



ALLEGIANCE COAL LIMITED

Annual Report 2012

Corporate Directory

Allegiance Coal Limited
ACN 149 490 353

DIRECTORS	ANTHONY HOWLAND-ROSE – CHAIRMAN COLIN RANDALL DAVID DEITZ PETER DONKIN
COMPANY SECRETARY	GRAHAM HURWITZ
REGISTERED OFFICE	Level 13 49-51 York Street Sydney NSW 2000 Telephone: +61 2 9299 5007 Facsimile: +61 2 9299 5006
PRINCIPAL PLACE OF BUSINESS	Level 13 49-51 York Street Sydney NSW 2000
SHARE REGISTER	COMPUTERSHARE INVESTOR SERVICES PTY LIMITED Yarra Falls 452 Johnston Street Abbotsford VIC 3067 Telephone: 1300 850 505 Facsimile: +61 3 9473 2500
AUDITOR	GRANT THORNTON AUDIT PTY LTD Level 17 383 Kent Street Sydney NSW 2000
SOLICITORS	CARDINALS Ground Floor 57 Havelock Street West Perth WA 6872
STOCK EXCHANGE LISTING	Allegiance Coal Limited shares are listed on the Australian Securities Exchange (ASX code: AHQ)
WEBSITE ADDRESS	www.allegiancecoal.com.au

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Chairman's Letter to Shareholders

Dear Fellow Shareholders

After some four years of preparation, Allegiance Coal Limited raised \$2.5 million in a pre-IPO offering in November, 2011 and \$7.0 million in an IPO listed on the ASX in May, 2012. Allegiance has an excellent portfolio of prospects and an enthusiastic experienced team of professionals to exploit the prospectivity thereof.

Of great disappointment to us all at Allegiance has been the very rapid deterioration in sentiment and commodity prices since our debut on the ASX. At times such as these, where simultaneous downturns occur in all major markets, it is well to remember that the rise of Asia will continue for the next several decades. Their per capita consumption of all commodities remains well below that of the so-called advanced economies. This gap will close!

As detailed in this Annual Report, we have well and truly commenced exploration on a number of our tenements. At Back Creek in the Surat Basin a reduced but cost effective drilling programme has confirmed the prospectivity of the area and a first resource confirmation is expected later this calendar year. Work continued to be hampered by unseasonal rains, and at our other prime prospect, Kilmain in the Bowen Basin, wet ground conditions have precluded work in the current season – which is most disappointing.

The year ahead will certainly be a most challenging one. While the short term is indeed bleak, the medium to long term remains bright. What is important is the coal price some four to five years out, and all indications are that this should be most satisfactory.

In summary, Allegiance Coal has made good progress in spite of the adverse market sentiment over the last six months. The near future will be a testing one for our company **but** we look forward to exploiting the opportunity that challenging times always present.



A W Howland-Rose

MSc, DIC, FGS, FIMMM, FAusIMM, MAICD, FAIG, CEng

Executive Chairman

Review of Operations

The following activities were undertaken by Allegiance Coal Limited or its subsidiaries:

- Raised \$2.5 million in pre-IPO funds in September 2011.
- Officially admitted to the ASX on 24 May 2012 after raising \$7 million.
- Drilling within Back Creek Project (EPC 1297) undertaken throughout the tenement. A target of 60 to 80 million tonnes⁽¹⁾ was previously estimated for the project.
- Drilling within Kilmain Project (EPC 1298) of three drill holes in the north of the tenement. Intersection of 3.1 m of Castor/Pollux Seam enabled a target of 100 to 200 million tonnes⁽¹⁾ to be determined. Analysis of the coal cores from the Aries and Castor/Pollux Seams indicated presence of a coking fraction.
- The Company's subsidiary Moreton Coal Pty Ltd continued to evaluate the potential for the early development of its Mintovale open cut coal project. The project is based on MDL138 which is south of Boonah in Scenic Rim Shire.
- The number of granted exploration tenements remains at 13.
- Land access agreements were concluded in relation to EPC 1672 Lochaber in order to advance exploration within the tenement.
- The company continued discussions with neighbours to conclude data swapping arrangements to enhance understanding of the geology of the tenements and to reduce where possible unnecessary exploration costs.

Safety and Environmental Requirements

There were no major lost-time injuries or incidents whilst undertaking field activities associated with tenement inspections, geological investigations and drilling.

Exploration Target Clarification

- (1) All statements pertaining to the Company's exploration target and statements as to the potential quantity and grade made in this Statement are conceptual in nature. There has been insufficient exploration undertaken to date to define a coal resource in accordance with the JORC Code, and it is uncertain if further exploration will result in the definition of a coal resource in accordance with the JORC Code.

Competent Person Statement

Mr Colin Randall is the Managing Director of Allegiance Coal Limited and is a Fellow of the Australasian Institute of Mining and Metallurgy. He has a minimum of 15 years experience in the field of activity being reported on and is a Competent Person as defined in the JORC Code. This announcement accurately summarises and fairly reports his assessment and where required, has consented to the report in the form and context in which it appears.

FIGURE 1: Coal Exploration Projects



SOURCE: Runge and Allegiance Coal

Review of Projects

Allegiance Coal has, during the year, advanced its two lead projects at Back Creek in the Surat Basin and Kilmain in the Bowen Basin.

The drilling in these areas was funded initially by loans by Gullewa and C Randall and Associates as well as from Pre-IPO funds.

Field operations on other projects included the drilling of two shallow holes on EPC 1672 Lochaber in the Mulgildie Basin as well as initial field mapping on EPC 1875 Pinetree in the Laura Basin.

Following the successful raising of funds through the IPO in May 2012, planned exploration in Back Creek and Kilmain was delayed due to exceptionally wet winter.

Back Creek Project (EPC 1297)

The Back Creek tenement area is located approximately 50 km northeast of Miles and 45 km southeast of Wandoan in the Surat Basin. The Taroom Measures are the dominant coal bearing formation throughout the tenement. Up to 25 coal plies are grouped into 11 main coal intervals forming 3 coal seams: Auburn, Bulwer and Condamine. The seams vary in thickness up to a maximum of 9.3 m although plies are commonly not laterally continuous.

The Company believes that the recent drilling confirms the excellent potential to define mineable resources in the northwestern and southern parts of the tenement.

LOCATION:	45 km southeast of Wandoan in the Surat Basin
AREA:	68 km ²
TARGET:	Low ash thermal coal
TENEMENTS:	EPC 1297
PROXIMITY TO INFRASTRUCTURE:	Planned Surat Basin Rail Line is 20 km to the west of the tenement connecting to the Port of Gladstone

To the north of Back Creek and along strike, Stanmore Coal's The Range project has a Marketable Reserve of 94 million tonnes which is derived from a run of mine Coal Reserve of 117.5 million tonnes complying with the JORC Code⁽²⁾ and Cockatoo Coal's Bottle Tree project has reported 35 million tonnes of Inferred and Indicated Resources⁽³⁾.

In addition, down dip from Back Creek, Cockatoo Coal has reported significant coal intersections at their Bushranger project.

An initial drilling programme of 18 holes was completed in the northern part of the tenement on privately owned land. Two holes were twinned so that bottom coal-bearing sections could be diamond core drilled to enable coal quality testwork to be undertaken. The initial programme involved 1,348 m of drilling including 34.16 m of core drilling. Coal intersection of 7.2 m of cumulative coal to a depth of 69.9 m within the Condamine and Bulwer coal seams was recovered in drill hole BC19C.

Widely spaced drilling was completed in this northern section by other companies in the 1960s and 1980s, and by Allegiance in 2011 as indicated above. A second drilling program by the Company was planned to infill the historic drilling to a spacing of approximately one (1) kilometre, both in the north as well as in the Company's high priority areas to the south. Following the obtaining of approvals to access and drill within the Quandong and Barakula State Forests, located

respectively in the north and southern part of EPC 1297. A second drilling programme entailing 31 drill sites was initiated and although heavy rains delayed the program, drilling will be completed late in the September quarter 2012.

A summary of all of the holes completed to date by the Company and coal intersections are tabulated below on the following page.

Geological exchange agreements between the Company, Cockatoo Coal and Stanmore Coal have been initiated and will assist in the preparation and evaluation of drilling results from exploration conducted.

Analysis of the coal recovered from the cored holes in the initial program confirmed that the coal was low ash thermal coal with the potential for some plies to be able to be recovered and sold without requirement for washing. In one hole (BC038C) coal cores were canistered and gas analysed.

Potentially significant coal was intersected in drill hole BC005 with 9.3m cumulative of coal being intersected to a depth of 66.70m.

The second drilling program has included 1,696m of non-cored geophysically logged holes as well as 203.75m of diamond drilling.

Coal seam intersections in this second drilling program have been, for the most part, in-line with the modelling of the deposit based on previous data from within the tenement and data from swap arrangements with adjacent tenement holders.

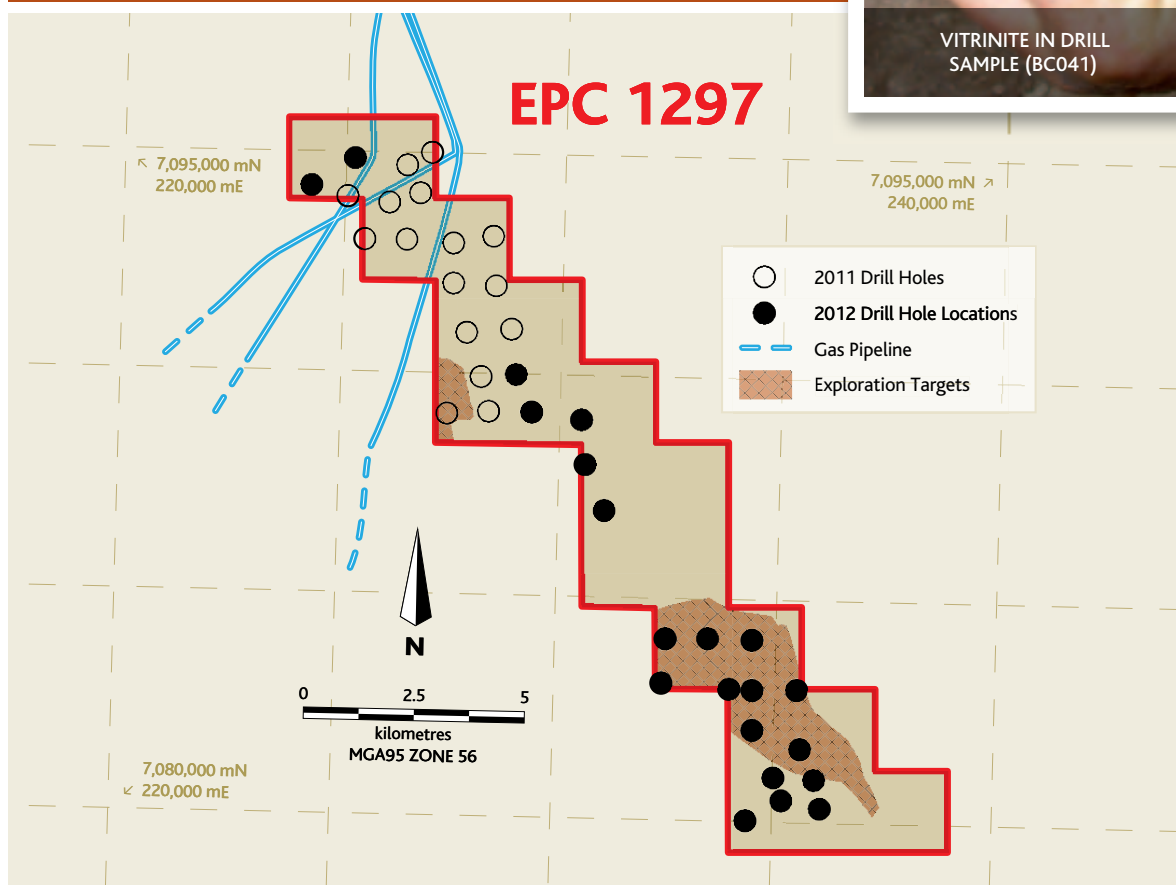
The project has excellent potential to host a target of 60 to 80 million tonnes of shallow, open cut thermal coal⁽¹⁾.

The overall project planning is for first coal production in 2017 and full production of up to 5 million tonnes per annum by 2020 subject to the decisions on the building of the Surat Basin Rail Link.



