Allegiance Coal Limited

ABN 47 149 490 353

Interim Report - 31 December 2016

Contents

General Information

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

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

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

Suite 107, 109 Pitt Street
Sydney NSW 2000

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 7 March 2017. The directors have the power to amend and reissue the financial report.

Directors' Report

31 December 2016

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Allegiance Coal Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled for the half-year ended 31 December 2016.

Directors

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

Malcolm Carson – Non-executive Chairman, appointed 11 August 2016
Mr. Carson is currently the Executive Chairman of Dampier Gold Ltd (ASX:DAU), and has been an executive and non-executive director of many ASX and TSX companies. He is a 40 year veteran in exploration and mining across a variety of minerals, in multiple jurisdictions, with many organisations including BHP, Kumba Resources, Iscor, Sons of Gwalia, Bankers Trust, and Rothschilds. Mr. Carson also spent five years working for the Government of Western Australia as a Senior Project Officer responsible for managing mining and industrial projects.

David Deitz – Non-executive Director
Mr. Deitz is currently the Chief Executive Officer of Gullewa Limited (ASX:GUL) which has exploration interests in gold, copper, iron ore and coal covering Queensland, Western Australia and New South Wales. Mr. Deitz joined Allegiance Mining NL in 1996 and became a Director in August 2000. As Chief Financial Officer he was part of the team that discovered and brought into production the Avebury Nickel Mine in Tasmania. Allegiance Mining NL was taken over in April 2008 for approximately $860 million. Mr. Deitz is a Certified Practicing Accountant and a Member of the Australasian Institute of Mining and Metallurgy.

David Fawcett – Non-executive Director, appointed 9 December 2016
Mr. Fawcett is a mining engineer with over 40 years' experience in the coal industry, primarily in Western Canada. During his career he has had a broad range of responsibilities from early stage geology and exploration, through feasibility and regulatory processes, to operations, management and executive positions for major, intermediate and start-up companies. He was a co-founder and president of Western Canadian Coal Corp. from 1997 to 2003 which company was subsequently taken over by US based Walter Energy Inc. for C$3.5 billion. He was chief operating officer of NEMI Northern Energy & Mining Inc. from 2003 to 2004 and senior vice president of Hillsborough Resources Limited from 2005 to 2009. Mr Fawcett has been the recipient of several coal industry awards including the Coal Association of Canada's Award of Distinction in 2015.

Jonathan Reynolds – Finance Director, appointed 11 August 2016
Mr. Reynolds 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 and a fellow of Financial Services Institute of Australia.

Anthony Howland-Rose, ceased on 25 August 2016
Peter Donkin, ceased on 25 August 2016

Principal activities

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

Review of operations
The loss for the consolidated entity after providing for income tax amounted to $224,116.

The Telkwa coking coal project located in the north west of British Columbia, Canada is the consolidated entity's flagship project. The Telkwa project is an advanced project, the subject of extensive historical drilling and exploration. The consolidated entity is focused on fast tracking this project towards mine permitting and production.

The Kilmain project is located in the southern part of the Bowen Basin, Central Queensland. It has been the subject of some exploration drilling intercepting the Rangal coal measures at depths of 200 to 400 metres. Coal sampling indicated at various wash densities the project could recover a PCI coal, a semi-soft coking coal, and a residual thermal coal.

The Back Creek project is located in the Surat Basin, Central Queensland. The project intercepts the Auburn, Bulwer and Condamine seams in the lower part of the Taroom Coal Measures. Allegiance has delineated a 98Mt JORC Inferred Resource within the project tenement.

Operational overview
Acquisition of Telkwa Coal Limited
On 16 September 2016, the Company entered into a conditional binding agreement to acquire the entire issued share capital of Telkwa Coal Limited (TCL), a private company incorporated in British Columbia, Canada, whose sole asset is a Farm-in Agreement over the Telkwa project (Project).

On 23 November 2016, shareholders approved the acquisition of all the shares in TCL in consideration for the issue of 50 million shares equating to a purchase price of $1,250,000 at a deemed share price of $0.025, on a post consolidation basis.

