



ALLEGIANCE COAL
LIMITED

ABN 47 149 490 353

Annual Report - 30 June 2021

Corporate Directory

Directors	Mark Gray – Chairman and Managing Director Malcolm Carson Larry Cook Bernie Mason Jonathan Reynolds
Company secretary	Jonathan Reynolds
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Auditor	SCS Audit & Corporate Services Pty Ltd Suite 802 309 Pitt Street Sydney 2000
Solicitors	HWL Ebsworth Level 20 240 St Georges Terrace Perth WA 6000
Stock exchange listing	Allegiance Coal Limited shares are listed on the Australian Securities Exchange (ASX code: AHQ)
Website	www.allegiancecoal.com.au
Email address	info@allegiancecoal.com.au

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Directors' Report

30 June 2021

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Allegiance Coal Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

Directors

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

Mark Gray (Chairman)
Malcolm Carson
Larry Cook
Bernie Mason – Appointed on 1 February 2021
Jonathan Reynolds

Principal activities

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

Dividends

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

Review of operations

United States metallurgical coal

The Group's strategy is to offer for supply a variety of coals to both the Pacific and Atlantic seaborne metallurgical coal markets. Creating optionality in the products that the Group can deliver is a hedge to demand volatility and provides an opportunity to optimise value based on product demand at any point in time.

In October 2020, the Company completed the acquisition from Cline Mining Corporation (Cline) of 100% of the voting equity instruments in New Elk Coal Company LLC (NECC) which company owns the New Elk hard coking coal mine (Mine) located in southeast Colorado, United States.

At acquisition, the Mine was fully constructed and permitted for the production of hard coking coal and 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 commercial production, as defined, 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. At acquisition, the Mine had been on care and maintenance for several years.

During the financial year, the major activity of the Company revolved around the rehabilitation of the Mine's underground and above ground equipment, plant and infrastructure and the all-important task of recruiting production staff and support teams. The Mine currently operates two production units (each still in a start-up stage working towards target production). The wash plant has had sufficient tonnes processed at various gravities to test its performance, and to give Management an indication as to what ash product can be achieved at various gravities and at what yields.

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 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. The Blue seam has 22Mt of saleable coal reserves at a coal seam cut-off height of four foot and the mine plan contemplates mining the entire Blue seam reserve with just two continuous miners over a period of 24 years. 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.

Coal production commenced in the Blue Seam at the Mine on 21 May 2021, with the first production unit. Commencement was delayed by three weeks against the Company's target start date due to delays in obtaining approvals to mine operational plans from Mine Safety and Health Administration, a US Federal Government department tasked with regulating the safety of mining operations in the US (MSHA). The delay was due primarily to the impact of COVID on MSHA with the closure of its office in Colorado coupled with key staff away on leave. There were no material issues in relation to any of the Mine's operational plans.

The first train was loaded late July 2021 for delivery of coal to the Port of Guaymas, Mexico, with further trains transporting additional coal thereafter.

The Company held its first New Elk Open House event attended by more than 100 people. Copies of the Story Boards used to engage with attendees can be found on New Elk's website, at the following link <https://www.newelkcoal.com/site/responsible-mining1/community-open-house-poster-boards>

During the financial year, approximately 1,500 tons of coal was sold FOB the mine gate to a local cement plant. A request for up to 10,000 tons per month has been received from that plant which New Elk will consider once it reaches sustained production.

Four 70,000 tonne cargoes of Blue Seam have been sold to Asian steel mill customers for delivery in the 2022 financial year.

A request for a 20,000 tonne trial shipment to another Asian steel mill customer has been received and again, New Elk will look to commit to that once it reaches sustained production.

In December 2020, the Company entered a contract with Mays Mining to acquire 30,000 tonnes per month of Pratt seam coal increasing to 60,000 tonnes per month, to blend with New Elk's Blue seam coal at a ratio of ~53% Blue to ~47% Pratt. Following CSR tests undertaken on the Pratt, lower than expected results were received reducing the status and value of the Blue Pratt blend – the calculated CSR was 50 against a CSR test result of <40. Mays could not therefore deliver the CSR specification of 50 under the terms of the off-take contract. In July 2021, the parties agreed to replace Pratt coal with NPA coal supplied by Yellowhammer Energy Solutions LLC., a Mays related entity.

In August 2021, the Company completed the acquisition of all the shares in Black Warrior Minerals Inc, a company that owns the operating open pit BWM Mine located 40 miles northeast of Birmingham Alabama, United States. The purchase price is US\$4M in cash; and US\$5.3M to replace the reclamation bond lodged with the state. In addition, the Company contracted to make an ongoing payment of US\$1 per tonne for any coal sold by BWM to the Alabama Coal Cooperative. Subsequent to the closing, the Company paid a further US\$1M in cash to close out this royalty payment.

The BWM Mine comprises 9.6M tons of in-place coal and currently produces around 220,000 tonnes per annum of high CSR coking coal including globally recognized brands Blue Creek and Mary Lee (BCML). Presently, 6.8M tons are located on leased property, with the balance lying on property the Company intends to seek to lease. Production has historically been sold as a thermal coal, run-of-mine, to the Alabama power market. The acquisition gives the Company immediate access to a premium CSR coking coal which it intends to blend with the NPA coal it is contracted to buy from Yellowhammer Energy, and its own New Elk Blue seam coal, to present an on-spec high vol A coking coal for sale on the seaborne met coal market.

Independent mining consultant, Marshall Miller has been engaged to assist in the development of a life-of-mine plan to optimise existing mining operations including, amongst other things, a material reduction in operating costs. In addition, coal samples will be collected and sent to a laboratory for coal washability and quality tests, as well as a CSR test following which, the Company will commence marketing efforts with steel mills for supply of the blended product.

Lorencito property

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 potentially providing low cost access to coal. An initial lease payment of US\$260,000 in cash was paid to the leaseholders and exploration activities are ongoing. Exploration costs for this area of interest have been expensed in profit and loss.

Telkwa metallurgical coal project (equity interest 90%)

The Company has remained focussed on advancing the Telkwa metallurgical coal project (Telkwa Project) to production. The Telkwa Project, owned by the Company's subsidiary Telkwa Coal Limited (TCL) is located on the western side of British Columbia, Canada, 375km by both rail and road to the deep water port of Prince Rupert and the Ridley Island Coal Terminal. The key attractions of the Telkwa Project remain its relatively low mining strip ratio; relatively simple mining and coal washing process; and access to rail, port, power, water, workforce and services.

During the 2021 financial year, post DFS optimisation work has been ongoing focussing on reducing sustaining capital as well as mitigating potential environmental impacts with engineering solutions to enhance the Environmental Assessment Application. This includes a substantial geotechnical drilling program undertaken to support the planned management ponds.

In addition, the Company continued to invest significant resources working to finalise the Application Information Requirements document and progressing the drafting of the application for an Environmental Assessment Certificate. Completion of the documentation was delayed by the need to review the water quality and quantity predictions. The review has been completed to the satisfaction of Management allowing other project disciplines that rely on that model to complete their environmental impact studies and to complete their respective sections of the application document. Current progress indicates the EA application will now be lodged Q4 2021, the outstanding section being Part C which relates to First Nations considerations.

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.

During the period, Itochu Corporation of Japan has advanced \$0.35 million to TCL, pro-rata to its shareholding in TCL, bringing its total advance to C\$0.5 million. The parties have agreed to capitalise their advances pro-rata their equity interest in TCL following lodgement of the application. Accordingly, the advances, which are interest free and unsecured, are quasi-equity. This advance is in addition to the tranche 1 and 2 payments previously made by Itochu, totalling C\$3 million, to secure its 10% equity interest.

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 year ended 30 June 2021.

Covid-19

Until August 2021, the Company had not suffered any direct impact from the Covid-19 pandemic. In August 2021, however, the Company reported that three staff at the New Elk Mine had tested positive to Covid-19 necessitating a period of isolation for the affected teams. This has led to delays to planned production and sales.

Share capital

During the year ended 30 June 2021, the Company undertook the following capital raising initiatives:

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 mine and the studies and assessments required to support the Tenas environmental assessment application.

In October 2020, in connection with the completion of the acquisition of NECC, the Company issued 70.65 million initial debt reduction shares to Cline 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 \$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.

In March 2021, the Company completed a placement of 187.5 million ordinary shares to sophisticated and professional investors raising \$15 million, before costs. In addition, the Company completed a share purchase plan, issuing 38.2 million ordinary shares and raising \$3 million before costs. The capital was raised to fund mine and equipment refurbishments at New Elk, the Tenas environmental assessment application and debt repayment.

In April 2021, following shareholder approval, the Company completed a placement of 125 million ordinary shares to sophisticated and professional investors raising \$10 million, before costs. The capital was raised to fund New Elk development.

In August 2020, the Company issued 0.7 million 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 2.2 million tranche 2 fee shares, with an attributed value of \$0.15 million, to Mercer. In November 2020, Mercer elected to convert \$0.2 million of the notes and the Company allotted 4.4 million shares to Mercer. In December 2020, Mercer elected to convert \$0.5 million of the notes and the Company allotted 11.2 million shares to Mercer. In February 2021, Mercer elected to convert \$0.4 million of the

notes and the Company allotted 4.5 million shares to Mercer. In April 2021, Mercer elected to convert \$0.4 million of the notes and the Company allotted 5.4 million shares to Mercer.

In May 2021, following shareholder approval, the Company's share capital was consolidated on a one for five basis.

In May 2021, the Company completed a placement of 34.4 million ordinary shares to sophisticated and professional investors raising \$15.5 million, before costs. The capital was raised to fund New Elk development.

In June 2021, 0.25 million performance rights, with an attributed value of \$0.16 million, vested.

In June 2021, Mercer elected to convert \$1.6 million of the notes and the Company allotted 3.3 million shares to Mercer.

Loans

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 did not bear interest but was repaid during the current financial year by paying the amount of US\$4M to Nebari as follows: US\$1.25 million on each 31 December 2020 and 14 February 2021; and US\$1.5 million on 31 March 2021.

Itochu has advanced C\$0.5 million to TCL, in addition to the tranche 1 and 2 payments totalling C\$3 million for its 10% equity interest, pending lodgement by TCL of the Tenas metallurgical coal project environmental assessment application. Itochu has agreed to capitalise the loan pro-rata its equity interest in TCL following lodgement of the application. Accordingly, the advances, which are interest free and unsecured, are quasi-equity.

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; \$0.66 million of which was drawn in August 2020; \$1.34 million of which was drawn in September 2020; \$1 million of which was drawn in October 2020; and \$2 million 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. By 30 June 2021, all tranche 1 and 2 notes had been converted into ordinary shares. In October 2020, following receipt of the first tranche 3 funds, notes with a face value of \$1.15 million maturing 30 October 2021 were issued. In January 2021, following receipt of the second tranche 3 funds, notes with a face value of \$2.3 million maturing 20 January 2022 were issued. By 30 June 2021, \$0.75 million of the tranche 3 notes had been converted into ordinary shares, with a further \$1 million converted in July 2021. The balance of the notes are convertible at Mercer's election into ordinary shares on the following terms: the conversion price is the lesser of \$0.75 (post consolidation) 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. The fair value of the conversion rights of \$1,477,039 has been recognised in profit and loss as an element of finance costs expense. If the note is not converted, it will be repaid on maturity at its issued face value. As at the date of this report, Mercer holds notes with a face value of \$1.7 million.

In October 2020, in connection with the acquisition of NECC, the Group has assumed a note, maturing 1 July 2030, in favour of 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, is US\$35.12 million. US\$3 million of the note was repaid in January 2021 from funds held by the Colorado government as security for rehabilitation bonds, which was released upon replacement with an insurance surety bond. A further initial debt repayment of US\$6 million is payable on the earlier of the date New Elk commences commercial production (as defined) 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.

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.

Going concern

The Group is involved in the exploration, evaluation, development and exploitation 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 and whether the mineral reserves can be commercially and profitably exploited.

For the year ended 30 June 2021 the consolidated entity reported a net loss of \$15,837,633 (2020: \$9,215,936) and net operating cash outflows of \$7,653,106 (2020: \$5,755,536). The operating cash outflows have been funded by cash inflows from equity raisings of \$56,861,791 (2020: \$5,779,786); project participation contributions from Itochu Corporation of Japan of \$350,234 (2020: \$1,822,716) and borrowings of \$5,042,927 (2020: \$3,804,822) during the year. As at 30 June 2021 the consolidated entity had net current assets of \$4,018,971 (2020 net current liabilities: \$4,642,114) including cash reserves of \$18,689,261 (2020: \$442,055).

The balance of these cash reserves may not be sufficient to meet the consolidated entity's planned expenditure, evaluation and development budget, including exploration activities, evaluation, operating and administrative expenditure, for the 12 months to 30 September 2022. In order to fully implement its exploration, evaluation and development 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 Group requires additional funding to be secured from sources including but not limited to:

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

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

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

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

Board

In February 2021, Bernie Mason was appointed as a Non-Executive Director of the Company with specific responsibility to assist in the commissioning of the New Elk Mine and for overseeing the Alabama coal acquisition strategy.

