



ALLEGIANCE COAL
LIMITED

ABN 47 149 490 353

Annual Report - 30 June 2020

Corporate Directory

Directors	Mark Gray – Chairman and Managing Director Malcolm Carson Larry Cook Jonathan Reynolds
Company secretary	Jonathan Reynolds
Registered office and Principal place of business	Suite 107 109 Pitt Street Sydney NSW 2000 Telephone: +61 2 9233 5579 Facsimile: +61 2 9233 1349
Share register	Computershare Investor Services Pty Limited Level 3, 60 Carrington Street Sydney NSW 2000 Telephone: 1300 787 272 Facsimile: +61 2 8234 5050
Auditor	SCS Audit & Corporate Services Pty Ltd Suite 802 309 Pitt Street Sydney 2000
Solicitors	HWL Ebsworth Level 20 240 St Georges Terrace Perth WA 6000
Stock exchange listing	Allegiance Coal Limited shares are listed on the Australian Securities Exchange (ASX code: AHQ)
Website	www.allegiancecoal.com.au
Email address	info@allegiancecoal.com.au

Contents

Directors' Report	1
Corporate governance statement	22
Statement of comprehensive income	33
Statement of financial position	34
Statement of changes in equity	35
Statement of cash flows	37
Directors' declaration	76
Auditor's independence declaration	77
Independent Auditor's report	78
Additional Securities Exchange information	83

Directors' Report

30 June 2020

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Allegiance Coal Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

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:

Mark Gray (Chairman)
Malcolm Carson
Larry Cook – Appointed on 23 July 2019
Jonathan Reynolds

Principal activities

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

Dividends

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

Review of operations

New Elk metallurgical coal project

In July 2019, the Company announced that it had entered into a binding and conditional terms sheet with Cline Mining Corporation (Cline) to acquire all the shares in the New Elk Coal Company, LLC, (NECC), which company owns the New Elk hard coking coal project located in southeast Colorado, United States (Mine). In January 2020, the Company concluded the binding agreement to acquire NECC, following shareholder approval received at the 2019 annual general meeting for the change in the scale of the Company's activities which will occur following the acquisition.

The Mine is located in Las Animas County in southeast Colorado bordering northeast New Mexico, and sits within the Raton Basin which according to U.S Geological Survey Paper 1625-A, has an estimated 15 billion metric tonnes of coal.

The key aspects of the planned acquisition are:

- The purchase price for the shares in NECC is US\$1, payable on completion.
- NECC is debt free, except for debt owing to Cline totalling C\$55M (Cline Debt), payable as set out below. The Cline Debt is interest free with a repayment maturity of ten years.
- The Mine is fully constructed and permitted for the production of hard coking coal.
- The Mine is near rail and can supply coal to both international and domestic markets.

The Cline Debt is repayable as follows:

- On completion US\$3M in cash to be funded from the replacement and release to the Company of a US\$5M cash reclamation bond held by the State of Colorado in relation to the New Elk Mine with an insurance bond;
- On completion US\$3M in Allegiance ordinary shares at a deemed issue price equal to the higher of A\$0.08 per share or the 20-day VWAP and these shares will be subject to 12 months' voluntary escrow;
- A cash payment of US\$6M on or prior to the commencement of the commercial production of coal (defined as the operation of one production unit on at least a five day and night schedule), no later than 1 September 2021. If commercial production of coal does not occur by 31 March 2021, Allegiance must pay US\$1M to Cline. Allegiance may, at its option, make this payment in cash, or shares in Allegiance. and

- Post completion, 60% of NECC's retained earnings after NECC makes provision for any preferred debt payments (NECC is entitled to secure US\$40M of preferred debt over the Cline Debt), and provision for sustaining and working capital requirements.

Technical studies

In November 2019, the Company released the results of a maiden feasibility study of the New Elk Mine undertaken by Stantec in the US along with several other technical consultants. The mine plan is for a high productivity room and pillar 'walk through super-section' underground mining operation. The feasibility study was updated with a revised start-up mine plan released in January 2020. The results of those two studies are summarised in the table below.

	Feasibility Study	Revised Start-up Mine Plan
	November 2019	January 2020
Saleable coal reserves	45Mt	23Mt
Saleable coal per annum production years 1 to 4	2.0Mt	1.4Mt
Mine-life (production years)	23 years	15 years
Yield mine-life average (all metallurgical coal product)	72%	76%
FOB cash cost (ex-port) before royalties interest & tax	US\$74/t	US\$78/t
Revenue mine-life annual average	A\$370M	A\$290M
EBITDA mine-life annual average	A\$153M	A\$107M
EBITDA ratio to revenue mine-life annual average	41%	37%
Start-up capital	US\$56M	US\$40M
NPV8% pre-tax	A\$1.24B	A\$560M
IRR pre-tax	130%	121%
Life of mine average high-vol hard coking coal price	US\$132/t	US\$131/t

The results of the two studies delivered excellent project economics and placed the New Elk Mine in the lowest cost quartile on the seaborne metallurgical coal cost curve, and one of the lowest producers of hard coking coal in the United States.

In April 2020, the Company advised a further reduction in start-up capital from US\$40M to US\$24M (Slow Start-up Mine Plan). This was achieved by re-scheduling the timing of the commencement of the New Elk Mine's production equipment. The delay in capital expenditure does not materially change the total capital and cash operating costs nor in any way the saleable coal tonnes.

New Elk Coal Resources & Reserves

In the November 2019 feasibility study announcement, the Company reported the New Elk coal resources previously prepared in July 2012 in accordance with National Instrument NI 43-101 'Standards of Disclosure for Mineral Projects' (NI 43-101) by Agapito Associates, Inc., a US nationally recognised engineering firm (Report).

The Report declared a mineral resource estimate of 656Mt of coal resources at a minimum seam height of three foot. The mineral resource estimate is shared across 8 coal seams summarised below.

Coal seams	Seam height	Measured Mt	Indicated Mt	Inferred Mt	Total Mt
Green	3 to 7 foot	29.94	24.95	0.09	53.98
Loco	3 to 4 foot	13.06	27.22	24.13	64.41
Blue	3 to 5 foot	47.36	34.56	0.82	82.74
BCU	3 to 6 foot	11.61	33.38	27.22	72.21
Red	3 to 4 foot	21.14	9.34	0.00	30.48
Maxwell	3 to 9 foot	65.41	65.05	15.79	146.24
Apache	3 to 5 foot	45.63	51.53	13.97	111.13
Allen	3 to 5 foot	38.83	43.45	12.79	95.07
Total		271.97	289.48	94.80	656.26

Cautionary statement: Investors should note that the Agapito mineral resource estimates for the Project are foreign estimates under ASX Listing Rule 5.12 and are not reported in accordance with JORC Code (2012 Edition of the “Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”) (JORC Code).

Except as is stated below in relation to the Green, Blue and Allen seams, a competent person has not done sufficient work to classify the foreign estimates as a mineral resource under the JORC Code in relation to the other coal seams, and it is uncertain that following further exploration or evaluation work that this foreign estimate in relation to those other seams, will be able to be reported as a mineral resource in accordance with the JORC Code.

Pursuant to the feasibility study, Stantec has prepared a statement of resources and reserves in accordance with the JORC Code and NI 43-101 in relation to the Green, Blue and Allen seams only, as set out below.

Resources	Seam height	Measured Mt	Indicated Mt	Inferred Mt	Total Mt
Green seam	3.0 foot	19.1	17.7	5.6	42.4
Blue seam	3.0 foot	89.6	31.4	9.1	130.2
Allen seam	3.0 foot	68.9	25.4	0.7	95.1
Total	3.0 foot	177.6	74.4	15.6	267.6

Reserves		Proven Mt	Probable Mt	Saleable Mt
Green seam	4.0 foot	0.8	-	0.8
Blue seam	4.0 foot	17.7	4.5	22.2
Allen seam	4.0 foot	16.7	5.5	22.1
Total	4.0 foot	35.2	9.9	45.1

Supply chain

The Company finalised commercial terms with Union Pacific Railroad for the hauling of coal from the New Elk Mine to either the Pasadena Deepwater Coal Terminal, Houston, in the Gulf of Mexico to access the European and South American steel markets, or to the Coal Port Guaymas in northern Mexico to access the Asian steel markets. Union Pacific has agreed to participate in the cost of constructing around 21 miles of rail spur on an existing railbed from the New Elk Mine washplant connecting to the main railway line.

The Company finalised an exclusive sales and marketing agreement with M Resources Trading Pty Ltd (M Resources) in relation to coal produced from the New Elk Mine. M Resources was established in 2011 by Mr Matthew Latimore and to date has managed close to 400 shipments globally of mostly metallurgical coal and has built up a strong global customer base in Asia, India, South America and Europe, including the natural targets for New Elk coking coals such as Brazil, Europe as well as Japan, Korea and Taiwan. As part of the agreement, M Resources will provide up to US\$15M of off-take financing bridging the cashflow gap for the Company between coal loaded on a vessel at port, and delivered to the customer.

Financing

The Company is in discussions with several potential investors to provide the New Elk Mine start-up capital requirement, including as announced in March 2020, with Nebari Natural Resources Credit Fund 1 LP in relation to a US\$25M project financing proposal.

Lorencito property

The Company entered into coal lease agreements to mine and sell all the coal comprised in the Lorencito property (Lorencito Property) which neighbours the New Elk Mine. The Lorencito Property contains the same coal bearing units that exist in the New Elk Mine including many of the same coal seams, but of particular interest to the Company is the Primero seam with quality parameters that align with high-vol ‘A’ hard coking coal specifications. The Lorencito Property is permitted for coal production but the permit will require an extension to enable the Primero seam to be mined. The Primero seam outcrops at surface providing low cost access to coal.

Telkwa metallurgical coal project

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

The key attractions of the Telkwa Project are its:

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

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

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

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

Technical studies

On 3 July 2017, the Company announced the results of its Staged Production pre-feasibility study (PFS) and on 11 September 2017, the Company announced the results of its Stage 1 PFS which included the results of a review of the Staged Production PFS. The Staged Production PFS assessed the viability of the Telkwa Project across the entire reserve base of 42.5 million tonnes of saleable coal. It assumed the commencement of mining at 250,000 saleable tpa ramping to 1.75 million saleable tpa in four years. The Stage 1 PFS assessed the viability of the Tenas Project at two levels:

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

Following completion of the PFSs and several months of discussions with key stakeholders, the Company finalised the terms of the Project Description for the Tenas Project (Project Description) in July 2018. The Project Description was lodged with the relevant government agencies in the second half of 2018, leading to the issue, in November 2018, by the BC government of the section 10 order. The section 10 order deems the Tenas Project ready for environmental assessment, formally commencing the permitting process.

The Project Description formed the basis of a definitive feasibility study (DFS), in relation to the Tenas Project, managed in-house by the Company with input from SRK and other mining and resources specialists. The results of the DFS were announced in March 2019. Further, an opportunity was identified in the DFS review to improve equipment and labour utilisation in year six when a decline in usage emerged after completion of construction of water management infrastructure. The results of this upside DFS were reported in July 2019. The results of both the DFS and the upside DFS are summarised out below.

	DFS	Upside
Tenas saleable coal reserves	16.55Mt	16.55Mt
Saleable coal per annum production years 1 to 4	750kt	750kt
Saleable coal per annum production years 5 to 6	750kt	1.05Mt
Saleable coal per annum production years 7 to 15	750kt	1.35Mt
Mine-life (production years)	22 years	14.4 years
Potential to extend mine-life from additional resources	35 years	22 years
All-in FOB cash cost (ex-port) before interest & tax	US\$49.7/t	US\$45.0/t
Revenue mine-life annual average	US\$86M	US\$131M
EBITDA mine-life annual average	US\$45M	US\$74M
EBITDA ratio to revenue mine-life annual average	53%	57%
Start-up capital expenditure	US\$54.3M	US\$55.8M
NPV8% pre-tax	US\$288M	US\$381M
IRR pre-tax	56.9%	60.8%
Capital payback after commencement of production	2.5 years	2.5 years

Significantly, the DFS concluded that the Tenas Project is likely to be one of, if not, the lowest cost producers of metallurgical coal on the global seaborne market.

Throughout the 2020 financial year, post DFS optimisation work has been ongoing focussing on reducing sustaining capital as well as mitigating potential environmental impacts with engineering solutions to enhance the Environmental Assessment Application.

Environmental Baseline and Environmental Impact Assessment

Following the issue of the section 10 order, the environmental impact assessment process (EA Process), together with the permitting of the Tenas Project, have commenced. Almost two years of environmental baseline studies critical to the EA Process and permitting have been completed with some environmental monitoring continuing during the EA Process, particularly in relation to water. Studies covered included:

- Water quality;
- Fish, fish habitat and aquatic resources;
- Atmospherics such as water and dust;
- Terrestrial such as terrain, soils, vegetation and wildlife; and
- Cultural and archaeology.

