ALLEGIANCE COAL
LIMITED

ABN 47 149 490 353

Interim Report - 31 December 2020

Contents

General Information

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

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

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

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 report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 5 March 2021. The directors have the power to amend and reissue the financial report.

Directors' Report

31 December 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 for the half-year ended 31 December 2020.

Directors

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

Mark Gray – Chairman and Managing Director

Mr. Gray founded Telkwa Coal Limited (a wholly owned subsidiary of the Company) and secured the farm-in rights to the Telkwa metallurgical coal project 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 investment bank Barclays de Zoette Wedd, also in London. Mr. Gray 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.

Malcolm Carson – Non-executive Director

Mr. Carson is currently the Executive Chairman of Zuleika Gold Ltd (ASX:ZAG) and has been an executive and non-executive director of many ASX and TSX companies. He is a 40 year veteran in exploration and mining across a variety of minerals, in multiple jurisdictions, with many organisations including BHP, Kumba Resources, Iscor, Sons of Gwalia, Bankers Trust, and Rothschilds. Mr. Carson also spent five years working for the Government of Western Australia as a Senior Project Officer responsible for managing mining and industrial projects.

Larry Cook – Non-executive Director

Mr. Cook 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 Mistic 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.

Bernie Mason – Non-executive Director

Mr Mason obtained a Bachelor of Science degree in Geology from Morehead State University, Kentucky, and has worked across many minerals throughout North America, although predominantly in US coal for more than 40 years. In more recent times, he has assumed executive management positions in some very large and significant producers of coal in the United States including having formerly served as President and Chief Executive Officer of Xinergy Ltd, a Toronto TSX Listed public company, producing up to 3Mtpa of metallurgical and thermal coal; Chief Operating Officer of Appalachian Fuels, LLC. managing a workforce of 600 employees and producing 8Mtpa of metallurgical and thermal coal from five surface mines and three underground mines; and Vice President of Technical Services and Business Development of AEI Resources, Inc. which was the 4th largest coal producing company in the United States, at the time, while operating 50 surface and underground coal mines producing in excess of 54Mtpa.

Jonathan Reynolds – Finance Director

Mr. Reynolds is a chartered accountant with more than 25 years' experience across many sectors spent mostly in financial management roles. Most recently, he was 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 and a fellow of Financial Services Institute of Australia.

Principal activities

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

Review of operations
The loss for the consolidated entity after providing for income tax amounted to $5,085,723.

New Elk metallurgical coal mine
In October 2020, the Company completed the acquisition from Cline Mining Corporation (Cline) of all the shares in New Elk Coal Company, LLC, (NECC), which company owns the New Elk hard coking coal mine (Mine) located in southeast Colorado, United States.

The Mine is fully constructed and permitted for the production of hard coking coal.

On acquisition, NECC was debt free, except for debt owing to Cline totalling US$39M (Debt).

The key terms of the acquisition were:
- The purchase price for the shares in NECC was US$1.
- The Debt, which has a maturity date of 1 July 2030, will be repaid by NECC to Cline as follows:
  - US$4M in shares in the Company, which were issued on completion;
  - US$3M from the release of reclamation bonds held with the Colorado State government following their replacement with an insurance surety bond, which took place in January 2021;
  - US$6M in cash on the earlier of commencing production and 1 December 2021;
  - The balance to be repaid from 60% of NECC operating cash flow after provision for following period's preferred debt payments and working and sustaining capital.

The assets acquired include rights to coal resources and reserves, a coal handling and preparation plant (CHPP), production equipment, underground and above ground mine infrastructure, a power sub-station, office buildings, wash-house, warehouse and workshop, and surface support equipment. The mine has been on care and maintenance for several years and presently remains on care and maintenance whilst the Company raises the funds to bring the mine back into operation. Pending commercial production, the fair value of the assets acquired is accounted for as an intangible exploration and evaluation asset. Expenditure incurred by the Company relating to the Mine, both pre- and post-acquisition has been expensed in the statement of comprehensive income.

In April 2020, the Company entered into coal lease agreements to mine and sell all the coal comprised in the Lorencito Property which neighbours the New Elk Mine, hosting, inter alia, 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. An initial lease payment of US$260,000 in cash was paid in the period under review.

In December 2020, the Company entered into a binding terms sheet, subject only to completion of formal legal documentation, with Mays Mining, Inc., a private family owned coal mining business with existing operations in Alabama (Mays). Allegiance will acquire from Mays:
- Upon New Elk commencing production at ~32,500 tonnes per month, 30,000 tonnes per month of Pratt coal at 1.5% sulphur (Pratt), for total saleable coal per month of 62,500 tonnes; and
- Upon New Elk reaching ~65,000 tonnes per month within six months of commencement of production at New Elk, 60,000 tonnes per month of Pratt, for total saleable coal per month of 125,000 tonnes.