Trading results

The loss for the consolidated entity after providing for income tax amounted to \$15,837,633 (30 June 2020: \$9,215,936).

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

In July 2021, Mercer elected to convert \$1 million of the notes and the Company allotted 1.6 million shares to Mercer.

In August 2021, the Company completed the acquisition of all the shares in Black Warrior Minerals Inc, a company that owns the operating open pit BWM Mine located 40 miles northeast of Birmingham Alabama, United States. The purchase price is US\$4M in cash; and US\$5.3M to replace the reclamation bond lodged with the state. In addition, the Company contracted to make an ongoing payment of US\$1 per tonne for any coal sold by BWM to the Alabama Coal Cooperative. Subsequent to the closing, the Company paid a further US\$1M in cash to close out this royalty payment.

In August 2021, in connection with the BWM Mine acquisition, the Company completed a placement of 44.8 million ordinary shares to sophisticated and professional investors raising \$30 million, before costs.

Likely developments and expected results of operations

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

Environmental regulation

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

Information on directors

Name:	Mark Gray
Title:	Chairman from May 2019 Managing Director from May 2017
Qualifications:	LLB
Experience and expertise:	Mark secured the Telkwa Project and founded Telkwa Coal Limited (a wholly owned subsidiary of the Company) in September 2014. He is a corporate lawyer with 30 years' transactional experience gained as a lawyer with Herbert Smith in London, a partner with Bell Gully in New Zealand, and as a director of the London based investment bank Barclays de Zoette Wedd. He has been an advisor to and company executive of mining companies and operations including underground coal in Australia and open pit mining in Africa, as well as exploration and development projects in several minerals including coal. He was appointed to the Board on 29 May 2017.
Other current directorships	None
Former directorships (last 3 years):	None
Special responsibilities	None
Interests in shares:	181,860 ordinary shares held directly (5,418,600 ordinary shares held indirectly)
Interests in options	No options held directly (1,000,000 options held indirectly)

Name: Malcolm Carson
 Title: Independent Non-Executive Director from March 2018
 Qualifications: MSc, BSc, MAusIMM, AIG
 Experience and expertise: Malcolm has over 40 years' experience in the resource sector including field exploration geologist and commercial evaluation of resources and project finance. He has held senior positions in exploration and mining companies, the West Australian Government, investment banks and executive roles in ASX and TSX publicly listed companies. He was appointed to the Board on 11 August 2016.
 Other current directorships: Chairman of Zuleika Gold Limited (ASX: ZAG)
 Director Pacific Wildcat Corp (TSX)
 Former directorships (last 3 years): None
 Special responsibilities: None
 Interests in shares: 17,514 held indirectly
 Interests in options: No options held directly (300,000 options held indirectly)

Name: Larry Cook
 Title: Independent Non-Executive Director from July 2019
 Qualifications: B.S.E.M- Mining Engineering
 Experience and expertise: Larry has over 40 years of technical knowledge of underground coal mining and methods. For the first 20 years of his career he worked in various underground roles in coal mines primarily in West Virginia. He is highly regarded in both the US and Australia as an extremely capable underground coal mining engineer. Previous positions include Vice President of Operations at Mid-Vol Mining, Madison WV; General Superintendent at Mystic Energy Inc, Beckley WV; Mine Manager of five underground coal mines owned by Eastern Associated Coal Corporation in Wharton WV; founding shareholder and director of Bounty Industries Ltd providing contract mining at Ivanhoe Colliery, NSW, for Centennial Coal and at German Creek Colliery, Central QLD, for Anglo Coal. Most recently, Mr Cook recommissioned the Donkin underground coal mine located in Nova Scotia, Canada.
 Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: None
 Interests in shares: 522,878 held directly
 Interests in performance rights: 500,000 held directly
 Interests in options: Nil

Name: Bernie Mason
 Title: Independent Non-Executive Director from February 2021
 Qualifications: BSc
 Experience and expertise: Bernie has worked across many minerals 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: President and CEO of Xinergy Ltd 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 operated surface and underground coal mines producing in excess of 54Mtpa.

Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: None
 Interests in shares: 500,000 held indirectly
 Interests in performance rights: 500,000 held directly
 Interests in options: Nil

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

Other current directorships: None
 Former directorships (last 3 years): Director of MCB Resources Limited (ASX: MCB)
 Special responsibilities: None
 Interests in shares: 490,000 ordinary shares held directly
 Interests in options: 550,000 options held directly

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

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

Company secretary Jonathan Reynolds

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

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2021, and the number of meetings attended by each director were:

	Attended	Held
Mark Gray	4	4
Malcolm Carson	4	4
Larry Cook	4	4
Bernie Mason	2	2
Jonathan Reynolds	4	4

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

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

Remuneration report (audited)

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

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

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

Principles used to determine the nature and amount of remuneration

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

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non-executive directors' remuneration

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

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

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

appropriate to issue individual options to non-executive directors, subject to obtaining relevant shareholder approvals.

Executive remuneration

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

The executive remuneration and reward framework has four components:

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

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

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

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

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

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

Consolidated entity performance and link to remuneration

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

Use of remuneration consultants

During the financial year ended 30 June 2021, the Company did not engage remuneration consultants to review its existing remuneration policies and provide recommendations on how to improve both the short-term incentives ('STI') and long-term incentives ('LTI') programs of the Company and consolidated entity.

Voting and comments made at the Company's 2020 Annual General Meeting ('AGM')

At the last AGM, the shareholders voted to adopt the remuneration report for the year ended 30 June 2020. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

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

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
2021	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Malcolm Carson	40,500	-	-	-	-	-	40,500
Larry Cook	224,017	-	-	-	-	-	224,017
Bernie Mason	88,943	-	-	-	-	-	88,943
<i>Executive Directors:</i>							
Mark Gray	410,668	120,000	36,346	-	-	-	567,014
Jonathan Reynolds	237,500	40,000	-	-	-	-	277,500
<i>Executives:</i>							
Dan Farmer ¹	272,940	-	-	-	-	-	272,940
Amon Mahon ²	133,918	-	20,337	-	-	-	154,255
Angela Waterman ³	212,534	-	-	-	-	-	212,534
	1,621,020	160,000	56,683	-	-	-	1,837,703

1 Chief Operating Officer Telkwa Coal Ltd

2 Chief Operating Officer New Elk Coal Company, LLC (since December 2020)

3 Environmental and Government Telkwa Coal Ltd

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

* Chief Operating Officer Telkwa Coal Ltd

+ Environmental and Government Telkwa Coal Ltd

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2021	2020	2021	2020	2021	2020
<i>Non-Executive Directors:</i>						
Malcolm Carson	100%	48%	-%	-%	-%	52%
Larry Cook	100%	17%	-%	-%	-%	83%
Bernie Mason	100%	-%	-%	-%	-%	-%
<i>Executive Directors:</i>						
Mark Gray	77%	67%	23%	6%	-%	27%
Jonathan Reynolds	86%	66%	14%	6%	-%	28%
<i>Executives:</i>						
Dan Farmer	100%	74%	-%	7%	-%	19%
Amon Mahon						
Angela Waterman	100%	91%	-%	9%	-%	-%

Share-based compensation

Issue of performance rights

During the year ended 30 June 2020, 1 million performance rights (post consolidation) were granted to Larry Cook in four separate classes, B through E. The performance rights will automatically vest and convert into Shares on a one for one basis upon satisfaction of milestones, all relating to the New Elk Coal Mine. A performance right will lapse upon the earlier to occur of: (a) the cessation of the holder's employment or other engagement with the Company; and (b) the Vesting Condition not being satisfied on or before the Expiry Date.

Details of performance rights issued are summarised below:

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

During the year ended 30 June 2020, 1 million performance rights (post consolidation) were granted to each Bernie Mason and Amon Mahon (prior to their being appointed a director and a key management personnel respectively) in four separate classes, A, B D and E. The performance rights will automatically vest and convert into Shares on a one for one basis upon satisfaction of milestones, all relating to the New Elk Coal Mine. A performance right will lapse upon the earlier to occur of: (a) the cessation of the holder's employment or other engagement with the Company; and (b) the Vesting Condition not being satisfied on or before the Expiry Date.

Details of performance rights issued are summarised below:

- 250,000 Class A Performance Rights which vested upon shareholder approval;
- 250,000 Class B Performance Rights which vested upon Completion of the Mine acquisition;
- 250,000 Class D Performance Rights which will vest on the sale of the first 500,000 metric tonnes of coal from the Mine, expiring 2 December 2022; and
- 250,000 Class E Performance Rights which will vest on the sale of the second 500,000 metric tonnes of coal from the Mine, expiring 2 December 2023.

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2021.

Options

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

During the year ended 30 June 2020, 1,290,000 options (post consolidation) were granted to directors and other key management personnel as part of compensation.

Grant date	Vesting and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
3 December 2019	See table below	3 December 2024	\$1.40	\$0.223

	Vesting and exercisable date						Total
	a	b	c	3 Dec 2020	3 Dec 2021	3 Dec 2022	
M Gray	100,000	100,000	500,000	100,000	100,000	100,000	600,000
M Carson	-	-	-	50,000	50,000	50,000	150,000
J Reynolds	50,000	50,000	50,000	50,000	50,000	50,000	300,000
D Farmer	40,000	40,000	40,000	40,000	40,000	40,000	240,000
	190,000	190,000	190,000	240,000	240,000	240,000	1,290,000

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

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

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

No performance rights or options were granted to directors and other key management personnel as part of compensation during the year ended 30 June 2021.

Options granted carry no dividend or voting rights.

Values of performance rights granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

Name	Value of performance rights granted during the year \$	Value of performance rights vested during the year \$	Value of performance rights lapsed during the year \$	Remuneration consisting of performance rights for the year %
Larry Cook	-	325,000	-	-
Bernie Mason*	-	-	-	-
Amon Mahon*	-	-	-	-

* During the period engaged as a director or key management personnel

Values of options over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

Name	Value of options granted during the year \$	Value of options vested during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Mark Gray	-	54,884	-	-
Malcolm Carson	-	16,283	-	-
Jonathan Reynolds	-	35,127	-	-
Dan Farmer	-	22,978	-	-
Angela Waterman	-	5,123	-	-

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

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

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

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

Service agreements

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

Additional disclosures relating to key management personnel

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

Performance rights			Number of	Value of	Value of	Number of	Value of
Name	Grant date	Vesting date	rights granted	rights granted \$	rights vested \$	rights lapsed	rights lapsed \$
Larry Cook	3 Dec 2019	Note 1	1,000,000	650,000	325,000	-	-
Bernie Mason	3 Dec 2019	Note 2	1,000,000	650,000	325,000	-	-
Amon Mahon	3 Dec 2019	Note 2	1,000,000	650,000	325,000	-	-

Note 1: The performance rights vest as follows:

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

Note 2: The performance rights vest as follows:

- 250,000 Class A Performance Rights vested upon shareholder approval;
- 250,000 Class B Performance Rights vested upon completion of the New Elk Mine acquisition;
- 250,000 Class D Performance Rights vest on the sale of the first 500,000 metric tonnes of coal from the New Elk Mine; and
- 250,000 Class E Performance Rights vest on the sale of the second 500,000 metric tonnes of coal from the New Elk Coal Mine.