VITRINITE IN DRILL
SAMPLE (BC041)

FIGURE 2: Drilling at the Back Creek Project



DRILLING PROGRESS

LOCATION (GDA 94 MGA 56)				COAL INFORMATION			
HOLE NUMBER	EASTING	NORTHING	ELEVATION ASL	TOTAL DRILLED DEPTH	CUMULATIVE SEAM THICKNESS	DEPTH TO BASE OF COAL	YEAR DRILLED
BC001	224000	7095000	365	–	–	–	ND
BC002	224752	7094723	362	99.50	3.10	34.10	2012
BC003	226420	7094696	354.1	100.00	0.45	20.50	2011
BC004	227039	7095012	352.5	76.00	SH		2011
BC005	224000	7094000	370	113.00	9.30	66.70	2012
BC006	225111	7093878	360.6	88.50	3.90	45.80	2011
BC007	226000	7094000	362.2	91.00	1.60	42.60	2011
BC008	226730	7094081	359.5	88.00	SH		2011
BC009	225496	7093012	370.8	100.00	1.16	42.16	2011
BC010	226449	7093019	365.3	100.00	1.96	55.25	2011
BC011	227509	7092950	359.3	82.00	2.34	59.54	2011
BC012	228404	7093129	353.5	52.00	0.86	38.67	2011
BC013	227525	7092045	363.7	100.00	3.02	65.02	2011
BC014	228495	7092007	364.8	31.00	1.49	27.10	2011
BC015	227848	7090951	373.5	64.00	2.28	57.65	2011
BC016	228869	7091042	371.0	34.00	SH		2011
BC017	228207	7089954	358.5	64.00	2.01	47.60	2011
BC017C	228204	7089954	358.6	53.00	2.02	47.50	2011
BC018	230465	7090094	359	31.00	SH		2012
BC019	227445	7089121	366.3	82.00	6.89	69.85	2011
BC019C	227442	7089120	366.4	72.00	7.20	69.90	2011
BC020	228387	7089177	363.8	65.00	2.16	48.42	2011
BC021	229448	7089238	365	107.00	3.55	76.60	2012
BC022	230516	7089084	366	88.00	0.90	37.20	2012
BC023	230788	7088020	375	30.00	SH		2012
BC024	231097	7086902	370	44.00	3.19	36.47	2012
BC026	232500	7086000	350	–	–	–	ND
BC027	231500	7085000	345	–	–	–	ND
BC029	233500	7085000	342	–	–	–	ND
BC030	232510	7083997	350	63.79	3.95	48.35	2012
BC031	233491	7083998	359	63.79	0.97	29.45	2012
BC032	234528	7084012	348	48.79	2.92	34.45	2012
BC033	235500	7084000	342	–	–	–	ND
BC034	232500	7083000	362	68.69	4.66	57.65	2012
BC035	233986	7082987	349	108.79	5.05	48.60	2012
BC035CR	233994	7082979	354	52.98	4.85	48.50	2012
BC036	234500	7083000	352	73.79	3.11	36.60	2012
BC037	235572	7082988	335	58.79	2.80	43.76	2012
BC038	234530	7081978	358	88.79	6.50	64.08	2012
BC038C	234530	7081980	358	127.44	6.32	64.53	2012
BC039	235688	7081663	348	43.79	0	–	2012
BC040	236500	7082000	347	–	–	–	ND
BC041	234986	7080936	359	143.69	8.26	50.98	2012
BC042	235996	7080970	355	58.69	0.76	41.68	2012
BC043	237000	7081000	347	–	–	–	ND
BC044	234451	7079888	378	68.59	5.91	49.23	2012
BC045	235179	7080423	357	103.69	1.33	54.50	2012
BC046	236174	7080279	382	58.79	2.85	51.6	2012
BC047	237500	7080000	347	–	–	–	ND

All measurements are in metres. ND: Not Drilled, SH: Sterilisation Hole – no coal intersected
 2011: Phase 1 drilling (surveyed collar) and 2012: Phase 2 drilling

Kilmain Project (EPC 1298 and 1917)

The Kilmain tenement is located about 75 km southeast of Emerald in the Bowen Basin and is approximately 15 km west of the Rolleston rail line that connects to the Port of Gladstone.

LOCATION:	Approximately 300 km west of the Port of Gladstone in the Bowen Basin
AREA:	56 km ² (8.7 km ² overlaps MDL 340)
TARGET:	Coking/PCI and low ash thermal coal
TENEMENTS:	EPC 1298 and EPC 1917
PROXIMITY TO INFRASTRUCTURE:	Approximately 15 km west of the Rolleston rail line which connects to the Port of Gladstone

The project area is located down dip from BHP's Togara South (MDL 340) which has total resources of 2.015 billion tonnes⁽⁴⁾. To the west, is Bandanna Energy's Arcturus project that has open cut and underground resources of 206.3 million tonnes⁽⁵⁾. The planned Arcturus underground mine's eastern longwall blocks are truncated by the western boundary of EPC 1298 Kilmain and show clear potential for the resources to extend well into the Kilmain tenement.

Drilling commenced in mid September 2011 of three partially cored deep holes in the northeast of the tenement. The drilling intersected the 3.1 m thick conjoined Castor/Pollux Seam and gave rise to a review of the target for Kilmain from the original 100 to 200 million tonnes⁽¹⁾.

Bottom depths of holes were between 470 and 500 m and cored to recover the Aries, Castor, Pollux and Orion Seams from each hole. All coal plies were sampled and analysed with results confirming the potential for washed coking, PCI or low ash thermal coal or an unwashed thermal or PCI coal product.

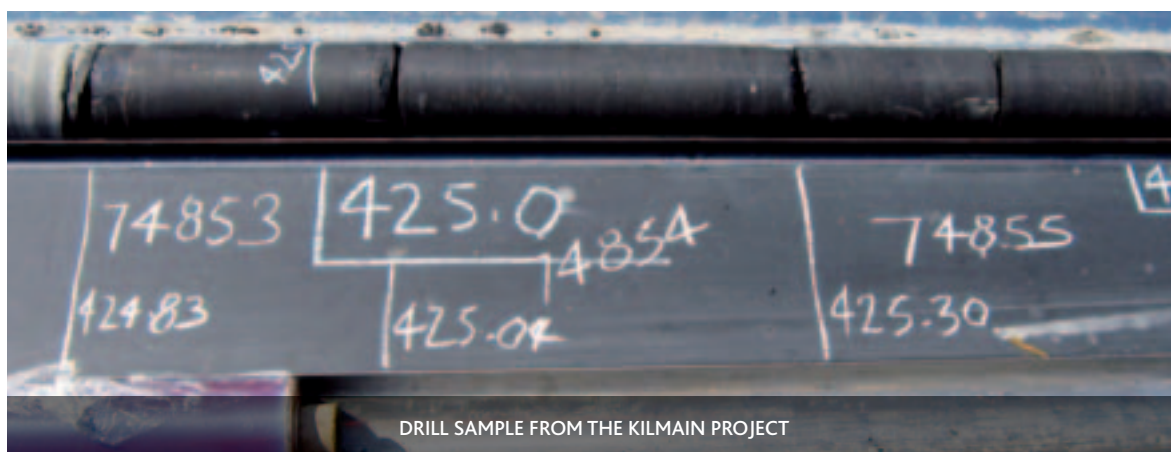
In one hole coal cores were canistered and gas analysed. Results showing a predominantly methane rich gas with low concentration (less than 4 m³ per tonne). The gas concentrations were considered too low to be of commercial interest by way of pre-drainage prior to mining.

Queensland Department of Natural Resources and Mines has advised that the amalgamation of EPC 1298 and EPC 1917 would proceed with the combined tenement to be granted for a period of four years (previously two years).

Drilling is planned to recommence in the first quarter 2013 which should enable the estimation of an Inferred Resource in accordance with the JORC Code in the second Quarter 2013.

The Kilmain Project has potential for an underground deposit of coking/PCI/thermal coal within the Rangal Coal Measures and has an initial target of 100 to 200 million tonnes⁽¹⁾ of coal.

The overall project planning is for first coal production in 2017 and full production of up to 5 million tonnes per annum by 2020.



Mintovale Project

In December 2010 the Company completed the purchase of Moreton Coal Pty Ltd from Cockatoo Coal. Moreton Coal Pty Ltd is the holder of MDL 138 which hosts the Mintovale Project.

The Mintovale Project has potential for an open pit thermal coal deposit with an identified target of shallow thermal coal suitable for domestic and export markets.

LOCATION:	87 km southeast of Brisbane in the Moreton Basin. Within the Scenic Rim Council area.
AREA:	244 ha
TARGET:	Thermal coal
TENEMENTS:	MDL 138
PROXIMITY TO INFRASTRUCTURE:	Approximately 30 km west of standard gauge rail into the Port of Brisbane.

While the new LNP Queensland State Government made statements before the election that there would be no mining within the Scenic Rim Council area, no legislation has yet been enacted to prohibit Moreton Coal Pty Ltd (wholly owned by AHQ) from continuing to exercise its rights under the existing legislation regarding its Mintovale MDL 138.

Meetings have been held with a group of landowners from the Mintovale area and with the Mayor of the Scenic Rim Council. The Company emphasised that without further drilling, uncertainty remains, in particular with respect to whether there are sufficient reserves to justify a small open cut mine. Although many landowners voiced their opposition to mining in their area they were advised that landowners would be approached by the Company in October 2012 to determine whether they would agree to provide access for further drilling.

Potential exists for Mintovale to be a small open cut direct shipping thermal coal mine with transport of the coal by road and by rail to the Port of Brisbane.

Connemarra Project

The Connemarra Project is speculative since there has been no previous exploration within the tenement. Coal bearing strata have been intersected in adjacent areas.

LOCATION:	In the Bowen Basin 345 km west of Gladstone.
AREA:	138 km ²
TARGET:	Thermal Coal
TENEMENTS:	EPC 1296
PROXIMITY TO INFRASTRUCTURE:	The rail line to the Minerva Mine is approximately 21 km to the east connecting to the Port of Gladstone.

While a potential farm-out of the project was considered, the level of knowledge on the potential of the tenement was considered to be insufficient to value the project. The company plans to drill within the Connemarra tenement by end Quarter 4 2012.

Calen Project

The Calen Project has potential for underground PCI coal deposits.

LOCATION:	25 km west of Mackay in the Calen Basin.
AREA:	214 km ²
TARGET:	Low volatile PCI coal
TENEMENTS:	EPCs 1631 and 1820
PROXIMITY TO INFRASTRUCTURE:	The main northern rail line to Mackay is approximately 5 km east of the area, connecting to Dalrymple Bay Coal Terminal

A potential farm-out, under negotiation, with the holder of other tenements in the Calen Basin is yet to be concluded.

Lochaber

The Lochaber Project has potential for open pit thermal coal deposits.

LOCATION:	In the southern extension of the Mulgildie Basin 170 km south of Gladstone.
AREA:	118 km ²
TARGET:	Thermal coal
TENEMENTS:	EPC 1672
PROXIMITY TO INFRASTRUCTURE:	The rail line connecting to the Port of Gladstone via Monto and Maryborough to the east lies within the area. There is future potential for loading in Bundaberg.

A field mapping program and drilling of two shallow, non-coal intersecting holes in the western part of the tenement was completed in late 2011. The field mapping has provided further definition to planned drilling within the area which is proposed to involve some six holes in the central prospective area. There is an unconfirmed occurrence of coal in a nearby waterbore.

The company, as a member of the North Burnett Mineral Group, has been considering rail transport options for bulk commodities from the North Burnett region.

Townsville

The Townsville Project, EPC 1492 and EPC 1617, has potential for open pit and underground coal deposits.

LOCATION:	Surrounding the city of Townsville in the northern-most part of the Bowen Basin.
AREA:	696 km ²
TARGET:	Coking and high rank thermal coal
TENEMENTS:	EPCs 1492 and 1617
PROXIMITY TO INFRASTRUCTURE:	The rail line through the area connects to Abbot Point to the south. There is potential for coal loading in the Port of Townsville.

Discussions have taken place with an adjoining tenement applicant who has potentially relevant airborne geophysical data. A geological data swap arrangement will assist in defining a drilling program.

Drilling in a local quarry established the presence of black carbonaceous shale which is considered to be contemporaneous with reported coal measure sediments in the region. Potential exists for areas where thicker sediment accumulated and coal deposition may have occurred.

Pinetree

The Pinetree Project EPC 1875 has potential for open pit and underground coal deposits.

LOCATION:	100 km west of Cooktown in the Laura Basin.
AREA:	670 km ²
TARGET:	PCI and high rank thermal coal
TENEMENTS:	EPC 1875
PROXIMITY TO INFRASTRUCTURE:	There is very limited infrastructure apart from the Peninsula Development Road and Cooktown Development Road between Cooktown and Laura, and the Wongai project 150 km northwest of Cooktown and 45 km north of the project area.

A review of drilling results from historic exploration in areas adjacent to the tenement has enabled definition of target areas within EPC 1875.

Field mapping undertaken earlier in the year has assisted in the interpretation of these results.

Negotiation for an access agreement with the single landowner is continuing.

Normanby

The Normanby Project EPC 1874 has potential for open pit and underground coal deposits.

