018	2017
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Impairment</i>		
Exploration and evaluation	-	218,410
<i>Finance costs</i>		
Interest and finance charges expense / (credit)	39,307	(71,432)
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	47,704	28,962
<i>Employee benefits expense</i>		
Superannuation expense	-	291
Employee benefits expense	553,887	392,787
Share based payment	169,063	-
Total employee benefits expense	722,950	393,078

The weighted average interest rate on the Company's borrowings is 5.995% (2017: 6.19%).

As per Note 13, during the year ended 30 June 2017, an agreement for cash settlement was made with a borrowing party. The balance of the borrowing, being the non-cash settlement portion together with the interest free portion is shown as a credit to financing costs.

Note 7. Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect their accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Notes to the financial statements

30 June 2018

Note 7. Income tax (continued)

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries, associates and interests in joint ventures where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Allegiance Coal Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

	Consolidated	
	2018	2017
	\$	\$
<i>Income tax benefit</i>		
<i>Current Tax</i>	-	-
<i>Aggregate income tax benefit</i>	-	-
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
<i>Loss before income tax benefit</i>	(1,550,921)	(979,673)
Tax at the statutory tax rate of 27.5%	(426,503)	(269,410)
Tax effect amounts which are not deductible in calculating taxable income:		
Impairment of assets	-	60,063
	(426,503)	(209,347)
Current year tax losses not recognised	426,503	209,347
Income tax benefit	-	-

Notes to the financial statements

30 June 2018

Note 7. Income tax (continued)

	Consolidated	
	2018	2017
	\$	\$
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	10,817,179	9,266,258
Potential tax benefit at 27.5%	2,974,719	2,548,215

Tax losses have been adjusted for prior income tax returns lodged.

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2018	2017
	\$	\$
Cash at bank	2,935,188	1,637,343
	<u>2,935,188</u>	<u>1,637,343</u>

Note 9. Current assets - trade and other receivables

	Consolidated	
	2018	2017
	\$	\$
GST recoverable	213,349	94,832
	<u>213,349</u>	<u>94,832</u>

Receivables are neither past due nor impaired.

Note 10. Current assets - other

	Consolidated	
	2018	2017
	\$	\$
Prepayments	50,829	127,120
	<u>50,829</u>	<u>127,120</u>

Notes to the financial statements

30 June 2018

Note 11. Non-current assets - exploration and evaluation

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (or the cash-generating unit(s) to which it has been allocated, being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

	Consolidated	
	2018	2017
	\$	\$
Exploration and evaluation - at cost and fair value	12,604,828	6,757,119
Less: Impairment	(3,539,116)	(3,539,116)
	<u>9,065,712</u>	<u>3,218,003</u>

The value of the consolidated entity's interest in exploration and evaluation expenditure is dependent upon:

- the continuance of the consolidated entity's rights to tenure of the areas of interest;
- the results of future exploration and evaluation; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

Notes to the financial statements

30 June 2018

Note 11. Non-current assets - exploration and evaluation (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Exploration and evaluation \$	Total \$
Balance at 1 July 2016	250,000	250,000
Acquisition of Telkwa metallurgical coal project, at fair value	1,507,538	1,507,538
Additions – Telkwa metallurgical coal project	1,697,479	1,679,479
Recovery from JOGMEC	(31,590)	(31,590)
Impairment of assets	(218,410)	(218,410)
Foreign exchange movement	12,986	12,986
Balance at 30 June 2017	3,218,003	3,218,003
Acquisition of additional interest in Telkwa metallurgical coal project, at cost and fair value	1,263,617	1,263,617
Additions – Telkwa metallurgical coal project	4,605,821	4,605,821
Foreign exchange movement	(21,729)	(21,729)
Balance at 30 June 2018	9,065,712	9,065,712

In December 2017, the consolidated entity entered into an agreement to acquire from Altius Minerals Corporation (Altius), 100 percent ownership of all the rights to coal licences that make up the Telkwa metallurgical coal project (Project) (Acquisition). Up until the Acquisition, the consolidated entity had earned 20 percent Project ownership, and had the right to earn up to 90 percent Project ownership upon satisfaction of several milestones. The remaining 10 percent Project ownership would be retained by Altius who had a free carry on its Project equity in relation to a small mine. In consideration for the issue to Altius of 40.6 million ordinary shares in the Company, with a deemed fair value of \$1,218,000, the payment of \$45,617 of transfer duty, and the continued performance of the milestone obligations (as set out in the table below), Altius agreed to transfer full ownership of the Project to the consolidated entity. As security against the consolidated entity's performance of the milestone obligations, the consolidated entity has provided a charge over the Project. It is agreed that the charge shall be subordinated to Project debt finance.