Options			Number of	Value of	Value of	Number of	Value of
Name	Grant date	Vesting date	options granted	options granted \$	options vested \$	options lapsed	options lapsed \$
M Gray	6 Dec 2017	Note 1	400,000	40,985	10,426	-	-
M Gray	3 Dec 2019	Note 2	600,000	133,915	-	-	-
M Carson	6 Dec 2017	Note 1	150,000	15,369	10,246	-	-
M Carson	3 Dec 2019	Note 2	150,000	33,479	-	-	-
J Reynolds	6 Dec 2017	Note 1	250,000	25,616	6,404	-	-
J Reynolds	3 Dec 2019	Note 2	300,000	66,957	-	-	-
D Farmer	6 Dec 2017	Note 1	300,000	30,739	10,246	-	-
D Farmer	3 Dec 2019	Note 2	240,000	53,566	-	-	-
A Waterman	6 Dec 2017	Note 1	300,000	30,739	10,246	-	-

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

Vesting and exercisable date								
	a	b	c	d	6 Dec 2018	6 Dec 2019	6 Dec 2020	Total
M Gray	-	-	100,000	100,000	-	100,000	100,000	400,000
M Carson	-	-	-	-	50,000	50,000	50,000	150,000
J Reynolds	-	-	62,500	62,500	-	62,500	62,500	250,000
D Farmer	50,000	50,000	50,000	50,000	-	50,000	50,000	300,000
A Waterman	50,000	50,000	50,000	50,000	-	50,000	50,000	300,000
	100,000	100,000	262,500	262,500	50,000	312,500	312,500	1,400,000

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

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

Vesting and exercisable date							
	a	b	c	3 Dec 2020	3 Dec 2021	3 Dec 2022	Total
M Gray	100,000	100,000	100,000	100,000	100,000	100,000	600,000
M Carson	-	-	-	50,000	50,000	50,000	150,000
J Reynolds	50,000	50,000	50,000	50,000	50,000	50,000	300,000
D Farmer	40,000	40,000	40,000	40,000	40,000	40,000	240,000
	190,000	190,000	190,000	240,000	240,000	240,000	1,290,000

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

Shareholding

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

	Balance at the start of the year / appointment	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Mark Gray	5,025,466	-	574,994	-	5,600,460
Malcolm Carson	-	-	17,514	-	17,514
Larry Cook	-	250,000	272,878	-	522,878
Bernie Mason	500,000	-	-	-	500,000
Jonathan Reynolds	363,400	-	126,600	-	490,000
Amon Mahon	500,000	-	-	-	500,000
Dan Farmer	503,927	-	120,278	-	624,205
Angela Waterman	-	-	50,652	-	50,652
	6,892,793	250,000	1,162,916	-	8,305,709

Performance rights holding

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

	Balance at the start of the year / appointment	Received as part of remuneration	Additions	Disposals/ vested / other	Balance at the end of the year
<i>Performance rights</i>					
Mark Gray	-	-	-	-	-
Malcolm Carson	-	-	-	-	-
Larry Cook	1,000,000	-	-	(500,000)	500,000
Bernie Mason	500,000	-	-	-	500,000
Jonathan Reynolds	-	-	-	-	-
Amon Mahon	500,000	-	-	-	500,000
Dan Farmer	-	-	-	-	-
Angela Waterman	-	-	-	-	-
	2,000,000	-	-	(500,000)	1,500,000

Option holding

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

	Balance at the start of the year / appointment	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Mark Gray	1,000,000	-	-	-	1,000,000
Malcolm Carson	300,000	-	-	-	300,000
Larry Cook	-	-	-	-	-
Bernie Mason	-	-	-	-	-
Jonathan Reynolds	550,000	-	-	-	550,000
Amon Mahon	-	-	-	-	-
Dan Farmer	540,000	-	-	-	540,000
Angela Waterman	300,000	-	-	-	300,000
	2,690,000	-	-	-	2,690,000

	Vested and exercisable	Unvested and unexercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
Mark Gray	400,000	600,000	1,000,000
Malcolm Carson	200,000	100,000	300,000
Larry Cook	-	-	-
Bernie Mason	-	-	-
Jonathan Reynolds	225,000	325,000	550,000
Amon Mahon	-	-	-
Dan Farmer	230,000	310,000	540,000
Angela Waterman	150,000	150,000	300,000
	1,205,000	1,485,000	2,690,000

Loans to key management personnel and their related parties

There were no loans made to key management personnel and their related parties during the financial year ended 30 June 2021.

Other transactions with key management personnel and their related parties

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

- Gray Corporate Law Ltd, a related party of Mark Gray, totalling \$305,416
- Gray Corporate Ltd, a related party of Mark Gray, totalling \$225,252
- Mineral Resource Consultants Pty Ltd, a related party of Malcom Carson, totalling \$40,500
- Cook Consulting Services, a related party of Larry Cook, totalling \$224,017
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$277,500
- Coalsense Consulting Inc, a related party of Dan Farmer, totalling \$272,940

Expenses reimbursements paid to related parties:

- Gray Corporate Law Ltd, a related party of Mark Gray, totalling \$91,307
- Cook Consulting Services, a related party of Larry Cook, totalling \$4,678
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$23,313

This concludes the remuneration report, which has been audited

Performance rights

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

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

Note 1:

- 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
- 750,000 Class E Performance Rights which will vest on the sale of the second 500,000 metric tonnes of coal from the New Elk Mine, expiring 2 December 2023.

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

Shares under option

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

Grant date	Expiry date	Exercise price	Number under option
6 December 2017	6 December 2022	\$0.375	1,310,000
3 December 2019	3 December 2024	\$1.40	1,290,000
3 March 2021	3 March 2024	\$0.50	1,125,000
11 May 2021	11 May 2024	\$0.5625	1,033,333
5 August 2021	5 August 2024	\$0.8375	1,343,283

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

Shares issued on the exercise of options

There were no ordinary shares of Allegiance Coal Limited issued on the exercise of options during the year ended 30 June 2021 and up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

Non-audit services

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

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

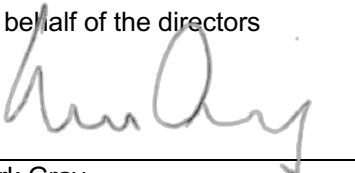
There are no officers of the Company who are former audit directors of SCS Audit & Corporate Services Pty Ltd.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 80.

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

On behalf of the directors



Mark Gray
Chairman

28 September 2021
Sydney

Corporate governance statement

30 June 2021

The Board of Allegiance Coal Limited ('Board') is committed to ensuring that the Company's obligations and responsibilities to its various stakeholders are fulfilled through its corporate governance practices. The directors of the Company ('Directors', being either Non-Executive Directors or Executive Directors) undertake to perform their duties with honesty, integrity, care and due diligence, to act in good faith in the best interests of the Company in a manner that reflects the highest standards of corporate governance.

The Company's Board are committed to a high standard of corporate governance practices, ensuring that the Company complies with the Corporations Act 2001 (Cth), ASX Listing Rules, Company Constitution and other applicable laws and regulations.

Corporate Governance Compliance

The Company has followed the 4th edition of the ASX Corporate Governance Council's Principles and Recommendations ('Principles and Recommendations') where the Board has considered the recommendations to be an appropriate benchmark for its corporate governance practices.

Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for adoption of its own practice, in compliance with the "if not, why not" regime.

The 2021 Corporate Governance Statement is dated at 28 September 2021 and reflects the corporate governance practices in place throughout the year ended 30 June 2021. A description of the Company's current corporate governance practices is set out in the Company's Corporate Governance Manual which can be viewed at www.allegiancecoal.com.au

This statement was approved by the Board on 28 September 2021.

ASX CORPORATE GOVERNANCE COUNCIL'S PRINCIPLES AND RECOMMENDATIONS

Principle	Recommendation	Conform	Disclosure
Principle 1:	Lay solid foundation for management and oversight		
1.1	A listed entity should have and disclose a board charter setting out: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	Yes	The Board Charter details the functions and responsibilities of the Board and management, including matters reserved for the Board. The Board Charter is included in the Corporate Governance Manual on the Company's website.
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.	Yes	The full Board undertakes the duties that fall to the nomination committee under the Company's Nomination Committee Charter, which is included in the Corporate Governance Manual on the Company's website. The role of the Nomination Committee is to identify and recommend candidates to fill casual vacancies and to determine the appropriateness of director nominees for election to the Board. The Nomination Committee Charter requires the Board to make appropriate background checks prior to recommending a candidate for election or re-election as a director. The Board must identify and recommend candidates only after considering the necessary and desirable competencies of new Board members to ensure the appropriate mix of skills and experience and after an assessment of how the candidate can contribute to the strategic direction of the Company. The Nomination Committee Charter also requires the Board to ensure appropriate background checks are undertaken for all senior executive candidates. All material information relevant to whether or not to elect or re-elect a director is provided to the Company's shareholders as part of the Notice of Meeting and explanatory memorandum for the relevant meeting of shareholders which addresses the election or re-election of a director.
1.3	A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.	Yes	The Remuneration Committee Charter, which is included in the Corporate Governance Manual on the Company's website, requires the Company to have a written agreement with each Director and senior executive setting out the terms of their engagement. Each Non-Executive Director has signed a letter of appointment. Each Executive Director has signed an executive service agreement. Each senior executive has signed an employment agreement.
1.4	The Company Secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.	Yes	The Company Secretary is accountable to the Board, through the Chair, on all governance matters and reports directly to the Chair as the representative of the Board. The Company Secretary has primary responsibility for ensuring that the Board processes and procedures run efficiently and effectively.
1.5	A listed entity should: (a) have and disclose a diversity policy; (b) through its board or a committee of the board set measurable objectives for achieving gender diversity in the composition of its board, senior(c) disclose in relation to each reporting period: executives and workforce generally; and	Does not comply. Refer to "Diversity" in the Corporate Governance Manual	The Company has adopted a Diversity Policy which is included in the Corporate Governance Manual disclosed on the Company's website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. The Company does not think that it is appropriate to state measurable objectives for achieving gender diversity due to its size and stage of development. The proportion of women employees in the whole organisation is < 10% (excluding directors). There are currently no women in senior executive positions or on the Board

Principle	Recommendation	Conform	Disclosure
	<p>(1) the measurable objectives set for that period to achieve gender diversity;</p> <p>(2) the entity's progress towards achieving those objectives; and</p> <p>(3) either:</p> <p>(A) the respective proportions of men and women on the board, in senior executive positions and across the whole workforce (including how the entity has defined "senior executive" for these purposes); or</p> <p>(B) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</p> <p>If the entity was in the S&P / ASX 300 Index at the commencement of the reporting period, the measurable objective for achieving gender diversity in the composition of its board should be to have not less than 30% of its directors of each gender within a specified period.</p>		
1.6	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and</p> <p>(b) disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period</p>	<p>Yes</p> <p>Yes</p>	<p>The process for periodically evaluating the performance of the Board, its committees and individual Directors is included in the Corporate Governance Manual on the Company's website. It requires the Chair to conduct performance reviews on an annual basis.</p> <p>The Chair has conducted a formal evaluation of the performance of the Board, its committees and individual Directors for the year ended 30 June 2021.</p>
1.7	<p>A listed entity should:</p> <p>(a) have and disclose a process for evaluating the performance of its senior executives at least once every reporting period; and</p> <p>(b) disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.</p>	<p>Yes</p> <p>Yes</p>	<p>The process for periodically evaluating the performance of the Company's senior executives is included in the Corporate Governance Manual on the Company's website. It requires the Chair to conduct performance reviews on an ongoing basis. This evaluation is based on specific criteria, including the business performance of the Company and its subsidiaries, whether strategic objectives are being achieved and the development of management and personnel.</p> <p>The Chair has conducted an evaluation of the performance of senior executives for the year ended 30 June 2021.</p>
Principle 2	Structure the Board to be effective and add value		
2.1	<p>The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p>	<p>Yes</p> <p>No</p> <p>No</p>	<p>The Board has decided that, due to the Company's current stage of development, no efficiencies will be achieved by establishing a separate nomination committee. The Board carries out the duties that would otherwise be undertaken by the nomination committee, in accordance with the Nomination Committee Charter, which is included in the Corporate Governance Manual on the Company's website. The Board has, for the year ended 30 June 2021 formally considered whether the board has the appropriate balance of skills, knowledge, experience,</p>

Principle	Recommendation	Conform	Disclosure
	(3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	Yes Yes Yes Yes	independence and diversity to enable it to discharge its duties and responsibilities effectively
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills that the board currently has or is looking to achieve in its membership	Yes	The board skills matrix setting out the mix of skills that the board currently has or is looking to achieve in its membership is included in the Corporate Governance Manual on the Company's website.
2.3	A listed entity should disclose: (a) the names of the Directors considered by the Board to be independent Directors; (b) if a Director has an interest, position, association or relationship of the type described in Box 2.3 but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and (c) the length of service of each Director.	Yes Yes Yes	The names of the Directors considered by the Board to be independent Directors is set out in the Directors Report. Taking into account the Company's current stage of development and in an effort to minimize cash remuneration, the Board considers allocations of performance-based remuneration (including options or performance rights) does not of itself lead to a determination that the director is not independent. The details of performance based remuneration for each director is set out in the Directors Report. The Board considers these benefits are not of sufficient magnitude to affect the relevant directors' ability to discharge his duties with an independent mind. The length of service of each Directors is set out in the Directors Report.
2.4	A majority of the Board of a listed entity should be independent Directors.	No	Following the appointment, in February 2021, of Bernie Mason as a Director, the majority of the board are independent Directors. For the period from July 2020 to February 2021, half the board comprised independent Directors.
2.5	The chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.	No	Mr Mark Gray fulfills the role of both Chairman and Managing Director of the Company. Taking into account the Company's current stage of development, the Board considers the benefits to be obtained from Mr Gray fulfilling both these roles outweighs the potential risks.
2.6	A listed entity should have a program for inducting new directors and for periodically reviewing whether there is a need for existing directors to undertake professional development to maintain the skills and knowledge needed to perform their role as directors effectively.	Yes	Induction and professional development form part of the responsibilities of the Nomination Committee as noted in the Nomination Committee Charter, which is included in the Corporate Governance Manual on the Company's website. The Company Secretary is available to assist with the process of new Directors familiarising themselves with the Company. Professional development requirements are addressed by the Board on at least an annual basis.
Principle 3	Instil a culture of acting lawfully, ethically and responsibly		
3.1	A listed entity should articulate and disclose its values.	Yes	The Company has formulated a general Code of Conduct and a Code of Conduct for Directors and Executives which all employees and directors are expected, at a minimum, to follow. The Codes are included in the Corporate Governance Manual

