Allegiance Coal Limited and controlled entities

ABN 47 149 490 353
Financial Statements for the period ended 30 June 2011

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Directors' report

Your directors present their report on the company and its controlled entities ("Group") for the financial period ended 30 June 2011. The company was incorporated on 13 April 2011 and as such the financial statements relate to the period from 13 April 2011 to 30 June 2011.

Directors

The names of the directors in office at any time during or since the end of the period are:

David Deitz	(Appointed 13 April 2011)
Peter Donkin	(Appointed 13 April 2011)
Anthony Howland-Rose	(Appointed 13 April 2011)
Colin Randall	(Appointed 13 April 2011)

Directors have been in office since the date of incorporation of the company to the date of this report unless otherwise stated.

Operating results

The loss of the Group for the financial period after providing for income tax amounted to $439,658.

Review of operations

A review of the operations of the Group during the financial period and the results of those operations are reflected in the financial statements.

Significant changes in state of affairs

The company was incorporated on 13 April 2011 for the purpose of the acquisition and exploration of coal tenements. On 4th May 2011, the company acquired Mineral and Coal Pty Limited and its controlled entities. For further details on the transaction refer to Note 17.

Other than the acquisition noted above, there has been no significant change in the Group's state of affairs since the date of incorporation to the reporting date.

Principal activities

The principal activity of the Group during the financial period was the acquisition and exploration of coal tenements.

No significant change in the nature of these activities occurred during the period since incorporation.

Events subsequent to the end of the reporting date

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future development, prospects and business strategies

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Environmental issues

During the period under review, the directors are not aware of any particular or significant environmental issues, which have been raised in relation to the Group's operations.

Dividends paid or recommended

No dividend was declared or paid during the period.

Options

No options over issued shares or interests in the company were granted during or since the end of the financial period and there were no options outstanding at the date of this report.

Indemnifying officers or auditor

Insurance premiums have been paid during the financial period covering directors and officers of the Group.

No indemnities have been given or insurance premiums paid, during or since the end of the financial period, for any person who is or has been an auditor of the Group.

Proceedings on behalf of company

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the period.

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 5 and forms part of this directors' report.

Signed in accordance with a resolution of the Board of Directors:

David Deitz
Director

Dated this 27 day of September 2011

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Allegiance Coal Limited for the period ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

C F Farley
Director - Audit & Assurance

Sydney, 27 September 2011

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Statement of comprehensive income

For the period ended 30 June 2011

	Note	Consolidated Group 2011 $
Revenue	2	762
Depreciation expense		(267)
Employee benefits expense		(60,697)
Administration expenses		(341,605)
Finance costs		(37,851)
Loss before income tax		(439,658)
Income tax expense	3	-
Loss for the period		**(439,658)**
Other comprehensive income		-
Total comprehensive loss for the period		**(439,658)**

	Cents
Basic earnings per share	0.005
Diluted earnings per share	0.005

These financial statements should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June 2011

	Note	Consolidated Group 2011 $
Current assets		
Cash and cash equivalents	6	140,206
Trade and other receivables	7	40,866
Total current assets		181,072
Non-current assets		
Plant and equipment	8	4,728
Exploration and evaluation expenditure	9	1,369,645
Total non-current assets		1,374,373
Total assets		1,555,445
Current liabilities		
Trade and other payables	10	319,221
Total current liabilities		319,221
Non-current liabilities		
Financial liabilities	11	2,105,864
Total non-current liabilities		2,105,864
Total liabilities		2,425,085
Net liabilities		(869,640)
Equity		
Issued capital	12	100,300
Reserves	13	16,215
Accumulated losses		(986,155)
Total equity		(869,640)

These financial statements should be read in conjunction with the accompanying notes.

Statements of changes in equity

For the period ended 30 June 2011

	Note	Share Capital $	Accumulated losses $	Reserves $	Total $
Consolidated Group					
Balance at 13 April 2011	17	1	(546,497)	18,279	(528,217)
Loss for the period		-	(439,658)	-	(439,658)
Shares issued in the period		100,299	-	-	100,299
Shareholder loan reserve adjustment		-	-	(2,064)	(2,064)
Subtotal		100,299	(439,658)	(2,064)	(341,423)
Balance at 30 June 2011		**100,300**	**(986,155)**	**16,215**	**(869,640)**

Statement of cash flows

For the period ended 30 June 2011

	Note	Consolidated Group 2011 $
Cash flows from operating activities		
Receipts from customers		-
Payments to suppliers and employees		(166,061)
Interest received		762
Finance costs		(37,851)
Income tax paid		-
Net cash used in operating activities	16	(203,150)
Cash flows from investing activities		
Purchase of property, plant and equipment		(1,820)
Payments made for exploration and evaluation		(132,459)
Net cash used in investing activities		(134,279)
Cash flows from financing activities		
Proceeds from borrowings		477,635
Net cash provided by financing activities		477,635
Net change in cash and cash equivalents held		140,206
Cash and cash equivalents at beginning of financial period		-
Cash and cash equivalents at end of financial period	6	140,206

These financial statements should be read in conjunction with the accompanying notes.