In June 2019, the BC Government Environmental Assessment Office (EAO) issued a section 11 order in relation to the Tenas Project. The section 11 order defines the environmental assessment process for the Company, which includes amongst other things:

- The level of consultation required in relation to First Nations and the local community;
- Preparation of the Valued Components document which identifies the key values that need to be considered in the application for an EA Certificate;
- Preparation of the Application Information Requirements document which provides the foundation for the EA Certificate application; and
- The EA Certificate pre-application process.

The Company has completed numerous Technical Working Group and sub-committee meetings with the EAO and has submitted, received comments, and replied to comments, from the Technical Working Group, on the valued components comprising the draft Application Information Requirements document, which forms the table of contents to the application for an Environmental Assessment Certificate.

In June 2020, the Company held two on-line virtual open house sessions allowing the public to comment on the draft Application Information Requirements document. Public comment on that document has now completed, and subject to the Company replying to public comment to the satisfaction of the EAO,

the Company will then be able to prepare, and file its application for an Environmental Assessment Certificate.

Itochu Joint Venture

In November 2018, Itochu Corporation of Japan (Itochu) and the Company entered binding agreements to establish the ‘Telkwa Met Coal Joint Venture’ (Joint Venture), to underpin the funding and development of the Tenas Project. The Joint Venture provides for two stages of investment. Stage 1 comprises an investment by Itochu in Telkwa Coal Limited (TCL) of C\$6.6M, by way of a subscription for shares in TCL representing 20 percent of the issued share capital of TCL, as follows:

- C\$1.5M for a 5.3% interest in TCL completed in January 2019, following the issue of the section 10 order which was received by TCL in November 2018;
- C\$1.5M for a further 4.8% interest in TCL, following completion of a positive Tenas Project DFS, subject to Itochu’s approval at the time, which tranche was completed in July 2019; and
- C\$3.6M for a further 9.9% interest in TCL, following lodgement of an application for an Environmental Assessment Certificate, subject to Itochu’s approval at the time.

Itochu’s origins date back to 1858 and it is one of the largest commodity trading houses in the world. As at March 2018 it had total assets of US\$74 billion and annual revenue of US\$46 billion. Itochu is ranked 65 on the Fortune 500 global list of companies.

Itochu has the right to appoint two directors to the Board of TCL, including the Marketing Director, while Allegiance has the right to appoint three directors. TCL will take responsibility for the operation of the Tenas mine, while Itochu will take responsibility for the marketing, sale and delivery of Tenas coal. Itochu will be the sole and exclusive sales agent for all Telkwa coal.

The stage 1 investment was based on a value for TCL of C\$33M. The stage 2 investment by Itochu arises after all permits to mine the Tenas Project are granted. Itochu has the right to subscribe for additional shares in TCL up to a maximum of 50% of TCL’s share capital. The valuation of TCL for the purposes of Stage 2 investment is to be agreed between the Company and Itochu, or failing agreement, by an independent valuation of the Tenas Project assuming all permits to mine have been granted, as they will have been by this stage.

Kilmain and Back Creek Projects

Both the Kilmain and Back Creek Projects in Queensland remain under review. There were no activities of note during the year ended 30 June 2020.

COVID-19

The Company has not suffered any direct impact from the COVID-19 pandemic as most work is desk based and staff have been able to work from home and communicate electronically and through virtual meetings. However, the Company has been indirectly affected by the volatility to capital markets; through not being able to hold face to face meetings with stakeholders and potential investors and lenders; and due to the impact on the price for metallurgical coal which has been negatively impacted by concerns relating to the global outlook for economic recovery. These factors have delayed the Company’s fund raising initiatives.

Share capital

During the year ended 30 June 2020, the Company undertook the following capital raising initiatives:

- In June 2019, the Company completed a placement of 34.52 million ordinary shares to sophisticated and professional investors raising \$2.59 million, before costs. Directors subscribed for 801,666 shares to raise \$60,125 as part of this raising, which allotment was approved by shareholders in August 2019. The capital was raised to fund the studies and assessments required to support the Tenas Project mine permit application process.
- In September 2019, the Company completed a placement of 22.02 million ordinary shares to sophisticated and professional investors raising \$3.08 million, before costs. At the same time, the Company offered a share purchase plan to eligible shareholders, which closed in October 2019, raising \$619,600 and leading to the allotment of 4.4 million shares. The capital was raised to fund the definitive feasibility study, mine plan and costs in connection with the planned

acquisition of the New Elk hard coking coal mine and the studies and assessments required to support the Tenas Project mine permit application process.

- In April 2020, the Company completed a placement of 32.03 million ordinary shares to sophisticated and professional investors raising \$1.92 million, before costs. The capital was raised to fund costs in connection with the planned acquisition of the New Elk hard coking coal mine and the studies and assessments required to support the Tenas Project mine permit application process.

Following shareholder approval, in December 2019, the Company allotted 2.5 million shares, with a deemed value of \$325,000, upon performance rights meeting their vesting conditions.

In June 2020, the Company allotted 6.8 million shares, with a deemed value of \$476,000, to Gullewa Ltd in connection with the settlement of the loan owing to that company.

Loans

In February 2020, the Company secured a bridging loan with a face value of US\$3.75 million from US based Nebari Natural Resources Credit Fund I LP (Nebari), receiving a cash injection of US\$2.5M. The Loan has been applied to the Group's general working capital requirements in connection with both the Tenas metallurgical coal project and the New Elk mine acquisition; and to repay both the Gullewa loan and the promissory notes, as set out below. The Loan, which is secured over the assets of the Company (excluding the shares in TCL), does not bear interest but is repayable by paying the Loan face value to Nebari upon the earlier of TCL receiving the C\$3.6M tranche 3 payment to from Itochu or 31 December 2020.

Itochu has advanced \$186,000 to TCL, in addition to the tranche 1 and 2 payments referred to above, pro-rata to its shareholding in TCL, pending lodgement by TCL of the Tenas metallurgical coal project environmental assessment application. The parties have agreed to capitalise their loan's pro-rata their equity interest in TCL following lodgement of the application. Accordingly, the advances, which are interest free and unsecured, are quasi-equity.

In 2011, the Group entered loan facility agreements with Gullewa Ltd. On 4 August 2016 the parties entered a deed of loan variation, whereby Gullewa was paid \$1,104,000 in partial satisfaction of the amount owed to it under the 2011 agreements. The balance outstanding of \$659,000, which was unsecured, was interest free until 4 August 2019, after which interest accrued daily and was capitalised monthly, at a rate of BBSW + 4%, on the unpaid balance. In March 2020, the Company agreed to repay the remaining Gullewa loan balance in full and, as referred to above, allotted 6.8 million shares to Gullewa in connection with the settlement of the loan.

In April 2019, the Company issued unsecured promissory notes with a face value totalling \$1,048,322, bearing an implied interest rate of 12% pa. The promissory notes were repaid in full during the 2020 financial year.

Going concern

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

For the year ended 30 June 2020 the Group reported a net loss of \$9,215,936 (2019: \$1,489,242) and net operating cash outflows of \$5,755,536 (2019: \$1,704,797). The operating cash outflows have been funded by cash inflows from equity raisings of \$5,779,786 (2019: \$4,648,307); project participation contributions from Itochu Corporation of Japan of \$1,822,716 (2019: \$1,575,000) and net borrowings of \$1,603,230 (2019: \$943,134) during the year. As at 30 June 2020 the Group had net current liabilities of \$4,642,114 (2019: \$131,760) including cash reserves of \$442,055 (2019: \$2,595,626).

The balance of these cash reserves may not be sufficient to meet the Group's planned expenditure and evaluation budget, including exploration activities, evaluation, operating and administrative expenditure,

for the 12 months to 30 September 2021. In order to fully implement its exploration and evaluation strategy, the Group will require additional funds.

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

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

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

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

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding, the Group's ability to effectively manage its expenditures and cash flows from operations and the opportunity to farm-out participating interests in existing permits and rights, the Directors believe that the Group will continue to operate as a going concern for the foreseeable future. Therefore, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

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

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

Board

In July 2019, Larry Cook was appointed as a Non-Executive Director of the Company with specific responsibility to direct the recommissioning and operation of the New Elk metallurgical coal project.

Trading results

The loss for the consolidated entity after providing for income tax amounted to \$9,215,936 (30 June 2019: \$1,489,242).

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

In July 2020, the Company announced it has secured up to \$8 million of funding by way of a secured convertible note issued to Mercer Street Global Opportunity Fund LLC, a New York based investment fund (Fund); \$662,000 to be drawn immediately with \$1,338,000 to be drawn following shareholder approval; and with further amounts to be drawn at the discretion of the parties subject to any required shareholder approval. In August 2020, following receipt of the first tranche of funds from the Fund, secured notes with a face value of \$772,105 maturing 5 August 2021 were issued; and simultaneously 738,770 ordinary shares were issued to the Fund in settlement of a \$50,000 fee attaching to the notes. The notes are convertible at the Fund's election into ordinary shares on the following terms : the conversion price is the lesser of A\$0.10, or 92% of the lowest daily VWAP of Allegiance shares selected by the Fund for the 10 trading days on which Allegiance shares are traded in the ordinary course of business on the ASX ending on the date immediately prior to a conversion notice, subject to a floor of

A\$0.10 for the first two months following note execution. If the note is not converted, it will be repaid on maturity at its issued face value.

Likely developments and expected results of operations

The consolidated entity intends progressing development of the Telkwa and the New Elk metallurgical coal projects as reflected under the review of operations above.

Environmental regulation

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

Information on directors

Name:	Mark Gray
Title:	Chairman from May 2019 Managing Director from May 2017
Qualifications:	LLB
Experience and expertise:	Mark secured the Telkwa Project and founded Telkwa Coal Limited (a wholly owned subsidiary of the Company) in September 2014. He is a corporate lawyer with 30 years' transactional experience gained as a lawyer with Herbert Smith in London, a partner with Bell Gully in New Zealand, and as a director of the London based investment bank Barclays de Zoette Wedd. He has been an advisor to and company executive of mining companies and operations including underground coal in Australia and open pit mining in Africa, as well as exploration and development projects in several minerals including coal. He was appointed to the Board on 29 May 2017.
Other current directorships	None
Former directorships (last 3 years):	None
Special responsibilities	None
Interests in shares:	761,018 ordinary shares held directly (24,366,314 ordinary shares held indirectly)
Interests in options	No options held directly (5,000,000 options held indirectly)
Name:	Malcolm Carson
Title:	Independent Non-Executive Director from March 2018
Qualifications:	MSc, BSc, MAusIMM, AIG
Experience and expertise:	Malcolm has over 40 years' experience in the resource sector including field exploration geologist and commercial evaluation of resources and project finance. He has held senior positions in exploration and mining companies, the West Australian Government, investment banks and executive roles in ASX and TSX publicly listed companies. He was appointed to the Board on 11 August 2016.
Other current directorships:	Chairman of Dampier Gold Limited (ASX: DAU) Director Pacific Wildcat Corp (TSX)
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	Nil
Interests in options:	No options held directly (1,500,000 options held indirectly)

Name:	Larry Cook
Title:	Independent Non-Executive Director from July 2019
Qualifications:	B.S.E.M- Mining Engineering
Experience and expertise:	Larry has over 40 years of technical knowledge of underground coal mining and methods. For the first 20 years of his career he worked in various underground roles in coal mines primarily in West Virginia. He is highly regarded in both the US and Australia as an extremely capable underground coal mining engineer. Previous positions include Vice President of Operations at Mid-Vol Mining, Madison WV; General Superintendent at Mystic Energy Inc, Beckley WV; Mine Manager of five underground coal mines owned by Eastern Associated Coal Corporation in Wharton WV; founding shareholder and director of Bounty Industries Ltd providing contract mining at Ivanhoe Colliery, NSW, for Centennial Coal and at German Creek Colliery, Central QLD, for Anglo Coal. Most recently, Mr Cook recommissioned the Donkin underground coal mine located in Nova Scotia, Canada.
Other current directorships	None
Former directorships (last 3 years):	None
Special responsibilities	None
Interests in shares:	Nil
Interests in performance rights:	5,000,000
Interests in options	Nil