Principle	Recommendation	Conform	Disclosure
			on the Company's website.
3.2	A listed entity should: (a) have and disclose a code of conduct for its directors, senior executives and employees; and (b) ensure that the board or a committee of the board is informed of any material breaches of that code.	Yes Yes	The Company has formulated a general Code of Conduct and a Code of Conduct for Directors and Executives which all employees and directors are expected, at a minimum, to follow. The Codes are included in the Corporate Governance Manual on the Company's website. The Code of Conduct states that any breach of the Code is to be reported directly to the Managing Director or under the Whistle-blower Policy, as appropriate, with any material breach to be reported to the full Board.
3.3	A listed entity should: (a) have and disclose a whistleblower policy; and (b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy.	Yes Yes	The Company has formulated a Whistle-blower Policy, which is included in the Corporate Governance Manual on the Company's website. The Audit Committee is responsible for carrying out the processes under the policy. The Policy states that the Committee must report the results of any material incidents to the Board.
3.4	A listed entity should: (a) have and disclose an anti-bribery and corruption policy; and (b) ensure that the board or committee of the board is informed of any material breaches of that policy.	No No	The Company has formulated a general Code of Conduct and a Code of Conduct for Directors and Executives both of which include requirements to disclose conflicts, promote the highest standard of ethics and integrity and guidelines in relation to giving and receiving gifts. The Company does not think that it is appropriate to formulate a separate anti-bribery and corruption policy due to its stage of development. The Code of Conduct states that any breach of the Code is to be reported directly to the Managing Director or under the Whistle-blower Policy, as appropriate, with any material breach to be reported to the full Board.
Principle 4	Safeguard the integrity of corporate reports		
4.1	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	Yes No No Yes Yes No Yes	The Board has decided that, due to the Company's current stage of development, no efficiencies will be achieved by establishing a separate audit committee. The Board carries out the duties that would otherwise be undertaken by the audit committee, in accordance with the Audit Committee Charter, which is included in the Corporate Governance Manual on the Company's website. The relevant qualifications and experience of the Board is set out in the Directors' Report The Board has, for the year ended 30 June 2021, relied on the declarations made by the Chief Executive and Chief Financial Officers received in accordance with the requirements of the Corporations Act, and relied on the independent external audit function to verify and safeguard the integrity of its corporate reporting. The processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner is set out in the Policy On Selection, Appointment And Rotation Of External Auditors, which is included in the Corporate Governance Manual on the Company's website.
4.2	The Board of a listed entity should, before it approves the entity's financial statements for a financial	Yes	Under the Company's Risk Management Policy, which is included in the Corporate Governance Manual on the Company's website, the Chief Executive and Chief Financial Officers will

Principle	Recommendation	Conform	Disclosure
	period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.		provide a written declaration of assurance that in their opinion, the financial records of the Company for the relevant reporting period have been properly maintained, comply with appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and has been formed on the basis of a sound system of risk management and internal control which is operating effectively.
4.3	A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.	Yes	The Company provides quarterly updates of the Company's progress across all areas of the business, including select financial information. The Managing Director is responsible for all such updates. Individual components are also reviewed by senior management with responsibility for the specific component subject matter. The financial information is compiled by the Chief Financial Officer in accordance with generally accepted accounting practices.
Principle 5	Make timely and balanced disclosure		
5.1	A listed entity should have and disclose a written policy for complying with its continuous disclosure obligations under listing rule 3.1.	Yes	The Company has adopted a Continuous Disclosure Policy, which is included in the Corporate Governance Manual on the Company's website. The Policy is designed to guide compliance with ASX Listing Rules disclosure requirements, and to ensure all Directors, senior executives and employees of the Company understand their responsibilities under the Policy.
5.2	A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.	Yes	The Board Charter, which is included in the Corporate Governance Manual on the Company's website, delegates to the Company Secretary responsibility for ensuring all market announcements are provided to all directors promptly after release
5.3	A listed entity that gives a new and substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation.	Yes	The Company has adopted a Continuous Disclosure Policy, which is included in the Corporate Governance Manual on the Company's website. The Policy stipulates that the Company should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation.
Principle 6	Respect the rights of security holders		
6.1	A listed entity should provide information about itself and its governance to investors via its website.	Yes	The Company's website provides information about the Company, its projects, its Board and management and governance. It is a platform to disclose ASX announcements of material information and periodic reports, notices and presentations.
6.2	A listed entity should have an investor relations program that facilitates effective two-way communication with investors.	Yes	The Company has a Shareholder Communication Policy, which is included in the Corporate Governance Manual on the Company's website. The company website provides a mechanism for shareholders to contact the Company via email.
6.3	A listed entity should disclose how it facilitates and encourages participation at meetings of security holders.	Yes	The Company has a Shareholder Communication Policy, which is included in the Corporate Governance Manual on the Company's website. The Policy specifically encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals and outlines the various ways in which the Company communicates with shareholders.
6.4	A listed entity should ensure that all substantive resolutions at a meeting of security holders are	Yes	In accordance with ASX guidance, all Listing Rule resolutions and all substantive resolutions are decided by a poll rather than by a show of hands.

Principle	Recommendation	Conform	Disclosure
	exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.		<p>the potential to have a material impact on its business. These risks include, but are not limited to:</p> <p><i>Environmental risks</i> As with most resources' projects, the Company's activities have the potential to impact on the environment giving rise to substantial costs for environmental rehabilitation, damage, control and losses. Exploration, development and operational activities are subject to relevant Government laws and regulations concerning the environment. The Company strives to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws. In achieving its aim of maintaining stable functioning ecosystems in the environs of its activities, the Company uses careful design; creation of biodiversity offsets; progressive rehabilitation; and rigorous monitoring, management and report plans.</p> <p><i>Social risks</i> Whilst not materially exposed to social risk, the Company has a Social Policy, which is included in the Corporate Overview on the Company's website, designed to prevent or minimise adverse impacts of its operations on host communities.</p>
Principle 8	Remunerate fairly and responsibly		
8.1	<p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>The Company has established a Remuneration Committee which comprises all the Company's non-executive directors (Malcolm Carson, Larry Cook and Bernie Mason). The Remuneration Committee Charter is included in the Corporate Governance Manual on the Company's website. The Remuneration Committee chair is Mr Carson, who is considered by the Board to be an independent director and is not the chair of the Board. The qualifications and experience of the members of the Remuneration Committee are disclosed in the Directors' Report. The Remuneration Committee met once during the year ended 30 June 2021.</p>
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Yes	Details of the Company's policies and practices regarding the remuneration of Directors and other senior management is set out in the Remuneration Report as disclosed in the Directors' Report.
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p>	Yes	<p>The Company has a Securities Trading Policy, which is included in the Corporate Governance Manual on the Company's website. The Company's Securities Trading Policy provides guidance encouraging employees not to engage in margin lending or otherwise leveraging securities without the fully informed consent of the board.</p>

Principle	Recommendation	Conform	Disclosure
	(b) disclose that policy or a summary of it.		
Principle 9	Additional recommendations that apply only in certain cases		
9.1	A listed entity with a director who does not speak the language in which board or security holder meetings are held or key corporate documents are written should disclose the processes it has in place to ensure the director understands and can contribute to the discussions at those meetings and understands and can discharge their obligations in relation to those documents.	Not applicable	
9.2	A listed entity established outside Australia should ensure that meetings of security holders are held at a reasonable place and time.	Not applicable	
9.3	A listed entity established outside Australia, and an externally managed listed entity that has an AGM, should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Not applicable	

All references are to sections of the Company's Corporate Governance Manual unless otherwise stated.

Statement of comprehensive income

For the year ended 30 June 2021

	Note	Consolidated	
		2021	2020
		\$	\$
Revenue	5	97,315	2,165
Expenses			
Depreciation and amortisation		(583,972)	-
Employee benefits expense	6	(687,047)	(2,490,738)
Finance costs expense	6	(4,377,126)	(1,799,454)
Investor and public relations		(23,165)	(48,322)
Legal fees		(28,440)	(54,852)
Listing expense		(80,380)	(58,918)
Net foreign exchange loss		(193,970)	(52,378)
New Elk expenses, pre- and post-acquisition costs including cash operating costs but excluding finance costs		(9,142,845)	(4,190,909)
Office rent		(93,081)	(82,520)
Project generation expenses		(255,236)	-
Travel expenses		(78,507)	(180,722)
Other expenses		(391,179)	(259,288)
Loss before income tax benefit		(15,837,633)	(9,215,936)
Income tax benefit	7	-	-
Loss after income tax benefit for the year attributable to			
Equity holders of the Company		(15,803,245)	(9,184,486)
Minority interest		(34,388)	(31,450)
Loss for the year		(15,837,633)	(9,215,936)
<i>Other comprehensive income for the year, net of tax</i>			
Foreign exchange movement		153,590	272,168
Gain on dilution of interest in subsidiary		-	986,567
Total comprehensive loss for the year attributable to the owners of Allegiance Coal Limited		(15,684,043)	(7,957,201)
		Cents	Cents
Basic loss per share	33	(8.89)	(8.02)
Diluted loss per share	33	(5.61)	(7.50)

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

Statement of financial position

As at 30 June 2021

	Note	Consolidated	
		2021	2020
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	8	18,689,261	442,055
Trade and other receivables	9	904,018	172,281
Inventory	10	1,167,772	-
Total current assets		<u>20,761,051</u>	<u>614,336</u>
Non-current assets			
Other receivables	9	3,923,408	-
Exploration and evaluation asset	11	27,565,897	21,070,371
Property, plant and equipment	12	58,625,644	-
Total non-current assets		<u>90,114,949</u>	<u>21,070,371</u>
Total assets		<u>110,876,000</u>	<u>21,684,707</u>
Liabilities			
Current liabilities			
Trade and other payables	13	6,195,333	718,859
Borrowings	14	10,546,747	4,351,230
Total current liabilities		<u>16,742,080</u>	<u>5,070,089</u>
Non-current liabilities			
Borrowings	14	27,324,748	186,361
Provisions	15	7,162,504	-
Total non-current liabilities		<u>34,487,252</u>	<u>186,361</u>
Total liabilities		<u>51,229,332</u>	<u>5,256,450</u>
Net assets		<u>59,646,668</u>	<u>16,428,257</u>
Equity			
Issued capital	16	91,040,096	33,528,305
Reserves	17	2,707,435	2,428,963
Accumulated losses	18	(35,283,768)	(20,746,304)
Total equity attributable to equity holders of the Company		<u>58,463,763</u>	<u>15,210,964</u>
Minority interest	20	<u>1,182,905</u>	<u>1,217,293</u>
Total equity		<u>59,646,668</u>	<u>16,428,257</u>

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

Statement of changes in equity

For the year ended 30 June 2021

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 year	-	-	-	-	(15,803,245)	(34,388)	(15,837,633)
Other comprehensive income for the year, net of tax	-	-	-	153,590	-	-	153,590
<i>Total comprehensive income for the year</i>	-	-	-	<i>153,590</i>	<i>(15,803,245)</i>	<i>(34,388)</i>	<i>(15,684,043)</i>
<i>Transactions with owners in their capacity as owners:</i>							
Share issues for cash	51,297,890	-	-	-	-	-	51,297,890
Costs of share issues	(3,371,544)	-	-	-	-	-	(3,371,544)
Shares issued to settle debt	5,652,112	-	-	-	-	-	5,652,112
Share issued on note conversions	3,083,333	-	-	-	-	-	3,083,333
Shares issued on performance rights vesting	650,000	-	(650,000)	-	-	-	-
Share based payments	200,000	-	563,624	-	-	-	763,624
Conversion rights on Mercer notes	-	-	1,477,039	-	-	-	1,477,039
Mercer notes converted	-	-	(1,146,877)	-	1,146,877	-	-
Options lapsed or expired	-	-	(118,904)	-	118,904	-	-
Balance at 30 June 2021	91,040,096	16	2,356,666	350,753	(35,283,768)	1,182,905	59,646,668

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

Statement of changes in equity

For the year ended 30 June 2021 (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 year	-	-	-	-	(9,184,486)	(31,450)	(9,215,936)
Other comprehensive income for the year, net of tax	-	-	-	272,168	-	-	272,168
Dilution of interest in subsidiary at fair value	-	-	-	-	986,567	646,433	1,633,000
<i>Total comprehensive income for the year</i>	-	-	-	272,168	(8,197,919)	614,983	(7,310,768)
<i>Transactions with owners in their capacity as owners:</i>							
Share issues for cash	5,684,290	-	-	-	-	-	-
Costs of share issues	(380,504)	-	-	-	-	-	-
Shares issued to settle debt	476,000	-	-	-	-	-	476,000
Shares issued on performance rights vesting	325,000	-	-	-	-	-	325,000
Share based payments	-	-	1,912,917	-	-	-	1,912,917
Balance at 30 June 2020	33,528,305	16	2,231,784	197,163	(20,746,304)	1,217,293	16,428,257

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

Statement of cash flows

For the year ended 30 June 2021

	Note	Consolidated 2021 \$	2020 \$
Cash used in operating activities			
Payments to suppliers (inclusive of GST)		(7,102,858)	(4,512,146)
		(7,102,858)	(4,512,146)
Interest received		869	2,165
Interest and other finance costs paid		(551,117)	(1,245,555)
Net cash used in operating activities	32	(7,653,106)	(5,755,536)
Cash used in investing activities			
Acquisition of subsidiary, net of cash acquired		30,003	-
Payments for reclamation bonds		(2,943,408)	-
Proceeds from recovery of reclamation bond		8,190,861	-
Payments for other assets		(610,827)	-
Payments for property, plant and equipment		(16,300,007)	-
Payments for exploration and evaluation		(6,555,685)	(5,603,767)
Net cash used in investing activities		(18,189,063)	(5,603,767)
Cash from financing activities			
Share issues, net of costs		56,861,791	5,779,786
Borrowings raised		5,042,927	3,804,822
Contributions from Joint Venture partner		350,234	1,822,716
Repayments of borrowings		(18,165,577)	(2,201,592)
Net cash from financing activities		44,089,375	9,205,732
Net increase / (decrease) in cash and cash equivalents		18,247,206	(2,153,571)
Cash and cash equivalents at the beginning of the financial year		442,055	2,595,626
Cash and cash equivalents at the end of the financial year		18,689,261	442,055

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

Notes to the financial statements

30 June 2021

Note 1. General Information

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

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

Suite 107, 109 Pitt Street
Sydney NSW 2000

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

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

Going concern

The consolidated entity is involved in the exploration, evaluation, development and exploitation 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 and whether the mineral reserves can be commercially and profitably exploited.