LOCATION:	40 km southwest of Cooktown in the Hodgkinson Basin.
AREA:	267 km ²
TARGET:	PCI and high rank thermal coal
TENEMENTS:	EPC 1874
PROXIMITY TO INFRASTRUCTURE:	There is very limited infrastructure apart from the Cooktown Development Road that passes through the area.

A review of drilling results from past exploration in areas adjacent to EPC 1874 was undertaken.

Field mapping is planned for late in 2012.

Cedar Creek

The Cedar Creek Project EPC 2278 has potential for an open pit thermal coal deposit.

LOCATION:	30 km northwest of Injune in the Surat Basin.
AREA:	36 km ²
TARGET:	Thermal coal
TENEMENTS:	EPC 2278
PROXIMITY TO INFRASTRUCTURE:	A 33 kv power transmission line is near the area. There is a rail line at Injune connecting to the Port of Brisbane. There is potential for rail upgrades including the Surat rail line connecting to the Port of Gladstone.

A review of drilling data from past exploration was completed and has assisted in the planning of a future drilling program.

Negotiations are underway for a data swapping arrangement with adjoining tenement holders.

Mobs Creek

The Mobs Creek Project EPC 2309 has potential for an open pit thermal coal deposit.

LOCATION:	30 km east of Dalby in the Surat Basin.
AREA:	96 km ²
TARGET:	Thermal coal
TENEMENTS:	EPC 2309
PROXIMITY TO INFRASTRUCTURE:	20 km from the Dalby to Oakey rail line connecting to the Port of Brisbane. There is potential for rail upgrades including the Surat rail line connecting to the Port of Gladstone.

A literature search has taken place within this tenement. Coal bearing strata have been intersected in adjacent areas at New Acland and Irvingdale.

A potential data swap with adjacent tenement holders is under consideration.

Infrastructure

Queensland infrastructure consultants Balance Resources completed a review of the infrastructure needs of the Back Creek and Kilmain projects. The infrastructure requirements included port, rail, water and power for both projects.

- Sunwater Nathan Dam – lodged Expression of Interest for water offtake for both projects;
- Ergon Energy – provided potential power offtake when Back Creek and Kilmain in full operation to satisfy Enquiry Stage data requirements;
- Central Surat Rail Project – seeking membership of the group;
- QR Network – RFP submissions for the Capacity Notification Register;
- WICET Holdings – obtained B Class shareholding;
- Fitzroy Terminal Pty Limited – Signed Confidentiality Agreement;
- Tenement To Terminal Pty Ltd – RFP submissions.

In relation to the potential coal export tonnage from the Mintovale, Mobs Creek, Cedar Creek and Mt Marrow projects, the Company responded to a request for 'Expressions of Interest' for access to increased port capacity through Brisbane. In particular:

- Port of Brisbane – Responded to EOI;
- Queensland Bulk Handling Pty Ltd – Responded to EOI.

Corporate

ASX listing

Was officially admitted to the ASX on 24 May 2012.

Capital Raising

The company raised \$7 million through the IPO.

Current shareholding

There are 520 shareholders and 176 million shares on issue with current percentages as follows:

■ Gullewa Limited	57.75%
■ C. Randall and Associates Pty Ltd	14.15%
■ Pre IPO investors	9.50%
■ IPO investors	18.60%

Pending Applications

Allegiance has 12 pending applications for coal tenements. Nine applications are Competing Applications, including one for which the Company has been advised that it is the Priority Applicant. In addition, the Company has three Secondary Applications pending.

Exploration Target Clarification

- (1) All statements pertaining to the Company's exploration target and statements as to the potential quantity and grade made in this Statement are conceptual in nature. There has been insufficient exploration undertaken to date to define a coal resource in accordance with the JORC Code, and it is uncertain if further exploration will result in the definition of a coal resource in accordance with the JORC Code.
- (2) www.stanmorecoal.com.au
- (3) www.cockatoocoal.com.au
- (4) www.bhpbilliton.com
- (5) www.bandannaenergy.com.au

Competent Person Statement

Mr Colin Randall is the Managing Director of Allegiance Coal Limited and is a Fellow of the Australasian Institute of Mining and Metallurgy. He has a minimum of 15 years experience in the field of activity being reported on and is a Competent Person as defined in the JORC Code. This announcement accurately summarises and fairly reports his assessment and where required, has consented to the report in the form and context in which it appears.

Directors' Report

30 June 2012

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 for the year ended 30 June 2012.

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:

Anthony Howland-Rose – Chairman

Colin Randall

David Deitz

Peter Donkin

Principal activities

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

Dividends

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

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$1,663,284 (30 June 2011: \$754,928).

The consolidated entity undertook exploration by way of drilling on Back Creek (EPC 1297), Kilmain (EPC 1298) and Lochaber (EPC 1672).

Back Creek

The drilling in the North enabled a target of 60 to 80 million tonnes* to be determined. Drilling planned in the South for April 2012 was delayed due to extended wet weather.

Kilmain

Drilling of three holes in the North and intersection of 3.1m of Castor/Pollux Seam enabled a target of 100 to 200 million tonnes* to be determined. Analysis of the cores from the Aries and Castor/Pollux Seams indicated presence of a coking coal fraction.

* Exploration/Coal Target

All statements as to Exploration Target and Coal Target of Mineral & Coal Investments and statements as to potential quality and grade are conceptual in nature. There has been insufficient exploration undertaken to date to define a coal resource and identification of a resource will be totally dependent on the outcome of further exploration. Any statement contained herein as to exploration results, Exploration Target or Coal Target has been made consistent with the requirements of the JORC Code.

Lochaber

Two shallow holes were drilled without intersecting coal.

The company's subsidiary, Moreton Coal Pty Ltd, owner of the Mintovale coal project based on MDL 138 which is near Boonah in South East Queensland continued to evaluate potential for early development of the project.

The consolidated entity's granted exploration tenements remains at 13 and has a total of 11 exploration tenement applications. The consolidated entity awaits a formal response on EPCA 2374 (Mt Marrow) where Mineral & Coal Investments Pty Limited (100% owned subsidiary of Allegiance Coal Limited) is the Priority Applicant.

During the year the consolidated entity applied for two exploration tenements EPCA 2634 (Galium) and EPCA 2644 (Mayaca) and both are competing. An additional 6 competing exploration tenement applications lodged in the previous year are awaiting decision. An additional 2 exploration tenement secondary applications are also awaiting decision.

During the year one secondary application was not granted in the consolidated entity's favour.

Application was lodged to combine EPC 1298 (Kilmain) and EPC 1917 (Kilmain South) into a single exploration tenement.

Land access agreements were concluded in relation to EPC 1672 Lochaber in order to advance exploration within the consolidated entity's tenement.

In preparation for the IPO of the company many activities were undertaken. Independent consultants were engaged and associated reports were prepared.

Significant changes in the state of affairs

On 24 May 2012 the company was officially admitted to the Australian Securities Exchange ('ASX') after raising \$7,000,000 for 35,000,000 shares and 8,750,000 free Attaching Options, in an Initial Public Offer.

During November 2011, the company raised \$2,500,000 of pre-Initial Public Offering capital from sophisticated investors.

On 16 August 2011 the then Labour Queensland Government issued an announcement suspending new exploration tenures in and around South Queensland, and in and around urban centres across the remainder of the state. Moreton Coal Pty Limited, a 100% subsidiary of Allegiance Coal Limited, holds a mineral development licence that would have been impacted by this announcement. The suspension was never legislated and the new LNP Government has not yet enacted the legislation. Given the announcements made during the election and the uncertainty over how this will affect exploration companies, management has not been able to assess the impact on the consolidated entity. Management anticipate further announcements on this issue during the 2013 financial year and will make an assessment of the impact on the group at the appropriate time.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2012 that has 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

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

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

Information on Directors



Anthony Howland-Rose

Non-Executive Chairman

Qualifications:

MSc, DIC, FGS, FIMMM, FAusIMM, FAIG, CEng

Experience and expertise:

Anthony has over 48 years' experience in exploration, discovery, development and corporate activity worldwide in the junior exploration sector. He has been involved in a number of mineral discoveries, the most recent of which was the Avebury Nickel Project for which he was co-recipient of the Association of Mining and Exploration Companies Prospector of the Year Award in 2007. Anthony, for the years 1996 to 2008 as a Director and Chairman of Allegiance Mining NL, together with David Deitz, presided over the discovery, drill out, financing and building of the \$180 million Avebury Nickel Mine and processing facility. Allegiance Mining NL was acquired by a hostile takeover by Zinifex Limited in 2008 for approximately \$860 million.

Other current directorships:

Executive Chairman of Gullewa Limited (ASX: GUL) and Director of Central Iron Ore Limited, listed on the Toronto Stock Exchange – Venture

Former directorships (in the last 3 years):

None

Special responsibilities:

None

Interests in shares:

500,000 ordinary shares held directly (746,667 ordinary shares held indirectly)

Interests in options:

1,200,000 options over ordinary shares held directly (244,222 options over ordinary shares held indirectly)



Colin Randall

Executive Managing Director

Qualifications:

BEng (Mining), FAusIMM

Experience and expertise:

Colin is a mining engineer with over 40 years' experience in most facets of the coal mining industries of New South Wales and Queensland. He has been involved in the operating, exploring, developing and financing of coalmines in both states. He was involved in the management of the Ravensworth No. 2, Warkworth and Bayswater open cut coalmines in the Hunter Valley. He was General Manager of the Bayswater Colliery Co Pty Ltd and was Chief Executive of Wambo Mining Corporation Pty Limited, at which time he undertook the marketing of coal into Japan and other parts of Asia. In mine development, he was the Project Manager for the exploration, planning, design and construction of the Warkworth Mine and was its first Mine Manager. Involvement in coal exploration includes Chairman of Curlewis Coal & Coke Pty Limited, Booyan Coal Pty Limited, Comet Coal & Coke Pty Limited (sold to Stanmore Coal Pty Limited) and then Director of Hydro-Mining Australia Pty Limited and Mineral and Coal Investments Pty Limited, with coal exploration activities in NSW and Queensland.

Other current directorships:

None

Former directorships (in the last 3 years):

None

Special responsibilities:

None

Interests in shares:

No ordinary shares held directly (25,100,000 ordinary shares held indirectly)

Interests in options:

No options over ordinary shares held directly (1,725,000 options over ordinary shares held indirectly)



David Deitz

Non-Executive Director

Qualifications:

B.Com, MAusIMM, CPA

Experience and expertise:

David joined Allegiance Mining NL in 1996 and became a Director in August, 2000. As Chief Financial Officer he was part of the team with Anthony Howland-Rose that discovered and brought into production the Avebury Nickel Mine in Tasmania. Allegiance Mining NL was taken over in 2008 for approximately \$860 million.

Other current directorships:

Gullewa Limited

Former directorships (in the last 3 years):

None

Special responsibilities:

None

Interests in shares:

No ordinary shares held directly (686,667 ordinary shares held indirectly)

Interests in options:

1,000,000 options over ordinary shares held directly (224,722 options over ordinary shares held indirectly)



Peter Donkin

Independent Non-Executive Director

Qualifications:

BEC, LLB, FFIN, MAICD

Experience and expertise:

Peter has 28 years' experience in investment banking, the majority of which involved a primary focus on the mining and resources sector. He completed his career in investment banking as the Managing Director of the Mining Finance Division of Societe Generale in Australia, having worked for that bank for 21 years in both their Sydney and London offices. Prior to joining Societe Generale he was with the corporate and international banking division of the Royal Bank of Canada. He currently works as a financial consultant to the minerals sector. Peter's experience in investment banking involved structuring and executing transactions for mining companies, both in Australia and internationally. This included advising on and arranging transactions in a wide variety of financial products covering mining project finance, corporate finance, acquisition finance, pre-export finance, and early stage investment capital.

Other current directorships:

Director of Paladin Energy Ltd (ASX: PDN)

Former directorships (in the last 3 years):

Former Director of Sphere Minerals Ltd (ASX: SPH) (resigned 16 November 2010)

Special responsibilities:

None

Interests in shares:

10,000 ordinary shares held directly (333,334 ordinary shares held indirectly)

Interests in options:

1,002,500 options over ordinary shares held directly (111,112 options over ordinary shares held indirectly)

'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

Graham Hurwitz (CA, B Comm (Hons)) was appointed company secretary on 13 April 2011. Graham is a Chartered Accountant with 30 years' experience in the areas of taxation, business services, business acquisitions and disposals. He is a Director of Hurwitz Geller Pty Ltd, a firm of Chartered Accountants. Prior to this he was the Chief Financial Officer at Allegiance Mining NL and a Director of an accountancy practice for over 20 years. Graham is also the company secretary of Gullewa Limited.

Meetings of directors

The number of meetings of the company's Board of Directors held during the year ended 30 June 2012, and the number of meetings attended by each director were:

	FULL BOARD	
	ATTENDED	HELD
Anthony Howland-Rose	9	9
Colin Randall	9	9
David Deitz	9	9
Peter Donkin	9	9

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

The roles of the Nomination Committee, Audit Committee and Remuneration 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:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation

A 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 its 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 directors 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.