Notes to the financial statements

1 Statement of significant accounting policies

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements cover Allegiance Coal Limited and its controlled entities as a consolidated entity ("Group"). Allegiance Coal Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial statements were authorised for issue by the directors on September 2011.

Compliance with Australian Accounting Standards ensures that the financial statements and notes of Allegiance Coal Limited comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

Significant accounting policies

a. Business Combinations

This is the first annual period in which the Company has transacted a business combination, and therefore the first annual period in which a business combinations accounting policy is disclosed. The revised AASB 3 is applicable for reporting periods commencing 1 July 2009, and is therefore applicable to the annual financial report for the period ending 30 June 2011.

A business combination occurs where control over another business is obtained, resulting in the consolidation of its assets and liabilities.

The business combination during the period was a common control transaction, as the conditions in AASB 3: Business Combinations (paragraph B1) apply, in that all businesses were controlled by the same party before and after the transaction, and the control was not considered transitory.

Therefore, this business combination is scoped out under AASB 3 paragraph 2, and therefore a suitable accounting policy needs to be determined in accordance with the hierarchy in AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (paragraph 10). This hierarchy looks for a policy that provides users of the financial statements with relevant and reliable information about the financial position and performance of the reporting entity. Therefore an accounting choice is available for the accounting of this business combination. The choice is generally to apply either the purchase method

(applying a fair value approach to the acquisition value) or to apply the pooling of interest method where the combination is recorded at historical book values. Given the continuing control of the businesses, the Directors consider that it is applicable to use the pooling of interest method to account for the transaction using the historical book values of the acquired assets and liabilities rather than reassessing these to more subjective and uncertain fair values.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is re-measured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expenses to the statement of comprehensive income.

b. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Allegiance Coal Limited at the end of the reporting period. A controlled entity is any entity over which Allegiance Coal Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

In preparing the consolidated financial statements, all intra-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

c. Income Tax

The income tax expense (revenue) for the period comprises current income tax expense (income) and deferred tax expense (income). Current and deferred income tax expense (income) is charged or credited directly to other comprehensive income instead of the profit or loss when the tax relates to items that are credited or charged directly to other comprehensive income.

Current tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

Deferred tax

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the period as well unused tax losses.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax consolidation

Allegiance Coal Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated entity under the tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The Group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 4 May 2011. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

d. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction). Valuations are performed whenever the directors believe there has been a material movement in the value of the assets.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the related revaluation reserve directly in equity; all other decreases are charged to the statement of comprehensive income.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured at cost less depreciation and impairment losses.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Useful Life
Plant and equipment	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of comprehensive income.

e. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any

guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

f. Financial Instruments

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instrument classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Classification and subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in the financial assets reserve in other comprehensive income.

Financial Guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition. The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118 Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using the probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a 12 month period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

g. Impairment of Non-Financial Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h. Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

i. Exploration and Evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

a. the rights to tenure of the area of interest are current; and
b. at least one of the following conditions is also met:

- the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

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 are 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.

j. Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. For this purpose, deferred consideration is not discounted to present values when recognising revenue.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST).

k. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

l. Going Concern Basis of Accounting

The financial report has been prepared on a going concern basis.

The group incurred a net loss of $439,658 during the period ended 30 June 2011 and as of that date, the group's total liabilities exceeded its total assets by $869,640. Shareholders have provided letters of support confirming that they will continue to fund the activities of the company for a period of at least twelve months from the signing of the financial report.

The exploration projects currently undertaken by the company will require additional capital. As such, the company's ability to continue as a going concern is contingent upon successfully raising additional capital. If additional funds are not raised, the going concern basis may not be appropriate with the result that the company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from those stated in the financial report.

m. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and the best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key judgments

i) Exploration and evaluation expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage that permits reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at cost.

2 Revenue

	Consolidated Group 2011 $
Operating activities	
Interest received	762
Total Revenue	762

3 Income Tax Expense

	Consolidated Group 2011 $
The components of tax expense comprise:	
Current tax	-
Deferred tax	-
	-
The prima facie tax on profit before income tax is reconciled to the income tax as follows:	
Prima facie tax payable on profit before income tax at 30%	
consolidated entity	(131,897)
Add tax effect of:	
- tax losses not recognised	131,897
Income tax expense	-
The applicable weighted average effective tax rates are as follows:	0%

4 Key Management Personnel Compensation

The key management personnel compensation included within employee expenses is:

	Short-term benefits	Termination benefits	Post employment benefit	Other long-term benefits	Total
	$	$	$	$	$
Total compensation	30,571	-	22,126	-	60,697