For the year ended 30 June 2021 the consolidated entity reported a net loss of \$15,837,633 (2020: \$9,215,936) and net operating cash outflows of \$7,653,106 (2020: \$5,755,536). The operating cash outflows have been funded by cash inflows from equity raisings of \$56,861,791 (2020: \$5,779,786); project participation contributions from Itochu Corporation of Japan of \$350,234 (2020: \$1,822,716) and borrowings of \$5,042,927 (2020: \$3,804,822) during the year. As at 30 June 2021 the consolidated entity had net current assets of \$4,018,971 (2020 net liabilities: \$4,642,114) including cash reserves of \$18,689,261 (2020: \$442,055).

The balance of these cash reserves may not be sufficient to meet the consolidated entity's planned expenditure, evaluation and development budget, including exploration activities, evaluation, operating and administrative expenditure, for the 12 months to 30 September 2022. In order to fully implement its exploration, evaluation and development strategy, the consolidated entity will require additional funds.

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

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

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

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

Notes to the financial statements

30 June 2021

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

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

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

Basis of Preparation

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

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

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

Historical cost convention

The financial statements have been prepared on a historical cost basis, except for identifiable assets and liabilities acquired through a business combination.

Critical accounting estimates

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

Adoption of new and revised standards

In the year ended 30 June 2021, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current annual reporting period.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2021. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change necessary to Group accounting policies.

Notes to the financial statements

30 June 2021

Statement of Compliance

The financial report was authorised for issue, in accordance with a resolution of directors, on 28 September 2021. The directors have the power to amend and reissue the financial statements.

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

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 29.

Note 2. Significant accounting policies

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Allegiance Coal Limited ('Company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. Allegiance Coal Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

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

Revenue recognition

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

Interest

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

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

Other revenue

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

Trade and other receivables

Prepayments and other receivables are recognised at amortised cost, less any provision for impairment.

Inventory

Coal Inventory is valued at the lower of an average weighted cost and net realisable value (NRV). Cost comprises direct costs and an appropriate proportion of fixed and variable expenditure including depreciation and amortisation.

Inventories of consumable supplies and spare parts to be used in production are valued at weighted average cost.

NRV is the estimated selling price in the ordinary course of business less the estimated costs of production and to complete the sale.

Investments and other financial assets

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

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

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Loans and receivables

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

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

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

Property, plant, and equipment

Property, plant and equipment is stated at fair value on acquisition (for assets acquired as part of a business combination) or at historical cost at the date of acquisition, less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items and costs incurred in bringing the asset into use.

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 flow to the consolidated entity and the cost of the item can be measured reliably.

Mine development costs are capitalised to property, plant and equipment only once a decision to mine is made and the development is fully funded. Mine development expenditure represents the cost incurred in preparing mines for commissioning and production, and also includes other attributable costs incurred before production commences. These costs are capitalised to the extent they are expected to be recouped through successful exploitation of the related mining project. Once production commences, these costs are amortised over the estimated economic life of the mine. Mine development costs are written off if the mine property is abandoned. Development costs incurred to maintain production are expensed as incurred against the related production.

At each reporting date, the entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the entity makes a formal assessment of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs of disposal and value in use.

Depreciation

Depreciation is provided on a straight -line basis on all plant and equipment commencing from the time the asset is held ready for use. Major depreciation periods are:

- Plant, equipment and infrastructure – 1 to 20 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or

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loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income when the asset is derecognised.

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

Leases

Right of use asset

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

Lease Liabilities

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

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

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

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

Intangible assets

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

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Impairment of non-financial assets

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

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

Trade and other payables

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

Borrowings

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

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

Finance costs

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

Foreign currency translation

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

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

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

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a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

Provisions

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Superannuation expense

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

Share-based payments

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

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

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

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

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

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

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

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

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

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

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

Fair value measurement

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

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

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Business combinations

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

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

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

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

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

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

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

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

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

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

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

Note 3. Critical accounting judgements, estimates and assumptions

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

Impairment of Property, Plant and Equipment and Mine Development Expenditure

Non-current assets are assessed for impairment when there is an indication that their carrying amount may not be recoverable. The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value-in-use and fair value less costs of disposal estimated on the basis of discounted present value of the future cash flows (a level 3 fair value estimation method).

The estimates of discounted future cash flows for each CGU are based on significant assumptions including:

- estimates of the quantities of mineral reserves and ore resources for which there is a high degree of confidence of economic extraction and the timing of access to these reserves and ore resources:
- future production levels and the ability to sell that production
- future product prices based on the consolidated entity's assessment of forecast short and long term prices for each of the key products
- future exchange rates for the Australian dollar compared to the US dollar using external forecasts by recognised economic forecasters
- future cash costs of production, sustaining capital expenditure, rehabilitation and mine closure
- the asset specific discount rate applicable to the CGU

Determination of Mineral Resources and Ore Reserves

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates, and provision for decommissioning and restoration. The information in this report as it relates to ore reserves, mineral resources or mineralisation is reported in accordance with the "Australian Code for Reporting of Identified Mineral Resources and Ore Reserves 2012", known as JORC 2012 (the Code). The information has been prepared by or under supervision of competent

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persons as identified by the Code. There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

Exploration and evaluation asset

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

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

The Telkwa metallurgical coal project has yet to reach a stage of development where a determination of the technical feasibility or commercial viability can be finally assessed. Whilst the project is not currently generating cash flow, the consolidated entity is of the view that the area of interest will contribute significant value in the future and that this value will be in excess of the current value of the capitalised costs. In these circumstances, whether there is any indication that the asset has been impaired is a matter of judgement, as is the determination of the quantum of any required impairment adjustment. The Directors have used their experience to conclude that no impairment adjustment is required in the current year ended 30 June 2021 (refer to note 11).

Rehabilitation Provision

Significant estimates and assumptions are made in determining the provision for rehabilitation of the mine as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to inflation rates, and changes in discount rates. These uncertainties may result in future actual expenditure differing from amounts currently provided.

Share-based payment transactions

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

Income tax

The benefit of the tax losses has not been brought to account at 30 June 2021 because the directors do not believe it is appropriate to regard realisation of the deferred tax asset as being probable at this point in time. These tax losses are also subject to final determination by the Taxation authorities when the consolidated entity derives a taxable income. The benefits will only be realised if:

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

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

Note 4. Segment reporting

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

Identification of reportable operating segments

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

The principal business and geographical segment of the consolidated entity is the acquisition, exploration, evaluation, development and exploitation of coal tenements within North America. The consolidated entity has its head office, which represents a non-reportable business segment, in Australia.

Major customers

During the year ended 30 June 2021 there was one customer from whom the consolidated entity derived its revenue (2020: none derived from major customers). Interest from cash deposits in banking institutions account for \$869 (2020: \$2,165).

Note 5. Revenue

	Consolidated	
	2021	2020
	\$	\$
Sales revenue	87,352	-
Interest	869	2,165
Other revenue	9,094	-
Revenue	<u>97,315</u>	<u>2,165</u>

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Note 6. Expenses

	Consolidated	
	2021	2020
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest, finance charges and finance related expense	4,088,213	1,799,454
Unwinding of present value discount of Cline note	2,344,326	-
Less: Unwinding of present value discount of Cline note capitalised to property, plant and equipment	(2,055,413)	-
	<u>4,377,126</u>	<u>1,799,454</u>
<i>Rental expenses</i>		
Minimum lease payments	<u>93,081</u>	<u>82,520</u>
<i>Employee benefits expense</i>		
Superannuation expense		-
Employee benefits expense	687,047	577,822
Share based payment	-	1,912,916
Total employee benefits expense	<u>687,047</u>	<u>2,490,738</u>

The weighted average interest rate on the consolidated entity's borrowings is 27% (2020: 33%).

Note 7. Income tax

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

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

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

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

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Note 7. Income tax (continued)

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

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

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

	Consolidated	
	2021	2020
	\$	\$
<i>Income tax benefit</i>		
<i>Current Tax</i>	-	-
<i>Aggregate income tax benefit</i>	-	-
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
<i>Loss before income tax benefit</i>	(14,360,594)	(9,215,936)
Tax at the statutory tax rate of 27.5%	(3,949,163)	(2,534,382)
Tax effect amounts which are not deductible in calculating taxable income:		
Impairment of assets	-	-
	(3,949,163)	(2,534,382)
Current year tax losses not recognised	3,949,163	2,534,382
Income tax benefit	-	-

Notes to the financial statements

30 June 2021

Note 7. Income tax (continued)

	Consolidated	
	2021	2020
	\$	\$
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	34,711,670	20,351,076
Potential tax benefit at 26%	9,025,034	5,291,280

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

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2021	2020
	\$	\$
Cash at bank	18,689,261	442,055
	<u>18,689,261</u>	<u>442,055</u>

Note 9. Trade and other receivables

	Consolidated	
	2021	2020
	\$	\$
Current		
Trade receivable	86,771	-
GST recoverable	294,139	75,926
Prepayments	523,108	96,355
	<u>904,018</u>	<u>172,281</u>
Non-Current		
Prepayments	980,000	-
Reclamation bond deposits	2,943,408	-
	<u>3,923,408</u>	<u>-</u>

Receivables are neither past due nor impaired.

Notes to the financial statements

30 June 2021

Note 10. Current assets – inventory

	Consolidated	
	2021	2020
	\$	\$
Consumables	850,347	-
Work in progress	14,984	-
Coal stockpile	302,441	-
	<u>1,167,772</u>	<u>-</u>

Note 11. Non-current assets - exploration and evaluation

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

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

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

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

Notes to the financial statements

30 June 2021

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

	Consolidated	
	2021	2020
	\$	\$
Exploration and evaluation - at cost and fair value	27,565,897	21,070,371
Less: Impairment	-	-
	<u>27,565,897</u>	<u>21,070,371</u>

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

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

Reconciliations

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

	Telkwa	Total
	\$	\$
Balance at 1 July 2019	16,508,615	16,508,615
Additions, at cost	4,265,378	4,265,378
Foreign exchange movement	296,378	296,378
Balance at 1 July 2020	21,070,371	21,070,371
Additions, at cost	6,175,398	6,175,398
Foreign exchange movement	320,127	320,127
Balance at 30 June 2021	<u>27,565,896</u>	<u>27,565,896</u>

In December 2017, the consolidated entity entered into an agreement to acquire from Altius Minerals Corporation (Altius), 100 percent ownership of all the rights to coal licences that make up the Telkwa metallurgical coal project (Telkwa Project) (Acquisition). Up until the Acquisition, the consolidated entity had earned 20 percent Telkwa Project ownership, and had the right to earn up to 90 percent Telkwa Project ownership upon satisfaction of several milestones. The remaining 10 percent Telkwa Project ownership would be retained by Altius who had a free carry on its Telkwa Project equity. In consideration for the issue to Altius of 8.12 million, post consolidation, ordinary shares in the Company and the continued performance of the milestone obligations (as set out in the table below, which table incorporates an amendment agreed to in the year ended 30 June 2019), Altius agreed to transfer full ownership of the Telkwa Project to the consolidated entity. As security against the performance of the milestone obligations, the consolidated entity has provided a charge over the Telkwa Project. The charge shall be subordinated to Telkwa Project debt finance.