Non-executive directors' fees and payments are reviewed annually by the Board. The Board also ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to determination of his own remuneration.

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 its 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 aims 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 remunerations.

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') program is designed to align the targets of the business units with the targets of those executives in charge of meeting those targets. STI payments are granted to executives based on specific annual targets being achieved.

The long-term incentives ('LTI') includes long service leave and share-based payments. Shares and options over shares are awarded to executives based on performance and is at the discretion of the Board, subject to obtaining relevant regulatory and shareholder approval.

The Managing Director's performance evaluation is reviewed by the Board, which is carried out on an ongoing basis through open and regular communication between the Board and the Managing Director. The Managing Director reviews the performance of the senior executives and management, reporting to the Board at least annually.

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 2012, 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 2011 Annual General Meeting ('AGM')

At the last AGM, the shareholders voted to adopt the remuneration report for the year ended 30 June 2011. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

B 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.

The key management personnel of the consolidated entity consisted of the directors of Allegiance Coal Limited and the following executive:

- Graham Hurwitz – Company Secretary

2012	SHORT-TERM BENEFITS			POST EMPLOYMENT BENEFITS	LONG- TERM BENEFITS	SHARE- BASED PAYMENTS	TOTAL \$
	CASH SALARY AND FEES \$	BONUS \$	NON- MONETARY \$	SUPER- ANNUATION \$	LONG SERVICE LEAVE \$	EQUITY- SETTLED \$	
Non-Executive Directors:							
Anthony Howland-Rose	14,550	–	–	50,000	–	–	64,550
David Deitz	29,179	–	–	2,626	–	–	31,805
Peter Donkin	50,174	–	–	4,515	–	–	54,689
Executive Director:							
Colin Randall	206,551	–	–	18,590	–	–	225,141
	300,454	–	–	75,731	–	–	376,185

Graham Hurwitz received no salary or share based payment benefits in the year ended 30 June 2012.

	SHORT-TERM BENEFITS			POST EMPLOYMENT BENEFITS	LONG- TERM BENEFITS	SHARE- BASED PAYMENTS	
2011	CASH SALARY AND FEES \$	BONUS \$	NON- MONETARY \$	SUPER- ANNUATION \$	LONG SERVICE LEAVE \$	EQUITY- SETTLED \$	TOTAL \$
Non-Executive Directors:							
Anthony Howland-Rose	16,800	–	–	50,000	–	66,960	133,760
David Deitz	–	–	–	–	–	55,800	55,800
Peter Donkin	49,288	–	–	4,875	–	55,800	109,963
Executive Director:							
Colin Randall	–	–	–	–	–	94,860	94,860
Other Key Management Personnel:							
Graham Hurwitz	–	–	–	–	–	41,850	41,850
	66,088	–	–	54,875	–	315,270	436,233

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

	FIXED REMUNERATION		AT RISK – STI		AT RISK - LTI	
	2012	2011	2012	2011	2012	2011
Non-Executive Directors:						
Anthony Howland-Rose	100%	50%	– %	– %	– %	50%
David Deitz	100%	– %	– %	– %	– %	100%
Peter Donkin	100%	49%	– %	– %	– %	51%
Executive Directors:						
Colin Randall	100%	– %	– %	– %	– %	100%
Other Key Management Personnel:						
Graham Hurwitz	– %	– %	– %	– %	– %	100%

C Service Agreements

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

D 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 2012.

Options

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

GRANT DATE	VESTING DATE AND EXERCISE DATE	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE PER OPTION AT GRANT DATE
9 May 2011	9 May 2011	9 May 2016	\$0.250	\$0.0600

Options granted carry no dividend or voting rights.

Details of options over ordinary shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2012 are set out below:

	NUMBER OF OPTIONS GRANTED DURING THE YEAR		NUMBER OF OPTIONS VESTED DURING THE YEAR	
	2012	2011	2012	2011
Anthony Howland-Rose	–	1,200,000	–	1,200,000
Colin Randall	–	1,700,000	–	1,700,000
David Deitz	–	1,000,000	–	1,000,000
Peter Donkin	–	1,000,000	–	1,000,000
Graham Hurwitz	–	750,000	–	750,000

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
9 May 2011	9 May 2016	\$0.250	5,650,000

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 shares of Allegiance Coal Limited issued on the exercise of options during the year ended 30 June 2012.

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

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 23 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in note 23 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former audit partners of Grant Thornton Audit Pty Ltd

There are no officers of the company who are former audit partners of Grant Thornton Audit 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 the following page.

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

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



Colin Randall

Managing Director

5 September 2012

Sydney

Auditor's Independence Declaration

to the Directors of Allegiance Coal Limited



Grant Thornton Audit Pty Ltd
ACN 130 913 594


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Auditor's Independence Declaration To the Directors of Allegiance Coal Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Allegiance Coal Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD

Chartered Accountants



C F Farley

Partner - Audit & Assurance

Sydney, 5 September 2012

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Corporate Governance Statement

30 June 2012

Allegiance Coal Limited ('the company') has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. To the extent they are applicable and appropriate, the company has adopted the Corporate Governance Principles and Recommendations as published by the ASX Corporate Governance Council.

1 Summary of Corporate Governance Practices

A summary of the company's corporate governance practices is set out below.

1.1 Summary of board charter

The role of the Board of Directors ('the Board') is to provide leadership for and supervision of senior management. The Board provides strategic direction and regularly measures the progression by senior management of that strategic direction. The Board also reviews the company's policies on risk oversight and management, internal compliance and control, its code of conduct, and legal compliance. There are mechanisms in place so that the Board can satisfy itself that senior management has developed and implemented a sound system of risk management and internal controls in relation to financial reporting risk and material business risks.

The Board Charter also sets out quantitative and qualitative materiality thresholds.

The Board delegates to senior management the responsibility of the day-to-day activities in fulfilling the Board's responsibility. Senior executives are responsible for supporting the managing director and assisting the managing director in implementing the running of the general operations and financial business of the company, in accordance with the delegated authority of the Board.

Senior executives are responsible for reporting all matters which fall within the company's materiality thresholds at first instance to the managing director or, if the matter concerns the managing director then directly to the chairman or the lead independent director, as appropriate.

The Board Charter describes the division of responsibilities between the chairman, the lead independent director (if any) and the managing director.

The role of non-executive and independent directors is also set out in the Board Charter.

1.2 Summary of audit committee charter

The role of the audit committee is to monitor and review the integrity of the financial reporting of the company and to review significant financial reporting judgments. The audit committee is also to review internal financial control system and risk management systems and to monitor, review and oversee the external audit function. The audit committee has the power to conduct or authorise investigations into any matters within the audit committee's scope of responsibilities. The audit committee has the authority, as it deems necessary or appropriate, to retain independent legal, accounting or other advisors.

The audit committee also assesses whether external reporting is consistent with audit committee members' information and knowledge and is adequate for shareholder needs and assesses the management processes supporting external reporting.

1.3 Summary of nomination committee charter

The role of the nomination committee is to effectively examine the selection and appointment practices of the company. The nomination committee regularly reviews the size and composition of the Board and makes recommendations on any appropriate changes. The nomination committee identifies and assesses necessary and desirable director competencies with a view to enhancing the Board.

The nomination committee also regularly reviews the time required from non-executive directors and whether non-executive directors are meeting that requirement.

Initial director appointments are made by the Board. Any new director will be required to stand for election at the company's next annual general meeting following their appointment.

1.4 Summary of remuneration committee charter

The function of the remuneration committee is to review and make appropriate recommendations on remuneration packages of executive directors, non-executive directors and senior executives. The remuneration committee is also responsible for reviewing any employee incentive and equity-based plans, including the appropriateness of performance hurdles and total payments proposed.

1.5 Summary of remuneration policy

Emoluments of directors and senior executives are set by reference to payments made by other companies of similar size and industry, and by reference to the skills and experience of the directors and executives.

The company's policy is to remunerate non-executive directors at a fixed fee for time, commitment and responsibilities. Fees for non-executive directors are not linked to individual performance. Given the company is at its 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. This policy is subject to annual review. All of the directors' option holdings are fully disclosed.

Executive pay and reward consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant regulatory and shareholder approvals. The grant of options is designed to recognise and reward efforts as well as to provide additional incentive and may be subject to the successful completion of performance hurdles.

Executives are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.

As an incentive, the Board may in its discretion approve the company adopting an employee incentive scheme. The purpose of the scheme is to give employees, directors and officers of the company an opportunity, in the form of options, to subscribe for shares. The directors consider the scheme will enable the company to retain and attract skilled and experienced employees, board members and officers, and provide them with the motivation to make the company more successful.

1.6 Summary of code of conduct

The Code of Conduct sets out the principles and standards which the Board, management and employees are encouraged to strive towards when dealing with each other, shareholders, other stakeholders and the broader community.

The company is to comply with all legislative and common law requirements which affect its business. The company will deal with others in a way that is fair and will not engage in deceptive practices.

The Code of Conduct sets out directives for directors, management and staff relating to conflicts of interests, protection of the company's assets and confidentiality.

1.7 Summary of policy and procedure for selection and (re)appointment of directors

In considering new candidates, the nomination committee evaluates the range of skills, experience and expertise of the existing Board. In particular, the nomination committee is to identify 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.

1.8 Summary of process for performance evaluation.

The chairman evaluates the performance of the Board by way of ongoing review. The chairman reports back to the Board as to its performance at least annually.

The chairman reviews the performance of the committees of the Board by assessing the performance and contribution of the Committee to the Board and the company.

The chairman meets with each individual director to discuss that individual director's performance and contribution to the Board.

The managing director's performance evaluation is reviewed by the Board. Given the current size and structure of the company, in addition to the process for evaluation of the Board as described above, specific evaluation of the managing director may be carried out on an ongoing basis through open and regular communication between the Board and the managing director to identify and monitor the achievement of key performance indicators, to provide feedback and to provide guidance and support where any issues may become evident. The managing director reviews the performance of the senior executives and management, reporting to the Board (as the nomination committee and remuneration committee) at least annually.

The current size and structure of the company allows the managing director to conduct informal performance evaluations of senior executives regularly. Approximately annually, individual performance may be more formally assessed in conjunction with a remuneration review.

1.9 Summary of policy for trading in company securities

The Board has adopted a policy which prohibits dealing the company's securities by directors, officers, employees, contractors and, where applicable, consultants when those persons possess inside information. The policy also contains a blackout period within which directors, officers, employees, contractors and consultants are prohibited from trading. The policy prohibits short term or speculative trading of the company's securities. Trading may be permitted in a blackout period in certain exceptional circumstances subject to obtaining prior written clearance.

Directors, officers and employees are required to obtain clearance prior to trading at all times. A copy of the company's Policy for Trading in Company Securities will be released to the market in accordance with ASX Listing Rule 12.9.

1.10 Summary of diversity policy

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 targets to achieve the objectives of its Diversity Policy. The Board is responsible for monitoring company performance in meeting the Diversity Policy requirements, including the achievement of any diversity targets.

1.11 Summary of compliance procedures

The Board has adopted Compliance Procedures to assist it to comply with the ASX Listing Rules disclosure requirements. Under the Compliance Procedures, a responsible officer is appointed who is primarily responsible for ensuring the company complies with its disclosure obligations. The Compliance Procedures provide guidelines as to the type of information that needs to be disclosed. The Compliance Procedures contain information on avoiding a false market, safeguarding confidentiality of corporate information, and information on external communication for the purpose of protecting the company's price sensitive information.

1.12 Summary of procedure for selection, appointment and rotation of external auditor

The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as per the recommendations of the audit committee.

Candidates for the position of external auditor of the company must be able to demonstrate complete independence from the company and an ability to maintain independence through the engagement period. The audit committee will review the performance of the external auditor on an annual basis and make any recommendations to the Board.

1.13 Summary of shareholder communication strategy

The Board aims to ensure that the shareholders are informed of all major developments affecting the company. The company provides shareholder materials directly to shareholders through electronic means. A shareholder may request a hard copy of the company's annual report to be posted to them. The company maintains a website on which the company makes certain information available on a regular basis.

1.14 Summary of risk management policy

The Board has adopted a Risk Management Policy. Under the policy, the Board delegates day-to-day management of risk to the managing director, with the assistance of senior management as required. The Policy sets out the role of the managing director and accountabilities. It also contains the company's risk profile and describes some of the policies and practices the company has in place to manage specific business risks.

The managing director is required to report on the progress of, and on all matters associated with risk management. The managing director is to report to the Board as to the effectiveness of the company's management of its material business risks at least annually. The Board is responsible for approving the company's policies on risk oversight and management and satisfying itself at least annually that management has developed and implemented a sound system of risk management and internal control.