In December 2020, the Company advised the details of its finalised plan for the New Elk mine start-up. Key changes to the New Elk Final Start-up Mine Plan from the previous Slow Start-up Mine plan announced on 29 April 2020 were:
- A reduction in the number of production units from four to two;
- A rescheduling of labour and the production units to mine the entire Blue seam reserve; and
- An extended Blue seam mine life from 15 to 24 years.

The loss in annual New Elk production from the reduction in production units has been off-set by the purchase of a similar amount of coal from Mays Mining thus maintaining a similar coal sales profile (for the first 15 years) to the Slow Start-up Mine Plan.

The key objective to arriving at the Final Start-up Mine Plan was to achieve maximum saleable coal sales, for minimal start-up capital, as soon as possible. Purchasing Pratt seam coal has significantly reduced the capital demands on New Elk achieving average annual coal sales of around 1.6Mt.

The Blue seam has 22Mt of saleable coal reserves at a coal seam cut-off height of four foot. While the mine plan contemplates mining the entire Blue seam reserve with just two continuous miners over a period of 24 years, the intention is to either increase or replace Blue seam production (all or part) in year three from the Primero seam, which has the best coal quality in the New Elk Mine. On its own, Primero seam coal is expected to command a premium price and if blended with the Pratt seam (or other Alabama high-vol A coking coals), is expected will be very close to if not at benchmark high vol A coking coal.

While the Company has only contracted an initial four years of supply of Pratt seam coal from Mays, Mays does have further supply and there is an abundance of this coal from other potential suppliers in Alabama. The strategy of blending high quality but high sulphur coking coal with New Elk's low sulphur coals is a long term strategy, whether the blending is with the Blue seam, the Primero seam or any of New Elk's other nine coal seams.

For the first 36 months of production, Blue seam coal will be conveyed from the CHPP to a rail loadout and siding adjacent to railway track owned by BNSF Rail, in 30t road trucks on a sealed road for 21 miles. During this period, track will be re-laid from BNSF's line to the CHPP after which train sets will be loaded from the two 12,500t silos located at the Mine. Blue seam coal will then be railed on BNSF's line by Union Pacific Railroad (UP) 1,242 miles to Convent Marine Terminal located on the southern Mississippi River, in New Orleans (CMT).

Contemporaneously, Pratt seam coal will be loaded on a barge on the Black Warrior River, west of Birmingham Alabama, and then barged to CMT where it will maintain two separate stockpiles for blending the Blue and Pratt coals.

The key performance indicators of the New Elk Final Start-up Mine Plan are summarised below.

	Start-up Plan
New Elk saleable coal reserves	45Mt
Mine-life (production years)	24.3 years
Yield mine-life average (all metallurgical coal product)	71%
FOB cash cost (ex-port) before royalties interest & tax	US$81.3/t
Revenue mine-life annual average	A$271.7M
EBITDA mine-life annual average	A$76.6M
Start-up capital expenditure	US$17.7M
NPV8% pre-tax	A$566M
IRR pre-tax	573%

The start-up capital expenditure is spread over the first six months of production and therefore, some capital expenditure will during that period be funded from cashflow generated from the first production unit sales. The second production unit is not scheduled to commence until December 2021 meaning the refurbishment of that equipment will commence after production commences, and the cost of conveyor drives, belting and structure, is spent as one mines and advances underground.

Payment for coal sales is anticipated to be received when the coal is placed on the ground at the port prior to loading into the vessel funded by a US$15M off-take finance facility from M Resources Pty Ltd.

Taking account of the above, the start-up capital requirement is US$13.5M which includes US$10M applied to capital expenditure and US$3.5M applied to working capital.

The Company has commenced the capital expenditure programme to meet a June 2021 production start date. To complete the capital expenditure programme and provide start-up working capital Allegiance intends to raise US$15M in project debt. The Company has a conditional terms sheet with Nebari Natural Resources Credit Fund 1 LP (Nebari) for US$25M, the details of which were announced on 30 March 2020. The terms sheet is subject to, amongst other things, Nebari completing independent, third party, due diligence to its satisfaction. Due diligence is progressing well.

Telkwa metallurgical coal project
During the period under review, the Company continued to work to finalise the Application Information Requirements document which forms the table of contents to the application for an Environmental Assessment Certificate. The final draft has been submitted to the Environmental Assessment Office.

Parallel with this process, the Company is progressing drafting of the application for an Environmental Assessment Certificate. Completion of the document was delayed by the need to review the water quality and quantity predictions which have now been completed to the satisfaction of Management.

While this has been a demanding and more lengthy process than anticipated, the achievement of lodging an application for an Environmental Assessment Certificate cannot be understated. It activates a time regulated formal review process where the EAO has 180 days to review the application after which the Ministers for Environment and for Energy and Mines, both of British Columbia, have 40 days to decide on the granting of an Environmental Assessment Certificate.