Farm-in Agreement
TCL acquired farm-in rights to the Project from a subsidiary of Altius Minerals Corporation (Altius), a TSX listed investment fund that acquired the Project as part of the acquisition of producing mines from Sherritt Corporation in April 2013.

TCL has the right to earn up to 90 percent Project ownership. Altius has a free carry on its remaining 10 percent Project equity in relation to a small mine only. Altius will be required to contribute its pro-rata share of the costs of a major mine. The farm-in obligations and payments are summarised in the table below.

	Milestone	**Completion**	**Milestone Completions**
1	Deliver NI 43-101 JORC compliant report	20 Mar 2015	Completed
	Complete internal scoping studies	20 Mar 2016	Completed
	Up-grade geo-model to a PFS standard	20 Mar 2016	Completed
	Incur C$1M of expenditure	No time limit	Pay C$200k for 20% project equity - Completed
2	Complete baseline studies	10 December 2018	
	Complete affected party agreements	10 December 2018	
	File small mine permit applications	10 December 2018	Pay C$300k for further 30% project equity
3	Grant of small mine permits	No time limit	Pay C$500k for further 40% project equity
4	Sale of 100k tonnes from a small mine	No time limit	Pay C$2M
5	Grant of major mine permits	No time limit	Pay C$2M
6	Sale of 500k tonnes from a major mine	No time limit	Pay C$5M

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.

Project Background
The Project enjoys exceptional location, situated immediately adjacent to Canadian National Rail's railway line. Whereas the majority of northeast and southeast British Columbia's coal, and Alberta's, experiences geographical challenges connecting to the railway line and must then be hauled in excess of 1,000 km to Ridley Terminals, the Project has simple access and just a 360 km rail haul. This is a very significant capital and operating cost advantage.

TCL commissioned a Canadian National Instrument 43-101 JORC Compliant Technical Report in February 2015 (Report), which confirmed that of a 165Mt coal Resource, 89Mt was in the Measured Resource category, as defined by the JORC Code. The Project includes three open pit areas all within close proximity. The coal resource is summarized in the following table.

Pit Areas	**Measured**	**Indicated**	**Inferred**	**TOTAL**
Tenas	40,329,000	0	0	40,329,000
Goathorn	35,505,000	26,394,000	27,067,000	88,966,000
Telkwa North	13,279,000	15,643,000	6,345,000	35,267,000
TOTAL	89,113,000	42,037,000	33,412,000	165,562,000

The Coal Resource estimate was prepared in accordance with the requirements of the Canadian National Instrument (NI) 43-101 and the CIM Definition Standards. NI 43-101 is the Canadian equivalent of the JORC Standard. The mineral resources are classified as to the assurance of their existence into one of three JORC equivalent categories, Measured, Indicated and Inferred. The Resource is reported as in-place tonnage down to a maximum strip ratio of 20:1 BCM/ROMt, which is the limit typically applied to coal in British Columbia. The Resource is not adjusted for mining losses or recovery, but does take into account a minimum mineable seam thickness and maximum included parting thickness.

The information regarding the mineral resources of the Project stated above was first reported in the Company's announcement of 16 September 2016. The Company is not aware of any new information or data that materially affects the information included in the previous announcement, and all material assumptions and technical parameters underpinning the estimates in the previous announcement continue to apply and have not materially changed.

TCL also commissioned a report to assess coal quality and coal market options in July 2015. Results of that report position Telkwa coal as a semi-soft coking coal competing alongside Queensland and New South Wales semi-soft coking coals.

A total of 828 holes (more than 90,000m) have been drilled from 1979 to 1998, of which 507 were rotary and 321 were core. Coal samples were gathered from all coal seam intersections recovered from core drilling, and two bulk samples (219 ton in 1983 and 80 ton in 1996). Coal samples were sent to several laboratories for testing and analysis during this period. Analytical testing included individual seam analysis, product testing, complete washability analysis, and burn tests.

The Project has already been the subject of several separate feasibility studies* by Shell in 1992 and Manalta Coal Limited in 1993, 1996, and the last in 1997. Each study expanded the recoverable coal based on additional drilling which increased both the modelled annual rate of production and the life of mine.