5 Auditors' Remuneration

	Consolidated Group 2011 $
Remuneration of the auditor of the parent entity and subsidiaries for:	
- auditing the financial statements	27,500
- other services	5,000
Total auditor's remuneration	32,500

6 Cash and Cash Equivalents

	Consolidated Group 2011 $
Cash in bank	140,206
	140,206

7 Trade and Other Receivables

	Consolidated Group 2011 $
Current	
Other receivables	40,866
	40,866

8 Property, Plant and Equipment

	Consolidated Group 2011 $
Plant and equipment	
Plant and equipment:	
At cost	6,602
Accumulated depreciation	(1,874)
	4,728
Total property, plant and equipment	4,728

a. Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial period.

	Plant and Equipment $	Total $
Consolidated Group		
Balance at 13 April 2011	-	-
Transferred in through acquisition of company	3,175	3,175
Additions	1,820	1,820
Depreciation expense	(267)	(267)
Balance at 30 June 2011	4,728	4,728

9 Exploration and evaluation expenditure

	Consolidated Group 2011 $
Exploration and evaluation expenditure – at cost	1,369,645
	1,369,645

a. Movements in Carrying Amounts

Movement in the carrying amounts for exploration and evaluation expenditure between the beginning and the end of the current financial period.

	Plant and Equipment $	Total $
Consolidated Group		
Balance at 13 April 2011	-	-
Transferred in through acquisition of company	1,203,021	1,203,021
Additions	166,624	166,624
Balance at 30 June 2011	1,369,645	1,369,645

10 Trade and Other Payables

	Consolidated Group 2011 $
Current	
Trade and other payables	319,221
	319,221

11 Financial liabilities

	Consolidated Group 2011 $
Non-current	
Loan – Gullewa Limited	1,752,470
Loan – C Randall & Associates	353,394
	2,105,864

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

12 Issued Capital

	Consolidated Group 2011 $
125,000,000 fully paid ordinary shares	100,300
	100,300

	2011 No.
Ordinary Shares	
At the beginning of reporting period (incorporation)	5
Shares issued during period	124,999,995
At reporting date	125,000,000

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

13 Reserves

Other Reserve

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

14 Capital and Leasing Commitments

	Consolidated Group 2011 $
Operating Lease Commitments	
Non-cancellable operating leases contracted for but not capitalised in the financial statements	
Payable — minimum lease payments	
- not later than 12 months	48,202
- between 12 months and five years	398
	48,600

Capital Expenditure Commitments	
Capital expenditure commitments contracted for:	
- capital expenditure projects	5,554,000
	5,554,000
Payable:	
- not later than 12 months	1,071,000
- between 12 months and five years	4,483,000
	5,554,000

15 Contingent Liabilities and Contingent Assets

There were no contingencies noted as at 30 June 2011.

16 Cash Flow Information

	Consolidated Group 2011 $
Reconciliation of Cash Flow from Operations with Loss after Income Tax	
Loss after income tax	(439,658)
Non-cash flows in profit:	
Depreciation	267
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries	
Increase/(decrease) in trade and term debtors	46,735
(Increase)/decrease in payables	189,506
	(203,150)

17 Business Combinations

Allegiance Coal Limited was incorporated on 13 April 2011.

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

The above transaction completed successfully on 4 May 2011, and through this transaction, effective control of MCI passed to the existing shareholders of the company. As Gullewa owned 80% of the share capital of the Company and 80% of the share capital of MCI, this represents a common control transaction, as the conditions in AASB 3: Business Combinations (paragraph B1) apply, in that all businesses were controlled by Gullewa before and after the transaction. The control is not considered transitory, as at the time of the transaction the intention was to retain control.

Therefore, this business combination is scoped out under AASB 3 paragraph 2, and therefore a suitable accounting policy needs to be determined in accordance with the hierarchy in AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (paragraph 10). This hierarchy looks for a policy that provides users of the financial statements with relevant and reliable information about the financial position and performance of the reporting entity. Therefore an accounting choice is available for the accounting of the business combination. The choice is generally to apply either the purchase method (applying a fair value approach to the acquisition value) or to apply the pooling of interest method where the combination is recorded at historical book values. Given the continuing control of the businesses, the Directors consider that it is appropriate to use the pooling of interest method to account for the transaction using the historical book values of the acquired assets and liabilities rather than reassessing these to more subjective and uncertain fair values.