Notes to the financial statements

30 June 2021

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

Milestone	Payment Commitment *	Payable
File mine permit applications	C\$0.5 million	C\$300,000 upon milestone C\$200,000 18 months later
Grant of small mine** permits	C\$0.5 million	Upon milestone
Sale of 100k tonnes from a small mine**	C\$2 million	Upon milestone
Grant of major mine** permits	C\$2 million	12 months after milestone
Sale of 500k tonnes from a major mine**	C\$5 million	12 months after milestone

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

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

Impairment

The Telkwa Project has yet to reach a stage of development where a final determination of the technical feasibility or commercial viability can be assessed. In these circumstances, whether there is any indication that the asset has been impaired is a matter of judgement, as is the determination of the quantum of any required impairment adjustment. The Directors have used their experience to conclude that no impairment adjustment is required in the current year ended 30 June 2021.

Note 12. Non-current assets – property, plant and equipment

	Consolidated	
	2021	2020
	\$	\$
Cost or fair value	59,205,732	-
Less: accumulated depreciation	(580,088)	-
Net book value	<u>58,625,644</u>	-

Notes to the financial statements

30 June 2021

Note 12. Non-current assets – property, plant and equipment (continued)

Reconciliations

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

	Washplant	Infrastructure	Equipment	Total
	\$	\$	\$	\$
Cost or fair value				
Balance at 1 July 2019	-	-	-	-
Additions	-	-	-	-
Foreign exchange movement	-	-	-	-
Balance at 1 July 2020	-	-	-	-
Acquired through business combination, at fair value	6,566,016	17,591,246	18,828,176	42,985,438
Additions, at cost	5,864,328	3,856,712	8,986,386	18,707,426
Foreign exchange movement	(293,545)	(1,029,375)	(1,164,212)	(2,487,132)
Balance at 30 June 2021	12,136,799	20,418,583	26,650,350	59,205,732
Accumulated depreciation				
Balance at 1 July 2019	-	-	-	-
Depreciation	-	-	-	-
Foreign exchange movement	-	-	-	-
Balance at 1 July 2020	-	-	-	-
Depreciation	49,992	152,773	381,207	583,972
Foreign exchange movement	(332)	(1,016)	(2,536)	(3,884)
Balance at 30 June 2021	49,660	151,757	378,671	580,088
Net book value				
At 1 July 2020	-	-	-	-
At 30 June 2021	12,087,139	20,266,826	26,271,679	58,625,644

Note 13. Current liabilities - trade and other payables

	Consolidated	
	2021	2020
	\$	\$
Trade payables – other entities	4,818,290	331,642
Other payables	1,377,043	387,217
	6,195,333	718,859

Refer to note 21 for further information on financial instruments.

Notes to the financial statements

30 June 2021

Note 14. Borrowings

	Consolidated	
	2021	2020
	\$	\$
Current		
Cline Mining Corporation note - current portion	7,980,845	-
Convertible notes - Mercer Street Global Opportunity Fund LLC	2,565,901	-
Secured Loan – Nebari Natural Resources Credit Fund I LP	-	4,351,230
	<u>10,546,747</u>	<u>4,351,230</u>
Non-Current		
Note – Cline Mining Corporation	34,744,175	-
Less : Present value discount of Cline note	(10,971,250)	-
Add : Unwinding of present value discount of Cline note	2,344,326	-
Foreign exchange movement	627,974	-
Itochu Corporation advances to Telkwa Coal Ltd	536,596	186,361
Canadian government Covid-19 loan	42,927	-
	<u>27,324,748</u>	<u>186,361</u>

Refer to note 21 for further information on financial instruments.

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 \$0.50 (post consolidation), 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 \$0.75 (post consolidation), 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 30 June 2021, all the tranche 1 and 2 notes and \$750,000 of the tranche 3 notes had been converted into ordinary shares. (see note 16). The fair value of the conversion rights of \$1,477,039, has been recognised in profit and loss as an element of finance costs expense.

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 did not bear interest but was repaid by paying the amount of US\$4M to Nebari as follows: US\$1.25 million on each 31 December 2020 and 14 February 2021; and US\$1.5 million on 31 March 2021.

Notes to the financial statements

30 June 2021

Note 14. Borrowings (continued)

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 16), is US\$35.12 million. US\$3 million of the note was repaid in January 2021 from funds held by the Colorado government as security for rehabilitation bonds, which was released upon replacement with an insurance surety bond. A further initial debt repayment of US\$6 million is payable on the earlier of the date New Elk commences commercial production, as defined, 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 A\$49,626,495 (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 A\$38,655,245 (US\$27,356,317). The difference of A\$10,971,250 (US\$7,764,354) 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 A\$2,344,326 (US\$1,750,742) represents the unwinding of the present value discount up to 30 June 2021 and is recognised in the statement of comprehensive income under finance costs expense, net of any capitalised finance costs.

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

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.

Note 15. Provisions

	Consolidated	
	2021	2020
	\$	\$
Mine closure and rehabilitation	7,162,504	-
	<u>7,162,504</u>	<u>-</u>
Current portion – due within one year	-	-
Non-current portion – due after more than one year	7,162,504	-
	<u>7,162,504</u>	<u>-</u>

Notes to the financial statements

30 June 2021

Note 15. Provisions (continued)

	Rehabilitation \$	Total \$
Balance at 1 July 2019	-	-
Additions, at cost	-	-
Foreign exchange movement	-	-
Balance at 1 July 2020	-	-
Acquired through business combination, at fair value	7,513,164	7,513,164
Charged to profit or loss	90,659	90,659
Foreign exchange movement	(441,319)	(441,319)
Balance at 30 June 2021	7,162,504	7,162,504

Mine closure and rehabilitation obligations

The calculation of the mine closure and rehabilitation provision requires assumptions such as application of environmental legislation, mine closure dates, available technologies, engineering costs and inflation and discount rates. A change in any of the assumptions used may have a material impact on the carrying value of mine closure and rehabilitation obligations.

The mine closure and rehabilitation provision is recorded as a liability at fair value, assuming a risk-free discount rate equivalent to the 30 year US Government bond rate of 1.91% as at 30 June 2021 (30 June 2020: nil) and an inflation factor of 1.8% (30 June 2020: nil). Although the ultimate amount to be incurred is uncertain, management has, at 30 June 2021, estimated the asset retirement cost of work completed to date using an expected remaining mine life of 25 years and a total undiscounted estimated cash flow of \$11,494,363 (US\$8,641,462) (30 June 2020: nil).

Recognition and measurement of provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

A mine closure and rehabilitation provision is recognised at the commencement of a mining project and/or construction based on the estimated costs necessary to meet legislative requirements by estimating future costs and discounting these to a present value. The provision is recognised as a liability, separated into current (estimated costs arising within twelve months) and noncurrent components based on the expected timing of these cash flows. A corresponding asset is included as property, plant and equipment (mine development assets section), only to the extent that it is probable that future economic benefits associated with the restoration expenditure will flow to the entity, and is amortised over the life of the mine.

At each reporting date the mine closure and rehabilitation provision is re-measured in line with changes in discount rates and timing or amounts of the costs to be incurred. Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved and are dealt with on a prospective basis as they arise.

Notes to the financial statements

30 June 2021

Note 15. Provisions (continued)

Changes in the liability relating to mine closure and rehabilitation obligations are added to or deducted from the related asset (where it is probable that future economic benefits will flow to the entity), other than the unwinding of the discount which is recognised as a financing expense in Profit or Loss. Changes in the asset value have a corresponding adjustment to future amortisation charges.

The mine closure and rehabilitation provision does not include any amounts related to remediation costs associated with unforeseen circumstances.

Note 16. Equity – Issued Capital

Issued capital

	Consolidated	
	2021	2020
	\$	\$
Ordinary shares - fully paid	91,040,096	33,528,305

Notes to the financial statements

30 June 2021

Note 16. Equity – Issued Capital (continued)

Consolidated	2021 Number	2020 Number	2021 \$	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 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)	
Shares issued for cash in March 2021	187,500,000		15,000,000	
Less costs			(1,364,134)	
March 2021 Share Purchase Plan	38,218,750		3,057,500	
Less costs			(49,164)	
Shares issued for cash in April 2021	125,000,000		10,000,000	
Less costs			(128,555)	
Shares issued on conversion of notes	25,490,121		1,475,000	
	1,222,275,831			
1 for 5 consolidation (incl. rounding)	244,455,344			
Shares issued for cash in May 2021	34,444,444		15,500,000	
Less costs			(1,286,373)	
Shares vesting from performance rights	250,000		162,500	
Less costs			(2,306)	
Shares issued on conversion of notes	3,277,780		1,608,333	
Balance at 30 June	282,427,568	614,260,861	91,040,096	33,528,305

Notes to the financial statements

30 June 2021

Note 16. Equity – Issued Capital (continued)

In August 2020, the Company issued 0.7 million 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 2.2 million tranche 2 fee shares, with an attributed value of \$0.15 million, to Mercer.

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.

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 25). 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.

In March 2021, the Company completed a placement of 187.5 million ordinary shares to sophisticated and professional investors raising \$15 million, before costs. In addition, the Company completed a share purchase plan, issuing 38.2 million ordinary shares and raising \$3 million before costs. The capital was raised to fund mine and equipment refurbishments at New Elk, the Tenas environmental assessment application and debt repayment.

In April 2021, following shareholder approval, the Company completed a placement of 125 million ordinary shares to sophisticated and professional investors raising \$10 million, before costs. The capital was raised to fund New Elk development.

In November 2020, Mercer elected to convert \$0.2 million of the notes and the Company allotted 4.4 million shares to Mercer. In December 2020, Mercer elected to convert \$0.5 million of the notes and the Company allotted 11.2 million shares to Mercer. In February 2021, Mercer elected to convert \$0.4 million of the notes and the Company allotted 4.5 million shares to Mercer. In April 2021, Mercer elected to convert \$0.4 million of the notes and the Company allotted 5.4 million shares to Mercer. (see note 14).

In May 2021, following shareholder approval, the Company's share capital was consolidated on a one for five basis.

In May 2021, the Company completed a placement of 34.4 million ordinary shares to sophisticated and professional investors raising \$15.5 million, before costs. The capital was raised to fund New Elk development.

In June 2021, 0.25 million performance rights, with an attributed value of \$0.16 million, vested.

In June 2021, Mercer elected to convert \$1.6 million of the notes and the Company allotted 3.3 million shares to Mercer. (see note 14).

Notes to the financial statements

30 June 2021

Note 16. Equity – Issued Capital (continued)

Ordinary shares

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

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

Share buy-back

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

Performance rights

Performance rights, post consolidation, of Allegiance Coal Limited on issue, subject to vesting conditions, at 30 June 2021 are 1,500,000 (2020: 2,500,000).

Options

Unissued ordinary shares, post consolidation, of Allegiance Coal Limited under option at 30 June 2021 are 5,148,333 (2020: 4,150,000).

Capital risk management

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

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

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

There are no externally imposed capital requirements. The capital risk management policy remains unchanged from the 30 June 2020 Annual Report.