The final study completed in 1997 contemplated recovering 29.7Mt of coal at a strip ratio of 5.7:1 BCM/ROMt, and focused on mining 1.2Mtpa of clean coal for a life of mine of 18 years. The 1997 study did not include all mineable areas focussing on 2 of 3 allowing the third area to be developed in the future. The life of mine therefore at that planned rate of production would likely be well in excess of 20 years.

Notwithstanding the prior studies*, Allegiance resolved to undertake its own studies commencing with a pre-feasibility study (PFS), in compliance with National Instrument 43-101 and the 2012 JORC Code, for completion and delivery by 30 June 2017. The PFS terms of reference are to focus initially on a small, low capital and low operating cost mine, producing 240,000tpa of clean coking coal, and will include a plan to increase production to ~1.5Mtpa clean coking coal.

Sedgman and SRK were engaged in December 2016 and January 2017, respectively, to lead the delivery of the PFS. Several other consultants were also engaged to provide specialized reports in specific areas.

SRK will be responsible for geological and mine modelling, mine engineering, geotechnical and water management. Sedgman will be responsible for coal processing and mine-site infrastructure. All contracts were agreed to on a fixed cost basis.

**Not compliant with the 2012 JORC Code.*

Kilmain and Back Creek Projects
Both the Kilmain and Back Creek Projects are under review. There were no activities of note during the half-year ended 31 December 2016.

Corporate
Cash: At 31 December, 2016 the consolidated entity held $2,103,395 in cash.

During the period the Board of the Company was strengthened with the appointment of Messrs Malcolm Carson, David Fawcett and Jonathan Reynolds as directors.

During the period, Messrs Anthony Howland-Rose and Peter Donkin resigned as directors. The Directors wish to thank Tony and Peter for their service to the Company and wish them all the best for the future.

In September 2016, the Company completed a placement of 5.28 million ordinary shares (on a post-consolidation basis) to sophisticated investors raising $132,000, before costs.

Contemporaneously with the acquisition of Telkwa Coal Limited, in November 2016, shareholders approved a consolidation of the Company's share capital on a 1 for 5 basis, and the issue of 66.667 million shares by way of a private placement to sophisticated investors, raising $2.5 million, before costs. The capital raised enabled the Company to commit to and expedite its PFS programme for the Telkwa project, and to commence the permitting process towards mine development and production. In addition, the Telkwa project tenement owner, Altius Minerals Corporation, agreed to convert payments due to it under Farm-in Agreement (as is set out above), into shares in the Company acquiring 10.956 million shares in consideration for $410,861. Furthermore, a consultant to TCL elected to be allotted 1.26 million shares in consideration for $47,250 of outstanding invoices.

Loan Repayments
C. Randall & Associates Pty Ltd was paid $220,000 on 14 July 2016 in full discharge of its loan of $370,535.

In 2011, the consolidated entity entered loan facility agreements with Gullewa Ltd. On 4 August 2016 the parties entered a deed of loan variation, whereby Gullewa was paid $1,104,000 in partial satisfaction of the amount owed to it under the 2011 agreements. The balance outstanding of $659,000, which is unsecured, may be satisfied by the issue and allotment of shares in Allegiance Coal Ltd at a price of $0.025 per share (subject to any share reconstruction and shareholders' approval) or by repayment in cash, subject to Gullewa's agreement. The loan will be interest free until 4 August 2019, after which interest will accrue on any unpaid balance. The loan must be repaid in full, whether in cash or by the issue and allotment of shares, by 4 August 2021.

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

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

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

On behalf of the directors

Malcolm Carson
Chairman
7 March 2017

DECLARATION OF INDEPENDENCE UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 BY BRIAN TAYLOR TO THE DIRECTORS OF ALLEGIANCE COAL LIMITED

As lead auditor of Allegiance Coal Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- No contravention of any applicable code of professional conduct in relation to the review.