Milestone	Payment commitment
Complete baseline studies and affected party agreements; and file small mine permit applications	C\$300,000
Grant of small mine permits	C\$500,000
Sale of 100,000 tonnes from a small mine	C\$2 million
Grant of major mine permits	C\$2 million
Sale of 500,000 tonnes from a major mine	C\$5 million

Impairment

The Telkwa metallurgical coal project has yet to reach a stage of development where a final determination of the technical feasibility or commercial viability can be assessed. In these circumstances, whether there is any indication that the asset has been impaired is a matter of judgement, as is the determination of the quantum of any required impairment adjustment. The Directors have used their experience to conclude that no impairment adjustment is required in the current year ended 30 June 2018.

Notes to the financial statements

30 June 2018

Note 12. Current liabilities - trade and other payables

	Consolidated	
	2018	2017
	\$	\$
Trade payables – other entities	715,192	165,343
Other payables	20,750	79,772
	<u>735,942</u>	<u>245,115</u>

Refer to note 18 for further information on financial instruments.

Note 13. Borrowings

	Consolidated	
	2018	2017
	\$	\$
Current		
Promissory Notes	-	100,000
Interest accrued	-	4,895
	<u>-</u>	<u>104,895</u>
Non-Current		
Loan - Gullewa Limited	659,000	659,000
Less : Present value discount of Gullewa Ltd loan	(108,466)	(108,466)
Add : Unwinding of present value discount of Gullewa Ltd loan	68,844	32,688
	<u>619,378</u>	<u>583,222</u>

Refer to note 18 for further information on financial instruments.

In 2011, the consolidated entity entered loan facility agreements with Gullewa Ltd. On 4 August 2016 the parties entered a deed of loan variation, whereby Gullewa was paid \$1,104,000 in partial satisfaction of the amount owed to it under the 2011 agreements. The balance outstanding of \$659,000, which is unsecured, may be satisfied by the issue and allotment of shares in Allegiance Coal Ltd at a price of \$0.025 per share (subject to any share reconstruction and shareholders' approval) or by repayment in cash, subject to Gullewa's agreement. The loan will be interest free until 4 August 2019, after which interest will accrue daily and be capitalised monthly, at a rate of BBSW + 4%, on any unpaid balance. The loan must be repaid in full, whether in cash or by the issue and allotment of shares, by 4 August 2021.

Further, as the loan contains an interest-free period, AASB 9 *Financial Instruments* requires the full amount of \$659,000 to be discounted back to present value. Using prevailing market interest rates for an equivalent loan of 5.995%, the fair value of the loan at 4 August 2016 is estimated at \$550,534. The difference of \$108,466 is the benefit derived from the interest-free period of the loan and is recognised as a deferred expense. A total of \$68,844 represents the unwinding of the present value discount up to 30 June 2018 (30 June 2017 : \$32,688).

Notes to the financial statements

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Note 14. Equity – Issued Capital

Issued capital

		Consolidated	
		2018	2017
		\$	\$
Ordinary shares - fully paid		22,775,212	14,650,402

Consolidated	2018 Number	2017 Number	2018 \$	2017 \$
Balance at 1 July	225,995,235	176,666,674	14,650,402	9,259,734
Shares issued for cash in September 2016	-	26,400,000		
Less costs				
Share consolidation, one for five	-	(162,453,324)		
		40,613,350		
Shares issued for acquisition of TCL	-	50,000,000	-	1,250,000
Share issued to settle liabilities of TCL	-	12,216,282	-	458,111
Shares issued for cash in November 2016	-	66,666,671	-	2,500,000
Less costs			-	(171,352)
Shares issued for cash in May 2017	-	56,498,932	-	1,412,473
Less costs			-	(58,564)
Shares issued for cash in October 2017	119,209,924		3,576,298	-
Less costs			(348,242)	-
Shares issued for acquisition of 100% ownership of Telkwa Project	40,600,000		1,218,000	-
Less costs			(6,474)	-
Shares issued for cash in April 2018	79,390,000		3,969,500	-
Less costs			(284,272)	-
Balance at 30 June	465,195,159	225,995,235	22,775,212	14,650,402

In October 2017, the Company completed a placement of 119.21 million ordinary shares to sophisticated and professional investors raising \$3.58 million, before costs. The capital was raised to commence the definitive feasibility study, complete environmental baseline studies, and to undertake a drilling programme at the Tenas Project.