Name:	Jonathan Reynolds
Title:	Finance Director
Qualifications:	B.Com (Hons), CA, F Fin
Experience and expertise:	Jonathan is a chartered accountant with more than 25 years' experience across many sectors spent mostly in financial management roles. Most recently, he has been finance director of a resource investment house, managing investments across a range of commodities, including coal. Prior to that he held the position of chief financial officer with a number of listed entities and before that was a senior manager with an international firm of chartered accountants. He is a member of Chartered Accountants Australia and New Zealand, a fellow of Financial Services Institute of Australia and holds a Bachelor of Commerce (Honours) degree. He was appointed to the Board on 11 August 2016.
Other current directorships:	Director of MCB Resources Limited (ASX: MCB)
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	1,817,000 ordinary shares held directly
Interests in options:	2,750,000 options held directly

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

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

Company secretary Jonathan Reynolds

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

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Attended	Held
Malcolm Carson	4	4
Larry Cook	4	4
Mark Gray	4	4
Jonathan Reynolds	4	4

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

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

Remuneration report (audited)

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

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

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

Principles used to determine the nature and amount of remuneration

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

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non-executive directors' remuneration

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

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

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

Executive remuneration

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

The executive remuneration and reward framework has four components:

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

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

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

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

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

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

Consolidated entity performance and link to remuneration

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

Use of remuneration consultants

During the financial year ended 30 June 2020, 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 2019 Annual General Meeting ('AGM')

At the last AGM, the shareholders voted to adopt the remuneration report for the year ended 30 June 2019. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

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

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
2020	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Malcolm Carson	31,500	-	-	-	-	33,479	64,979
Larry Cook	128,731	-	-	-	-	650,000	778,731
<i>Executive Directors:</i>							
Mark Gray	301,971	29,042	36,241	-	-	133,914	501,168
Jonathan Reynolds	157,500	15,000	-	-	-	66,957	239,457
<i>Executives:</i>							
Dan Farmer*	213,507	20,334	-	-	-	53,566	287,407
Angela Waterman+	166,061	15,815	-	-	-	-	181,876
	999,270	80,191	36,241	-	-	937,916	2,053,618

* Chief Operating Officer Telkwa Coal Ltd

+ Environmental and Government Telkwa Coal Ltd

	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	
2019	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Malcolm Carson	36,000	-	-	-	-	-	36,000
David Fawcett	62,500	-	-	-	-	-	62,500
<i>Executive Directors:</i>							
Mark Gray	341,860	50,000	9,475	-	-	-	401,335
Jonathan Reynolds	180,000	-	-	-	-	-	180,000
<i>Executives:</i>							
Dan Farmer*	227,732	-	-	-	-	-	227,732
Angela Waterman+	177,125	14,760	-	-	-	-	191,885
	1,025,217	64,760	9,475	-	-	-	1,099,452

* Chief Operating Officer Telkwa Coal Ltd

+ Environmental and Government Telkwa Coal Ltd

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2020	2019	2020	2019	2020	2019
<i>Non-Executive Directors:</i>						
Malcolm Carson	48%	100%	-%	-%	52%	-%
Larry Cook	17%	-%	-%	-%	83%	-%
David Fawcett	-%	100%	-%	-%	-%	-%
<i>Executive Directors:</i>						
Mark Gray	67%	88%	6%	12%	27%	-%
Jonathan Reynolds	66%	100%	6%	-%	28%	-%
<i>Executives:</i>						
Dan Farmer	74%	100%	7%	-%	19%	-%
Angela Waterman	91%	92%	9%	8%	-%	-%

Share-based compensation

Issue of performance rights

During the year ended 30 June 2020, 5 million performance rights were granted to Larry Cook in four separate classes, B through E. The performance rights will automatically vest and convert into Shares on a one for one basis upon satisfaction of milestones, all relating to the proposed acquisition and recommissioning of the New Elk Coal Mine. A performance right will lapse upon the earlier to occur of: (a) the cessation of the holder's employment or other engagement with the Company; and (b) the Vesting Condition not being satisfied on or before the Expiry Date.

Details of performance rights issued are summarised below:

- 1,250,000 Class B Performance Rights which will vest upon Completion of the Mine acquisition, expiring 2 June 2021;
- 1,250,000 Class C Performance Rights which will vest on completion of the commissioning of the Mine and commencement of production, expiring 2 February 2022;
- 1,250,000 Class D Performance Rights which will vest on the sale of the first 500,000 metric tonnes of coal from the Mine, expiring 2 December 2022; and
- 1,250,000 Class E Performance Rights which will vest on the sale of the second 500,000 metric tonnes of coal from the Mine, expiring 2 December 2023.

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2019.

Options

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

During the year ended 30 June 2020, 6,450,000 options were granted to directors and other key management personnel as part of compensation.

Grant date	Vesting and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
3 December 2019	See table below	3 December 2024	\$0.28	\$0.0446

	Vesting and exercisable date						Total
	a	b	c	3 Dec 2020	3 Dec 2021	3 Dec 2022	
M Gray	500,000	500,000	500,000	500,000	500,000	500,000	3,000,000
M Carson	-	-	-	250,000	250,000	250,000	750,000
J Reynolds	250,000	250,000	250,000	250,000	250,000	250,000	1,500,000
D Farmer	200,000	200,000	200,000	200,000	200,000	200,000	1,200,000
	950,000	950,000	950,000	1,200,000	1,200,000	1,200,000	6,450,000

a The date of the commissioning of the New Elk Mine and commencement of production.

b The date of the sale of the first 500,000 metric tonnes of coal from the New Elk Mine.

c The date of the sale of the second 500,000 metric tonnes of coal from the New Elk Mine.

No options were granted to directors and other key management personnel as part of compensation during the year ended 30 June 2019.

Options granted carry no dividend or voting rights.

Values of performance rights granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

Name	Value of performance rights granted during the year \$	Value of performance rights vested during the year \$	Value of performance rights lapsed during the year \$	Remuneration consisting of performance rights for the year %
Larry Cook	650,000	-	-	83%

Values of options over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

Name	Value of options granted during the year \$	Value of options vested during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Mark Gray	133,915	10,246	-	27%
Malcolm Carson	33,479	5,123	-	52%
Jonathan Reynolds	66,957	6,404	-	28%
Dan Farmer	53,566	5,123	-	19%
Angela Waterman	-	5,123	-	-

Values of options over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2019 are set out below:

Name	Value of options granted during the year \$	Value of options vested during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Mark Gray	-	-	-	-
Malcolm Carson	-	5,123	-	-
David Fawcett	-	5,123	10,246	-
Jonathan Reynolds	-	-	-	-
Dan Farmer	-	5,123	-	-
Angela Waterman	-	5,123	-	-

Service agreements

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

Additional disclosures relating to key management personnel

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

Performance rights			Number of rights granted	Value of rights granted \$	Value of rights vested \$	Number of rights lapsed	Value of rights lapsed \$
Name	Grant date	Vesting date					
L Cook	3 Dec 2019	Note 1	5,000,000	650,000	-	-	-

Note 1: The performance rights vest as follows:

- 1,250,000 Class B Performance Rights vest upon Completion of the New Elk Mine acquisition;
- 1,250,000 Class C Performance Rights vest on completion of the commissioning of the New Elk Mine and commencement of production;
- 1,250,000 Class D Performance Rights vest on the sale of the first 500,000 metric tonnes of coal from the New Elk Mine; and
- 1,250,000 Class E Performance Rights vest on the sale of the second 500,000 metric tonnes of coal from the New Elk Coal Mine.

Options			Number of	Value of	Value of	Number of	Value of
Name	Grant date	Vesting date	options granted	options granted \$	options vested \$	options lapsed	options lapsed \$
M Gray	6 Dec 2017	Note 1	2,000,000	40,985	10,426	-	-
M Gray	3 Dec 2019	Note 2	3,000,000	133,915	-	-	-
M Carson	6 Dec 2017	Note 1	750,000	15,369	10,246	-	-
M Carson	3 Dec 2019	Note 2	750,000	33,479	-	-	-
J Reynolds	6 Dec 2017	Note 1	1,250,000	25,616	6,404	-	-
J Reynolds	3 Dec 2019	Note 2	1,500,000	66,957	-	-	-
D Farmer	6 Dec 2017	Note 1	1,500,000	30,739	10,246	-	-
D Farmer	3 Dec 2019	Note 2	1,200,000	53,566	-	-	-
A Waterman	6 Dec 2017	Note 1	1,500,000	30,739	10,246	-	-

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

	Vesting and exercisable date							
	6 Dec 2018	a	b	c	d	6 Dec 2019	6 Dec 2020	Total
M Gray	-	-	-	500,000	500,000	500,000	500,000	2,000,000
M Carson	250,000	-	-	-	-	250,000	250,000	750,000
J Reynolds	-	-	-	312,500	312,500	312,500	312,500	1,250,000
D Farmer	-	250,000	250,000	250,000	250,000	250,000	250,000	1,500,000
A Waterman	-	250,000	250,000	250,000	250,000	250,000	250,000	1,500,000
	250,000	500,000	500,000	1,312,500	1,312,500	1,562,500	1,562,500	7,000,000

- a The date the Texas Project baseline studies are completed.
- b The date the Texas Project affected party agreements are completed.
- c The date the Texas Project mining permit applications are filed.
- d The date the Texas Project mining permits are issued.

Note 2: The options vest on the dates set out in the following table:

	Vesting and exercisable date						
	a	b	c	3 Dec 2020	3 Dec 2021	3 Dec 2022	Total
M Gray	500,000	500,000	500,000	500,000	500,000	500,000	3,000,000
M Carson	-	-	-	250,000	250,000	250,000	750,000
J Reynolds	250,000	250,000	250,000	250,000	250,000	250,000	1,500,000
D Farmer	200,000	200,000	200,000	200,000	200,000	200,000	1,200,000
	950,000	950,000	950,000	1,200,000	1,200,000	1,200,000	6,450,000

- a The date of the commissioning of the New Elk Mine and commencement of production.
- b The date of the sale of the first 500,000 metric tonnes of coal from the New Elk Mine.
- c The date of the sale of the second 500,000 metric tonnes of coal from the New Elk Mine.

Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Mark Gray	24,460,666	-	666,666	-	25,127,332
Malcolm Carson	-	-	-	-	-
Larry Cook	-	-	-	-	-
Jonathan Reynolds	1,610,000	-	207,000	-	1,817,000
Dan Farmer	2,376,780	-	142,857	-	2,519,637
Angela Waterman	-	-	-	-	-
	28,447,446	-	1,016,523	-	29,463,969

Performance rights holding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Performance rights</i>					
Mark Gray	-	-	-	-	-
Malcolm Carson	-	-	-	-	-
Larry Cook	-	5,000,000	-	-	5,000,000
Jonathan Reynolds	-	-	-	-	-
Dan Farmer	-	-	-	-	-
Angela Waterman	-	-	-	-	-
	-	5,000,000	-	-	5,000,000

Option holding

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

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Mark Gray	2,000,000	3,000,000	-	-	5,000,000
Malcolm Carson	750,000	750,000	-	-	1,500,000
Larry Cook	-	-	-	-	-
Jonathan Reynolds	1,250,000	1,500,000	-	-	2,750,000
Dan Farmer	1,500,000	1,200,000	-	-	2,700,000
Angela Waterman	1,500,000	-	-	-	1,500,000
	7,000,000	6,450,000	-	-	13,450,000

	Vested and exercisable	Unvested and unexercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
Mark Gray	500,000	4,500,000	5,000,000
Malcolm Carson	500,000	1,000,000	1,500,000
Larry Cook	-	-	-
Jonathan Reynolds	312,500	2,437,500	2,750,000
Dan Farmer	500,000	2,200,000	2,700,000
Angela Waterman	500,000	1,000,000	1,500,000
	2,312,500	11,137,500	13,450,000

Loans to key management personnel and their related parties

There were no loans made to key management personnel and their related parties during the financial year ended 30 June 2020.

Other transactions with key management personnel and their related parties

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

- Gray Corporate Law Ltd, a related party of Mark Gray, totalling \$143,750
- Gray Corporate Ltd, a related party of Mark Gray, totalling \$187,263
- Mineral Resource Consultants Pty Ltd, a related party of Malcolm Carson, totalling \$31,500
- Cook Consulting Services, a related party of Larry Cook, totalling \$128,731
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$172,500
- Coalsense Consulting Inc, a related party of Dan Farmer, totalling \$233,841

Expenses reimbursements paid to related parties:

- Gray Corporate Law Ltd, a related party of Mark Gray, totalling \$135,529
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$19,552

This concludes the remuneration report, which has been audited.