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

Brian Taylor
Director
SCS Audit & Corporate Services Pty Ltd
Sydney
7 March 2017

Statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2016

	Note	Consolidated 31 Dec 2016 $	Consolidated 31 Dec 2015 $
Revenue			
Interest income		5,041	32,006
Other revenue		-	21,062
	3	5,041	53,068
Expenses			
Employee benefits expense	4	(150,360)	(65,939)
Depreciation and amortisation expense	4	-	(5,626)
Administration expenses		(59,464)	(63,927)
Legal fees		(100,920)	(37,751)
Listing expense		(25,934)	(20,359)
Present value discount on Gullewa Ltd loan	6	108,466	-
Finance costs	4	(15,381)	(63,876)
Loss before income tax expense		(238,552)	(204,410)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Allegiance Coal Limited		(238,552)	(204,410)
Other comprehensive income for the half-year, net of tax			
Foreign exchange movement		14,436	-
Total comprehensive income for the half-year attributable to the owners of Allegiance Coal Limited		(224,116)	(204,410)
		Cents	**Cents**
Basic earnings per share		(0.70)	(0.58)
Diluted earnings per share		(0.14)	(0.58)

* The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 31 December 2016

	Note	Consolidated 31 Dec 2016 $	30 June 2016 $
Assets			
Current assets			
Cash and cash equivalents		2,103,395	1,418,192
Trade and other receivables		59,559	5,536
Other		5,100	5,373
Total current assets		2,168,054	1,429,101
Non-current assets			
Exploration and evaluation	5	2,155,625	250,000
Total non-current assets		2,155,625	250,000
Total assets		4,323,679	1,679,101
Liabilities			
Current liabilities			
Trade and other payables		107,099	64,561
Borrowings	6	100,625	1,994,631
Employee benefits		-	3,823
Total current liabilities		207,724	2,063,015
Non-Current liabilities			
Borrowings	6	565,293	-
Total non-current liabilities		565,293	-
Total liabilities		773,017	2,063,015
Net assets / (liabilities)		3,550,662	(383,914)
Equity			
Issued capital	7	13,296,493	9,137,801
Reserves		391,222	376,786
Accumulated losses		(10,137,053)	(9,898,501)
Total equity		3,550,662	(383,914)

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

Statement of changes in equity

For the half-year ended 31 December 2016

Consolidated	Issued Capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2015	9,137,801	376,786	(6,635,431)	2,879,156
Loss after income tax expense for the half-year			(204,410)	(204,410))
Other comprehensive income for the half-year, net of tax	-	-	-	-
	-	-		
Total comprehensive loss for the year	-	-	(204,410)	(204,410)
Transactions with owners in their capacity as owners:				
Share-based payments	-	-	-	-
Balance at 31 December 2015	9,137,801	376,786	(6,839,841)	2,674,746

Consolidated	Issued Capital $	Foreign Currency Reserve $	Option Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2016	9,137,801	-	376,786	(9,898,501)	(383,914)
Loss after income tax expense for the half-year				(238,552)	(238,552)
Other comprehensive income for the half-year, net of tax	-	14,436	-	-	14,436
	-	-	-		
Total comprehensive loss for the year	-	14,436	-	(238,552)	(224,116)
Transactions with owners in their capacity as owners:					
Contributions by owners					
Share issues, net of costs	4,158,692	-	-	-	4,158,692
Balance at 31 December 2016	13,296,493	14,436	376,786	(10,137,053)	3,550,662

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

Statement of cash flows

For the half-year ended 31 December 2016

	Note	Consolidated 31 Dec 2016 $	31 Dec 2015 $
Cash flows from operating activities			
Payments to suppliers (inclusive of GST)		(503,516)	(279,786)
Other receipts		-	19,483
		(503,516)	(260,303)
Interest received		5,041	32,006
Income taxes refunded		-	73,094
Net cash (used in) operating activities		(498,475)	(155,203)
Cash flows from investing activities			
Payments for exploration and evaluation		(403,613)	(382,882)
Net cash (used in) investing activities		(403,613)	(382,882)
Cash flows from financing activities			
Share issues, net of costs		2,908,692	-
Loans raised		200,000	61,993
Loan repayments		(1,526,927)	-
Contribution from Joint Venture - JOGMEC		31,591	363,651
Cash flows from financing activities		1,613,356	425,644
Net increase/(decrease) in cash and cash equivalents		711,268	(112,441)
Exchange fluctuations		(26,065)	-
Cash and cash equivalents at the beginning of the financial half-year		1,418,192	1,602,758
Cash and cash equivalents at the end of the financial half-year		2,103,395	1,490,317

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

Notes to the financial statements

31 December 2016

Note 1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 *Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2016 together with any public announcements made during the following half-year.