Itochu contributions
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.

During the period, Itochu has advanced $253,435 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 loans pro-rata their equity interest in TCL following lodgement of the application. Accordingly, the advances, which are interest free and unsecured, are quasi-equity.

Kilmain and Back Creek Projects, Queensland
The Back Creek tenement has been relinquished. The Kilmain Project remains under review. There were no activities of note during the half-year ended 31 December 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 had 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 had been negatively impacted by concerns relating to the global outlook for economic recovery, although it appears the concerns relating to the global outlook for economic recovery have recently abated. These factors have delayed the Company's fund-raising initiatives.

Corporate
Cash: At 31 December, 2020 the consolidated entity held $6,671,700 in cash.

In February 2020, the consolidated entity secured a bridging loan of US$2.5M from the Nebari Natural Resources Credit Fund 1 LP (Nebari) secured over the assets of the Company (excluding the shares in Telkwa Coal Limited). The loan does not bear interest but is repayable by paying the amount of US$4M to Nebari as follows: US$1.25 million on each 31 December 2020 (which was paid on 31 December 2020) and 14 February 2021 (which was paid on 14 February 2021); and US$1.5 million on 31 March 2021.

In July 2020, the Company secured up to $8 million of funding by way of a secured convertible note issued to Mercer Street Global Opportunity Fund LLC (Mercer), a New York based investment fund; $662,000 of which was drawn in August 2020; $1,338,000 of which was drawn in September 2020; $1,000,000 of which was drawn in October 2020; and $2,000,000 of which was drawn in January 2021; 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 tranche 1 funds, notes with a face value of $772,105 maturing 5 August 2021 were issued. In September 2020, following receipt of the tranche 2 funds, notes with a face value of $1,561,228 maturing 24 September 2021 were issued. In October 2020, following receipt of the first tranche 3 funds, notes with a face value of $1,150,000 maturing 30 October 2021 were issued. In January 2021, following receipt of the second tranche 3 funds, notes with a face value of $2,300,000 maturing 20 January 2022 were issued. The notes are convertible at Mercer's election into ordinary shares on the following terms: for the tranche 1 and 2 notes, the conversion price is the lesser of A$0.10, or 92% of the lowest daily VWAP of Allegiance shares selected by Mercer 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; and for the tranche 3 notes, the conversion price is the lesser of A$0.15, or 90% of the lowest daily VWAP of Allegiance shares selected by Mercer 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. If the note is not converted, it will be repaid on maturity at its issued face value.

In connection with the Mercer secured convertible note, in August 2020, the Company issued 738,770 tranche 1 fee shares to Mercer, with an attributed value of $50,000, and in September 2020, following shareholder approval, the Company issued 2,216,313 tranche 2 fee shares to Mercer, with an attributed value of $150,000.

In November 2020, Mercer elected to convert $225,000 of the notes in accordance with their terms and the Company allotted 4,444,777 shares to Mercer. In December 2020, Mercer elected to convert a further $500,000 of the notes in accordance with their terms and the Company allotted a further 11,160,714 shares to Mercer.

In September 2020, following shareholder approval, the Company placed 1.8 million ordinary shares with directors and consultants raising $107,460, 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 October 2020, in connection with the completion of the acquisition of New Elk Coal Company LLC, the Company issued 70.65 million initial debt reduction shares to Cline Mining Corporation at an attributed value of $5.65 million (US$4 million). And further as a consequence of the closing, 3.75 million performance rights, with an attributed value of $487,500, vested.

In November 2020, the Company completed a placement of 150.8 million ordinary shares to sophisticated and professional investors raising $7.54 million, before costs. And in December 2020, following shareholder approval, the Company placed 1.86 million ordinary shares with directors raising $92,917, before costs. The capital was raised to fund development working capital at New Elk and the Tenas environmental assessment application.

Board
In February 2021, Bernie Mason was appointed as a Non-Executive Director of the Company with specific responsibility to manage the relationship with Mays Mining, develop new relationships with other mine owners, as well as managing the logistics chain of delivering coal to port. Mr Mason has worked across many minerals throughout North America, although predominantly in US coal for more than 40 years. In more recent times, he has assumed executive management positions in some very large and significant producers of coal in the United States.

Significant changes in the state of affairs
Other than disclosed in these financial statements, there were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

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

This report is made in accordance with a resolution of directors, pursuant to section 306(3) of the Corporations Act 2001.

On behalf of the directors

Mark Gray
Chairman and Managing Director
5 March 2021

DECLARATION OF INDEPENDENCE UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 BY SCS AUDIT & CORPORATE SERVICES PTY LTD TO THE DIRECTORS OF ALLEGIANCE COAL LIMITED

As lead auditor of Allegiance Coal Limited for the half-year ended 31 December 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 review; and
- No contravention of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Allegiance Coal Limited and the entities it controlled during the period.