Performance rights

Unissued ordinary shares of Allegiance Coal Limited subject to performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number
3 December 2019	Note 1	\$-	12,500,000

Note 1:

- 3,750,000 Class B Performance Rights which will vest upon Completion of the New Elk Mine acquisition, expiring 2 June 2021;
- 1,250,000 Class C Performance Rights which will vest on completion of the commissioning of the New Elk Mine and commencement of production, expiring 2 February 2022;
- 3,750,000 Class D Performance Rights which will vest on the sale of the first 500,000 metric tonnes of coal from the New Elk Mine, expiring 2 December 2022; and
- 3,750,000 Class E Performance Rights which will vest on the sale of the second 500,000 metric tonnes of coal from the New Elk Mine, expiring 2 December 2023.

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

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
6 December 2017	6 December 2020	\$0.05	5,000,000
6 December 2017	6 December 2022	\$0.075	9,250,000
3 December 2019	3 December 2024	\$0.28	6,450,000

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

Shares issued on the exercise of options

There were no ordinary shares of Allegiance Coal Limited issued on the exercise of options during the year ended 30 June 2020 and up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

Non-audit services

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

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 77.

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

Mark Gray
Chairman

7 September 2020
Sydney

Corporate governance statement

30 June 2020

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

THE BOARD OF DIRECTORS

The Board determines the corporate governance arrangements of the Company.

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

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

ROLE OF THE BOARD

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

The Board's responsibilities, in summary, include:

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

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

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

COMPOSITION OF THE BOARD

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

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

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

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

Malcolm Carson – Non-executive Director

Larry Cook – Non-executive Director – Appointed 23 July 2019

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

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

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

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

In making decisions regarding the appointment of Directors, the Board assesses the appropriate mix of skills, experience and expertise required by the Board and assesses the extent to which the required skills and experience are represented on the Board. When a vacancy exists, the Board determines the selection criteria based on the skills deemed necessary. The Board identifies potential candidates, and

if appropriate, will utilise an external consultant to assist in identifying potential candidates. The Board then appoints the most suitable candidate.

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

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

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

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

THE ROLE OF THE CHAIRMAN

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

Following the retirement of David Fawcett as independent non-executive Chairman, for the present, given the Company's current stage of development, the Company's Managing Director, Mark Gray, has assumed the role of Chairman.

BOARD COMMITTEES

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

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

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

Remuneration and Nomination Committee

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

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

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

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

Audit and Risk Committee

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

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

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

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

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

BOARD MEETINGS

- The Directors may determine the quorum necessary for the transaction of business at a meeting, however, until otherwise determined, there must be two Directors present at a meeting to constitute a quorum.
- The Board will schedule formal Board meetings at least quarterly and hold additional meetings, including by telephone, as may be required.
- Non-executive Directors may confer at scheduled times without management being present.
- The minutes of each Board meeting shall be prepared by the Company Secretary, approved by the Chairman and circulated to Directors after each meeting.
- The Company Secretary shall ensure that the business at Board and committee meetings is accurately captured in the minutes.

- The Company Secretary shall co-ordinate the timely completion and distribution of Board and committee papers for each meeting of the Board and any committee.
- Minutes of meetings must be approved at the next Board meeting.
- Further details regarding Board meetings are set out in the Company's Constitution.

COMPANY SECRETARY

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

PERFORMANCE EVALUATION AND REMUNERATION

Performance Evaluation

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

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

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

Director and Executive Remuneration

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

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

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

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

- performance is formally assessed each year as part of the Company's formal employee performance review process;
- all senior management are assessed in terms of their achievement of agreed KPIs (both financial and non-financial) for the period;

- there is a strong link between the outcomes of this performance review process and the subsequent remuneration review as outlined in the Remuneration Report; and
- senior management are provided with access to continuing education to update and enhance their skills and knowledge.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

GOVERNANCE POLICIES

Integrity, ethical standards and compliance

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

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

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

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

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

Dealing in Securities

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

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

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

Diversity

The Board has adopted a Diversity Policy which describes the Company's commitment to ensuring a diverse mix of skills and talent exists amongst its directors, officers and employees, to enhance

Company performance. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of directors, officers and employees. The Diversity Policy outlines the process by which the Board may set measurable objectives to achieve the aims of its Diversity Policy. The Board is responsible for monitoring Company performance in meeting the Diversity Policy requirements, including the achievement of any diversity objectives.

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

Health, safety and environment

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

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

CONTINUOUS DISCLOSURE AND COMMUNICATIONS WITH SHAREHOLDERS

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

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

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

CONTINUOUS REVIEW OF CORPORATE GOVERNANCE

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

ASX CORPORATE GOVERNANCE COUNCIL'S PRINCIPLES AND RECOMMENDATIONS

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

		Governance Statement
2.2	A listed entity should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.	Comply
2.3	A listed entity should disclose: (a) the names of the Directors considered by the Board to be independent Directors; (b) if a Director has an interest, position, association or relationship of the type described in Box 2.3 but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and (c) the length of service of each Director.	Comply
2.4	A majority of the Board of a listed entity should be independent Directors.	Does not comply. Refer to "Composition of the Board" in the Corporate Governance Statement
2.5	The chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.	Does not comply. Refer to "The Role of the Chairman" in the Corporate Governance Statement
2.6	A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.	Comply
	Principle 3: Act ethically and responsibly	
3.1	A listed entity should: (a) have a code of conduct for its Directors, senior executives and employees; and (b) disclose that code or a summary of it.	Comply
	Principle 4: Safeguard integrity in corporate reporting	
4.1	The Board of a listed entity should have an Audit Committee which: (1) has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and (2) is chaired by an independent Director, who is not the chair of the Board, and disclose: (i) the charter of the committee; (ii) the relevant qualifications and experience of the members of the committee; and (iii) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.	Does not comply. Refer to "Audit and Risk Committee" in the Corporate Governance Statement
4.2	The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the	Comply

	opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Comply
	Principle 5: Make timely and balanced disclosure	
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	Comply
	Principle 6: Respect the rights of security holders	
6.1	A listed entity should provide information about itself and its governance to investors via its website.	Comply
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Comply
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Comply
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Comply
	Principle 7: Recognise and manage risk	
7.1	The Board of a listed entity should have a committee or committees to oversee risk, each of which: (a) has at least three members, a majority of whom are independent Directors; and (b) is chaired by an independent Director, and disclose: (i) the charter of the committee; (ii) the members of the committee; and (iii) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.	Does not comply. Currently risk and risk mitigation is managed by the Board as a whole.
7.2	The Board or a committee of the Board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place.	Comply
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	Comply
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Comply
	Principle 8: Remunerate fairly and responsibly	
8.1	The Board of a listed entity should have a remuneration committee which: (a) has at least three members, a majority of whom are independent Directors; and (b) is chaired by an independent Director, and disclose: (i) the charter of the committee; (ii) the members of the committee; and (iii) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.	Does not comply. Refer to "Remuneration and Nomination Committee" in the Corporate Governance Statement

8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.	Comply
8.3	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	Comply

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

Statement of comprehensive income

For the year ended 30 June 2020

	Note	Consolidated	
		2020	2019
		\$	\$
Revenue	5	2,165	7,293
Expenses			
Employee benefits expense	6	(2,490,738)	(832,745)
Finance costs expense	6	(1,799,454)	(55,783)
Investor relations		(48,322)	(59,468)
Legal fees		(54,852)	(21,697)
Listing expense		(58,918)	(47,839)
Net foreign exchange (loss) / gain		(52,378)	154,136
New Elk project expenses		(4,190,909)	-
Travel expenses		(180,722)	(220,847)
Other expenses		(341,808)	(412,292)
Loss before income tax benefit		(9,215,936)	(1,489,242)
Income tax benefit	7	-	-
Loss after income tax benefit for the year attributable to			
Equity holders of the Company		(9,184,486)	(1,469,137)
Minority interest		(31,450)	(20,105)
Loss for the year		(9,215,936)	(1,489,242)
<i>Other comprehensive income for the year, net of tax</i>			
Foreign exchange movement		272,168	(4,730)
Gain on dilution of interest in subsidiary		986,567	952,585
Total comprehensive loss for the year attributable to the owners of Allegiance Coal Limited		(7,957,201)	(541,387)
		Cents	Cents
Basic loss per share	30	(1.60)	(0.30)
Diluted loss per share	30	(1.50)	(0.27)

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

Statement of financial position

As at 30 June 2020

	Note	Consolidated	
		2020	2019
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	8	442,055	2,595,626
Trade and other receivables	9	75,926	101,475
Other	10	96,355	47,438
Total current assets		<u>614,336</u>	<u>2,744,539</u>
Non-current assets			
Exploration and evaluation asset	11	<u>21,070,371</u>	<u>16,508,615</u>
Total non-current assets		<u>21,070,371</u>	<u>16,508,615</u>
Total assets		<u><u>21,684,707</u></u>	<u><u>19,253,154</u></u>
Liabilities			
Current liabilities			
Trade and other payables	12	718,859	1,913,538
Borrowings	13	4,537,591	962,761
Total current liabilities		<u>5,256,450</u>	<u>2,876,299</u>
Non-current liabilities			
Borrowings	13	-	655,533
Total non-current liabilities		<u>-</u>	<u>655,533</u>
Total liabilities		<u>5,256,450</u>	<u>3,531,832</u>
Net assets		<u><u>16,428,257</u></u>	<u><u>15,721,322</u></u>
Equity			
Issued capital	14	33,528,305	27,423,519
Reserves	15	2,428,963	243,878
Accumulated losses	16	<u>(20,746,304)</u>	<u>(12,548,385)</u>
Total equity attributable to equity holders of the Company		15,210,964	15,119,012
Minority interest	18	<u>1,217,293</u>	<u>602,310</u>
Total equity		<u><u>16,428,257</u></u>	<u><u>15,721,322</u></u>

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

Statement of changes in equity

For the year ended 30 June 2020

Consolidated	Issued capital \$	General reserve \$	Share based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Minority interest \$	Total equity \$
Balance at 1 July 2019	27,423,519	16	318,867	(75,005)	(12,548,385)	602,310	15,721,322
Loss after income tax benefit for the year	-	-	-	-	(9,184,486)	(31,450)	(9,215,936)
Other comprehensive income for the year, net of tax	-	-	-	272,168	-	-	272,168
Dilution of interest in subsidiary at fair value	-	-	-	-	986,567	646,433	1,633,000
<i>Total comprehensive income for the year</i>	-	-	-	<i>272,168</i>	<i>(8,197,919)</i>	<i>614,983</i>	<i>(7,310,768)</i>
<i>Transactions with owners in their capacity as owners:</i>							
Share issues for cash	5,684,290	-	-	-	-	-	-
Costs of share issues	(380,504)	-	-	-	-	-	-
Shares issued to settle debt	476,000	-	-	-	-	-	476,000
Shares issued on performance rights vesting	325,000	-	-	-	-	-	325,000
Share based payments	-	-	1,912,917	-	-	-	1,912,917
Balance at 30 June 2020	33,528,305	16	2,231,784	197,163	(20,746,304)	1,217,293	16,428,257

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

Statement of changes in equity

For the year ended 30 June 2020 (continued)

Consolidated	Issued capital	General reserve	Share based payment reserve	Foreign currency translation reserve	Accumulated losses	Minority interest	Total equity
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2018	22,775,212	16	633,900	(70,275)	(12,429,095)	-	10,909,758
Loss after income tax benefit for the year	-	-	-	-	(1,469,137)	(20,105)	(1,489,242)
Other comprehensive income for the year, net of tax	-	-	-	(4,730)	-	-	(4,730)
Dilution of interest in subsidiary at fair value	-	-	-	-	952,585	622,415	1,575,000
<i>Total comprehensive income for the year</i>	-	-	-	(4,730)	(516,552)	602,310	81,028
<i>Transactions with owners in their capacity as owners:</i>							
Share issues for cash	4,979,141	-	-	-	-	-	4,979,141
Costs of share issues	(330,834)	-	-	-	-	-	(330,834)
Options lapsed or expired	-	-	(397,262)	-	397,262	-	-
Share based payments	-	-	82,229	-	-	-	82,229
Balance at 30 June 2019	27,423,519	16	318,867	(75,005)	(12,548,385)	602,310	15,721,322

* 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 2020

	Note	Consolidated	
		2020	2019
		\$	\$
Cash used in operating activities			
Payments to suppliers (inclusive of GST)		(4,512,146)	(1,692,463)
		(4,512,146)	(1,692,463)
Interest received		2,165	7,293
Interest and other finance costs paid		(1,245,555)	(19,627)
Net cash used in operating activities	29	(5,755,536)	(1,704,797)
Cash used in investing activities			
Payments for exploration and evaluation		(5,603,767)	(5,801,206)
Net cash used in investing activities		(5,603,767)	(5,801,206)
Cash used in financing activities			
Share issues, net of costs		5,779,786	4,648,307
Borrowings raised		3,804,822	943,134
Contributions from Joint Venture partner		1,822,716	1,575,000
Repayments of borrowings		(2,201,592)	-
Net cash from financing activities		9,205,732	7,166,441
Net (decrease) / increase in cash and cash equivalents		(2,153,571)	(339,562)
Cash and cash equivalents at the beginning of the financial year		2,595,626	2,935,188
Cash and cash equivalents at the end of the financial year		442,055	2,595,626

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

Notes to the financial statements

30 June 2020

Note 1. General Information

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

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

Suite 107, 109 Pitt Street
Sydney NSW 2000

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

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

Going concern

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

For the year ended 30 June 2020 the consolidated entity reported a net loss of \$9,215,936 (2019: \$1,489,242) and net operating cash outflows of \$5,755,536 (2019: \$1,704,797). The operating cash outflows have been funded by cash inflows from equity raisings of \$5,779,786 (2019: \$4,648,307); project participation contributions from Itochu Corporation of Japan of \$1,822,716 (2019: \$1,575,000) and net borrowings of \$1,603,230 (2019: \$943,134) during the year. As at 30 June 2020 the consolidated entity had net current liabilities of \$4,642,114 (2019: \$131,760) including cash reserves of \$442,055 (2019: \$2,595,626).