2 ASX Corporate Governance Council Principles and Recommendations

The Board sets out below its "if not, why not" report. Where the company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

2.1 Board

Roles and responsibilities of the Board and senior executives (Recommendations: 1.1, 1.3)

The company has established the functions reserved to the Board, and those delegated to senior executives and has set out these functions in its Board Charter, summarised above in the section titled 'Summary of board charter'.

Skills, experience, expertise and period of office of each director (Recommendation: 2.6)

A profile of each director setting out their skills, experience, expertise and period of office is provided on the company's website at www.allegiancecoal.com.au.

Director independence (Recommendations: 2.1, 2.2, 2.3, 2.6)

The Board does not have a majority of directors who are independent. Based on the ASX Guidelines relating to independence, some board members could not be considered to be independent. Anthony Howland-Rose and David Deitz are directors of Gullewa Limited, the controlling shareholder of the company. Colin Randall is a director of C.Randall & Associates Pty Ltd, a substantial shareholder of the company.

The sole independent director of the company is Mr Peter Donkin. Peter Donkin is independent as he is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of his judgment.

While the company does not presently comply with this Recommendation 2.1, the company may consider appointing further independent directors in the future. The company believes that given the size and scale of its operations, non-compliance by the company with this Recommendation 2.1 will not be detrimental to the company.

Independence is measured having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the company's materiality thresholds. The materiality thresholds are set out below. The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the company's Board Charter:

- (a) Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.
- (b) Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.
- (c) Items are also material if they impact on the reputation of the company, involve a breach of legislation, are outside the ordinary course of business, they could affect the company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.
- (d) Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The non-independent chairman of the Board is Anthony Howland-Rose. Anthony Howland-Rose is the chairman of the company and Gullewa Limited, the controlling shareholder of the company. The company is of the view that the size and scale of its current operations do not warrant the appointment of an independent chairperson and that non-compliance with this Recommendation 2.2 will not be detrimental to the company. The managing director is Colin Randall who is not chairman of the Board.

Independent professional advice (Recommendation: 2.6)

To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the chairman, the company will pay the reasonable expenses associated with obtaining such advice.

Selection and (re)appointment of directors (Recommendation: 2.6)

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Re-appointment of directors is not automatic.

In determining candidates for the Board, the nomination committee (or equivalent) follows a prescribed procedure set out in the company's Policy and Procedure for Selection and (Re)Appointment of Directors.

Providing only a summary of the company's policy and procedures for the selection and (re)appointment of directors is not consistent with Recommendation 2.6. However, the Board considers that the summary disclosed above in section titled 'Summary of policy and procedure for the selection and (re)appointment of directors' provides all material information to investors in relation to this policy.

2.2 Board committees

Nomination committee (Recommendations: 2.4, 2.6)

The company has not established a separate nomination committee. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate nomination committee. Accordingly, the full Board performs the role of the nomination committee. Items that are usually required to be discussed by a nomination committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the nomination committee it carries out those functions which are delegated in the company's Nomination Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of nomination committee by ensuring the director with conflicting interests is not party to the relevant discussions.

To assist the Board to fulfil its function as the nomination committee, it has adopted a Nomination Committee Charter, which is summarised above in the section titled 'Summary of nomination committee charter'.

Audit committee (Recommendations: 4.1, 4.2, 4.3, 4.4)

The company has not established a separate audit committee and therefore it is not structured in accordance with Recommendation 4.2. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate audit committee. Accordingly, the full Board performs the role of audit committee. Items that are usually required to be discussed by an audit committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the audit committee it carries out those functions which are delegated in the company's Audit Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of audit committee by ensuring the director with conflicting interests is not party to the relevant discussions.

To assist the Board to fulfil its function as the audit committee, it has adopted an Audit Committee Charter. The company has also established procedures for the selection, appointment and rotation of its external auditor. The company's Audit Committee Charter and the company's Procedure for Selection, Appointment and Rotation of External Auditor are summarised above in the sections titled 'Summary of audit committee charter' and 'Summary of procedure for the selection, appointment and rotation of external auditor'. Providing only a summary of these policies is not consistent with Recommendation 4.4. However, the Board considers that these summaries provide all material information to investors in relation to the Audit Committee Charter and the company's Procedure for Selection, Appointment and Rotation of External Auditor.

Remuneration committee (Recommendations: 8.1, 8.2, 8.3)

The company has not established a separate remuneration committee and therefore it is not structured in accordance with the guidance provided for Recommendations 8.1 and in 8.2. Given the current size and composition of the company, the Board believes that there would be no efficiencies gained by establishing a separate remuneration committee. Accordingly, the full Board performs the role of remuneration committee. Items that are usually required to be discussed by a remuneration committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the remuneration committee it carries out those functions which are delegated in the company's Remuneration Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of remuneration committee by ensuring the director with conflicting interests is not party to the relevant discussions.

To assist the Board to fulfil its function as the remuneration committee, it has adopted a Remuneration Committee Charter. There are no termination or retirement benefits for non-executive directors (other than for superannuation).

The company's Remuneration Committee Charter includes a statement of the company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

The company's Remuneration Committee Charter is summarised above in the section titled 'Summary of remuneration committee charter'.

2.3 Performance evaluation

Senior executives (Recommendation: 1.2)

The company has established a process for evaluating the performance of senior executives. Refer to the above section titled 'Summary of process for performance evaluation'.

Board, its committees and individual directors (Recommendation: 2.5)

The company has established a process for evaluating the performance of the board, its committees and individual directors. Refer to the above section titled 'Summary of process for performance evaluation'.

2.4 Ethical and responsible decision making

Code of conduct (Recommendations: 3.1, 3.5)

The company has established a Code of Conduct as to the practices necessary to maintain confidence in the company's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The company's Code of Conduct is summarised above in the section titled 'Summary of code of conduct'.

Diversity policy (Recommendations: 3.2, 3.5)

The company has established a Diversity Policy to ensure diversity in the workplace. Refer to the above section titled 'Summary of diversity policy'.

Except for female contractors, there are no women on either the Board or employees of the company.

Continuous disclosure (Recommendations: 5.1, 5.2)

The company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure and accountability at a senior executive level for that compliance.

A summary of the company's policy to guide compliance with ASX Listing Rules disclosure is included above under the section titled 'Summary of compliance procedures'.

Shareholder communication (Recommendations: 6.1, 6.2)

The company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings. This is summarised above under the section titled 'Summary of shareholder communication'.

Risk management (Recommendations: 7.1, 7.2, 7.3, 7.4)

The Board has adopted a Risk Management Policy, which sets out the company's risk profile. This policy is summarised above under the section titled 'Summary of risk management policy'.

The Board has required management to design, implement and maintain risk management and internal control systems to manage the company's material business risks. The Board also requires management to report to it confirming that those risks are being managed effectively. The Board will receive a report from management as to the effectiveness of the company's management of its material business risks.

CEO and CFO certification

The chief executive officer (or equivalent) and chief financial officer (or equivalent) have given a written declaration to the Board required by section 295A of the *Corporations Act 2001* that in their view:

- the company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board;
- the company's risk management and internal compliance and control system is operating effectively in all material respects;
- the company's financial statements and notes thereto comply with the accounting standards; and
- the company's financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date.

Financial Report

30 June 2012

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General information

The financial report covers Allegiance Coal Limited as a consolidated entity consisting of Allegiance Coal Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Allegiance Coal Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Allegiance Coal Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 13
49-51 York 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 report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 5 September 2012. The directors have the power to amend and reissue the financial report.

Statement of Comprehensive Income

for the year ended 30 June 2012

CONSOLIDATED			
	NOTE	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
		\$	\$
Revenue	5	50,224	762
Expenses			
Employee benefits expense	6	(364,107)	(60,697)
Depreciation and amortisation expense	6	(10,080)	(267)
Administrative expenses		(470,190)	(341,605)
Listing expense		(630,585)	–
Options expense		–	(315,270)
Finance costs	6	(238,546)	(37,851)
Loss before income tax expense		(1,663,284)	(754,928)
Income tax expense	7	–	–
Loss after income tax expense for the year attributable to the owners of Allegiance Coal Limited	19	(1,663,284)	(754,928)
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income for the year attributable to the owners of Allegiance Coal Limited		(1,663,284)	(754,928)

		Cents	Cents
Basic earnings per share	32	(1.199)	(0.823)
Diluted earnings per share	32	(1.199)	(0.823)

Refer to note 3 for detailed information on restatement of comparatives.

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

Statement of Financial Position

as at 30 June 2012

		CONSOLIDATED	
	NOTE	2012	2011
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	8	5,916,394	140,206
Trade and other receivables	9	158,397	28,374
Other	10	29,049	12,492
Total current assets		6,103,840	181,072
Non-current assets			
Property, plant and equipment	11	40,123	4,728
Intangibles	12	6,404	–
Exploration and evaluation	13	3,675,328	1,369,645
Total non-current assets		3,721,855	1,374,373
Total assets		9,825,695	1,555,445
Liabilities			
Current liabilities			
Trade and other payables	14	671,720	319,221
Employee benefits	15	3,823	–
Total current liabilities		675,543	319,221
Non-current liabilities			
Borrowings	16	2,647,995	2,105,864
Total non-current liabilities		2,647,995	2,105,864
Total liabilities		3,323,538	2,425,085
Net assets/(liabilities)		6,502,157	(869,640)
Equity			
Issued capital	17	9,137,801	100,300
Reserves	18	329,065	331,485
Accumulated losses	19	(2,964,709)	(1,301,425)
Total equity/(deficiency)		6,502,157	(869,640)

Refer to note 3 for detailed information on restatement of comparatives.

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 2012

	ISSUED CAPITAL	RESERVES	ACCUMULATED LOSSES	TOTAL EQUITY
	\$	\$	\$	\$
Consolidated				
Balance at 13 April 2011	1	18,279	(546,497)	(528,217)
Loss after Income tax expense for the period	–	–	(754,928)	(754,928)
Other comprehensive income for the period, net of tax	–	–	–	–
Total comprehensive income for the period	–	–	(754,928)	(754,928)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	100,299	–	–	100,299
Share-based payments	–	315,270	–	315,270
Shareholder loan reserve adjustment	–	(2,064)	–	(2,064)
Balance at 30 June 2011	100,300	331,485	(1,301,425)	(869,640)
Refer to note 3 for detailed information on restatement of comparatives.				
Balance at 1 July 2011	100,300	331,485	(1,301,425)	(869,640)
Loss after income tax expense for the year	–	–	(1,663,284)	(1,663,284)
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	–	(1,663,284)	(1,663,284)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	9,037,501	–	–	9,037,501
Shareholder loan reserve adjustment	–	(2,420)	–	(2,420)
Balance at 30 June 2012	9,137,801	329,065	(2,964,709)	6,502,157

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 2012

CONSOLIDATED			
	NOTE	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
		\$	\$
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(1,402,852)	(166,061)
Interest received		50,224	762
Net cash used in operating activities	31	(1,352,628)	(165,299)
Cash flows from investing activities			
Payments for property, plant and equipment	11	(41,679)	(1,820)
Payments for intangibles	12	(10,200)	–
Payments for exploration and evaluation	13	(2,144,495)	(132,459)
Payments for security deposits		(13,476)	–
Net cash used in investing activities		(2,209,850)	(134,279)
Cash flows from financing activities			
Proceeds from issue of shares	17	9,500,001	–
Share issue transaction costs		(462,500)	–
Proceeds from borrowings		301,165	439,784
Net cash from financing activities		9,338,666	439,784
Net increase in cash and cash equivalents		5,776,188	140,206
Cash and cash equivalents at the beginning of the financial year		140,206	–
Cash and cash equivalents at the end of the financial year	8	5,916,394	140,206

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

Notes to the Financial Statements

for the year ended 30 June 2012

Note 1 Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2010-4 amendments from 1 July 2011. The amendments made numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provided clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments; clarified that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Instruments'; and provided guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'.

AASB 2010-5 Amendments to Australian Accounting Standards

The consolidated entity has applied AASB 2010-5 amendments from 1 July 2011. The amendments made numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board.

AASB 124 Related Party Disclosures (December 2009)

The consolidated entity has applied AASB 124 (revised) from 1 July 2011. The revised standard simplified the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. A subsidiary and an associate with the same investor are related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets

The consolidated entity has applied AASB 2010-6 amendments from 1 July 2011. These amendments add and amended disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. Additional disclosures are now required when (i) an asset is transferred but is not derecognised; and (ii) when assets are derecognised but the consolidated entity has a continuing exposure to the asset after the sale.

AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project

The consolidated entity has applied AASB 2011-1 amendments from 1 July 2011. These amendments made changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to International Financial Reporting Standards ('IFRSs') and harmonisation between Australian and New Zealand Standards. The amendments removed certain guidance and definitions from Australian Accounting Standards for conformity of drafting with IFRSs but without any intention to change requirements.