Didarul Khan
Director
SCS Audit & Corporate Services Pty Ltd
(An Authorised Audit Company)
Chartered Accountant, Registered Company Auditor

Sydney
5 March 2021

Statement of comprehensive income

For the half-year ended 31 December 2020

	Note	Consolidated 31 Dec 2020 $	Consolidated 31 Dec 2019 $
Revenue			
Interest income		642	1,958
Other revenue		-	-
	3	642	1,958
Expenses			
Employee benefits expense	4	(293,880)	(2,264,923)
Administration and other expenses		(329,644)	(188,792)
Foreign exchange loss		(923,433)	(122,044)
New Elk project evaluation		(1,886,889)	(2,516,649)
Legal fees		(14,663)	(40,522)
Listing expense		(30,335)	(50,217)
Travelling expenses		(29,187)	(124,390)
Finance costs expense	4	(1,578,334)	(753,188)
Loss before income tax expense		(5,085,723)	(6,058,767)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to			
Equity holders of the Company		(5,071,676)	(6,040,629)
Minority interests		(14,047)	(18,138)
Loss for the half-year		(5,085,723)	(6,058,767)
Other comprehensive (loss) / income for the half-year, net of tax			
Foreign exchange movement		(911,252)	6,033
Gain on dilution of interest in subsidiary		-	986,567
Total comprehensive loss for the half-year attributable to the owners of Allegiance Coal Limited		(5,996,975)	(5,066,167)
		Cents	**Cents**
Basic loss per share		(0.75)	(1.08)
Diluted loss per share		(0.59)	(1.05)

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

Statement of financial position

As at 31 December 2020

	Note	Consolidated 31 Dec 2020 $	30 June 2020 $
Assets			
Current assets			
Cash and cash equivalents		6,671,700	442,055
Trade and other receivables		145,173	75,926
Prepayments		74,981	96,355
Total current assets		6,891,854	614,336
Non-current assets			
Exploration and evaluation	5	58,635,444	21,070,371
Reclamation bonds		4,345,247	-
Prepayments		339,216	-
Total non-current assets		63,319,907	21,070,371
Total assets		70,211,761	21,684,707
Liabilities			
Current liabilities			
Trade and other payables		2,193,228	718,859
Borrowings	6	17,377,306	4,351,230
Total current liabilities		19,570,534	5,070,089
Non-Current liabilities			
Borrowings	6	19,924,014	186,361
Provisions		6,509,441	-
Total non-current liabilities		26,433,455	186,361
Total liabilities		46,003,989	5,256,450
Net assets		24,207,772	16,428,257
Equity			
Issued capital	7	47,792,295	33,528,305
Reserves		942,144	2,428,963
Accumulated losses		(25,729,913)	(20,746,304)
Total equity attributable to equity holders of the Company		23,004,526	15,210,964
Minority interest		1,203,246	1,217,293
Total equity		24,207,772	16,428,257

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

Statement of changes in equity

For the half-year ended 31 December 2020

Consolidated	Issued capital $	General reserve $	Share based payment reserve $	Foreign currency translation reserve $	Accumulated losses $	Minority interest $	Total equity $
Balance at 1 July 2020	33,528,305	16	2,231,784	197,163	(20,746,304)	1,217,293	16,428,257
Loss after income tax benefit for the half-year	-	-	-	-	(5,071,676)	(14,047)	(5,085,723)
Other comprehensive income for the half-year, net of tax	-	-	-	(911,252)	-	-	(911,252)
Total comprehensive income for the half-year	-	-	-	(911,252)	(5,071,676)	(14,047)	(5,996,975)
Transactions with owners in their capacity as owners:							
Share issues for cash	7,740,391	-	-	-	-	-	7,740,391
Costs of share issues	(541,013)	-	-	-	-	-	(541,013)
Shares issued to settle debt	6,377,112	-	-	-	-	-	6,377,112
Shares issued on performance rights vesting	487,500	-	(487,500)	-	-	-	-
Options lapsed or expired	-	-	(88,067)	-	88,067	-	-
Share based payments	200,000	-	-	-	-	-	200,000
Balance at 31 December 2020	47,792,295	16	1,656,217	(714,089)	(25,729,913)	1,203,246	24,207,772

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

Statement of changes in equity

For the half-year ended 31 December 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 2019	27,423,519	16	318,867	(75,005)	(12,548,385)	602,310	15,721,322
Loss after income tax benefit for the half-year	-	-	-	-	(6,040,629)	(18,138)	(6,058,767)
Other comprehensive income for the half-year, net of tax	-	-	-	6,033	-	-	6,033
Dilution of interest in subsidiary at fair value	-	-	-	-	986,567	646,433	1,633,000
Total comprehensive income for the half-year	-	-	-	6,033	(5,054,062)	628,295	(4,419,734)
Transactions with owners in their capacity as owners:							
Share issues for cash	3,762,227	-	-	-	-	-	3,762,227
Costs of share issues	(271,691)	-	-	-	-	-	(271,691)
Share based payments	325,000	-	1,912,916	-	-	-	2,237,916
Balance at 31 December 2019	31,239,055	16	2,231,783	(68,972)	(17,602,447)	1,230,605	17,030,040