The balance of these cash reserves may not be sufficient to meet the consolidated entity's planned expenditure and evaluation budget, including exploration activities, evaluation, operating and administrative expenditure, for the 12 months to 30 September 2021. In order to fully implement its exploration and evaluation strategy, the consolidated entity will require additional funds.

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

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

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

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

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding, the consolidated entity's ability to effectively manage its expenditures and cash flows from operations and

Notes to the financial statements

30 June 2020

the opportunity to farm-out participating interests in existing permits and rights, the Directors believe that the consolidated entity will continue to operate as a going concern for the foreseeable future. Therefore, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

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

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

Basis of Preparation

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

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

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

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Adoption of new and revised standards

In the year ended 30 June 2020, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current annual reporting period.

The Group has adopted AASB 16 with the date of initial application being 1 July 2019. AASB 16 eliminates the operating and finance lease classifications for lessees accounted for under AASB 117 *Leases*. It instead requires an entity to bring most leases into its statement of financial position in a similar way to how finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its statement of financial position for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. The Group has elected to apply the modified retrospective approach available under the AASB 16 when transitioning to the new standard, whereby the Company will record a right of use asset at the date of initial application of leases previously classified as an operating lease applying AASB 117, and measures that right of use asset at an amount equal to the lease liability, adjusted by the amount of any

Notes to the financial statements

30 June 2020

prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2020. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change necessary to Group accounting policies.

Statement of Compliance

The financial report was authorised for issue, in accordance with a resolution of directors, on 7 September 2020. The directors have the power to amend and reissue the financial statements.

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

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 26.

Note 2. Significant accounting policies

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Allegiance Coal Limited ('Company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. Allegiance Coal Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

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

Notes to the financial statements

30 June 2020

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.

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

Trade and other receivables

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

Investments and other financial assets

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

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

Notes to the financial statements

30 June 2020

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

Leases

Right of use asset

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group recognises the lease payments as an expense on a straight line basis over the lease term.

Notes to the financial statements

30 June 2020

The Group has elected not to recognise right of use assets and lease liabilities for short term leases and low value assets

Intangible assets

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

Impairment of non-financial assets

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

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

Trade and other payables

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

Borrowings

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

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

Finance costs

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

Foreign currency translation

The functional and presentation currency of Allegiance Coal Limited and its Australian subsidiaries is Australian dollars (A\$). Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the financial reporting

Notes to the financial statements

30 June 2020

period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss.

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

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

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

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

Superannuation expense

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

Share-based payments

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

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

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

Notes to the financial statements

30 June 2020

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

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

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

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

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

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

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

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

Fair value measurement

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

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

Notes to the financial statements

30 June 2020

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.

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.

Notes to the financial statements

30 June 2020

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.

Note 3. Critical accounting judgements, estimates and assumptions

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

Income tax

The benefit of the tax losses has not been brought to account at 30 June 2020 because the directors do not believe it is appropriate to regard realisation of the deferred tax asset as being probable at this point in time. These tax losses are also subject to final determination by the Taxation authorities when the consolidated entity derives a taxable income. The benefits will only be realised if:

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

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

Notes to the financial statements

30 June 2020

Exploration and evaluation asset

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

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

The Telkwa metallurgical coal project has yet to reach a stage of development where a determination of the technical feasibility or commercial viability can be finally assessed. Whilst the project is not currently generating cash flow, the Company is of the view that the area of interest will contribute significant value in the future and that this value will be in excess of the current value of the capitalised costs. In these circumstances, whether there is any indication that the asset has been impaired is a matter of judgement, as is the determination of the quantum of any required impairment adjustment. The Directors have used their experience to conclude that no impairment adjustment is required in the current year ended 30 June 2020 (refer to note 11).

Share-based payment transactions

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

Note 4. Segment reporting

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

Identification of reportable operating segments

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

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

Major customers

During the year ended 30 June 2020 there were no major customers who derive more than 10% of the consolidated entity's revenue (2019: none derived from major customers). Interest from cash deposits in banking institutions account for \$2,165 (2019: \$7,293).

Notes to the financial statements

30 June 2020

Note 5. Revenue

	Consolidated	
	2020	2019
	\$	\$
Interest	2,165	7,293
Other revenue	-	-
Revenue	<u>2,165</u>	<u>7,293</u>

Note 6. Expenses

	Consolidated	
	2020	2019
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest, finance charges and finance related expense	<u>1,799,454</u>	<u>55,783</u>
<i>Rental expenses</i>		
Minimum lease payments	<u>82,520</u>	<u>79,712</u>
<i>Employee benefits expense</i>		
Superannuation expense	-	-
Employee benefits expense	577,822	750,516
Share based payment	<u>1,912,916</u>	<u>82,229</u>
Total employee benefits expense	<u>2,490,738</u>	<u>832,745</u>

The weighted average interest rate on the Company's borrowings is 33% (2019: 9.6%).

Note 7. Income tax

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

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

Notes to the financial statements

30 June 2020

Note 7. Income tax (continued)

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

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

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

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

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

	Consolidated	
	2020	2019
	\$	\$
<i>Income tax benefit</i>		
<i>Current Tax</i>	-	-
<i>Aggregate income tax benefit</i>	-	-
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
<i>Loss before income tax benefit</i>	(9,215,936)	(1,489,242)
Tax at the statutory tax rate of 27.5%	(2,534,382)	(409,542)
Tax effect amounts which are not deductible in calculating taxable income:		
Impairment of assets	-	-
	(2,534,382)	(409,542)
Current year tax losses not recognised	2,534,382	409,542
Income tax benefit	-	-

Notes to the financial statements

30 June 2020

Note 7. Income tax (continued)

	Consolidated	
	2020	2019
	\$	\$
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	20,595,369	11,379,433
Potential tax benefit at 27.5%	5,663,726	3,129,344

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

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2020	2019
	\$	\$
Cash at bank	442,055	2,595,626
	442,055	2,595,626

Note 9. Current assets - trade and other receivables

	Consolidated	
	2020	2019
	\$	\$
GST recoverable	75,926	101,475
	75,926	101,475

Receivables are neither past due nor impaired.

Note 10. Current assets - other

	Consolidated	
	2020	2019
	\$	\$
Prepayments	96,355	47,438
	96,355	47,438

Notes to the financial statements

30 June 2020

Note 11. Non-current assets - exploration and evaluation

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

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

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

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

	Consolidated	
	2020	2019
	\$	\$
Exploration and evaluation - at cost and fair value	24,609,487	20,047,731
Less: Impairment	<u>(3,539,116)</u>	<u>(3,539,116)</u>
	<u>21,070,371</u>	<u>16,508,615</u>

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

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

Notes to the financial statements

30 June 2020

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

Reconciliations

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

Consolidated	Exploration and evaluation	Total
	\$	\$
Balance at 1 July 2018	9,065,712	9,065,712
Additions – Telkwa metallurgical coal project	7,023,147	7,023,147
Foreign exchange movement	419,756	419,756
Balance at 30 June 2019	16,508,615	16,508,615
Additions – Telkwa metallurgical coal project	4,265,378	4,265,378
Foreign exchange movement	296,378	296,378
Balance at 30 June 2020	21,070,371	21,070,371

In December 2017, the consolidated entity entered into an agreement to acquire from Altius Minerals Corporation (Altius), 100 percent ownership of all the rights to coal licences that make up the Telkwa metallurgical coal project (Project) (Acquisition). Up until the Acquisition, the consolidated entity had earned 20 percent Project ownership, and had the right to earn up to 90 percent Project ownership upon satisfaction of several milestones. The remaining 10 percent Project ownership would be retained by Altius who had a free carry on its Project equity. In consideration for the issue to Altius of 40.6 million ordinary shares in the Company and the continued performance of the milestone obligations (as set out in the table below, which table incorporates an amendment agreed to in the year ended 30 June 2019), Altius agreed to transfer full ownership of the Telkwa Project to the consolidated entity. As security against the performance of the milestone obligations, the consolidated entity has provided a charge over the Telkwa Project. The charge shall be subordinated to Project debt finance.

Milestone	Payment Commitment *	Payable
File mine permit applications	C\$500,000	C\$300,000 upon milestone C\$200,000 18 months later
Grant of small mine** permits	C\$500,000	Upon milestone
Sale of 100k tonnes from a small mine**	C\$2 million	Upon milestone
Grant of major mine** permits	C\$2 million	12 months after milestone
Sale of 500k tonnes from a major mine**	C\$5 million	12 months after milestone

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

** a small mine is defined as one permitted to produce up to 250,000 saleable tpa and a major mine is one permitted to produce more than 250,000 saleable tpa.

Impairment

The Telkwa metallurgical coal project has yet to reach a stage of development where a final determination of the technical feasibility or commercial viability can be assessed. In these circumstances, whether there is any indication that the asset has been impaired is a matter of judgement, as is the determination of the quantum of any required impairment adjustment. The Directors have used their experience to conclude that no impairment adjustment is required in the current year ended 30 June 2020.

Notes to the financial statements

30 June 2020

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

Going concern

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

For the year ended 30 June 2020 the consolidated entity reported a net loss of \$9,215,936 (2019: \$1,489,242) and net operating cash outflows of \$5,755,536 (2019: \$1,704,797). The operating cash outflows have been funded by cash inflows from equity raisings of \$5,779,786 (2019: \$4,648,307); project participation contributions from Itochu Corporation of Japan of \$1,822,716 (2019: \$1,575,000) and net borrowings of \$1,603,230 (2019: \$943,134) during the year. As at 30 June 2020 the consolidated entity had net current liabilities of \$4,642,114 (2019: \$131,760) including cash reserves of \$442,055 (2019: \$2,595,626).

The balance of these cash reserves may not be sufficient to meet the consolidated entity's planned expenditure and evaluation budget, including exploration activities, evaluation, operating and administrative expenditure, for the 12 months to 30 September 2021. In order to fully implement its exploration and evaluation strategy, the consolidated entity will require additional funds.

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

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

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

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

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

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

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

Notes to the financial statements

30 June 2020

Note 12. Current liabilities - trade and other payables

	Consolidated	
	2020	2019
	\$	\$
Trade payables – other entities	331,642	1,022,189
Other payables	387,217	891,349
	<u>718,859</u>	<u>1,913,538</u>

Refer to note 19 for further information on financial instruments.

Note 13. Borrowings

	Consolidated	
	2020	2019
	\$	\$
Current		
Promissory Notes	-	943,134
Secured Loan – Nebari Natural Resources Credit Fund I LP	3,804,822	-
Finance charges accrued	546,408	19,627
Itochu Corporation advances to Telkwa Coal Ltd	186,361	-
	<u>4,537,591</u>	<u>962,761</u>
Non-Current		
Loan - Gullewa Limited	-	659,000
Less : Present value discount of Gullewa Ltd loan	-	(108,466)
Add : Unwinding of present value discount of Gullewa Ltd loan	-	104,999
	-	<u>655,533</u>

Refer to note 19 for further information on financial instruments.

In February 2020, the consolidated entity secured a bridging loan with a face value of US\$3.75 million from US based Nebari Natural Resources Credit Fund I LP (Nebari), receiving a cash injection of US\$2.5M. The Loan has been applied to the group's general working capital requirements in connection with both the Tenas metallurgical coal project and the New Elk mine acquisition; and to repay both the Gullewa loan and the promissory notes, as set out below. The Loan, which is secured over the assets of the consolidated entity (excluding the shares in Telkwa Coal Limited (TCL)), does not bear interest but is repayable by paying the Loan face value to Nebari upon the earlier of TCL receiving the C\$3.6M tranche 3 payment from Itochu Corporation (Itochu), or 31 December 2020.