AASB 1048 Interpretation of Standards (revised)

The consolidated entity has applied AASB 1048 (revised) for the year ended 30 June 2012. The revised standard identifies the Australian Interpretations and classifies them into two groups: those that correspond to an International Accounting Standards Board ('IASB') Interpretation (Table 1 – international equivalent), and those that do not (Table 2 – domestic interpretations). The standard has been updated to remove old or superseded interpretations and add new interpretations.

AASB 1054 Australian Additional Disclosures

The consolidated entity has applied AASB 1054 from 1 July 2011. The standard sets out the Australian-specific disclosures as a result of Phase I of the Trans-Tasman Convergence Project, which are in addition to International Financial Reporting Standards, for entities that have adopted Australian Accounting Standards.

Going concern

The consolidated entity incurred a net loss of \$1,663,284 (2011: \$754,928) during the year ended 30 June 2012 and as of that date the consolidated entity's total assets exceeded its total liabilities by \$6,502,157 (2011: total liabilities exceeded its total assets by \$869,640).

No adjustments have been made relating to recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern. Notwithstanding the above the directors' have prepared the financial statements on a going concern basis as they regularly monitor the consolidated entity's cash positions and, on an on-going basis, consider a number of strategic and operation plans and initiatives to ensure that adequate funding continues to be available for the consolidated entity to meet its objectives and financial obligations.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

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 2.

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 27.

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 2012 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 the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. 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 common control subsidiaries is accounted for using common control method. The acquisition of other subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. 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.

Operating segments

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 is responsible for the allocation of resources to operating segments and assessing their performance.

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 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.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences 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, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Allegiance Coal Limited (the 'head entity') and its wholly-owned Australian controlled entities have formed an income tax consolidated group under the tax consolidation regime. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'stand-alone taxpayer' 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.

The tax consolidated group has entered into a tax funding agreements whereby member of the group contributes to the income tax payable by the consolidated group in proportion to their contribution to taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

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 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. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arms length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

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 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 had the impairment not been recognised and is reversed to profit or loss.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

■ Leasehold improvements	4 years
■ Plant and equipment	4 years
■ Computer equipment	4 years
■ Office equipment	4 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken 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. 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 intangibles are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 4 years.

Exploration and evaluation assets

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.

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.

Recoverable amount is the higher of an asset's fair value less costs to sell 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. They are subsequently measured at amortised cost using the effective interest method.

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

Employee benefits

Wages and salaries and annual leave

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

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. 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.

Defined contribution 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 are 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.

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.

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.

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.

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.

Common control transaction – Allegiance Coal Limited and Mineral & Coal Investments Pty Ltd (prior period)

When Allegiance Coal Limited (the legal parent and legal acquirer) acquired Mineral & Coal Investments Pty Limited and its controlled entities (the legal subsidiary), the acquisition did not meet the definition of a business combination in accordance with AASB 3 'Business Combinations' ('AASB 3'). Instead, the combination has been treated as a common control combination, as follows:

- The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments have been made to reflect fair values, or recognise any new assets or liabilities, that would otherwise be required under AASB 3;
- No 'new' goodwill has been recognised as a result of the combination. The difference between the consideration paid and the equity 'acquired' is reflected in equity; and
- The comparative statement of comprehensive income reflects the results of the combining entities from 4 May 2011 to 30 June 2011

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.

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2012. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments eliminate the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The amendments also change the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months and will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken. The adoption of the revised standard from 1 July 2013 is expected to reduce the reported annual leave liability and increase disclosures of the consolidated entity.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 2010-8 Amendments to Australian Accounting Standards- Deferred Tax: Recovery of Underlying Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. The consolidated entity is yet to quantify the tax effect of adopting these amendments from 1 July 2012.

AASB 10 Consolidated Financial Statements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

AASB 11 Joint Arrangements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 12 Disclosure of Interests in Other Entities

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation – Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

AASB 127 Separate Financial Statements (Revised)

AASB 128 Investments in Associates and Joint Ventures (Reissued)

These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income

These amendments are applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be ‘recycled’ to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The adoption of the revised standard from 1 July 2012 will impact the consolidated entity’s presentation of its statement of comprehensive income.

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The disclosure requirements of AASB 7 ‘Financial Instruments: Disclosures’ (and consequential amendments to AASB 132 ‘Financial Instruments: Presentation’) have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity’s financial instruments and the effects of such rights on its statement of financial position. The adoption of the amendments from 1 July 2013 will increase the disclosures by the consolidated entity.

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 ‘Financial Instruments: Presentation’, by clarifying the meaning of “currently has a legally enforceable right of set-off”; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a significant impact on the consolidated entity.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) ‘First-time Adoption of Australian Accounting Standards’ is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of comprehensive information requirements when an entity provides a third balance sheet in accordance with AASB 101 ‘Presentation of Financial Statements’; Clarification that servicing of equipment is covered by AASB 116 ‘Property, Plant and Equipment’, if such equipment is used for more than one period; AASB 132 ‘Financial Instruments: Presentation’ Clarification of the tax effect of distributions to holders of an equity instrument is recognised in the income statement; and clarification of the financial reporting requirements in AASB 134 ‘Interim Financial Reporting’ and the disclosure requirements of segment assets and liabilities. The adoption of the amendments from 1 July 2013 will not have a significant impact on the consolidated entity.

Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine and AASB 2011-12 Amendments to Australian Accounting Standards arising from Interpretation 20

This interpretation and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The interpretation clarifies when production stripping costs should lead to the recognition of an asset and how that asset should be initially and subsequently measured. The interpretation only deals with waste removal costs incurred in surface mining activities during the production phase of the mine. The adoption of the interpretation and the amendments from 1 July 2013 will not have a material impact on the consolidated entity.

Note 2 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 within the next financial year are discussed below.

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.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Exploration and evaluation expenditure

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. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at cost.

Note 3 Restatement of comparatives

Share options

Following a review of the share options on issue, it was noted that an error occurred in relation to the date the options were issued. The actual date of the issue was 5 May 2011. The effect is that the share-based payment expense of \$315,270 should have been recorded in the results for the 30 June 2011 financial period.

The impact of the adjustment is to increase the loss for the 30 June 2011 financial period together with an increase in reported reserves in equity. There was no impact on net assets at 30 June 2011. The impact on both statements is disclosed in the table extracts below.

Statement of comprehensive income

	CONSOLIDATED		
	PERIOD FROM 13 APR 2011 TO 30 JUN 2011	PERIOD FROM 13 APR 2011 TO 30 JUN 2011	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
EXTRACT	REPORTED \$	ADJUSTMENT \$	RESTATED \$
Expenses			
Options expense	–	(315,270)	(315,270)
Loss before income tax expense	(439,658)	(315,270)	(754,928)
Income tax expense	–	–	–
Loss after income tax expense for the year attributable to the owners of Allegiance Coal Limited	(439,658)	(315,270)	(754,928)
Other comprehensive income for the year, net of tax	–	–	–
Total comprehensive income for the year attributable to the owners of Allegiance Coal Limited	(439,658)	(315,270)	(754,928)

Note 3 Restatement of comparatives continued

Statement of financial position at the beginning of the earliest comparative period

As the entity was incorporated on 13 April 2011 there is no statement of financial position at the beginning of the earliest financial period as the error occurred in the period from date of incorporation to 30 June 2011.

Statement of financial position at the end of the earliest comparative period

EXTRACT	CONSOLIDATED		
	2011		2011
	REPORTED \$	ADJUSTMENT \$	RESTATED \$
Assets			
Total assets	1,555,445	–	1,555,445
Liabilities			
Total liabilities	2,425,085	–	2,425,085
Net assets/(liabilities)	(869,640)	–	(869,640)
Equity			
Reserves	16,215	315,270	331,485
Accumulated losses	(986,155)	(315,270)	(1,301,425)
Total equity/(deficiency)	(869,640)	–	(869,640)

Note 4 Operating segments

Identification of reportable operating segments

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

The Chief Operating Decision Maker ('CODM') is the Board of Directors.

Major customers

During the year ended 30 June 2012 there were no major customers who derive more than 10% of the consolidated entity's revenue (30 June 2011: none derived from major customers).

Note 5 Revenue

	CONSOLIDATED	
	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
	\$	\$
Other revenue		
Interest	50,224	762
Revenue	50,224	762

Note 6 Expenses

	CONSOLIDATED	
	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
	\$	\$
Loss before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	222	–
Plant and equipment	436	49
Computer equipment	5,252	121
Office equipment	374	97
Total depreciation	6,284	267
Amortisation		
Software	3,796	–
Total depreciation and amortisation	10,080	267
Finance costs		
Interest and finance charges paid/payable	238,546	37,851
Rental expense relating to operating leases		
Minimum lease payments	48,600	–
Superannuation expense		
Defined contribution superannuation expense	75,731	27,470
Share-based payments expense		
Share-based payments expense	–	315,270
Employee benefits expense excluding superannuation		
Employee benefits expense excluding superannuation	48,837	33,227

Note 7 Income tax expense

	CONSOLIDATED	
	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
	\$	\$
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(1,663,284)	(754,928)
Tax at the statutory tax rate of 30%	(498,985)	(226,478)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	–	94,581
	(498,985)	(131,897)
Current year tax losses not recognised	498,985	131,897
Income tax expense	–	–
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	2,102,942	439,658
Potential tax benefit @ 30%	630,883	131,897

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

	CONSOLIDATED	
	2012	2011
	\$	\$

Note 8 Current assets – cash and cash equivalents

Cash at bank	5,916,394	140,206
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Note 9 Current assets – trade and other receivables

Other receivables	–	2,820
Goods and services tax receivable	158,397	25,554
	158,397	28,374

Note 10 Current assets – other

Prepayments	3,081	–
Security deposits	25,968	12,492
	29,049	12,492

Note 11 Non-current assets – property, plant and equipment

	CONSOLIDATED	
	2012	2011
	\$	\$
Leasehold improvements – at cost	2,403	–
Less: Accumulated depreciation	(222)	–
	2,181	–
Plant and equipment – at cost	13,424	913
Less: Accumulated depreciation	(485)	(49)
	12,939	864
Computer equipment – at cost	25,571	2,263
Less: Accumulated depreciation	(3,487)	(121)
	22,084	2,142
Office equipment – at cost	3,390	1,819
Less: Accumulated depreciation	(471)	(97)
	2,919	1,722
	40,123	4,728

Reconciliations

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

	LEASEHOLD IMPROVEMENTS	PLANT AND EQUIPMENT	COMPUTER EQUIPMENT	OFFICE EQUIPMENT	TOTAL
	\$	\$	\$	\$	\$

Consolidated

Balance at 13 April 2011	–	–	–	–	–
Additions	–	–	–	1,819	1,819
Additions through business combinations (note 28)	–	913	2,263	–	3,176
Depreciation expense	–	(49)	(121)	(97)	(267)
Balance at 30 June 2011	–	864	2,142	1,722	4,728
Additions	2,403	12,511	25,194	1,571	41,679
Depreciation expense	(222)	(436)	(5,252)	(374)	(6,284)
Balance at 30 June 2012	2,181	12,939	22,084	2,919	40,123

Note 12 Non-current assets – intangibles

	CONSOLIDATED	
	2012	2011
	\$	\$
Software – at cost	10,200	–
Less: Accumulated amortisation	(3,796)	–
	6,404	–

Reconciliations

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

	SOFTWARE	TOTAL
	\$	\$

Consolidated

Balance at 13 April 2011	–	–
Balance at 30 June 2011	–	–
Additions	10,200	10,200
Amortisation expense	(3,796)	(3,796)
Balance at 30 June 2012	6,404	6,404

Note 13 Non-current assets – exploration and evaluation

	CONSOLIDATED	
	2012	2011
	\$	\$
Exploration and evaluation – at cost	3,675,328	1,369,645

Reconciliations

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

Note 13 Non-current assets – exploration and evaluation continued

	EXPLORATION AND EVALUATION	TOTAL
	\$	\$

Consolidated

Balance at 13 April 2011	–	–
Additions	166,624	166,624
Additions through business combinations (note 28)	1,203,021	1,203,021
Balance at 30 June 2011	1,369,645	1,369,645
Additions	2,305,683	2,305,683
Balance at 30 June 2012	3,675,328	3,675,328

	CONSOLIDATED	
	2012	2011
	\$	\$

Note 14 Current liabilities – trade and other payables

Trade payables	575,836	126,885
Accrued expenses	52,750	180,741
Other payables	43,134	11,595
	671,720	319,221

Refer to note 21 for further information on financial instruments.

Note 15 Current liabilities – employee benefits

Employee benefits	3,823	–
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Note 16 Non-current liabilities – borrowings

Loan – Gullewa Limited	2,182,119	1,752,470
Loan – C Randall & Associates	465,876	353,394
	2,647,995	2,105,864

Refer to note 21 for further information on financial instruments.