In December 2017, TCL increased its equity interest in the Telkwa Project to 100% through the allotment by the Company to Altius of 40.6 million shares, with a deemed value of \$1.2 million.

In April 2018, the Company completed a placement of 79.39 million ordinary shares to sophisticated and professional investors raising \$4 million, before costs. The capital was raised to fund the studies and assessments required to support the Tenas Project mine permit application process.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of shares held. The ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Notes to the financial statements

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Note 14. Equity – Issued Capital (continued)

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Options

Unissued ordinary shares of Allegiance Coal Limited under option at 30 June 2018 are 14,070,000 (2017: 820,000).

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment.

There are no externally imposed capital requests. The capital risk management policy remains unchanged from the 30 June 2017 Annual Report.

Note 15. Equity - reserves

	Consolidated	
	2018	2017
	\$	\$
General reserve	16	16
Share-based payments reserve	633,900	376,770
Foreign currency translation reserve	(70,275)	(4,948)
	<u>563,641</u>	<u>371,838</u>

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Notes to the financial statements

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Note 15. Equity – reserves (continued)

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	General \$	Share-based payment \$	Foreign currency translation \$	Total \$
Consolidated				
Balance at 1 July 2016	16	376,770	-	376,786
Foreign exchange movement	-	-	(4,948)	(4,948)
Balance at 30 June 2017	16	376,770	(4,948)	371,838
Grant of options	-	257,130	-	257,130
Foreign exchange movement	-	-	(65,327)	(65,327)
Balance at 30 June 2018	16	633,900	(70,275)	563,641

Note 16. Equity - accumulated losses

	Consolidated	
	2018 \$	2017 \$
Accumulated losses at the beginning of the financial year	(10,878,174)	(9,898,501)
Loss after income tax benefit for the year	(1,550,921)	(979,673)
Accumulated losses at the end of the financial year	(12,429,095)	(10,878,174)

Note 17. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

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Note 18. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity may use derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('Finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity undertakes transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Commodity price risk

The consolidated entity's main commodity price risk is an adverse movement in the price of metallurgical coal.

Interest rate risk

The consolidated entity's main interest rate risk arises from cash and cash equivalents and third party loans.

The sensitivity analyses have been determined based on the exposure to interest rates and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

Notes to the financial statements

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Note 18. Financial instruments (continued)

As at the reporting date, the consolidated entity had the following variable rate borrowings and cash and cash equivalents:

	2018		2017	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Consolidated				
Cash and cash equivalents	0.5%	2,935,188	0.6%	1,637,343
Loans	6.0%	(619,378)	6.19%	(683,222)
Net exposure to cash flow interest rate risk		2,315,810		954,121

Consolidated – 2018	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Cash and cash equivalents	200	58,704	58,704	200	(58,704)	(58,704)
Loans	200	(12,388)	(12,388)	200	12,388	12,388
		46,316	46,316		(46,316)	(46,316)

Consolidated - 2017	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Cash and cash equivalents	200	32,747	32,747	200	(32,747)	(32,747)
Loans	200	(13,664)	(13,664)	200	13,664	13,664
		19,083	19,083		(19,083)	(19,083)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk.

The consolidated entity's maximum exposure to credit risk at the reporting date in relation to each class of recognised financial assets is the carrying amount as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Notes to the financial statements

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Note 18. Financial instruments (continued)

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated – 2018	%	\$	\$	\$	\$	\$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	715,192				715,192
Other payables	-%	20,750				20,750
<i>Interest-bearing - variable</i>						
Loans	5.995%	-	-	742,846	-	742,846
Total non-derivatives		735,942	-	742,846	-	1,478,788
<hr/>						
	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated – 2017	%	\$	\$	\$	\$	\$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	165,343	-	-	-	165,343
Other payables	-%	79,772	-	-	-	79,772
<i>Interest-bearing - variable</i>						
Loans	5.995%	-	-	742,846	-	742,846
<i>Interest-bearing – fixed</i>						
Loans	7.5%	107,500	-	-	-	107,500
Total non-derivatives		352,615	-	742,846	-	1,095,461

Notes to the financial statements

30 June 2018

Note 18. Financial instruments (continued)

Credit risk

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 19. Fair value measurement

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Note 20. Key management personnel disclosures

Directors

The following persons were directors of Allegiance Coal Limited during the financial year:

- David Fawcett (Non-executive Chairman)
- Mark Gray (Managing Director)
- Malcolm Carson (Non-executive Director)
- Jonathan Reynolds (Finance Director)

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2018	2017
	\$	\$
Short-term employee benefits	520,993	390,750
Post-employment benefits	-	290
Share-based payments	97,339	-
	<u>618,332</u>	<u>391,040</u>

Loans to key management personnel and their related parties

There were no loans made to key management personnel and their related parties during the financial year ended 30 June 2018.