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

Statement of cash flows

For the half-year ended 31 December 2020

	Note	Consolidated 31 Dec 2020 $	Consolidated 31 Dec 2019 $
Cash flows from operating activities			
Payments to suppliers (inclusive of GST)		(2,820,691)	(2,819,303)
Other receipts		-	-
		(2,820,691)	(2,819,303)
Interest received		642	1,958
Interest and other finance costs paid		(994,325)	(69,721)
Income taxes		-	-
Net cash (used in) operating activities		(3,814,374)	(2,887,066)
Cash flows from investing activities			
Payments for exploration and evaluation		(2,345,843)	(3,351,390)
Recovery of rehabilitation bond		3,314,120	-
Net cash from / (used in) investing activities		968,277	(3,351,390)
Cash flows from financing activities			
Share issues, net of costs		13,776,490	3,490,536
Contributions from Joint Venture partner		253,435	1,633,000
Borrowings raised		3,042,002	-
Repayments of borrowings		(8,026,189)	(50,000)
Cash flows from financing activities		9,045,738	5,073,536
Net increase / (decrease) in cash and cash equivalents		6,199,641	(1,164,920)
Cash and cash equivalents at the beginning of the financial half-year		442,055	2,595,626
Cash in subsidiary on acquisition		30,004	-
Cash and cash equivalents at the end of the financial half-year		6,671,700	1,430,706

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

Notes to the financial statements

31 December 2020

Note 1. Significant accounting policies

Statement of compliance
The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 *Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2020 together with any public announcements made during the following half-year.

The half-year financial report was authorised for issue by directors on 5 March 2021.

Basis of preparation
The consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2020 annual financial report for the financial year ended 30 June 2020. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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 half-year ended 31 December 2020 the consolidated entity reported a net loss of $5,085,723 (2019: $6,058,767) and net operating cash outflows of $3,814,374 (2019: $2,887,066). The operating cash outflows have been funded by cash inflows from equity raisings of $13,776,490 (2019: $3,490,536), borrowings of $3,042,002 (2019: $nil) and project participation contributions from Itochu Corporation of Japan of $253,435 (2019: $1,633,000) during the half-year. As at 31 December 2020 the consolidated entity had net current liabilities of $12,678,680 (2019: $227,076) including cash reserves of $6,671,700 (2019: $1,430,706).

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 28 February 2022. In order to fully implement its exploration and evaluation strategy, the consolidated entity will require additional funds.

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 contributions from Itochu in accordance with the agreements entered between the Group and Itochu;
- 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 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.

Notes to the financial statements

31 December 2020

Going concern (continued)
In the event that the assumptions underpinning the basis of preparation do not occur as anticipated, 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.

Note 2. Operating segments

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

Note 3. Revenue

	Consolidated	
	31 Dec 2020 $	**31 Dec 2019 $**
Interest	642	1,958
Other revenue	-	-
Total Revenue	642	1,958

Note 4. Expenses

	Consolidated	
	31 Dec 2020 $	**31 Dec 2019 $**
Loss before income tax includes the following specific expenses:		
Finance costs		
Interest, finance charges and finance related expense	1,578,334	753,188
Rental expense relating to operating leases		
Minimum lease payments	40,904	40,425
Employee benefits expense		
Superannuation contributions	-	-
Employee benefits expense	293,880	352,007
Share based payments	-	1,912,916
Total employee benefits expense	293,880	2,264,923

Notes to the financial statements

31 December 2020

Note 5. Exploration and Evaluation

	Consolidated	
	31 Dec 2020 $	**30 June 2020 $**
Exploration and Evaluation – at cost and fair value	58,635,444	21,070,371
Less: impairment	-	-
	58,635,444	21,070,371

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

	New Elk $	**Lorencito $**	**Telkwa $**	**Total $**
Balance at 1 July 2020	-	-	21,070,371	21,070,371
Acquisition, at cost	38,573,722	367,387	-	38,941,109
Additions, at cost	-	-	2,796,859	2,796,859
Charged to project evaluation costs	(43,693)	-	-	(43,693)
Foreign exchange movement	(3,115,574)	(29,812)	(983,816)	(4,129,202)
Balance at 31 December 2020	35,414,455	337,575	22,883,414	58,635,444

In October 2020, the acquisition of the New Elk Mine closed. The assets 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. The mine has been on care and maintenance for several years and presently remains on care and maintenance whilst the Company raises the funds to bring the mine back into operation. Pending commercial production, the fair value of the assets acquired is accounted for as an intangible exploration and evaluation asset. Expenditure incurred by the Company relating to the mine, both pre- and post-acquisition has been expensed in the statement of comprehensive income.