Loans are due for repayment on 30 June 2014 and are subject to interest charges, except for an initial loan of \$300,000 from Gullewa Limited which is interest free for the first year of the loan. This amount has been present valued and an amount of \$13,795 (2011: \$16,215) recognised in general reserve. All remaining loans have interest charged based on the 90 day bank bill swap rate plus 4%.

Note 17 Equity – issued capital

	CONSOLIDATED		CONSOLIDATED	
	2012	2011	2012	2011
	\$	\$	\$	\$
Ordinary shares – fully paid	176,666,674	125,000,000	9,137,801	100,300

Movements in ordinary share capital

DETAILS	DATE	NUMBER OF SHARES	ISSUE PRICE	\$
Issue of shares on incorporation	13 April 2011	5	\$0.200	1
Issue of shares as part of business combination consideration	4 May 2011	124,999,995		100,299
Balance	30 June 2011	125,000,000		100,300
Seed capital raising	30 November 2011	16,666,674	\$0.150	2,500,001
Issue of shares on Initial Public Offering	24 May 2012	35,000,000	\$0.200	7,000,000
Share issue transaction costs				(462,500)
Balance	30 June 2012	176,666,674		9,137,801

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 and amounts paid on the shares held. The fully paid ordinary shares have no par value.

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.

Attaching Shareholder Options

Upon the successful completion of the Initial Public Offering on 24 May 2012, the company issued Attaching Shareholder Options ('Attaching Options') for no consideration. Each Attaching Option entitles the holder to subscribe for one ordinary share upon payment of \$0.25 per ordinary share subscribed. Attaching Options may be exercised by written notice to the company at any time, on or before 30 March 2014. Each Attaching Option is convertible into one ordinary share and rank equally with other ordinary shares. Attaching Options are freely transferrable and may be listed for official quotation on the ASX.

Holders of Attaching Options are not entitled to participate in any new issues of ordinary shares that may be offered to shareholders, unless they exercise their Attaching Options prior to the date for determining entitlements to any such issue. The company will grant holders of Attaching Options a period of 10 business days in which to exercise their Attaching Options before closing a new issue of ordinary shares. If a pro rata issue (except a bonus issue) is made to shareholders, the exercise price of the Attaching Options may be reduced in accordance with the ASX Listing Rules.

If the issued share capital of the company is re-organised (including through a reconstruction, consolidation, subdivision, reduction or return of capital), the Attaching Options will be re-organised in accordance with the ASX Listing Rules.

At 30 June 2012 there were 14,305,561 (2011: nil) Attaching Options on issue.

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.

Note 17 Equity – issued capital continued

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. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

There are no externally imposed capital requests.

Note 18 Equity – reserves

	CONSOLIDATED	
	2012	2011
	\$	\$
General reserve	13,795	16,215
Share-based payments reserve	315,270	315,270
	329,065	331,485

	GENERAL	SHARE-BASED PAYMENTS	TOTAL
	\$	\$	\$

Consolidated

Balance at 13 April 2011	18,279	–	18,279
Shareholder loan reserve adjustment	(2,064)	–	(2,064)
Share-based payments	–	315,270	315,270
Balance at 30 June 2011	16,215	315,270	331,485
Shareholder loan reserve adjustment	(2,420)	–	(2,420)
Balance at 30 June 2012	13,795	315,270	329,065

General reserve

The reserve has arisen as a result of a \$300,000 loan from a shareholder of the company being present valued to take account of no interest being charged in the first year of the loan agreement.

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.

Note 19 Equity – accumulated losses

	CONSOLIDATED	
	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
	\$	\$
Accumulated losses at the beginning of the financial year	(1,301,425)	(546,497)
Loss after income tax expense for the year	(1,663,284)	(754,928)
Accumulated losses at the end of the financial year	(2,964,709)	(1,301,425)

Note 20 Equity – dividends

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

Note 21 Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market 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 uses different methods to measure different types of risk to which it is exposed, such as sensitivity analysis in the case of interest rate risk.

Risk management is carried out by the directors under policies approved by the Board of Directors ('Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. The Board identifies, evaluates and, if applicable, hedges financial risks.

Market risk

Foreign currency risk

The consolidated entity is not exposed to any significant foreign currency risk.

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity's main interest rate risk arises from cash and cash equivalents and related 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.

As at the reporting date, the consolidated entity had the following cash and cash equivalents and loan balances outstanding:

Note 21 Financial instruments continued

	2012		2011	
	WEIGHTED AVERAGE INTEREST RATE	BALANCE	WEIGHTED AVERAGE INTEREST RATE	BALANCE
	%	\$	%	\$

Consolidated

Cash and cash equivalents	3.50	5,916,394	3.50	140,206
Loans	8.91	(2,647,995)	8.75	(2,105,864)
Net exposure to cash flow interest rate risk		3,268,399		(1,965,658)

	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

Consolidated – 2012

Cash and cash equivalents	200	118,327	118,327	200	(118,327)	(118,327)
Loans	200	(52,960)	(52,960)	200	52,960	52,960
		65,367	65,367		(65,367)	(65,367)

Consolidated – 2011

Cash and cash equivalents	200	2,804	2,804	200	(2,804)	(2,804)
Loans	200	(42,117)	(42,117)	200	42,117	42,117
		(39,313)	(39,313)		39,313	39,313

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 does not have any significant credit risk exposure.

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.

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.

Note 21 Financial instruments continued

	WEIGHTED AVERAGE INTEREST RATE	ONE YEAR OR LESS	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS	REMAINING CONTRACTUAL MATURITIES
	%	\$	\$	\$	\$	\$

Consolidated – 2012

Non-derivatives

Non-interest bearing

Trade payables	–	575,836	–	–	–	575,836
Other payables	–	43,134	–	–	–	43,134

Interest-bearing – variable rate

Loans	8.91	235,936	235,936	2,765,963	–	3,237,835
Total non-derivatives		854,906	235,936	2,765,963	–	3,856,805

Consolidated – 2011

Non-derivatives

Non-interest bearing

Trade payables	–	126,885	–	–	–	126,885
Other payables	–	11,595	–	–	–	11,595
Loans	–	–	300,000	–	–	300,000

Interest-bearing – variable rate

Loans	8.75	72,234	1,878,099	–	–	1,950,333
Total non-derivatives		210,714	2,178,099	–	–	2,388,813

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. The carrying amounts of trade receivables and trade 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 instruments.

Note 22 Key management personnel disclosures

Directors

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

■ Anthony Howland-Rose	Non-Executive Chairman
■ Colin Randall	Executive Managing Director
■ David Deitz	Non-Executive Director
■ Peter Donkin	Non-Executive Director

Note 22 Key management personnel disclosures continued

Other key management personnel

The following person also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

- Graham Hurwitz Company Secretary (appointed on 13 April 2011)

Compensation

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

	CONSOLIDATED	
	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
	\$	\$
Short-term employee benefits	300,454	66,088
Post-employment benefits	75,731	54,875
Share-based payments	–	315,270
	376,185	436,233

Shareholding

The number of shares in the parent entity 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
2012					
Ordinary shares					
Anthony Howland-Rose	–	–	1,256,667	–	1,256,667
Colin Randall	25,000,000	–	100,000	–	25,100,000
David Deitz	–	–	686,667	–	686,667
Peter Donkin	–	–	343,334	–	343,334
	25,000,000	–	2,386,668	–	27,386,668
2011					
Ordinary shares					
Colin Randall	–	–	25,000,000	–	25,000,000
	–	–	25,000,000	–	25,000,000

Note 22 Key management personnel disclosures *continued*

Option holding

The number of options over ordinary shares in the parent entity 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
2012					
Options over ordinary shares					
Anthony Howland-Rose	1,200,000	244,222	–	–	1,444,222
Colin Randall	1,700,000	25,000	–	–	1,725,000
David Deitz	1,000,000	224,722	–	–	1,224,722
Peter Donkin	1,000,000	113,612	–	–	1,113,612
Graham Hurwitz	750,000	–	–	–	750,000
	5,650,000	607,556	–	–	6,257,556

* Options were purchased as part of the IPO rather than granted as part of remuneration.

	VESTED AND EXERCISABLE	VESTED AND UNEXERCISABLE	VESTED AT THE END OF THE YEAR
2012			
Options over ordinary shares			
Anthony Howland-Rose	1,444,222	–	1,444,222
Colin Randall	1,725,000	–	1,725,000
David Deitz	1,224,722	–	1,224,722
Peter Donkin	1,113,612	–	1,113,612
Graham Hurwitz	750,000	–	750,000
	6,257,556	–	6,257,556

	BALANCE AT THE START OF THE YEAR	GRANTED	EXERCISED	EXPIRED/ FORFEITED/ OTHER	BALANCE AT THE END OF THE YEAR
2011					
Options over ordinary shares					
Anthony Howland-Rose	–	1,200,000	–	–	1,200,000
Colin Randall	–	1,700,000	–	–	1,700,000
David Deitz	–	1,000,000	–	–	1,000,000
Peter Donkin	–	1,000,000	–	–	1,000,000
Graham Hurwitz	–	750,000	–	–	750,000
	–	5,650,000	–	–	5,650,000

Note 22 Key management personnel disclosures continued

	VESTED AND EXERCISABLE	VESTED AND UNEXERCISABLE	VESTED AT THE END OF THE YEAR
2011			
Options over ordinary shares			
Anthony Howland-Rose	1,200,000	–	1,200,000
Colin Randall	1,700,000	–	1,700,000
David Deitz	1,000,000	–	1,000,000
Peter Donkin	1,000,000	–	1,000,000
Graham Hurwitz	750,000	–	750,000
	5,650,000	–	5,650,000

Related party transactions

Related party transactions are set out in note 26.

Note 23 Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company:

	CONSOLIDATED	
	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
	\$	\$
Audit services – Grant Thornton Audit Pty Ltd		
Audit or review of the financial statements	35,000	27,500
Other services – Grant Thornton Audit Pty Ltd		
Other services	–	5,000
	35,000	32,500

Note 24 Contingent liabilities

The consolidated entity has no contingent liabilities as at 30 June 2012 and 30 June 2011.

Note 25 Commitments

	CONSOLIDATED	
	2012	2011
	\$	\$
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Exploration and evaluation expenditure	3,949,884	5,554,000
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	4,555	48,202
One to five years	–	398
	4,555	48,600

Operating lease commitments includes contracted amounts for offices under non-cancellable operating leases which are on a month by month expiry basis.

Note 26 Related party transactions

Parent entity

Allegiance Coal Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 29.

Key management personnel

Disclosures relating to key management personnel are set out in note 22 and the remuneration report in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	CONSOLIDATED	
	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
	\$	\$
Payment for other expenses:		
Consulting and administration fees paid to parent entity, Gullewa Limited	289,511	–
Consultant fees paid to other related party, C Randall & Associates	305,601	–

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

Note 26 Related party transactions continued

	CONSOLIDATED	
	2012	2011
	\$	\$
Non-current borrowings:		
Loan from Gullewa Limited	2,182,119	1,752,470
Loan from C Randall & Associates	465,876	353,394

Non-current borrowings include capitalised interest.

Terms and conditions

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

Note 27 Parent entity information

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

Statement of comprehensive income

	PARENT	
	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
	\$	\$
Loss after income tax	(1,136,572)	(432,862)
Total comprehensive income	(1,136,572)	(432,862)

Statement of financial position

	PARENT	
	2012	2011
	\$	\$
Total current assets	7,905,186	–
Total assets	8,025,733	100,300
Total current liabilities	142,096	117,592
Total liabilities	142,096	117,592
Net assets/(liabilities)	7,883,637	(17,292)
Equity		
Issued capital	9,137,801	100,300
Share-based payments reserve	315,270	315,270
Accumulated losses	(1,569,434)	(432,862)
Total equity/(deficiency)	7,883,637	(17,292)

Note 27 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 2012 and 30 June 2011.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2012 and 30 June 2011.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2012 and 30 June 2011.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, 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.

Note 28 Business combinations

Mineral & Coal Investments Pty Ltd (comparative period)

Under an agreement dated 4 May 2011 between Gullewa Limited ('Gullewa') and Colin Randall & Associates Pty Ltd ('CR&A') (together referred to as the 'Vendors') and the company, the Vendors agreed to sell their shares in Mineral & Coal Investments Pty Ltd ('MCI') to the company, in order for MCI (and its wholly-owned subsidiaries Echidna Coal Pty Ltd and Moreton Coal Pty Ltd) to become wholly-owned subsidiaries of the company. The Vendors together held 1,200 fully paid shares in MCI, which represented 100% of the issued share capital (80% owned by Gullewa and 20% owned by CR&A). The total consideration was \$100,300 by the issue of 124,999,995 shares (99,999,996 shares issued to Gullewa and 24,999,999 shares issued to CR&A).

The above transaction completed successfully on 4 May 2011, and through this transaction, effective control of MCI passed to the existing shareholders of the company. As Gullewa owned 80% of the share capital of the company and 80% of the share capital of MCI, this represented a common control transaction, in accordance with AASB 3 'Business combinations', in that as at the time of the transaction the intention was to retain control.