Notes to the financial statements

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Note 20. Key management personnel disclosures (continued)

Other transactions with key management personnel and their related parties

Consultancy fees paid to related parties, included in compensation disclosed above

- Murray River Coal Ltd, a related party of David Fawcett, totalling \$49,000
- Gray Corporate Law Ltd, a related party of Mark Gray, totalling \$37,500
- Gray Corporate Law Pty Ltd, a related party of Mark Gray, totalling \$180,000
- 1162238 B.C. Ltd, a related party of Mark Gray, totalling \$49,714
- Mineral Resource Consultants Pty Ltd, a related party of Malcom Carson, totalling \$36,000
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$156,667

Expenses reimbursements paid to related parties:

- Gray Corporate Law Pty Ltd, a related party of Mark Gray, totalling \$126,178
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$16,824

Note 21. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by SCS Audit & Corporate Services Pty Ltd, the auditor of the Company, and unrelated firms:

	Consolidated	
	2018	2017
	\$	\$
<i>Audit and review of the financial statements – SCS Audit & Corporate Services Pty Ltd</i>	23,000	20,000
	<u>23,000</u>	<u>20,000</u>

Note 22. Contingent liabilities

The consolidated entity has no contingent liabilities as at 30 June 2018 and 30 June 2017.

Notes to the financial statements

30 June 2018

Note 23. Commitments

Operating leases

	Consolidated	
	2018	2017
	\$	\$
Within one year	53,419	-
One to five years	87,028	-
Later than five years	-	-
	<u>140,447</u>	<u>-</u>

Operating lease commitments include contracted amounts for various offices and equipment under non-cancellable operating leases expiring within one to three years.

Capital commitments - exploration and evaluation

	Consolidated	
	2018	2017
	\$	\$
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	200,000	200,000
One to five years	800,000	800,000
	<u>1,000,000</u>	<u>1,000,000</u>

The consolidated entity acquired the Telkwa Project from a subsidiary of Altius Minerals Corporation (Altius). The remaining payment commitments are summarised in the table below.

Milestone	Payment Commitment *
File small mine permit applications	C\$300,000
Grant of small mine permits	C\$500,000
Sale of 100k tonnes from a small mine	C\$2 million
Grant of major mine permits	C\$2 million
Sale of 500k tonnes from a major mine	C\$5 million

* payable, at Altius' option, in cash or shares in the Company.

In addition to the above, Altius will receive a 3% gross sales royalty on coal sold where the benchmark coal price is less than US\$100 per tonne; 3.5% where the benchmark coal price is US\$100-US\$109.99 per tonne; 4% where the benchmark coal price is US\$110-US\$119.99 per tonne; and 4.5% where the benchmark coal price is greater than US\$120 per tonne.

As security for its performance of the above milestone payments, the consolidated entity has provided a charge over the Telkwa Project in favour of Altius. The charge shall be subordinated to Telkwa Project debt finance.

As the Kilmain and Back Creek projects are currently under review, no exploration and evaluation expenditure has been recognised as a commitment or liability payable, in relation to permits EPC1297, EPC1298 and EPC1917.

Notes to the financial statements

30 June 2018

Note 24. Related party transactions

Parent entity

Allegiance Coal Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 26.

Key management personnel

Disclosures relating to key management personnel are set out in note 20 and the remuneration report in the directors' report.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 25. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of comprehensive income

	Parent	
	2018	2017
	\$	\$
Loss after income tax	(1,264,271)	(776,894)
Total comprehensive loss	(1,264,271)	(776,894)

Statement of financial position

	Parent	
	2018	2017
	\$	\$
Total current assets	2,812,711	1,609,780
Total non-current assets	16,248,141	10,375,754
Total assets	19,060,852	11,985,534
Total current liabilities	23,646	65,997
Total liabilities	23,646	65,997
Net assets	19,037,207	11,919,537
Equity		
Issued capital	22,775,213	14,650,402
Share-based payments reserve	633,901	376,770
Accumulated losses	(4,371,906)	(3,107,635)
Total equity	19,037,207	11,919,537

Notes to the financial statements

30 June 2018

Note 25. Parent entity information (continued)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2018 and 30 June 2017 aside from the loans from Gullewa Ltd of \$659,000 (2017: 659,000).