Details of the acquisition are as follows:

Net assets acquired	$
Cash	52,000
Receivables	87,602
Exploration expenditure	1,203,021
Plant and equipment	3,176
	1,345,799
Payables	163,766
Loans	1,609,950
	1,773,716
Net liabilities	(427,917)
Purchase consideration	
Equity (124,999,995 ordinary shares)	100,300

18 Events After the Reporting Date

On 16th August 2011 the Queensland Government issued an announcement suspending new exploration tenures in and around South Queensland, and in and around urban centres across the remainder of the state. Moreton Coal Pty Limited, a 100% subsidiary of Allegiance Coal Limited, holds a mineral development licence that will be impacted by this announcement. Given the recent timing of the announcement and the uncertainty over how this will affect exploration companies, management has not been able to assess the impact on the group. Management anticipate further announcements on this issue during the 2012 financial year and will make an assessment of the impact on the group at the appropriate time.

Other than the issue noted above, no matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

19 Controlled Entities

	Country of Incorporation	Percentage owned (%)* 2011
Controlled Entities Consolidated		
Subsidiaries of Allegiance Coal Limited:		
- Mineral & Coal Investments Pty Limited	Australia	100
- Echidna Coal Pty Limited	Australia	100
- Moreton Coal Pty Limited	Australia	100

* Percentage of voting power in proportion to ownership.

Related Party Transactions

	Consolidated Group 2011 $
Amounts due to related parties	
Loan – Gullewa Limited	1,752,470
Loan – C Randall & Associates	353,394
	2,105,864

During the year the company also paid fees to directors totalling $60,697.

20 Financial Instrument Risk Management

The Group is exposed to a variety of financial risks through its use of financial instruments.

This note discloses the Group's objectives, policies and processes for managing and measuring these risks.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The most significant financial risks to which the Group is exposed to are described below:

Specific risks

- Market risk - currency risk, cash flow interest rate risk and price risk

- Liquidity risk – meeting obligations related to financial liabilities

Financial instruments used

The principal categories of financial instrument used by Allegiance Coal Limited are:

- Cash at bank
- Loans and receivables
- Trade and other payables

Objectives, policies and processes

Risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors.

Specific information regarding the mitigation of each financial risk to which Allegiance Coal Limited is exposed is provided below:

Market risk

Foreign currency sensitivity

All of Allegiance Coal Limited's transactions are carried out in Australian Dollars. Thus there is no exposure to foreign currency risk.

Cash flow interest rate sensitivity

The Group is exposed to interest rate risk as funds are borrowed from the shareholders of the company at floating rates, being the bank bill rate plus 4%. During the period, the Group's borrowings at variable rate were all denominated in Australian dollars.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +2% and -2%, with effect from the beginning of the period. These changes are considered to be reasonably possible based on observation of current market conditions.

The calculations are based on Allegiance Coal Limited's financial instruments held at each reporting period date. All other variables are held constant.

Consolidated Group		**2011**
	+2%	**-2%**
Cash and cash equivalents		
Net result	617	(617)
Equity	617	(617)
Borrowings		
Net result	(9,601)	9,601
Equity	(9,601)	9,601

Liquidity risk analysis

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. Allegiance Coal Limited maintains cash to meet its liquidity requirements for up to 30-day periods.

Allegiance Coal Limited manages its liquidity needs by carefully monitoring cash-outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection.

At the reporting period date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down any of the financing facilities.

As at 30 June 2011, Allegiance Coal Limited's liabilities have contractual maturities which are summarised below:

Consolidated Group	Interest rate %	Current			Non-current
		$	$	$	$
		Not later than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years
Trade payables		319,221	-	-	-
Loans from shareholder	Bill rate +4%	-	-	-	2,105,864
Total		319,221	-	-	2,105,864

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the reporting period date.

21 Allegiance Coal Limited Parent Company Information

	2011 $
Parent entity	
Assets	
Current assets	-
Non-current assets	100,300
Total assets	100,300
Liabilities	
Current liabilities	30,722
Non-current liabilities	-
Total liabilities	30,722
Equity	
Issued capital	100,300
Retained earnings	(30,722)
Total equity	69,578
Financial performance	
Loss for the period	(30,722)
Other comprehensive income	-
Total comprehensive income	(30,722)

22 Company Details

The registered office and principal place of business of the company is:
Allegiance Coal Limited
Level 2
49-51 York Street
SYDNEY NSW 2000

Directors' declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 6 to 25, are in accordance with the Corporations Act 2001:

    a. comply with Accounting Standards and the Corporations Regulations 2001;

    b. give a true and fair view of the financial position as at 30 June 2011 and of the performance for the period ended on that date of the company and consolidated group; and

    c. the consolidated financial statements comply with the International Financial Reporting Standards.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

David Deitz
Director

Dated this 27 day of September 2011

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

We have audited the accompanying financial report of Allegiance Coal Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the period's end or from time to time during the financial period.

Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report and have determined that the accounting policies used and described in Note 1 to the financial report, which form part of the financial report, are appropriate to meet the requirements of the Corporations Act 2001 and the needs of the members in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

a the financial report of Allegiance Coal Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the period ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

C F Farley
Director - Audit & Assurance
Sydney, 27 September 2011