Therefore, this business combination is scoped out under AASB 3. Instead the pooling of interest method was used to account for the transaction using historical book values of the acquired assets and liabilities rather than reassessing these to a more subjective and uncertain fair value.

Note 28 Business combinations continued

Details of the acquisition are as follows:

	ACQUIREE'S CARRYING AMOUNT	FAIR VALUE
	\$	\$
Cash equivalents	52,000	52,000
Other receivables	87,602	87,602
Plant and equipment	913	913
Computer equipment	2,263	2,263
Exploration and evaluation	1,203,021	1,203,021
Trade payables	(163,766)	(163,766)
Loans	(1,609,950)	(1,609,950)
Net liabilities acquired	(427,917)	(427,917)
Goodwill		–
Acquisition-date fair value of the total consideration transferred		(427,917)
Representing:		
Allegiance Coal Limited shares issued to vendor		100,300
Equity contribution (distribution)		(528,217)
		(427,917)

Note 29 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

NAME OF ENTITY	COUNTRY OF INCORPORATION	EQUITY HOLDING	
		2012	2011
		%	%
Mineral & Coal Investments Pty Limited	Australia	100.00	100.00
Echidna Coal Pty Limited	Australia	100.00	100.00
Moreton Coal Pty Limited	Australia	100.00	100.00

Note 30 Events after the reporting period

No matter or circumstance has arisen since 30 June 2012 that has 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 31 Reconciliation of loss after income tax to net cash used in operating activities

	CONSOLIDATED	
	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
	\$	\$
Loss after income tax expense for the year	(1,663,284)	(754,928)
Adjustments for:		
Depreciation and amortisation	10,080	267
Share-based payments	–	315,270
Non-cash interest expense	238,546	37,851
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(130,023)	46,735
Increase in prepayments	(3,081)	–
Increase in trade and other payables	319,302	189,506
Increase in employee benefits	3,823	–
Decrease in other operating liabilities	(127,991)	–
Net cash used in operating activities	(1,352,628)	(165,299)

Note 32 Earnings per share

	CONSOLIDATED	
	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
	\$	\$
Loss after income tax attributable to the owners of Allegiance Coal Limited	(1,663,284)	(754,928)
	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic earnings per share	138,697,637	91,772,153
Weighted average number of ordinary shares used in calculating diluted earnings per share	138,697,637	91,772,153
	CENTS	CENTS
Basic earnings per share	(1.199)	(0.823)
Diluted earnings per share	(1.199)	(0.823)

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

Note 33 Share-based payments

Employee Option Scheme

An Employee Option Scheme ('EOS') was established on 5 May 2011 by the company, in accordance with a resolution of the Board. The purpose of the EOS is to attract, motivate and retain directors and employees ('Eligible Employees') of the consolidated entity through ownership of shares.

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

Each employee option held by an employee or director entitles them to subscribe for and be allotted one fully paid ordinary share. Employee 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. 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 seven 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. Employee options are issued under the EOS for no consideration.

Employee options will lapse if:

- (i) the conditions of exercise of the employee options have not been met, or where the participant ceases to render services to the consolidated entity;
- (ii) the conditions of exercise of the employee options are unable to be met;
- (iii) five years, or any other lapsing period specified in the offer document, has passed after the grant of the employee options; or
- (iv) the conditions of exercise of the employee options have been met, and the participant does not exercise his or her employee options within 28 days after ceasing to render services to the consolidated entity.

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

Consultant Option Scheme

A Consultant Option Scheme ('COS') was established on 5 May 2011 by the company, in accordance with a resolution of the Board. The purpose of the COS is to attract and motivate consultants or contractors that provide goods or services to the consolidated entity through ownership of shares.

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

Each consultant option held by a consultant or contractor entitles them to subscribe for and be allotted one fully paid ordinary share. Consultant 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. 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 seven 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. Consultant options are issued under the COS for no consideration.

Consultant options will lapse if:

- (i) the conditions of exercise of the consultant options have not been met, or where the participant ceases to render services to the consolidated entity;
- (ii) the conditions of exercise of the consultant options are unable to be met;
- (iii) five years, or any other lapsing period specified in the offer document, has passed after the grant of the consultant options; or
- (iv) the conditions of exercise of the consultant options have been met, and the participant does not exercise his or her consultant options within 28 days after ceasing to render services to the consolidated entity.

Note 33 Share-based payments continued

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

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

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
2012							
05/05/11	09/05/16*	\$0.250	4,900,000	–	–	–	4,900,000
05/05/11	09/05/16**	\$0.250	750,000	–	–	–	750,000
			5,650,000	–	–	–	5,650,000

Weighted average exercise price \$0.25

* Employee Option Scheme

** Consultant Option Scheme

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
2011							
05/05/11	09/05/16*	\$0.250	–	4,900,000	–	–	4,900,000
05/05/11	09/05/16**	\$0.250	–	750,000	–	–	750,000
			–	5,650,000	–	–	5,650,000

Weighted average exercise price \$0.25

* Employee Option Scheme

** Consultant Option Scheme

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

GRANT DATE	EXPIRY DATE	YEAR ENDED 30 JUN 2012	PERIOD FROM 13 APR 2011 TO 30 JUN 2011
		NUMBER	NUMBER
05/05/11	09/05/16*	8,000,000	8,000,000
05/05/11	09/05/16**	750,000	750,000
Total exercisable		8,750,000	8,750,000

* Employee Option Scheme

** Consultant Option Scheme

The weighted average share price during the financial year was \$0.11 (2011: \$nil).

Note 33 Share-based payments *continued*

The weighted average remaining contractual life of options outstanding at the end of the financial year was 4 years (2011: 5 years).

For the options granted during the current and previous financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

GRANT DATE	EXPIRY DATE	SHARE PRICE AT GRANT PRICE	EXERCISE PRICE	EXPECTED VOLATILITY	DIVIDEND YIELD	RISK-FREE INTEREST RATE	FAIR VALUE AT GRANT DATE
05/05/11	09/05/16	\$0.150	\$0.250	74.50%	0.00%	4.75%	\$0.0558

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the directors



Colin Randall
Managing Director

5 September 2012
Sydney

Independent Auditor's Report

to the Members of Allegiance Coal Limited



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Independent Auditor's Report To the Members of Allegiance Coal Limited

Report on the financial report

We have audited the accompanying financial report of Allegiance Coal Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors responsibility 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 determines 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

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In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

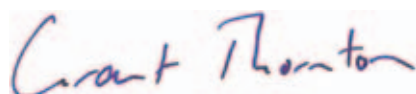
- a the financial report of Allegiance Coal Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the remuneration report included in pages 18 to 22 of the directors' report for the year ended 30 June 2012. 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.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Allegiance Coal Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



GRANT THORNTON AUDIT PTY LTD

Chartered Accountants



C F Farley

Partner - Audit & Assurance

Sydney, 5 September 2012

Schedule of Tenements

30 June 2012

TENEMENT NUMBER	SUBSIDIARY	LOCATION	ALLEGIANCE INTEREST	AREA (UNITS)	TENEMENT STATUS
EPC 1296 CONNEMARRA	Mineral & Coal Investments P/L	27 km northwest of Springsure	100%	40	Granted
EPC 1297 BACK CREEK	Mineral & Coal Investments P/L	40 km northeast of Miles; 40 km southeast of Wandoan	100%	20	Granted
EPC 1298 KILMAIN	Mineral & Coal Investments P/L	43 km east of Springsure	100%	16	Renewal Pending
EPC 1492 TOWNSVILLE	Mineral & Coal Investments P/L	adjacent to Townsville	100%	152	Pending
EPC 1617 TOWNSVILLE EXTENDED	Mineral & Coal Investments P/L	35 km south southeast of Townsville	100%	65	Granted
EPC 1631 CALEN SOUTH	Mineral & Coal Investments P/L	30 km west northwest of Mackay	100%	52	Granted
EPC 1672 LOCHABER	Mineral & Coal Investments P/L	60 km south of Monto	100%	47	Granted
EPC 1820 BOLDON	Mineral & Coal Investments P/L	25 km west of Mackay	100%	17	Granted
EPC 1874 NORMANBY	Mineral & Coal Investments P/L	40 km southwest of Cooktown	100%	86	Granted
EPC 1875 PINETREE	Mineral & Coal Investments P/L	110 km west of Cooktown	100%	217	Granted
EPC 1917 KILMAIN SOUTH	Mineral & Coal Investments P/L	46 km east southeast of Springsure	100%	2	Granted
EPC 2278 CEDAR CREEK	Mineral & Coal Investments P/L	30 km northwest of Injune	100%	12	Granted
EPC 2309 MOBS CREEK	Mineral & Coal Investments P/L	27 km east northeast of Dalby	100%	28	Granted
EPCA 2374 MT MARROW	Mineral & Coal Investments P/L	12 km northwest of Amberley	100%	30	Application
MDL 138 MINTOVALE	Moreton Coal P/L	16 km south southwest of Boonah; 59 km east northeast of Warwick	100%	244.6 Ha	Granted

Shareholder Information

30 June 2012

The shareholder information set out below was applicable as at 1 October 2012.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES	NUMBER OF HOLDERS OF OPTIONS OVER ORDINARY SHARES
1 to 99	5	0
100 to 999	1	0
1,000 to 9,999	12	387
10,000 to 99,999	477	106
100,000 to 999,999	74	31
1,000,000 to 9,999,999	10	2
10,000,000 and over	3	–
	582	526
Holding less than a marketable parcel	17	–

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Gullewa Limited	102,025,667	57.75
C Randall & Associates Pty Limited	25,000,000	14.15
Nefco Nominees Pty Ltd	10,000,000	5.66
Winchester Investments Group Limited	2,356,500	1.33
Regent Pacific Group Limited	1,666,667	0.94
Whittingham Securities Pty Ltd	1,333,334	0.75
The Launch Company Pty Ltd	1,250,000	0.71
National Nominees Pty Ltd	1,120,950	0.63
Mrs Kerry Marie Bishop	1,000,000	0.57
Mr Wouter Codee	1,000,000	0.57
Cushnie Pty Ltd	1,000,000	0.57
Kurraba Investments Pty Ltd	1,000,000	0.57
SPO Equities Pty Ltd <March Street Equity A/C>	1,000,000	0.57
Howlandrose Holdings Pty Ltd	796,667	0.45
Mrs Mina R Deitz	760,000	0.43
Rainidays Pty Ltd	666,667	0.38
Woodlawn Capital Pty Ltd <MVIL A/C>	666,667	0.38
Ben Roth Enterprises Pty Ltd <Ben Roth Family A/C>	500,000	0.28
DFS Super Pty Ltd <Dettrick Family Super A/C>	500,000	0.28
HS Superannuation Pty Ltd <HS Superannuation Fund A/C>	500,000	0.28
	154,143,119	87.25

	OPTIONS OVER ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL OPTIONS ISSUED
Regent Pacific Group Limited	2,222,222	15.53
Nefco Nominees Pty Ltd	1,250,000	8.74
Winchester Investments Group Pty Limited	526,625	3.68
Gullewa Limited	506,417	3.54
Whittingham Securities Pty Ltd	444,445	3.11
JP Morgan Nominees Australia Limited	444,444	3.11
WR Simpson Nominees Pty Ltd <Simpson Super Fund A/C>	362,000	2.53
The Launch Company Pty Ltd	312,500	2.18
Kurraba Investments Pty Ltd	305,555	2.14
National Nominees Limited	304,500	2.13
Howlandrose Holdings Pty Ltd	254,722	1.78
Mr Igor Belin & Mrs Julia Belin <JIB Superannuation Fund A/C>	252,750	1.77
Mrs Kerry Marie Bishop	250,000	1.75
Cushnie Pty Ltd	250,000	1.75
SPO Equities Pty Ltd <March Street Equity A/C>	250,000	1.75
Woodlawn Capital Pty Ltd <MVIL A/C>	222,223	1.55
Rainidays Pty Ltd	222,222	1.55
Ben Roth Enterprises Pty Ltd <Ben Roth Family A/C>	194,375	1.36
Mrs Mina R Deitz	190,000	1.33
Sandor Nominees Pty Ltd <Ros Sandor S/Fund A/C>	166,667	1.17
	8,931,667	62.43

Unquoted equity securities

	NUMBER ON ISSUE	HOLDERS
Options over ordinary shares issued	5,650,000	5

Substantial holders

Substantial holders in the company are set out below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Gullewa Limited	102,025,667	57.75
C Randall & Associates Pty Ltd	25,000,000	14.15
Nefco Nominees Pty Ltd	10,000,000	5.66

	OPTIONS OVER ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL OPTIONS ISSUED
Nefco Nominees Pty Ltd	1,250,000	8.74
Winchester Investments Group Pty Limited	526,625	3.68
Gullewa Limited	506,417	3.54

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.

There are no other classes of equity securities.

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