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 26. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
Telkwa Coal Limited	Canada	100%	100%
Mineral & Coal Investments Pty Limited	Australia	100%	100%

Note 27. Acquisition of subsidiary undertakings

Under a share purchase agreement the Company acquired the entire issued share capital of Telkwa Coal Limited, a company incorporated in British Columbia, Canada and which holds the rights to the Telkwa Project.

The consideration for the acquisition was settled by the issue of 50 million ordinary shares in the Company to the vendors at a deemed price of \$0.025 per share for a total consideration of \$1,250,000.

Notes to the financial statements

30 June 2018

Note 27. Acquisition of subsidiary undertakings (continued)

Assets and liabilities acquired at fair value:

	Consolidated 2017 \$
Assets	
Trade and other receivables	11,622
Exploration and evaluation	1,507,538
	<u>1,519,160</u>
Liabilities	
Trade and other payables	169,160
Loan advances payable	100,000
	<u>269,160</u>
Net assets	<u>1,250,000</u>
Consideration	
Issue of ordinary shares	<u>1,250,000</u>

Note 28. Events after the reporting period

No matters or circumstances have arisen since 30 June 2018 that have significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 29. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated 2018 \$	2017 \$
Loss after income tax benefit for the year	(1,550,921)	(979,673)
Adjustments for:		
Share-based payments	169,063	-
Employee entitlement provisions	-	(3,823)
Impairment of exploration and evaluation assets	-	218,410
Present value discount of Gullewa Ltd loan	36,156	(75,778)
Change in operating assets and liabilities:		
(Increase) in trade and other receivables	(19,933)	(222,665)
(Decrease) / increase in trade and other payables	(90,844)	12,358
Net cash used in operating activities	<u>(1,456,479)</u>	<u>(1,051,171)</u>

Notes to the financial statements

30 June 2018

Note 30. Loss per share

	Consolidated	
	2018	2017
	\$	\$
Loss after income tax attributable to the owners of Allegiance Coal Limited	(1,550,921)	(979,673)

	Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	336,319,257	122,939,974
Weighted average number of ordinary shares used in calculating diluted loss per share	465,195,159	225,995,235

	Cents	Cents
Basic loss per share	(0.46)	(0.80)
Diluted loss per share	(0.33)	(0.43)

Options have been excluded from the above calculation as their inclusion would be anti-dilutive.

Note 31. Share-based payments

Director Option Scheme

A Director Option Scheme ('DOS') was approved at the Company's 2013 annual general meeting (2013 AGM). The purpose of the DOS was to attract, motivate and retain directors of the Company through ownership of shares.

Under the DOS a specific award of options was made to the four directors of the Company serving at the date of the 2013 AGM.

Each option held by a participant entitles them to subscribe for and be allotted one fully paid ordinary share. Director options are personal to the participant and may not be exercised by another person, or transferred, disposed of or otherwise dealt with, except in certain limited circumstances. An optionholder has no rights to participate in new issues of capital offered to shareholders. However, the Company will ensure that for the purposes of determining entitlements to such an issue, the record date will be at least ten business days after the issue is announced. The rights of an optionholder may be changed to the extent necessary to comply with the ASX listing rules in respect of a reorganisation of capital. Options were issued under the DOS for no consideration.

The options were granted for a fixed period and will expire on 27 November 2018, if not exercised on or before that date.

Lead Manager Options

The Company engaged Bell Potter Securities Limited (BPSL) as the Lead Manager for the October 2017 Placement. As part of the mandate, the Company was required to issue to BPSL a total of 5 million Options on successful completion of the Placement, which issue was approved at the Company's 2017 annual general meeting.

Notes to the financial statements

30 June 2018

Note 31. Share-based payments (continued)

Each option entitles BPSL to subscribe for and be allotted one fully paid ordinary share. The Options are personal to BPSL and may not be exercised by another person, or transferred, disposed of or otherwise dealt with, unless the prior written consent of the Company is obtained. The Optionholder has no rights to participate in new issues of capital offered to shareholders. However, the Company will give BPSL notice of the proposed issue prior to the date for determining entitlements to participate in any such issue. The Options were issued for no consideration, as they were issued in consideration for services provided in connection with the Placement.

The options were granted for a fixed period and will expire on 6 December 2020, if not exercised on or before that date.

2017 Participants Securities Incentive Plan

The 2017 Participants Securities Incentive Plan ('PSIP') was approved at the Company's 2017 AGM. The objective of the PSIP is to attract, motivate and retain key Directors, employees and consultants and it is considered that issue of Securities under the PSIP will provide participants with the opportunity to participate in the future growth of the Company.