In April 2020, the Company entered into coal lease agreements to mine and sell all the coal comprised in the Lorencito property which neighbours the New Elk Mine. An initial lease payment of US$260,000 in cash was paid in the period under review.

The New Elk, Lorencito and Telkwa metallurgical coal projects have yet to reach a stage of development where a final determination of the technical feasibility or commercial viability of each can be assessed. In these circumstances, whether there is any indication that the assets have 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 half-year ended 31 December 2020.

Note 6. Borrowings

Current

	Consolidated	
	31 Dec 2020 $	**30 June 2020 $**
Secured Loan – Nebari Natural Resources Credit Fund I LP	3,245,910	4,351,230
Convertible notes - Mercer Street Global Opportunity Fund LLC	2,405,378	-
Cline Mining Corporation note – current portion	11,685,277	-
Canadian government Covid-19 loan	40,741	-
	17,377,306	4,351,230

Notes to the financial statements

31 December 2020

Note 6. Borrowings (continued)

Non-current

	Consolidated	
	31 Dec 2020 $	**30 June 2020 $**
Cline Mining Corporation note – non-current portion	33,914,140	-
Less : Present value discount of Cline Mining note at acquisition	(16,245,772)	-
Add : Unwinding of present value discount of Cline Mining note	534,820	-
Foreign exchange movement	1,296,817	-
Itochu Corporation advances to Telkwa Coal Ltd	424,009	186,361
	19,924,014	186,361

In February 2020, the consolidated entity secured a bridging loan of US$2.5M from the Nebari Natural Resources Credit Fund 1 LP (Nebari) secured over the assets of the Company (excluding the shares in Telkwa Coal Limited (TCL)). The loan does not bear interest but is repayable by paying the amount of US$4M to Nebari as follows: US$1.25 million on each 31 December 2020 (which was paid on 31 December 2020) and 14 February 2021 (which was paid on 14 February 2021); and US$1.5 million on 31 March 2021.

In July 2020, the Company secured up to $8 million of funding by way of a secured convertible note issued to Mercer Street Global Opportunity Fund LLC (Mercer), a New York based investment fund; $662,000 of which was drawn in August 2020; $1,338,000 of which was drawn in September 2020; and $1,000,000 of which was drawn in October 2020; 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, notes with a face value of $772,105 maturing 5 August 2021 were issued. In September 2020, following receipt of the second tranche of funds, notes with a face value of $1,561,228 maturing 24 September 2021 were issued. In October 2020, following receipt of the third tranche of funds, notes with a face value of $1,150,000 maturing 30 October 2021 were issued. The notes are convertible at Mercer's election into ordinary shares on the following terms : for the tranche 1 and 2 notes, the conversion price is the lesser of A$0.10, or 92% of the lowest daily VWAP of Allegiance shares selected by Mercer 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; and for the tranche 3 notes, the conversion price is the lesser of A$0.15, or 90% of the lowest daily VWAP of Allegiance shares selected by Mercer 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. If the note is not converted, it will be repaid on maturity at its issued face value. By 31 December 2020, the Fund had converted $725,000 of the notes to ordinary shares (see note 7).

In October 2020, in connection with the acquisition of New Elk Coal Company LLC (New Elk), the Group has assumed a note, maturing 1 July 2030, in favour of Cline Mining Corporation (Cline). The note is interest free and secured against the assets of New Elk, but subordinated to up to US$40 million of project debt. The face value of the note, net of US$4 million of Allegiance shares issued on closing (see note 7), is US$35.12 million. US$3 million of the note is repayable from funds held by the Colorado government as security for rehabilitation bonds, to be released upon replacement with an insurance surety bond. The funds were released by the Colorado government in December 2020 and January 2021, with the US$3 million initial debt repayment being made to Cline in January 2021. A further initial debt repayment of US$6 million is payable on the earlier of the date New Elk commences production and 1 December 2021. The balance of the note is repayable in quarterly instalments from 60% of New Elk's net cash flow after providing for preferred debt payments and for sustaining and working capital requirements.

As the loan contains an interest-free period, AASB 9 *Financial Instruments* requires the full amount of US$35,120,671 to be discounted back to present value using prevailing market interest rates for an equivalent loan. The fair value of the loan at 27 October 2020 is estimated at US$23,623,538. The difference of US$11,497,133 is the benefit derived from the interest-free period of the loan and is recognised over the estimated life of the debt. A total of US$395,366 represents the unwinding of the present value discount up to 31 December 2020 and is recognised in the statement of comprehensive income under finance costs expense.