Itochu advances to TCL, which are in addition to the tranche 1 to 3 payments, relate to amounts received from Itochu pro-rata to its shareholding in TCL, pending lodgement by TCL of the Tenas metallurgical coal project environmental assessment application. Itochu have agreed to capitalise their loan pro-rata to their equity interest in TCL following lodgement of the application. Accordingly, the advances, which are interest free and unsecured, are quasi-equity.

Notes to the financial statements

30 June 2020

Note 13. Borrowings (continued)

In 2011, the consolidated entity entered loan facility agreements with Gullewa Ltd. On 4 August 2016 the parties entered a deed of loan variation, whereby Gullewa was paid \$1,104,000 in partial satisfaction of the amount owed to it under the 2011 agreements. The balance outstanding of \$659,000, which was unsecured, was interest free until 4 August 2019, after which interest accrued daily and was capitalised monthly, at a rate of BBSW + 4%, on the unpaid balance.

As the loan contained an interest-free period, AASB 9 *Financial Instruments* required the full amount of \$659,000 to be discounted back to present value. Using prevailing market interest rates for an equivalent loan of 5.995%, the fair value of the loan at 4 August 2016 was estimated at \$550,534. The difference of \$108,466 was the benefit derived from the interest-free period of the loan and was recognised as a deferred expense. A total of \$108,466 represents the unwinding of the present value discount up to 30 June 2020 (30 June 2019 : \$104,999).

In March 2020, the Company agreed to repay the remaining Gullewa loan balance in full and allotted 6.8 million shares to Gullewa in connection with the settlement of the loan.

In April 2019, the Company issued unsecured promissory notes with a face value totalling \$1,048,322, bearing an implied interest rate of 12% pa. The promissory notes were repaid in full during the year under review.

Notes to the financial statements

30 June 2020

Note 14. Equity – Issued Capital

Issued capital

	Consolidated			
	2020		2019	
	\$		\$	
Ordinary shares - fully paid			27,423,519	
Consolidated	2020 Number	2019 Number	2020 \$	2019 \$
Balance at 1 July	545,681,260	465,195,159	27,423,519	22,775,212
Shares issued for cash in September 2018		45,970,287		2,390,455
Less costs				(135,000)
Shares issued for cash in June 2019		34,515,814		2,588,686,
Less costs				(195,834)
Shares issued for cash in August 2019	801,666		60,125	
Less costs			(1,922)	
Shares issued for cash in September 2019	22,017,871		3,082,502	
Less costs			(248,651)	
Shares issued for cash in October 2019	4,425,688		619,600	
Less costs			(17,961)	
Shares vesting from performance rights	2,500,000		325,000	
Less costs			(3,157)	
Shares issued for cash in April 2020	32,034,376		1,922,063	
Less costs			(108,813)	
Shares issued on loan settlement	6,800,000		476,000	
Balance at 30 June	614,260,861	545,681,260	33,528,305	27,423,519

In June 2019, the Company completed a placement of 34.52 million ordinary shares to sophisticated and professional investors raising \$2.59 million, before costs. Directors subscribed for 801,666 shares to raise \$60,125 as part of this raising, which allotment was approved by shareholders in August 2019. The capital was raised to fund the studies and assessments required to support the Texas Project mine permit application process.

In September 2019, the Company completed a placement of 22.02 million ordinary shares to sophisticated and professional investors raising \$3.08 million, before costs. At the same time, the Company offered a share purchase plan to eligible shareholders, which closed in October 2019, raising \$619,600 and leading to the allotment of 4.4 million shares. The capital was raised to fund the definitive feasibility study, mine plan and costs in connection with the planned acquisition of the New Elk hard coking coal mine and the studies and assessments required to support the Texas Project mine permit application process.

Following shareholder approval, in December 2019, the Company allotted 2.5 million shares, with a deemed value of \$325,000, upon performance rights meeting their vesting conditions.

Notes to the financial statements

30 June 2020

Note 14. Equity – Issued Capital (continued)

In April 2020, the Company completed a placement of 32.03 million ordinary shares to sophisticated and professional investors raising \$1.92 million, before costs. The capital was raised to fund costs in connection with the planned acquisition of the New Elk hard coking coal mine and the studies and assessments required to support the Tenas Project mine permit application process.

In June 2020, the Company allotted 6.8 million shares, with a deemed value of \$476,000, to Gullewa Ltd in connection with the settlement of the loan owing to that company.

Ordinary shares

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

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.

Performance rights

Performance rights of Allegiance Coal Limited on issue, subject to vesting conditions, at 30 June 2020 are 12,500,000 (2019: nil).

Options

Unissued ordinary shares of Allegiance Coal Limited under option at 30 June 2020 are 20,750,000 (2019: 14,250,000).

Capital risk management

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

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

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

There are no externally imposed capital requests. The capital risk management policy remains unchanged from the 30 June 2019 Annual Report.

Notes to the financial statements

30 June 2020

Note 15. Equity - reserves

	Consolidated	
	2020	2019
	\$	\$
General reserve	16	16
Share-based payments reserve	2,231,784	318,867
Foreign currency translation reserve	197,163	(75,005)
	<u>2,428,963</u>	<u>243,878</u>

Share-based payments reserve

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

Foreign currency translation reserve

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

Movements in reserves

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

	General	Share-based	Foreign	Total
Consolidated	\$	payment	currency	\$
		\$	translation	
			\$	
Balance at 1 July 2018	16	633,900	(70,275)	563,641
Grant of options	-	82,229	-	82,229
Options lapsed or expired	-	(397,262)	-	(397,262)
Foreign exchange movement	-	-	(4,730)	(4,730)
Balance at 30 June 2019	16	318,867	(75,005)	243,878
Grant of performance rights and share options	-	1,912,917	-	1,912,917
Foreign exchange movement	-	-	272,168	272,168
Balance at 30 June 2020	16	2,231,987	197,163	2,428,963

Notes to the financial statements

30 June 2020

Note 16. Equity - accumulated losses

	Consolidated	
	2020	2019
	\$	\$
Accumulated losses at the beginning of the financial year	(12,548,385)	(12,429,095)
Loss after income tax benefit for the year attributable to equity holders of the Company	(9,184,486)	(1,469,137)
Gain on dilution of interest in subsidiary	986,567	952,585
Employee share options lapsed or expired	-	397,262
Accumulated losses at the end of the financial year	(20,746,304)	(12,548,385)

Note 17. Equity - dividends

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

Note 18. Minority interest

	Consolidated	
	2020	2019
	\$	\$
Minority interest at the beginning of the financial year	602,310	-
Dilution of interest in subsidiary at fair value	646,433	622,415
Loss after income tax benefit for the year attributable to minority interest	(31,450)	(20,105)
Minority interest at the end of the financial year	1,217,293	602,310

Notes to the financial statements

30 June 2020

Note 19. Financial instruments

Financial risk management objectives

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

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

Market risk

Foreign currency risk

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

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

Commodity price risk

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

Interest rate risk

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

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

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

Notes to the financial statements

30 June 2020

Note 19. Financial instruments (continued)

	2020		2019	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Consolidated				
Cash and cash equivalents	0.1%	442,055	0.1%	2,595,626
Loans	-	-	9.6%	(1,618,294)
Net exposure to cash flow interest rate risk		442,055		977,332

Consolidated – 2020	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Cash and cash equivalents	200	8,841	8,841	200	(8,841)	(8,841)
Loans	200	-	-	200	-	-
		8,841	8,841		(8,841)	(8,841)

Consolidated – 2019	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Cash and cash equivalents	200	51,913	51,913	200	(51,913)	(51,913)
Loans	200	(32,366)	(32,366)	200	32,366	32,366
		19,547	19,547		(19,547)	(19,547)

Credit risk

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

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

Notes to the financial statements

30 June 2020

Note 19. Financial instruments (continued)

Liquidity risk

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

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

Remaining contractual maturities

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

Consolidated – 2020	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	331,642	-	-	-	331,642
Other payables	-%	387,217	-	-	-	387,217
<i>Interest-bearing - fixed</i>						
Loans	-%	5,464,083	-	-	-	5,464,083
Total non-derivatives		6,182,942	-	-	-	6,182,942
Consolidated – 2019	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	1,022,189	-	-	-	1,022,189
Other payables	-%	891,349	-	-	-	891,349
<i>Interest-bearing - fixed</i>						
Loans	12%	1,048,322	-	-	-	1,048,322
<i>Interest-bearing - variable</i>						
Loans	5.995%	-	-	742,846	-	742,846
Total non-derivatives		2,961,860	-	742,846	-	3,704,706

Notes to the financial statements

30 June 2020

Note 19. Financial instruments (continued)

Credit risk

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

Fair value of financial instruments

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

Note 20. Fair value measurement

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

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

Note 21. Key management personnel disclosures

Directors

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

- Mark Gray (Managing Director and Chairman)
- Malcolm Carson (Non-executive Director)
- Larry Cook (Non-executive Director, appointed 23 July 2019)
- Jonathan Reynolds (Finance Director)

Compensation

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

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	1,079,461	1,089,977
Post-employment benefits	-	-
Share-based payments	937,916	-
	<u>2,017,377</u>	<u>1,089,977</u>

Loans to key management personnel and their related parties

There were no loans made to key management personnel and their related parties during the financial year ended 30 June 2020 or 30 June 2019.

Notes to the financial statements

30 June 2020

Note 21. Key management personnel disclosures (continued)

Other transactions with key management personnel and their related parties

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

- Gray Corporate Law Ltd, a related party of Mark Gray, totalling \$143,750
- Gray Corporate Ltd, a related party of Mark Gray, totalling \$187,263
- Mineral Resource Consultants Pty Ltd, a related party of Malcom Carson, totalling \$31,500
- Cook Consulting Services, a related party of Larry Cook, totalling \$128,731
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$172,500
- Coalsense Consulting Inc, a related party of Dan Farmer, totalling \$233,841

Expenses reimbursements paid to related parties:

- Gray Corporate Law Ltd, a related party of Mark Gray, totalling \$135,529
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$19,552

Note 22. Remuneration of auditors

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

	Consolidated	
	2020	2019
	\$	\$
<i>Audit and review of the financial statements – SCS Audit & Corporate Services Pty Ltd</i>	25,000	24,000
	<u>25,000</u>	<u>24,000</u>

Note 23. Contingent assets and liabilities

	Contingent assets	Contingent liabilities
Consolidated	\$	\$
Balance at 30 June 2019	-	-
New Elk Mine acquisition	58,591,670	58,591,670
Lorencito property coal leases	5,478,654	5,478,654
Balance at 30 June 2020	<u>64,070,324</u>	<u>64,070,324</u>

In July 2019, the Company entered into a binding and conditional terms sheet with Cline Mining Corporation (Cline) to acquire all the shares in the New Elk Coal Company, LLC, (NECC), which company owns the New Elk hard coking coal project located in southeast Colorado, United States (Mine). In January 2020, the Company concluded the binding agreement to acquire NECC, following shareholder approval received at the 2019 annual general meeting for the change in the scale of the Company's activities which will occur following the acquisition.

The key aspects of the planned acquisition are:

- The purchase price for the shares in NECC is US\$1, payable on completion.
- NECC is debt free, except for debt owing to Cline totalling C\$55M (Cline Debt), payable as set out below. The Cline Debt is interest free with a repayment maturity of ten years.

Notes to the financial statements

30 June 2020

Note 23. Contingent assets and liabilities (continued)

- The Mine is fully constructed and permitted for the production of hard coking coal.
- The Mine is near rail and can supply coal to both international and domestic markets.

The Cline Debt is repayable as follows:

- On completion US\$3M in cash to be funded from the replacement and release to the consolidated entity of a US\$5M cash reclamation bond held by the State of Colorado in relation to the New Elk Mine with an insurance bond;
- On completion US\$3M in Allegiance ordinary shares at a deemed issue price equal to the higher of A\$0.08 per share or the 20-day VWAP and these shares will be subject to 12 months' voluntary escrow;
- A cash payment of US\$6M on or prior to the commencement of the commercial production of coal (defined as the operation of one production unit on at least a five day and night schedule), no later than 1 September 2021. If commercial production of coal does not occur by 31 March 2021, Allegiance must pay US\$1M to Cline. Allegiance may, at its option, make this payment in cash, or shares in Allegiance. and
- Post completion, 60% of NECC's retained earnings after NECC makes provision for any preferred debt payments (NECC is entitled to secure US\$40M of preferred debt over the Cline Debt), and provision for sustaining and working capital requirements.