Under the PSIP, the Board may in its discretion offer options to eligible participants. Offers must be made under an offer document, which complies with applicable laws. Eligible participants may accept such offers by completing and returning to the Company an application form within the timeframe specified in the offer document.

Each Option held by participant entitles them to subscribe for and be allotted one fully paid ordinary share. Participant options are personal to the participant and may not be exercised by another person, or transferred, disposed of or otherwise dealt with, except with the prior written approval of the Company. A participant has no rights to participate in new issues of capital offered to shareholders. However, the Company will ensure that for the purposes of determining entitlements to such an issue, the record date will be at least ten business days after the issue is announced. The rights of a participant may be changed to the extent necessary to comply with the ASX listing rules in respect of a reorganisation of capital. Participant Options are issued under the PSIP for no consideration.

Options will lapse if:

- i) the conditions of exercise of the Options have not been met, or where the participant ceases to render services to the consolidated entity;
- ii) the conditions of exercise of the Options are unable to be met; or
- iii) five years, or any other lapsing period specified in the offer document, has passed after the grant of the Options;

All of a participant's rights in respect of consultant options are immediately lost if the consultant options lapse.

Notes to the financial statements

30 June 2018

Note 31. Share-based payments (continued)

Set out below are summaries of Options granted under the plans:

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
27/11/2013	27/11/2018 *	\$0.2475	820,000	-	-	-	820,000
6/12/2017	6/12/2020**	\$0.05	-	5,000,000	-	-	5,000,000
6/12/2017	6/12/2022***	\$0.075	-	8,250,000	-	-	8,250,000
			820,000	13,250,000	-	-	14,050,000

Weighted average exercise price \$0.0762

* Director Option Scheme

** Lead Manager Options

*** 2017 Participants Securities Incentive Plan

2017

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
27/11/2013	27/11/2018 *	\$0.2475	820,000	-	-	-	820,000
			820,000	-	-	-	820,000

Weighted average exercise price \$0.2475

* Director Option Scheme

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2018 Number	2017 Number +
27/11/2013	27/11/2018 *	820,000	820,000
6/12/2017	6/12/2020**	5,000,000	-
6/12/2017	6/12/2022***	8,250,000	-
		14,070,000	820,000

* Director Option Scheme

** Lead Manager Options

*** 2017 Participants Securities Incentive Plan

The weighted average share price during the financial year was \$0.0439 (2017: \$0.0249).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3.5 years (2017: 1.5 years).

Directors' declaration

30 June 2018

1. In the opinion of the directors of Allegiance Coal Limited (the 'Company'):
 - a) the financial report and the Remuneration Report included in the Directors' Report, designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
 - ii) complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements; and
 - b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
2. The financial statements and notes comply with International Financial Reporting Standards, as discussed in Note 1; and
3. This declaration has been made after receiving the declarations required by section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2018.

Signed in accordance with a resolution of the Board of Directors made pursuant to section 295(5) of the *Corporation Act 2001*. This declaration is made in accordance with a resolution of the directors.

David Fawcett
Chairman

7 September 2018
Sydney

Auditor's independence declaration

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*

TO : The Directors of Allegiance Coal Limited

In accordance with Section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence.

As Audit Director for the audit of Allegiance Coal Limited for the financial year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

SCS Audit & Corporate Services Pty Ltd
(An Authorised Audit Company)

Brian Taylor
Director
Sydney
7 September 2018

Independent Auditor's report

30 June 2018

Independent Auditor's Report to the shareholders of Allegiance Coal Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Allegiance Coal Limited ("the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a statement of accounting policies and selected explanatory notes and the directors' declaration.

In our opinion:

the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Matters of Emphasis

I. Material uncertainty related to going concern:

Without qualifying our above opinion, we draw attention to Note 1 of the financial report – going concern, which indicates that the Group incurred a loss from continuing operations after tax of \$1,550,921. The matters detailed in Note 1 describe events and / or conditions which indicate the existence of a material uncertainty which may cast doubt as to the ability of the Group to continue as a going concern. The Group may be unable to realise its assets and discharge its liabilities in the normal course of business, at the amounts stated in the financial report. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

II. Carrying values of non-current Assets:

At 30 June 2018 the Group had capitalised exploration and valuation expenditure of \$9,065,712. The recoverability of the Group's carrying value of capitalised exploration and acquisition costs is dependent on the successful commercial exploitation of the assets and/or sale of the assets to generate profits at amounts in excess of the book values. In the event that the Group is not successful in commercial exploitation and/ or sale of the assets, the realisable value of the Group's assets may be significantly different than their current carrying values. Our opinion is not modified in respect of this matter.