In September 2020, the Group received a C$40,000 loan from the Canadian government as part of its response to Covid-19. The loan is unsecured, interest free and repayable on or before 31 December 2022.

Notes to the financial statements

31 December 2020

Note 6. Borrowings (continued)
Itochu advances to Telkwa Coal Ltd (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.

Note 7. Equity

Issued capital

	Consolidated	
	31 Dec 2020 $	30 June 2020 $
Ordinary shares - fully paid	47,792,295	33,528,305

Consolidated	31 Dec 2020 Number	30 June 2020 Number	31 Dec 2020 $	30 June 2020 $
Balance at 1 July	614,260,861	545,681,260	33,528,305	27,423,519
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
Share based payment	2,955,083		200,000	
Shares issued on conversion of notes	15,605,491		725,000	
Shares issued for cash in September 2020	1,790,999		107,460	
Cline Mining Initial Debt Reductions shares	70,651,405		5,652,112	
Shares vesting from performance rights	3,750,000		487,500	
Shares issued for cash in November and December 2020	152,658,612		7,632,931	
Less costs			(541,013)	
Balance at period end	861,672,451	614,260,861	47,792,295	33,528,305

In August 2020, the Company issued 738,770 tranche 1 fee shares, with an attributed value of $50,000, to Mercer Street Global Opportunity Fund LLC (Mercer) in connection with the Mercer secured convertible note, and in September 2020, following shareholder approval, the Company issued 2,216,313 tranche 2 fee shares, with an attributed value of $150,000, to Mercer.

In November 2020, Mercer elected to convert $225,000 of the notes in accordance with their terms and the Company allotted 4,444,777 shares to Mercer. In December 2020, Mercer elected to convert a further $500,000 of the notes in accordance with their terms and the Company allotted a further 11,160,714 shares to Mercer (see note 6).

In September 2020, following shareholder approval, the Company placed 1.8 million ordinary shares with directors and consultants raising $0.1 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.

Notes to the financial statements

31 December 2020

Note 7. Equity (continued)
In October 2020, in connection with the completion of the acquisition of New Elk Coal Company LLC, the Company issued 70.65 million initial debt reduction shares to Cline Mining Corporation at an attributed value of $5.65 million (US$4 million) (see note 6). And further, as a consequence of the closing, 3.75 million performance rights, with an attributed value of $0.49 million, vested.

In November 2020, the Company completed a placement of 150.8 million ordinary shares to sophisticated and professional investors raising $7.54 million, before costs. And in December 2020, following shareholder approval, the Company placed 1.86 million ordinary shares with directors raising $0.1 million, before costs The capital was raised to fund development working capital at New Elk and the Tenas environmental assessment application.

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

Note 8. Related party transactions

Parent entity
Allegiance Coal Limited is the parent entity.

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated	
	31 Dec 2020 $	**31 Dec 2019 $**
Payment for other expenses:		
Consulting fees paid to a company in which Mr Gray has an interest	278,981	204,169
Reimbursement of expenses paid to a company in which Mr Gray has an interest	33,757	112,519
Consulting fees paid to a company in which Mr Carson has an interest	22,500	18,000
Consulting fees paid to a company in which Mr Cook has an interest	113,429	59,319
Reimbursement of expenses paid to a company in which Mr Cook has an interest	1,848	8,902
Consulting fees paid to a company in which Mr Reynolds has an interest	80,000	105,000
Reimbursement of expenses paid to a company in which Mr Reynolds has an interest	8,035	11,663

Receivable from and payable to related parties
There are no balances outstanding at the reporting date in relation to transactions with related parties.

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

Note 9. Events after the reporting period

In February 2021, the Company completed a $15 million placement, before costs, at $0.08 per share. The Company has also commenced a share purchase plan (SPP), at $0.08 per share, capped at $2 million. The placement completed in March 2021 with the Company issuing 187,500,000 ordinary shares and 5,625,000 Lead Manager Options, exercisable at $0.10 each, expiring on 3 March 2024.

In January 2021, the Company raised a further $2 million through the issue of convertible notes under the $8M Convertible Note (Note) arrangement with Mercer Street Global Opportunity Fund LLC, a New York based investment fund (Fund), bringing the total value of funds raised to date through the Notes to $5 million. The Company issued 2,300,000 Tranche 3 Notes to the Fund. The Notes are for a term of 12 months, with a maturity date of 20 January 2022. The Notes are interest free but will be issued at an original issue discount of 15%. The Notes are issued on the same terms as the Tranche 3 Notes previously issued, summarised as follows. The Notes are convertible at the Fund's election into Allegiance ordinary shares at lower of: (i) $0.15; or (ii) 90% of the lowest daily VWAP of the Shares during

Notes to the financial statements

31 December 2020

Note 9. Events after the reporting period (continued)
the preceding 10 trading days immediately before the holder giving a conversion notice, subject to the conversion price being not less than $0.03 (subject to limited adjustment events including in the event of bonus issues). Allegiance may repurchase the Notes at any time prior to maturity by repaying the Note at face value together with a premium of 3% of face value; subject to the Fund having the right to convert 30% of the amount sought to be re-purchased into Allegiance ordinary shares on the terms summarised above.