Completion of the New Elk Mine acquisition is anticipated to occur within the first half of the 2021 financial year. The assets to be acquired include rights to coal resources and reserves, a coal handling and preparation plant, production equipment, underground and above ground mine infrastructure, a power sub-station; office buildings, wash-house, warehouse and workshop; and surface support equipment.

In April 2020, the Company entered into coal lease agreements to mine and sell all the coal comprised in the Lorencito property (Lorencito Property) which neighbours the New Elk Mine. The Lorencito Property contains the same coal bearing units that exist in the New Elk Mine including many of the same coal seams, but of particular interest to the consolidated entity is the Primero seam. The Lorencito Property is permitted for coal production but the permit will require an extension to enable the Primero seam to be mined. The Primero seam outcrops at surface providing low cost access to coal.

The lease provides for the following payments:

- US\$260,000 in cash on the completion of the acquisition of the New Elk Mine;
- US\$500,000 in cash upon completion of a feasibility study to the satisfaction of the Company;
- US\$1,000,000 upon securing permits to mine coal in the Lorencito Property;
- US\$2,000,000 upon the production of the first one million tonnes of clean coal;
- A production royalty linked to the selling price achieved for the coal;
- 2.5% of the equity in the company that will own the New Elk Mine, once the Lorencito Property is in production, and that equity interest will be non-dilutionary up to the capital cost required to reach 3Mt of annual saleable coal production.

The consolidated entity has no contingent assets or liabilities as at 30 June 2019.

Notes to the financial statements

30 June 2020

Note 24. Commitments

Operating leases

	Consolidated	
	2020	2019
	\$	\$
Within one year	49,990	48,983
One to five years	6,567	40,294
Later than five years	-	-
	<u>56,557</u>	<u>89,277</u>

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

Capital commitments - exploration and evaluation

	Consolidated	
	2020	2019
	\$	\$
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	200,000	200,000
One to five years	800,000	800,000
	<u>1,000,000</u>	<u>1,000,000</u>

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

Milestone	Payment Commitment *	Payable
File mine permit applications	C\$500,000	C\$300,000 upon milestone C\$200,000 18 months later
Grant of small mine** permits	C\$500,000	Upon milestone
Sale of 100k tonnes from a small mine**	C\$2 million	Upon milestone
Grant of major mine** permits	C\$2 million	12 months after milestone
Sale of 500k tonnes from a major mine**	C\$5 million	12 months after milestone

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

** a small mine is defined as one permitted to produce up to 250,000 saleable tpa and a major mine is one permitted to produce at more than 250,000 saleable tpa.

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

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

Notes to the financial statements

30 June 2020

Note 24. Commitments (continued)

Under the membership interests purchase agreement entered with Cline Mining Corporation relating to the acquisition of the New Elk metallurgical coal mine, the Company is required to contribute US\$150,000 per month, with effect from 1 August 2019 to care and maintenance costs until such time as the acquisition completes or is terminated.

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

Note 25. Related party transactions

Parent entity

Allegiance Coal Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 27.

Key management personnel

Disclosures relating to key management personnel are set out in note 21 and the remuneration report in the directors' report.

Terms and conditions

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

Notes to the financial statements

30 June 2020

Note 25. Related party transactions (continued)

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

Statement of comprehensive income

	Parent	
	2020	2019
	\$	\$
Loss after income tax	(8,880,253)	(1,067,599)
Total comprehensive loss	(8,880,253)	(1,067,599)

Statement of financial position

	Parent	
	2020	2019
	\$	\$
Total current assets	381,567	2,592,358
Total non-current assets	25,999,403	21,154,815
Total assets	26,380,970	23,747,173
Total current liabilities	4,543,376	1,047,029
Total liabilities	4,543,376	1,047,029
Net assets	21,837,594	22,700,144
Equity		
Issued capital	33,528,305	27,423,519
Share-based payments reserve	2,231,784	318,867
Accumulated losses	(13,922,495)	(5,042,242)
Total equity	21,837,594	22,700,144

Notes to the financial statements

30 June 2020

Note 26. Parent entity information

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 2020 and 30 June 2019 aside from the loans from Gullewa Ltd of \$nil (2019: 659,000).

Contingent assets liabilities

The parent entity contingent assets and liabilities as at 30 June 2020 are set out in note 23.

The parent entity had no contingent assets or liabilities as at and 30 June 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

Significant accounting policies

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

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

Note 27. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Telkwa Coal Limited	Canada	90%	95%
Allegiance Coal USA Limited	United States of America	100%	-
New Elk Coal Holdings LLC	United States of America	100%	-
Mineral & Coal Investments Pty Limited	Australia	100%	100%

Notes to the financial statements

30 June 2020

Note 28. Events after the reporting period

In July 2020, the Company announced it has secured up to \$8 million of funding by way of a secured convertible note issued to Mercer Street Global Opportunity Fund LLC, a New York based investment fund (Fund); \$662,000 to be drawn immediately with \$1,338,000 to be drawn following shareholder approval; and with further amounts to be drawn at the discretion of the parties subject to any required shareholder approval. In August 2020, following receipt of the first tranche of funds from the Fund, secured notes with a face value of \$772,105 maturing 5 August 2021 were issued; and simultaneously 738,770 ordinary shares were issued to the Fund in settlement of a \$50,000 fee attaching to the notes. The notes are convertible at the Fund's election into ordinary shares on the following terms : the conversion price is the lesser of A\$0.10, or 92% of the lowest daily VWAP of Allegiance shares selected by the Fund for the 10 trading days on which Allegiance shares are traded in the ordinary course of business on the ASX ending on the date immediately prior to a conversion notice, subject to a floor of A\$0.10 for the first two months following note execution. If the note is not converted, it will be repaid on maturity at its issued face value.

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

	Consolidated	
	2020	2019
	\$	\$
Loss after income tax benefit for the year	(9,215,936)	(1,489,242)
Adjustments for:		
Share-based payments	2,237,916	82,229
Present value discount of Nebari and Gullewa loan	549,875	36,155
Change in operating assets and liabilities:		
Decrease in trade and other receivables	12,463	10,297
Increase / (decrease) in trade and other payables	660,146	(344,236)
Net cash used in operating activities	<u>(5,755,536)</u>	<u>(1,704,797)</u>

Notes to the financial statements

30 June 2020

Note 30. Loss per share

	Consolidated	
	2020	2019
	\$	\$
Loss after income tax attributable to the owners of Allegiance Coal Limited	(9,215,936)	(1,489,242)
	Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	574,457,920	501,538,477
Weighted average number of ordinary shares used in calculating diluted loss per share	614,260,861	545,681,260
	Cents	Cents
Basic loss per share	(1.60)	(0.30)
Diluted loss per share	(1.50)	(0.27)

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

Note 31. Share-based payments

Lead Manager Options

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

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

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

2017 Participants Securities Incentive Plan

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

Notes to the financial statements

30 June 2020

Note 31. Share-based payments (continued)

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

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

Options will lapse if:

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

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

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

2020

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
6/12/2017	6/12/2020*	\$0.05	5,000,000	-	-	-	5,000,000
6/12/2017	6/12/2022**	\$0.075	9,250,000	-	-	-	9,250,000
3/12/2019	3/12/2024**	\$0.28	-	6,450,000	-	-	6,450,000
			14,250,000	6,450,000	-	-	20,700,000

Weighted average exercise price \$0.1328

* Lead Manager Options

** 2017 Participants Securities Incentive Plan

Notes to the financial statements

30 June 2020

Note 31. Share-based payments (continued)

2019

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
27/11/2013	27/11/2018*	\$0.2475	820,000	-	-	820,000	-
6/12/2017	6/12/2020**	\$0.05	5,000,000	-	-	-	5,000,000
6/12/2017	6/12/2022***	\$0.075	8,250,000	2,000,000	-	1,000,000	9,250,000
			14,070,000	2,000,000	-	1,820,000	14,250,000

Weighted average exercise price \$0.0662

* Director Option Scheme

** Lead Manager Options

*** 2017 Participants Securities Incentive Plan

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

Grant date	Expiry date	2020 Number	2019 Number
6/12/2017	6/12/2020*	5,000,000	5,000,000
6/12/2017	6/12/2022**	9,250,000	9,250,000
6/12/2017	6/12/2024**	6,450,000	-
		20,700,000	14,250,000

* Lead Manager Options

** 2017 Participants Securities Incentive Plan

The weighted average share price during the financial year was \$0.1101 (2019: \$0.0614).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.2 years (2019: 2.8 years).

Performance Rights

An issue of performance rights was approved at the Company's 2019 annual general meeting (2019 AGM) to three individuals directly associated with the origination of the New Elk Project and the rehabilitation of the New Elk Mine (Mine). The New Elk Coal Project is in an important stage of development with significant opportunities and challenges in both the near and long-term, and the issue of Performance Rights seeks to align the efforts of the three individuals in pursuing growth of the Company's Share price and in the creation of Shareholder value. In addition, the Company believes that incentivising with Performance Rights is a prudent means of conserving the Company's available cash reserves. In addition, the Company believes the Performance Rights will assist to attract and retain highly experienced and qualified board members and management in a competitive market.

In total, 15 million Performance Rights have been issued in five separate classes, A through E. The Performance Rights will automatically vest and convert into Shares on a one for one basis upon satisfaction of milestones. A Performance Right will lapse upon the earlier to occur of: (a) the cessation of the holder's employment or other engagement with the Company; and (b) the Vesting Condition not being satisfied on or before the Expiry Date.

Notes to the financial statements

30 June 2020

Note 31. Share-based payments (continued)

Details of Performance Rights issued are summarised below:

- 2,500,000 Class A Performance Rights which vested in December 2019, following shareholder approval;
- 3,750,000 Class B Performance Rights which will vest upon Completion of the Mine acquisition, expiring 2 June 2021;
- 1,250,000 Class C Performance Rights which will vest on completion of the commissioning of the Mine and commencement of production, expiring 2 February 2022;
- 3,750,000 Class D Performance Rights which will vest on the sale of the first 500,000 metric tonnes of coal from the Mine, expiring 2 December 2022; and
- 3,750,000 Class E Performance Rights which will vest on the sale of the second 500,000 metric tonnes of coal from the Mine, expiring 2 December 2023.

Class	Expiry date	Exercise Price	Balance at the start of the year	Granted	Vested	Expired/ forfeited / Other	Balance at the end of the year
A	n/a	\$nil	-	2,500,000	2,500,000	-	-
B	2/6/21	\$nil	-	3,750,000	-	-	3,750,000
C	2/2/22	\$nil	-	1,250,000	-	-	1,250,000
D	2/12/22	\$nil	-	3,750,000	-	-	3,750,000
E	2/12/23	\$nil	-	3,750,000	-	-	3,750,000
			-	15,000,000	2,500,000	-	12,500,000

Directors' declaration

30 June 2020

1. In the opinion of the directors of Allegiance Coal Limited (the 'Company'):
 - a) the financial report and the Remuneration Report included in the Directors' Report, designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
 - ii) complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements; and
 - b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
2. The financial statements and notes comply with International Financial Reporting Standards, as discussed in Note 1; and
3. This declaration has been made after receiving the declarations required by section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2020.

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

Mark Gray
Chairman

7 September 2020
Sydney

Auditor's independence declaration

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

TO : The Directors of Allegiance Coal Limited

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

As Audit Director for the audit of Allegiance Coal Limited for the financial year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

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

Didarul Khan
Director
Sydney
7 September 2020

Independent Auditor's report

30 June 2020

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Allegiance Coal Limited ("the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a statement of accounting policies and selected explanatory notes and the directors' declaration.

In our opinion:

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

- (i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Matters of Emphasis

I. Material uncertainty related to going concern:

Without qualifying our above opinion, we draw attention to Note 1 of the financial report – going concern, which indicates that the Group incurred a loss from continuing operations after tax of \$9,215,936. The matters detailed in Note 1 describe events and / or conditions which indicate the existence of a material uncertainty which may cast doubt as to the ability of the Group to continue as a going concern. The Group may be unable to realise its assets and discharge its liabilities in the normal course of business, at the amounts stated in the financial report. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

II. Carrying values of non-current Assets:

At 30 June 2020 the Group had capitalised exploration and valuation expenditure of \$21,070,371. The recoverability of the Group's carrying value of capitalised exploration and acquisition costs is dependent on the successful commercial exploitation of the assets and/or sale of the assets to generate profits at amounts in excess of the book values. In the event that the Group is not successful in commercial exploitation and/ or sale of the assets, the realisable value of the Group's assets may be significantly different than their current carrying values. Our opinion is not modified in respect of this matter.