Note 17. Equity – reserves

	Consolidated	
	2021	2020
	\$	\$
General reserve	16	16
Share-based payments reserve	2,356,666	2,231,784
Foreign currency translation reserve	350,753	197,163
	<u>2,707,435</u>	<u>2,428,963</u>

Notes to the financial statements

30 June 2021

Note 17. Equity – reserves (continued)

Share-based payments reserve

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

Foreign currency translation reserve

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

Movements in reserves

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

	General \$	Share-based payment \$	Foreign currency translation \$	Total \$
Consolidated				
Balance at 1 July 2019	16	318,867	(75,005)	243,878
Grant of performance rights and options	-	1,912,917	-	1,912,917
Foreign exchange movement	-	-	272,168	272,168
Balance at 30 June 2020	16	2,231,784	197,163	2,428,963
Grant of performance rights and share options	-	563,624	-	563,624
Performance rights vested	-	(650,000)	-	(650,000)
Options lapsed or expired	-	(118,904)	-	(118,904)
Conversion rights on Mercer notes	-	1,477,039	-	1,477,039
Mercer notes converted	-	(1,146,877)	-	(1,146,877)
Foreign exchange movement	-	-	153,590	153,590
Balance at 30 June 2021	16	2,356,666	350,753	2,707,435

Note 18. Equity - accumulated losses

	Consolidated	
	2021 \$	2020 \$
Accumulated losses at the beginning of the financial year	(20,746,304)	(12,548,385)
Loss after income tax benefit for the year attributable to equity holders of the Company	(15,803,245)	(9,184,486)
Gain on dilution of interest in subsidiary	-	986,567
Share options lapsed or expired	118,904	-
Mercer notes converted	1,146,877	-
Accumulated losses at the end of the financial year	(35,283,768)	(20,746,304)

Notes to the financial statements

30 June 2021

Note 19. Equity - dividends

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

Note 20. Minority interest

	Consolidated	
	2021	2020
	\$	\$
Minority interest at the beginning of the financial year	1,217,293	602,310
Dilution of interest in subsidiary at fair value	-	646,433
Loss after income tax benefit for the year attributable to minority interest	(34,388)	(31,450)
Minority interest at the end of the financial year	1,182,905	1,217,293

Note 21. Financial instruments

Financial risk management objectives

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

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

Market risk

Foreign currency risk

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

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

Commodity price risk

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

Notes to the financial statements

30 June 2021

Note 21. Financial instruments (continued)

Interest rate risk

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

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

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

	2021		2020	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Consolidated				
Cash and cash equivalents	0.1%	18,689,261	0.1%	442,055
Loans	-	-	-	-
Net exposure to cash flow interest rate risk		18,689,261		442,055

Consolidated – 2021	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Cash and cash equivalents	200	373,785	373,785	200	(373,785)	(373,785)
Loans	200	-	-	200	-	-
		373,785	373,785		(373,785)	(373,785)

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

Credit risk

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

Notes to the financial statements

30 June 2021

Note 21. Financial instruments (continued)

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

Liquidity risk

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

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

Remaining contractual maturities

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

Consolidated – 2021	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	4,818,290	-	-	-	4,818,290
Other payables	-%	1,377,043	-	-	-	1,377,043
<i>Interest-bearing - fixed</i>						
Loans	-%	10,590,845	11,971,268	22,772,906	-	45,335,019
Total non-derivatives		16,786,178	11,971,268	22,772,906	-	51,530,352

Consolidated – 2020	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	331,642	-	-	-	331,642
Other payables	-%	387,217	-	-	-	387,217
<i>Interest-bearing - fixed</i>						
Loans	-%	5,464,083	-	-	-	5,464,083
Total non-derivatives		6,182,942	-	-	-	6,182,942

Notes to the financial statements

30 June 2021

Note 21. Financial instruments (continued)

Credit risk

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

Fair value of financial instruments

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

Note 22. Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

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

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

Notes to the financial statements

30 June 2021

Note 23. Key management personnel disclosures

Directors

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

- Mark Gray (Managing Director and Chairman)
- Malcolm Carson (Non-executive Director)
- Larry Cook (Non-executive Director)
- Bernie Mason (Non-executive Director, appointed 1 February 2021)
- Jonathan Reynolds (Finance Director)

Compensation

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

	Consolidated	
	2021	2020
	\$	\$
Short-term employee benefits	1,837,703	1,079,461
Post-employment benefits	-	-
Share-based payments	-	937,916
	<u>1,837,703</u>	<u>2,017,377</u>

Loans to key management personnel and their related parties

There were no loans made to key management personnel and their related parties during the financial year ended 30 June 2021 or 30 June 2020.

Other transactions with key management personnel and their related parties

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

- Gray Corporate Law Ltd, a related party of Mark Gray, totalling \$305,416
- Gray Corporate Ltd, a related party of Mark Gray, totalling \$225,252
- Mineral Resource Consultants Pty Ltd, a related party of Malcom Carson, totalling \$40,500
- Cook Consulting Services, a related party of Larry Cook, totalling \$224,017
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$277,500
- Coalsense Consulting Inc, a related party of Dan Farmer, totalling \$272,940

Expenses reimbursements paid to related parties:

- Gray Corporate Law Ltd, a related party of Mark Gray, totalling \$91,307
- Cook Consulting Services, a related party of Larry Cook, totalling \$4,678
- J Reynolds CA Pty Ltd, a related party of Jonathan Reynolds, totalling \$23,313

Notes to the financial statements

30 June 2021

Note 24. Remuneration of auditors

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

	Consolidated	
	2021	2020
	\$	\$
<i>Audit and review of the financial statements – SCS Audit & Corporate Services Pty Ltd</i>	45,000	25,000
	<u>45,000</u>	<u>25,000</u>

Note 25. Business combinations during the period

On 26 October 2020 the Group acquired 100% of the voting equity instruments of New Elk Coal Company LLC, a company whose principal activity is the New Elk metallurgical coal mine, in Colorado USA, on care and maintenance at the time. The principal reason for this acquisition was to acquire a fully permitted coal mine, to restart operation and commence supply of metallurgical coal onto the seaborne market.

Details of the fair value of identifiable assets and liabilities acquired and purchase consideration are as follows:

	Fair value
	\$
Cash and cash equivalents	30,004
Other receivables	8,832,457
Inventory	1,233,401
Property, plant and equipment	42,985,438
Trade and other payables	(1,260,778)
Borrowings	(38,655,245)
Provisions	(7,513,164)
Total net assets	<u>5,652,113</u>
	Fair value
	\$
Fair value of consideration paid	
Cash	1
Initial Debt Reduction Shares issued	<u>5,652,112</u>
Total net assets	<u>5,652,113</u>

Notes to the financial statements

30 June 2021

Note 26. Contingent assets and liabilities

Consolidated	Contingent assets \$	Contingent liabilities \$
Balance at 30 June 2019	-	-
New Elk Mine acquisition	58,591,670	58,591,670
Lorencito property coal leases	5,478,654	5,478,654
Balance at 30 June 2020	64,070,324	64,070,324
BWM Mine acquisition	17,406,902	17,406,902
Balance at 30 June 2021	17,406,902	17,406,902

In July 2021, the Company entered into a binding agreement to acquire all the shares in the Black Warrior Minerals, Inc (BWM), which company owns the operating BWM coal mine located in Alabama, United States. The acquisition closed in August 2021.

The key aspects of the acquisition are:

- The purchase price for the shares in BWM is US\$4 million which was paid on completion in August 2021.
- The Company is required to place funds or an insurance surety bond to secure the US\$5.3 million Alabama state reclamation bond.

Note 27. Commitments

Operating leases

	Consolidated	
	2021 \$	2020 \$
Within one year	1,131,978	49,990
One to five years	3,135,610	6,567
Later than five years	7,125,366	-
	11,392,954	56,557

Operating lease commitments include contracted amounts for various offices, equipment and access to coal and infrastructure under non-cancellable operating leases expiring within one to twenty six years.

Notes to the financial statements

30 June 2021

Note 27. Commitments (continued)

Capital commitments – plant and equipment

	Consolidated	
	2021	2020
	\$	\$
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	2,443,296	-
One to five years	948,563	-
	<u>3,391,859</u>	<u>-</u>

In April 2020, New Elk 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 to the leaseholders prior to the New Elk acquisition closing. The following milestone payments are required to be paid to the leaseholders.

Milestone	Payment Commitment
Complete JORC 2012 Feasibility Study	US\$0.5 million
Obtain mining and other permits	US\$1 million
Production of first 1m tonnes of clean coal	US\$2 million

In addition to the above, the leaseholders will receive a US\$1 royalty per tonne of coal sold where the coal price is equal to or less than US\$100 per tonne; plus an additional US\$1 per tonne royalty for each US\$10 increase in the coal price up to a maximum royalty of US\$20 per tonne.

In addition to the above, the leaseholders will receive 2.5% of the equity in New Elk Coal Holdings LLC, once the Lorencito Property is in production, and that equity interest will be non-dilutionary up to the capital cost required to reach 3Mt of annual saleable coal production

The consolidated entity 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.

Notes to the financial statements

30 June 2021

Note 27. Commitments (continued)

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

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

Note 28. Related party transactions

Parent entity

Allegiance Coal Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 30.

Key management personnel

Disclosures relating to key management personnel are set out in note 23 and the remuneration report in the directors' report.

Terms and conditions

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

Notes to the financial statements

30 June 2021

Note 28. Related party transactions (continued)

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

Statement of comprehensive income

	Parent	
	2021	2020
	\$	\$
Loss after income tax	(5,696,835)	(8,880,253)
Total comprehensive loss	(5,696,835)	(8,880,253)

Statement of financial position

	Parent	
	2021	2020
	\$	\$
Total current assets	15,332,061	381,567
Total non-current assets	60,848,854	25,999,403
Total assets	76,180,915	26,380,970
Total current liabilities	2,614,742	4,543,376
Total liabilities	2,614,742	4,543,376
Net assets	73,566,173	21,837,594
Equity		
Issued capital	91,040,096	33,528,305
Share-based payments reserve	2,026,504	2,231,784
Accumulated losses	(19,500,427)	(13,922,495)
Total equity	73,566,173	21,837,594

Notes to the financial statements

30 June 2021

Note 29. Parent entity information

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

As at 30 June 2021, the parent entity has provided guarantees in respect of reclamation bond obligations of subsidiaries totalling US\$3.3 million.

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2020.

Contingent assets liabilities

The parent entity contingent assets and liabilities as at 30 June 2021 and 30 June 2020 are set out in note 26.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

Significant accounting policies

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

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

Note 30. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2021 %	2020 %
Telkwa Coal Limited	Canada	90%	90%
Allegiance Coal USA Limited	United States of America	100%	100%
New Elk Coal Holdings LLC	United States of America	100%	100%
New Elk Coal Company LLC	United States of America	100%	-
North Central Energy Company	United States of America	100%	-
Raton Basin Analytical LLC	United States of America	100%	-
Mineral & Coal Investments Pty Limited	Australia	100%	100%

Notes to the financial statements

30 June 2021

Note 31. Events after the reporting period

In July 2021, Mercer elected to convert \$1 million of the notes and the Company allotted 1.6 million shares to Mercer.

In August 2021, the Company completed the acquisition of all the shares in Black Warrior Minerals Inc, a company that owns the operating open pit BWM Mine located 40 miles northeast of Birmingham Alabama, United States. The purchase price is US\$4M in cash; and US\$5.3M to replace the reclamation bond lodged with the state. In addition, the Company contracted to make an ongoing payment of US\$1 per tonne for any coal sold by BWM to the Alabama Coal Cooperative. Subsequent to the closing, the Company paid a further US\$1M in cash to close out this royalty payment.

In August 2021, in connection with the BWM Mine acquisition, the Company completed a placement of 44.8 million ordinary shares to sophisticated and professional investors raising \$30 million, before costs.

Note 32. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2021	2020
	\$	\$
Loss after income tax benefit for the year	(15,837,633)	(9,215,936)
Adjustments for:		
Depreciation and amortisation	583,972	-
Share-based payments	-	2,237,916
Non-cash fair value of conversion rights on Mercer note	1,477,039	-
Present value discount of debt instruments	2,348,969	549,875
Increase in rehabilitation provision	90,659	-
Change in operating assets and liabilities:		
(Increase) / decrease in trade and other receivables	(393,625)	12,463
Increase in inventory	(286,377)	-
Increase in trade and other payables	4,363,890	660,146
Net cash used in operating activities	<u>(7,653,106)</u>	<u>(5,755,536)</u>

Notes to the financial statements

30 June 2021

Note 33. Loss per share

	Consolidated	
	2021	2020
	\$	\$
Loss after income tax attributable to the owners of Allegiance Coal Limited	(15,837,633)	(9,215,936)
	Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	178,245,837	114,891,584
Weighted average number of ordinary shares used in calculating diluted loss per share	282,427,568	122,852,172
	Cents	Cents
Basic loss per share	(8.89)	(8.02)
Diluted loss per share	(5.61)	(7.50)

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

Note 34. Share-based payments

Lead Manager Options

The Company engaged Petra Capital Pty Limited (Petra) as the Lead Manager for each the March and May 2021 Placements. As part of the mandate, the Company issued to Petra a total of 2.2 million Options (post consolidation) on successful completion of the Placements, which issues were subsequently approved shareholders in general meeting.

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

The options were granted for a fixed period of three years and will expire on 3 March and 11 May 2024, respectively, if not exercised on or before that date.

The Company engaged Bell Potter Securities Limited (BPSL) as the Lead Manager for the October 2017 Placement. As part of the mandate, the Company issued to BPSL a total of 1 million Options (post consolidation) on successful completion of the Placement, which issue was approved at the Company's 2017 annual general meeting. The options were granted for a fixed period and expired on 6 December 2020 unexercised.