Independent Auditor's Report to the shareholders of Allegiance Coal Limited (continued)

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors at the time of this Auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1 Exploration and evaluation assets

Why significant	How our audit addressed the key audit matter
The Group has incurred significant exploration and evaluation expenditures which has been capitalised. As the carrying value of exploration and evaluation expenditures represents a significant asset of the Group, we considered it necessary to assess whether facts and circumstances existed to suggest that the carrying amount of this asset may exceed its recoverable amount.	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Obtaining independent searches that the Group has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditure; • Confirming that the rights to tenure of the areas of interest remained current at the reporting date as well as confirming that the rights to tenure are expected to be renewed.

Independent Auditor's Report to the shareholders of Allegiance Coal Limited (continued)

2 Carrying value of the capitalised exploration and evaluation assets

Why significant	How our audit addressed the key audit matter
<p>AASB 6: Exploration for and evaluation of mineral resources contains detailed requirements with respect to both the initial recognition of such assets and ongoing requirements to continue to carry forward the assets.</p> <p>Note 11 to the financial statements contains the accounting policy and disclosures in relation to exploration and evaluation expenditures.</p>	<ul style="list-style-type: none"> • Reviewing the directors' assessment of the carrying value of the exploration and evaluation costs, ensuring that management have considered the effect of impairment indicators, commodity prices and the stage of the Group's project; • Reviewing budgets and challenging assumptions made by the Group to ensure that substantive expenditure on further exploration for and evaluation of the mineral resources in the areas of interest are planned; • Reviewing ASX announcements and minutes of directors' meetings to ensure that the Group had not decided to discontinue activities in any of its areas of interest.

3 Going concern

Why significant	How our audit addressed the key audit matter
<p>For the year ended 30 June 2018 the Group reported a net loss of \$1,550,921 and net operating cash outflows of \$1,456,479. As at 30 June 2018 the Group had net current assets of \$2,463,424 including cash reserves of \$2,935,488. These matters indicate the existence of an uncertainty which may cast doubt as to the ability of the Group to continue as a going concern. The Group may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.</p> <p>Refer to Note 1 – going concern.</p>	<p>We evaluated the Group's assessment of its ability to continue to operate as a going concern for the foreseeable future. In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> • considered the Group's budget for the 2019 financial year. • made enquiries with directors of the Company as to the intentions and strategy of the Group. • considered the adequacy of the disclosures made by the Group in Note 1 to the financial statements. • Considered the need for Joint Venture partners.

Information other than the financial statements and auditor's report

The directors of the Company are responsible for the other information. The other information included in the Group's annual report for the year ended 30 June 2018 comprises the Director's Report (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon with the exception of the Remuneration Report.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Independent Auditor's Report to the shareholders of Allegiance Coal Limited (continued)

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors of the Company for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Independent Auditor's Report to the shareholders of Allegiance Coal Limited (continued)

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 14 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Allegiance Coal Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

SCS Audit & Corporate Services Pty Ltd
(An Authorised Audit Company)

Brian Taylor
Director
Sydney
Dated 7 September 2018

Additional Securities Exchange information

As at 16 August 2018

Distribution of securities

Analysis of number of security holders by size of holding:

	Number of holders Ordinary shares	Number of holders Options
1 – 1,000	27	-
1,001 – 5,000	169	-
5,001 – 10,000	51	-
10,001 – 100,000	151	3
100,001 and over	184	9
Total	582	12

Equity security holders

The names of the twenty largest security holders of Ordinary Shares listed on the share register are:

Name	Units	% of Units
CITICORP NOMINEES PTY LIMITED	55,746,168	11.98
JA ASHTON NOMINEES (QLD) PTY LTD	24,872,336	5.35
GFT NOMINEES (QLD) PTY LTD	24,872,335	5.35
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	22,953,388	4.93
TELKWA HOLDINGS LTD	22,680,362	4.88
BERNARD LAVERTY PTY LTD	22,477,307	4.83
COMODALE PTY LTD	19,319,066	4.15
DGSF PTY LTD <DOUG GRICE SUPER FUND A/C>	18,350,000	3.94
FRANKLIN CIVIL PTY LTD	15,627,289	3.36
JOHN WARDMAN & ASSOCIATES PTY LTD <THE WARDMAN SUPER FUND A/C>	14,199,999	3.05
PETER CROKE HOLDINGS PTY LTD	13,999,999	3.01
J P MORGAN NOMINEES AUSTRALIA LIMITED	10,782,964	2.32
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	7,810,774	1.68
JOHN BERTRAND MAGUIRE	7,180,934	1.54
BELL POTTER NOMINEES LIMITED <BB NOMINEES A/C>	7,678,005	3.40
DRYCA PTY LTD <DRYCA EMPLOYEES RET/F A/C>	7,000,000	1.50
MR CLIVE THOMAS	7,000,000	1.50
MCGEE CONSTRUCTIONS PTY LTD <MCGORMAN SUPER FUND A/C>	6,500,000	1.40
NEQUAM PTY LTD <DICKSON FAMILY A/C>	6,333,333	1.36
MATTINC VENTURES PTY LTD	5,500,006	1.18
RACT SUPER PTY LTD <RAND SUPER FUND A/C>	5,306,674	1.14