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

Basis for opinion

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

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

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

Key audit matters

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

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

1 Exploration and evaluation assets

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

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

2 Carrying value of the capitalised exploration and evaluation assets

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

3 Going concern

Why significant	How our audit addressed the key audit matter
<p>For the year ended 30 June 2020 the Group reported a net loss of \$9,215,936 and net operating cash outflows of \$5,755,536. As at 30 June 2020 the Group had net current liabilities of \$4,642,114 including cash reserves of \$442,055. These matters indicate the existence of an uncertainty which may cast doubt as to the ability of the Group to continue as a going concern. The Group may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.</p> <p>Refer to Note 1 – going concern.</p>	<p>We evaluated the Group's assessment of its ability to continue to operate as a going concern for the foreseeable future. In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> • considered the Group's budget for the 2021 financial year. • made enquiries with directors of the Company as to the intentions and strategy of the Group. • considered the adequacy of the disclosures made by the Group in Note 1 to the financial statements. • Considered the need for Joint Venture partners.

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

4 Exploration and evaluation expenses

Why significant	How our audit addressed the key audit matter
<ul style="list-style-type: none"> The significance of the balance to the Group’s Statement of Comprehensive Income. The level of judgement required in evaluating management’s application of <i>AASB 6 Exploration for and Evaluation of Mineral Resources</i> (“AASB6”). AASB 6 is an industry specific accounting standard requiring the application of significant judgements, estimates and industry knowledge. The assessment of exploration and evaluation expenditure being inherently difficult. 	<ul style="list-style-type: none"> Assessing management’s determination of its area of interest for consistency with the definition of AASB 6. This involved analysing the tenements in which the Group hold an interest and the exploration programmes planned for those tenements; for each area of interest, we assessed the Group’s right to tenure evaluating agreements in place with other parties as applicable; We tested the additions to allocated expenditure for the year by evaluating a sample of recorded expenditure for consistency to underlying records, the capitalisation requirements of the Group’s accounting policy and the requirements of AASB 6.

Information other than the financial statements and auditor’s report

The directors of the Company are responsible for the other information. The other information included in the Group’s annual report for the year ended 30 June 2020 comprises the Director’s Report (but does not include the financial report and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report.

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

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

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

Responsibilities of the directors of the Company for the financial report

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

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

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

Auditor's responsibilities for the audit of the financial report

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

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

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 19 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Allegiance Coal Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

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

Didarul Khan
Director
Sydney
Dated 7 September 2020

Additional Securities Exchange information

As at 11 August 2020

Distribution of securities

Analysis of number of security holders by size of holding:

	Ordinary shares	Options	Performance rights	Convertible notes
1 – 1,000	41	-	-	-
1,001 – 5,000	173	-	-	-
5,001 – 10,000	71	-	-	-
10,001 – 100,000	254	-	-	-
100,001 and over	309	8	3	1
Total	848	8	3	1

Equity security holders

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

Name	Units	% of Units
CITICORP NOMINEES PTY LIMITED	58,379,038	9.49
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	35,099,537	5.71
JA ASHTON NOMINEES (QLD) PTY LTD	25,822,335	4.20
GFT NOMINEES (QLD) PTY LTD	25,372,334	4.13
TELKWA HOLDINGS LTD	23,884,797	3.88
COMODALE PTY LTD	21,631,564	3.52
DGSF PTY LTD <DOUG GRICE SUPER FUND A/C>	20,874,285	3.39
BERNARD LAVERTY PTY LTD	20,181,773	3.28
JOHN WARDMAN & ASSOCIATES PTY LTD <THE WARDMAN SUPER FUND A/C>	16,849,998	2.74
FRANKLIN CIVIL PTY LTD	15,627,289	2.54
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	12,409,318	2.02
J P MORGAN NOMINEES AUSTRALIA LIMITED	11,929,182	1.94
NEQUAM PTY LTD <DICKSON FAMILY A/C>	11,350,000	1.85
DRYCA PTY LTD <DRYCA EMPLOYEES RET/F A/C>	10,850,000	1.76
MR CLIVE THOMAS	8,799,999	1.43
LATIMORE FAMILY PTY LTD <THE LATIMORE FAMILY A/C>	8,333,333	1.36
PETER CROKE HOLDINGS PTY LTD	7,600,000	1.24
MCGEE CONSTRUCTIONS PTY LTD <MCGORMAN SUPER FUND A/C>	7,100,000	1.15
JASON ROBERT POWELL	7,000,000	1.14
GULLEWA LTD	6,800,000	1.11

Unquoted equity securities

The Company has the following unquoted equity securities on issue: 5 million Lead Manager Options granted to Bell Potter Securities Limited; 15,700,000 2017 PSIP Options; 12,500,000 Performance Rights; and 772,105 Notes convertible into ordinary shares at the election of the note-holder.

Unmarketable parcels

There are 223 holders holding less than a marketable parcel of the entity's quoted equity securities.

On-Market Buyback

There is no current on-market buyback.

Substantial Holders

Substantial holders in the Company are set out below:

Rank	Name	Address	Units	% of Units
1.	ALTIUS RESOURCES INC	SUITE 202 66 KENMOUNT ROAD ST JOHNS NL A1B 3V7 CANADA	55,208,376	8.98

Voting rights

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

Ordinary shares

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

Options over ordinary shares

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

Performance rights

There are no voting rights attached to the performance rights.

Convertible notes

There are no voting rights attached to the convertible notes.

There are no other classes of equity securities.

Restricted securities

There are no restricted securities.

Tenements

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

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

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

Resources and reserves

Telkwa Coal Project

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

Coal Resource (Mt)	Measured	Indicated	Inferred	Total
Tenas	58.8	-	-	58.8
Goathorn	59.5	9.2	0.2	68.9
Telkwa North	15.7	3.7	1.0	20.4
Total	134.0	12.9	1.2	148.1

In July 2017 the Company completed a pre-feasibility study (PFS) declaring 42.5Mt of saleable coal reserves across the resource base as follows:

Reserve (Mt)	ROM Coal	Clean Coal	Total
Tenas Proven	29.1	20.6	21.0
Tenas Probable	-	-	-
Tenas Total	29.1	20.6	21.0
Goathorn Proven	22.1	12.6	13.8
Goathorn Probable	0.2	0.1	0.1
Goathorn Total	22.3	12.7	13.9
Telkwa North Proven	10.8	6.4	7.0
Telkwa North Probable	0.7	0.4	0.5
Telkwa North Total	11.5	6.8	7.5
Grand Total	62.9	40.1	42.5

In March 2019, the Company completed a definitive feasibility study focussed solely on the Tenas deposit, as part of which the Tenas reserve was updated and declared to be :

Reserve (Mt)	Tenas
Proven	
ROM coal	17.1
Saleable coal	12.9
Probable	
ROM coal	4.9
Saleable coal	3.7
Total	
ROM coal	22.0
Saleable coal	16.5

The coal resources referred to above were first reported in the Company's release of its updated geological model on 18 June 2018, supplemented by its 26 June 2018 announcement (together the June 2018 Announcement). The coal reserves referred to above were first reported in the Company's release of its Telkwa PFS results on 3 July 2017 (July 2017 Announcement), updated in the Tenas DFS on 18 March 2019 (March 2019 Announcement). The Company confirms that it is not aware of any new information or data that materially affects the information included in the July 2017 Announcement, the June 2018 Announcement or the March 2019 Announcement (together the Announcements), and that all material assumptions and technical parameters underpinning the estimates in the Announcements continue to apply and have not materially changed.

New Elk Hard Coking Coal Project

The Company's JORC Code 2012 coal resource and reserve statement for the New Elk Project is as follows:

Combined, the New Elk Mine and the Lorencito Property comprise 744Mt of coal resources of which 45.1Mt have been converted from three of nine coal seams representing 31% of total coal resources, into coal reserves.

In its 15 July 2019 announcement, the Company listed the New Elk Mine coal resources previously prepared in July 2012 in accordance with National Instrument NI 43-101 'Standards of Disclosure for Mineral Projects' (NI 43-101) by Agapito Associates, Inc., a US nationally recognised engineering firm (Report). The Report declared a mineral resource estimate of 656Mt of coal resources at a minimum seam height of three foot. The mineral resource estimate is shared across 8 coal seams summarised below.

Coal seams	Seam height	Measured Mt	Indicated Mt	Inferred Mt	Total Mt
Green	3 to 7 foot	29.94	24.95	0.09	53.98
Loco	3 to 4 foot	13.06	27.22	24.13	64.41
Blue	3 to 5 foot	47.36	34.56	0.82	82.74
BCU	3 to 6 foot	11.61	33.38	27.22	72.21
Red	3 to 4 foot	21.14	9.34	0.00	30.48
Maxwell	3 to 9 foot	65.41	65.05	15.79	146.24
Apache	3 to 5 foot	45.63	51.53	13.97	111.13
Allen	3 to 5 foot	38.83	43.45	12.79	95.07
Total		271.97	289.48	94.80	656.26

Cautionary statement: Investors should note that the Agapito mineral resource estimates for the New Elk Project are foreign estimates under ASX Listing Rule 5.12 and are not reported in accordance with JORC Code (2012 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves") (JORC Code).

Except as is stated below in relation to the Green, Blue and Allen seams, a competent person has not done sufficient work to classify the foreign estimates as a mineral resource under the JORC Code in relation to the other coal seams, and it is uncertain that following further exploration or evaluation work that this foreign estimate in relation to those other seams, will be able to be reported as a mineral resource in accordance with the JORC Code.

Pursuant to the feasibility study, Stantec has prepared a statement of resources and reserves in accordance with the JORC Code and NI 43-101 in relation to the Green, Blue and Allen seams only, as set out below.

Resources	Seam height	Measured Mt	Indicated Mt	Inferred Mt	Total Mt
Green seam	3.0 foot	19.1	17.7	5.6	42.4
Blue seam	3.0 foot	89.6	31.4	9.1	130.2
Allen seam	3.0 foot	68.9	25.4	0.7	95.1
Total	3.0 foot	177.6	74.4	15.6	267.6

Reserves		Proven Mt	Probable Mt	Saleable Mt
Green seam	4.0 foot	0.8	-	0.8
Blue seam	4.0 foot	17.7	4.5	22.2
Allen seam	4.0 foot	16.7	5.5	22.1
Total	4.0 foot	35.2	9.9	45.1

As disclosed in the Company's announcements of 5 and 9 December 2019, the Lorencito Property has been the subject of several drill programmes totalling 217 holes, geological and scoping studies, the

most recent the Company is aware of was by Mine Engineers, Inc. from Wyoming, dated November 2008 (Study). The Study developed a geological model based on existing coal exploration and coal bed natural gas wells covering eight coal seams, including the Primero seam.

In its resource estimation, the Study relied on resource estimates from a report dated 1997 prepared by Reserve Services of Laramie, Wyoming, US, prepared in conformity with guidelines of the U.S Bureau of Mines and U.S Geological Survey “Coal Resource Classification System” (USGS Circular No. 891, 1983) (Source Report).

The Source Report categorised the resources in accordance with USGS Circular No. 891, 1983, as ‘Demonstrated in place coal resources’, and then went on to apply parameters to categorise the ‘in place’ resources as Measured and Indicated. Under USGS Circular No. 891, 1983, Demonstrated in place coal is the sum of Measured and Indicated resources. The Study relied upon the Source Report to establish the same categorisation of ‘in place coal’ but did not proceed to break that down into further categories.

The calculated in-place coal resources for the Primero seam is 87.6Mt, summarised in the table below by reference to coal seam thickness. As is evident, the vast majority of the in-place coal exceeds 4 foot thickness.

In place coal seam thickness (feet)	Demonstrated in place coal resources (metric tonnes)
3.0 to 4.0	24.5
4.0 to 5.0	33.8
5.0 to 6.0	23.0
6.0 +	6.3
Total	87.6

Cautionary statement: Investors should note that the mineral resource estimates for the Lorencito Property are foreign estimates under ASX Listing Rule 5.12 and are not reported in accordance with JORC Code (2012 Edition of the “Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”) (JORC Code). A competent person has not done sufficient work to classify the foreign estimates as a mineral resource under the JORC Code and it is uncertain that following further exploration or evaluation work that this foreign estimate will be able to be reported as a mineral resource in accordance with the JORC Code.

The coal resources referred to above were first reported in the Company’s 15 July 2019 announcement (July 2019 Announcement) and its 5 and 9 December 2019 announcements (together the December 2019 Announcement). The coal reserves referred to above were first reported in the Company’s release of its New Elk feasibility study results on 28 November 2019 (November 2019 Announcement). The Company confirms that it is not aware of any new information or data that materially affects the information included in the July 2019 Announcement, the December 2019 Announcement or the November 2019 Announcement (together the Announcements), and that all material assumptions and technical parameters underpinning the estimates in the Announcements continue to apply and have not materially changed.

Competent Person Statement

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