Notes to the financial statements

30 June 2021

Note 34. Share-based payments (continued)

2017 Participants Securities Incentive Plan

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

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

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

Options will lapse if:

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

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

Set out below are summaries of Options granted (on a post-consolidation basis) under the plans:

2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
6/12/2017	6/12/2020*	\$0.25	1,000,000	-	-	1,000,000	-
6/12/2017	6/12/2022**	\$0.375	1,850,000	-	-	150,000	1,700,000
3/12/2019	3/12/2024**	\$1.40	1,290,000	-	-	-	1,290,000
3/03/2021	3/3/2024*	\$0.50	-	1,125,000	-	-	1,125,000
11/5/2021	11/5/2024*	\$0.5625	-	1,033,333	-	-	1,033,333
			4,140,000	2,158,333	-	1,150,000	5,148,333
Weighted average exercise price							\$0.6968

* Lead Manager Options

** 2017 Participants Securities Incentive Plan

Notes to the financial statements

30 June 2021

Note 34. Share-based payments (continued)

2020

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
6/12/2017	6/12/2020*	\$0.25	1,000,000	-	-	-	1,000,000
6/12/2017	6/12/2022**	\$0.375	1,850,000	-	-	-	1,850,000
3/12/2019	3/12/2024**	\$1.40	-	1,290,000	-	-	1,290,000
			2,850,000	1,290,000	-	-	4,140,000

Weighted average exercise price \$0.6640

* Lead Manager Options

** 2017 Participants Securities Incentive Plan

Set out below are the options exercisable (on a post-consolidation basis) at the end of the financial year:

Grant date	Expiry date	2021 Number	2020 Number
6/12/2017	6/12/2020*	-	1,000,000
6/12/2017	6/12/2022**	1,700,000	1,850,000
6/12/2017	6/12/2024**	1,290,000	1,290,000
3/03/2021	3/3/2024*	1,125,000	-
11/5/2021	11/5/2024*	1,033,333	-
		5,148,333	4,140,000

* Lead Manager Options

** 2017 Participants Securities Incentive Plan

The weighted average share price (on a post-consolidation basis) during the financial year was \$0.2704 (2020: \$0.5505).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.5 years (2020: 2.2 years).

Performance Rights

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

In total, 3 million (post consolidation) Performance Rights have been issued in five separate classes, A through E. The Performance Rights will automatically vest and convert into Shares on a one for one basis upon satisfaction of milestones. A Performance Right will lapse upon the earlier to occur of: (a) the cessation of the holder's employment or other engagement with the Company; and (b) the Vesting Condition not being satisfied on or before the Expiry Date.

Notes to the financial statements

30 June 2021

Note 34. Share-based payments (continued)

Details of Performance Rights issued are summarised below:

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

2021

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

2020

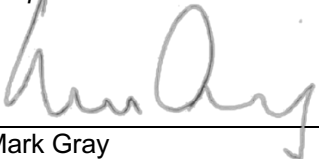
Class	Expiry date	Exercise Price	Balance at the start of the year	Granted	Vested	Expired/ forfeited / Other	Balance at the end of the year
A	n/a	\$nil	-	500,000	500,000	-	-
B	2/6/21	\$nil	-	750,000	-	-	750,000
C	2/2/22	\$nil	-	250,000	-	-	250,000
D	2/12/22	\$nil	-	750,000	-	-	750,000
E	2/12/23	\$nil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

Directors' declaration

30 June 2021

1. In the opinion of the directors of Allegiance Coal Limited (the 'Company'):
 - a) the financial report and the Remuneration Report included in the Directors' Report, designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
 - ii) complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements; and
 - b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
2. The financial statements and notes comply with International Financial Reporting Standards, as discussed in Note 1; and
3. This declaration has been made after receiving the declarations required by section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2021.

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



Mark Gray
Chairman

28 September 2021
Sydney



Auditor's independence declaration

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

TO : The Directors of Allegiance Coal Limited

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

As Audit Director for the audit of Allegiance Coal Limited for the financial year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

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

A handwritten signature in black ink, appearing to read 'Didarul Khan', is written over a horizontal line.

Didarul Khan
Director

Sydney
28 September 2021



Independent Auditor's report

30 June 2021

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

Opinion

We have audited the financial report of Allegiance Coal Limited ("the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a statement of accounting policies and selected explanatory notes and the directors' declaration.

In our opinion:

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

- (i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2021 and of its consolidated performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Material uncertainty related to going concern:

Without qualifying our above opinion, we draw attention to Note 1 of the financial report – going concern, which indicates that the Group incurred a loss from continuing operations after tax of \$15,837,633. The matters detailed in Note 1 describe events and / or conditions which indicate the existence of a material uncertainty which may cast doubt as to the ability of the Group to continue as a going concern. The Group may be unable to realise its assets and discharge its liabilities in the normal course of business, at the amounts stated in the financial report. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.



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

Key audit matters

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

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

1 Exploration and evaluation assets

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

2 Carrying value of the capitalised exploration and evaluation assets

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



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

3 Going concern

Why significant	How our audit addressed the key audit matter
<p>For the year ended 30 June 2021 the Group reported a net loss of \$15,837,633 and net operating cash outflows of \$7,653,106. As at 30 June 2021 the Group had net current assets of \$4,018,971 including cash reserves of \$18,689,261. These matters indicate the existence of an uncertainty which may cast doubt as to the ability of the Group to continue as a going concern. The Group may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.</p> <p>Refer to Note 1 – going concern.</p>	<p>We evaluated the Group's assessment of its ability to continue to operate as a going concern for the foreseeable future. In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none">considered the Group's budget for the 2022 financial year.made enquiries with directors of the Company as to the intentions and strategy of the Group.considered the adequacy of the disclosures made by the Group in Note 1 to the financial statements.Considered the need for Joint Venture partners.

4 Exploration and evaluation expenses

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



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

5 Acquisition accounting of New Elk Coal Company LLC

Why significant	How our audit addressed the key audit matter
<p>As disclosed in note 25 of the financial report, the Company acquired from Cline Mining Corporation (Cline) 100% of the voting equity instruments in New Elk Coal Company LLC (NECC) which company owns the New Elk hard coking coal mine (Mine) located in southeast Colorado, United States</p> <p>The key terms of the acquisition were:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 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 commercial production, as defined, 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. <p>The audit of the accounting for this acquisition is a key audit matter due to the:</p> <ul style="list-style-type: none"> • Complexity involved in assessing the determination of the accounting treatment of the acquisition; and • The financial significance of the balance to the statement of the financial position. 	<p>Our procedures included, but not limited to:</p> <ul style="list-style-type: none"> • Reviewing the purchase and sale agreements to understand the terms and conditions of the acquisitions and evaluating the Management’s application of the relevant Accounting Standards; • Obtaining an understanding of the transactions including an assessment of whether the transaction constituted a business or asset acquisition; • Checking the calculation of share-based payments, the value of the assets and the liabilities acquired and the related acquisition cost; and • Assessing the appropriateness of the Group’s disclosures in respect of the acquisition in note 25.



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

Information other than the financial statements and auditor's report

The directors of the Company are responsible for the other information. The other information included in the Group's annual report for the year ended 30 June 2021 comprises the Director's Report (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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

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

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

Responsibilities of the directors of the Company for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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



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

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 19 of the Directors' Report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Allegiance Coal Limited for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

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

Didarul Khan
Director

Sydney
Dated 28 September 2021

Additional Securities Exchange information

As at 24 August 2021

Distribution of securities

Analysis of number of security holders by size of holding:

	Ordinary shares	Options	Performance rights	Convertible notes
1 – 1,000	234	-	-	-
1,001 – 5,000	254	-	-	-
5,001 – 10,000	162	-	-	-
10,001 – 100,000	491	2	-	-
100,001 and over	237	7	3	1
Total	1,378	9	3	1

Equity security holders

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

Name	Units	% of Units
HSBC Custody Nominees (Australia) Limited	53,646,687	16.32
Citicorp Nominees Pty Limited	40,547,111	12.33
CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C>	20,395,758	6.20
Cline Mining Corporation	14,130,281	4.30
Delphi Unternehmenberatung AG	10,042,538	3.05
Deutsche Balaton Aktiengesellschaft	9,138,060	2.78
J P Morgan Nominees Australia Limited	8,444,935	2.57
Cs Fourth Nominees Pty Limited <HSBC Cust Nom Au Ltd 11 A/C>	7,633,917	2.32
BNP Paribas Nominees Pty Ltd <IB Au Noms Retailclient DRP>	5,756,493	1.75
Telkwa Holdings Ltd	5,350,296	1.63
Mr Clive Thomas	5,000,000	1.52
2invest AG	4,959,824	1.51
JA Ashton Nominees (Qld) Pty Ltd	4,944,467	1.50
GFT Nominees (Qld) Pty Ltd	4,217,035	1.28
UBS Nominees Pty Ltd	3,616,035	1.10
John Wardman & Associates Pty Ltd <The Wardman Super Fund A/C>	3,400,000	1.03
Latimore Family Pty Ltd <Latimore Family Trust A/C>	3,155,888	0.96
Franklin Civil Pty Ltd	3,125,458	0.95
2invest AG	3,074,628	0.94
NGE Capital Limited	3,070,896	0.93

Unquoted equity securities

The Company has the following unquoted equity securities on issue: 3,501,616 million Lead Manager Options granted to Petra Capital Pty Ltd; 2,990,000 2017 PSIP Options; 1,500,000 Performance Rights; and 1,700,000 Notes convertible into ordinary shares at the election of the note-holder.

Unmarketable parcels

There are 208 holders holding less than a marketable parcel of the entity's quoted equity securities.

On-Market Buyback

There is no current on-market buyback.

Substantial Holders

Substantial holders in the Company are set out below:

Rank	Name	Address	Units	% of Units
1.	Golden Energy and Resources Limited (GEAR)	20 Cecil Street, #05-05 PLUS, Singapore 049705	43,781,095	13.32
2.	Deutsche Balaton AG, Delphi Unternehmenberatung AG and Zinvest AG	Ziegelhaeuser Landstrasse 1, Heidelberg 69120, Germany and Ziegelhaeuser Landstrasse 3, Heidelberg 69120, Germany	31,390,354	9.55
3.	Ascend Global Investment Fund - Asia Opportunity SP(AGIF-AOSP)	Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands	19,185,310	5.82
4.	Regal Funds Management Pty Ltd (RFM)	Level 47 Gateway 1 Macquarie Place Sydney NSW 2000	17,694,702	5.38

Voting rights

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

Ordinary shares

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

Options over ordinary shares

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

Performance rights

There are no voting rights attached to the performance rights.

Convertible notes

There are no voting rights attached to the convertible notes.

There are no other classes of equity securities.

Restricted securities

There are no restricted securities.

Tenements

Description	Tenement number	Interest owned %
<i>New Elk Coal Company LLC</i>		
New Elk Coal Mine – Colorado, USA	635047	100
Lorencito Project – Colorado, USA	607075	100
<i>Black Warrior Minerals Inc</i>		
Black Warrior Mine – Alabama, USA	Note 1	100%
<i>Telkwa Coal Limited</i>		
Telkwa Project – British Columbia, Canada	Note 2	100

Mineral and Coal Investments Pty Limited

Kilmain - Bowen Basin	EPC 1917	100
Kilmain – Bowen Basin	EPC 1298	100

Note 1, The coal resources are located within Jefferson County, State of Alabama. Control of the property is governed by various lease agreements with several different landowners and mineral rights owners.

Note 2, List of tenements the subject of the Telkwa Project:

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

Resources and reserves

New Elk Coal Company LLC

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

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

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

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

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

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

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

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

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

As disclosed in the Company's announcements of 5 and 9 December 2019, the Lorencito Property has been the subject of several drill programmes totalling 217 holes, geological and scoping studies, the most recent the Company is aware of was by Mine Engineers, Inc. from Wyoming, dated November 2008 (Study). The Study developed a geological model based on existing coal exploration and coal bed natural gas wells covering eight coal seams, including the Primero seam.

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

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

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

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

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

The coal resources referred to above were first reported in the Company's 15 July 2019 announcement (July 2019 Announcement) and its 5 and 9 December 2019 announcements (together the December 2019 Announcement). The coal reserves referred to above were first reported in the Company's release

of its New Elk feasibility study results on 28 November 2019 (November 2019 Announcement). The Company confirms that it is not aware of any new information or data that materially affects the information included in the July 2019 Announcement, the December 2019 Announcement or the November 2019 Announcement (together the Announcements), and that all material assumptions and technical parameters underpinning the estimates in the Announcements continue to apply and have not materially changed.

Black Warrior Minerals Inc

The Company's JORC Code 2012 coal resource statement for Black Warrior Minerals Inc is as follows:

Controlled Coal Resource (Mt)	Measured	Indicated	Inferred	Total
Newcastle	0.436	0.715	0.141	1.289
Mary Lee	0.991	1.449	745.8	3.186
Blue Creek	0.748	0.997	0.557.2	2.303
Total	2.175	3.161	1.441	6.779

Not Controlled Coal Resource (Mt)	Measured	Indicated	Inferred	Total
Newcastle	0.002	0.212	0.119	1.333
Mary Lee	0.006	1.073	0.513	1.592
Blue Creek	0.004	0.635	0.235	0.874
Total	0.012	1.921	0.867	2.800

The coal resources referred to above were first reported in the Company's announcement advising the acquisition of Black Warrior Minerals Inc on 30 July 2021 (the July 2021 Announcement). The Company confirms that it is not aware of any new information or data that materially affects the information included in the July 2021 Announcement and that all material assumptions and technical parameters underpinning the estimates in the July 2021 Announcement continue to apply and have not materially changed.

Telkwa Coal Limited

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

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

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

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

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

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

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

Competent Person Statement

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