Unquoted equity securities

There are no unquoted equity securities, other than the following options over ordinary shares: 820,000 granted to former directors; 5 million Lead Manager Options granted to Bell Potter Securities Limited; and 8,250,000 2017 PSIP Options.

Unmarketable parcels

There are 220 holders holding less than a marketable parcel of the entity's quoted equity securities.

On-Market Buyback

There is no current on-market buyback.

Substantial Holders

Substantial holders in the Company are set out below:

Rank	Name	Address	Units	% of Units
1.	ALTIUS RESOURCES INC	SUITE 202 66 KENMOUNT ROAD ST JOHNS NL A1B 3V7 CANADA	55,208,376	11.87
2.	JA ASHTON NOMINEES (QLD) PL	62 LONG STREET, EMERALD QLD 4720	24,872,336	5.35
3.	GFT NOMINEES (QLD) PTY LTD	40 SLACK DRIVE, EMERALD QLD 4720	24,872,335	5.35
4.	MARK GRAY	C/- JIM MEATES LAW PO BOX 35-451 LOWER HUTT 5046 NEW ZEALAND	23,268,879	5.00

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options over ordinary shares

There are no voting rights attached to the options over ordinary shares.

There are no other classes of equity securities.

Restricted securities

There are no restricted securities.

Tenements

Description	Tenement number	Interest owned %
<i>Telkwa Coal Limited</i>		
Telkwa Project – British Columbia, Canada	Note 1	100
<i>Mineral and Coal Investments Pty Limited</i>		
Back Creek - Surat Basin	EPC 1297	100
Kilmain - Bowen Basin	EPC 1917	100
Kilmain – Bowen Basin	EPC 1298	100

Note 1, List of tenements the subject of the Telkwa Project:

DL 230 PID - 014-958-724; DL 237 PID - 014-958-732; DL 389 PID - 014-965-666; DL 391 PID - 014-965-674; DL 401 PID - 014-965-682; 353440; 334059; 327972; 327836; 327837; 327838; 327839; 327845; 328672; 327834; 327840; 327865; 327866; 327936; 327944; 327951; 327952; 327953; 327954; 327964; 327965.

Resources and reserves

The Company's JORC Code 2012 coal resource statement for the Telkwa Project is as follows:

Coal Resource (Mt)	Measured	Indicated	Inferred	Total
Tenas	27.1	9.4	-	36.5
Goathorn	59.5	9.2	0.2	68.9
Telkwa North	15.7	3.7	1.0	20.4
Total	102.3	22.3	1.2	125.8

In July 2017 the Company completed a pre-feasibility study (PFS) declaring 42.5Mt of saleable coal reserves.

The coal resources referred to above were first reported in the Company's release of its updated geological model on 18 June 2018, supplemented by its 26 June 2018 announcement to the ASX (together the 18 June Announcement). The coal reserves referred to above were first reported in the Company's release of its Staged Production PFS results on 3 July 2017 announcement to the ASX (3 July Announcement). The Company confirms that it is not aware of any new information or data that materially affects the information included in the 18 June Announcement or the 3 July Announcement and that all material assumptions and technical parameters underpinning the estimates in the 18 June Announcement and the 3 July Announcement continue to apply and have not materially changed.

Competent Person Statement

The information above that relates to Mineral Resources and Reserves, unless otherwise stated, is based on information reviewed and compiled by Mr Dan Farmer, a registered professional engineer with the Association of Professional Engineers and Geoscientists of British Columbia. Mr Farmer is engaged by the Company on a full-time basis and has sufficient experience which is relevant to the style of mineralisation and the type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code (2012 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves"). Mr Farmer has consented to the inclusion of the information in the form and context in which it appears above.