From 1 January 2021, up to the date of this report the Fund has elected to convert $350,000 of its Tranche 1 and 2 Notes to ordinary shares.

In January 2021, the Group received US$927,000 being the balance of funds held by the Colorado State government as security for New Elk rehabilitation costs following replacement of the cash bond with an insurance surety bond.

In January 2021, the Group made an initial debt repayment of US$3m to Cline following the release of funds held by the Colorado State government as security for New Elk rehabilitation costs following replacement of the cash bond with an insurance surety bond.

In February 2021, in connection with the Nebari Natural Resources Credit Fund 1 LP bridging loan, the Company made the required payment of US$1.25 million.

Note 10. Commitments

In connection with the New Elk Mine, the Company has taken on several long term commitments relating to minimum royalties, provision of services and land access, as follows:

	Consolidated	
	2020	2019
	$	$
Within one year	1,080,790	-
One to five years	4,276,363	-
Later than five years	3,712,695	-
	9,069,848	-

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 Company 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 future payments:
- 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 owns 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.

Notes to the financial statements

31 December 2020

Note 10. Commitments (continued)
The Group 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 Group has provided a charge over the Telkwa Project in favour of Altius. The charge shall be subordinated to Telkwa Project debt finance.

Note 11. Share-based payments

Participants Securities Incentive Plan Options
Details of the Participants Securities Incentive Plan (PSIP) are disclosed in the annual financial report. The objective of the PSIP is to assist in the reward, retention and motivation of key directors, employees and consultants (Participants); link the reward of Participants to shareholder value creation; and align the interests of Participants with shareholders, by providing an opportunity to Participants to receive an equity interest in the Company. Each PSIP option entitles the holder to subscribe for one ordinary share upon exercise. There were no changes in the number of options issued under the PSIP during the half-year ended 31 December 2020.

Lead Manager Options
Details of the Lead Manager Options are disclosed in the annual financial report. The Lead Manager Options expired unexercised on 6 December 2020.

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

Grant date	Expiry date	Exercise Price	Balance at the start of the half-year	Granted	Exercised	Expired/ forfeited/ Other	Balance at the end of the half-year
PSIP Options							
6/12/17	6/12/22	$0.075	7,250,000	-	-	-	7,250,000
6/12/18	6/12/22	$0.075	2,000,000	-	-	-	2,000,000
3/12/19	3/12/24	$0.28	6,450,000	-	-	-	6,450,000
Lead Manager Options							
6/12/17	6/12/20	$0.05	5,000,000	-	-	5,000,000	-
			20,700,000	-	-	5,000,000	15,700,000

Notes to the financial statements

31 December 2020

Note 11. Share-based payments (continued)
Performance Rights
Details of the Performance Rights are disclosed in the annual financial report. 3,750,000 Performance Rights vested during the half-year ended 31 December 2020. Other than that, there were no changes in the number of Performance Rights on issue for the current half-year.

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 vested upon completion of the acquisition of the New Elk Mine;
- 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.

Class	Expiry date	Exercise Price	Balance at the start of the half-year	Granted	Vested	Expired/ forfeited / Other	Balance at the end of the half-year
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
			12,500,000	-	3,750,000	-	8,750,000

Directors' declaration

31 December 2020

1. the financial statements and notes are in accordance with the Corporations Act 2001, including:

   (i) complying with Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

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 signed in accordance with a resolution of the Board of Directors.

On behalf of the directors

____

Mark Gray
Chairman and Managing Director
5 March 2021
Sydney

Auditor review report

31 December 2020

Independent Auditor's Review Report to the members of Allegiance Coal Limited

We have reviewed the accompanying half-year financial report of Allegiance Coal Limited, which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising a statement of accounting policies and selected explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASS 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Allegiance Coal Limited ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Allegiance Coal Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Auditor review report (continued)

31 December 2020

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Allegiance Coal Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter

Without amendment to our conclusion we emphasise the following matter:

Going Concern

The Directors opinion is detailed in Note 1 of the half-year financial report, which indicated that the ability of the entity to continue as a going concern is dependent upon the consolidated entity securing additional funding from sources including but not limited to further contributions from Itochu in accordance with the agreements entered between the Group and Itochu; further equity capital raisings; the potential farm out of participating interests in the consolidated entity's tenements and rights; and / or other financing arrangements. These conditions, along with other matters set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern therefore, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

Didarul Khan
Director
SCS Audit & Corporate Services Pty Ltd
Chartered Accountant, Registered Company Auditor

Sydney
5 March 2021