The half-year financial report was authorised for issue by directors on 7 March 2017.

Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2016 annual financial report for the financial year ended 30 June 2016, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Borrowing costs

Borrowings are recognised initially at fair value. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption being recognised in the Statement of Profit or Loss and Other Comprehensive Income over the period of the borrowings on an effective interest basis.

Going concern

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

For the half-year ended 31 December 2016 the consolidated entity reported a net loss of $238,552 (2015: $204,410) and net operating cash outflows of $498,475 (2015: $155,203). The operating cash outflows have been funded by cash inflows from equity raisings of $2,908,692 (2015: Jogmec contributions of $363,651) during the half-year. As at 31 December 2016 the consolidated entity had net current assets of $1,960,330 (2015: deficit of $633,914) including cash reserves of $2,103,395 (2015: $1,418,192).

The balance of these cash reserves may not be sufficient to meet the consolidated entity's planned expenditure and evaluation budget, including exploration activities, evaluation, operating and administrative expenditure, for the 12 months to 31 March 2018. In order to fully implement its exploration and evaluation strategy, the consolidated entity will require additional funds.

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

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

Notes to the financial statements

31 December 2016

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

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding, the consolidated entity's ability to effectively manage their 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, there is material uncertainty that may cast significant doubt whether the consolidated entity will continue to operate as a going concern. If the consolidated entity is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

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

Note 2. Operating segments

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

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

Note 3. Revenue

	Consolidated	
	31 Dec 2016 $	31 Dec 2015 $
Interest	5,041	32,006
Other revenue	-	21,062
Total Revenue	5,041	53,068

Notes to the financial statements

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Note 4. Expenses

	Consolidated 31 Dec 2016 $	 31 Dec 2015 $
Loss before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	-	1,188
Plant and equipment	-	252
Computer equipment	-	887
Office equipment	-	3,299
Total depreciation	-	5,626
Finance costs		
Interest and finance charges paid/payable	15,381	63,876
Rental expense relating to operating leases		
Minimum lease payments	6,913	-
Employee benefits expense		
Superannuation contributions	291	2,819
Employee benefits expense	150,069	63,120
Total employee benefits expense	150,360	65,939

Note 5. Exploration and Evaluation

	Consolidated 31 Dec 2016 $	 30 June 2016 $
Exploration and Evaluation – at cost and fair value	5,476,331	3,570,706
Less: impairment	(3,320,706)	(3,320,706)
	2,155,625	250,000

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

	Exploration and evaluation $	Total $
Balance at 1 July 2016	250,000	250,000
Acquisition of Telkwa Coal Project, at fair value	1,507,538	1,507,538
Additions	403,613	403,613
Recovery from Jogmec	(31,591)	(31,591)
Foreign exchange movement	26,065	26,065
Balance at 31 December 2016	2,155,625	2,155,625

The Telkwa coal project has yet to reach a stage of development where a 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 half-year ended 31 December 2016.

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The Kilmain and Back Creek projects have yet to reach a stage of development where a determination of the technical feasibility or commercial viability can be assessed. In these circumstances, whether there is any indication that the assets have been impaired is a matter of judgment, as is the determination of the quantum of any required impairment adjustment. The Directors have resolved that it is not appropriate to capitalise any further exploration expenditure in relation to the Kilmain and Back Creek projects. In addition, in the year ended 30 June 2016, they resolved to impair exploration expenditure incurred in respect of these permit areas in an amount of $3,032,858. The Directors have used their experience to conclude that no further impairment adjustment is required in the half-year ended 31 December 2016.

Note 6. Borrowings

Current

	Consolidated	
	31 Dec 2016 $	**30 June 2016 $**
Promissory Notes	100,000	-
Interest accrued	625	-
Loan – C Randall & Associates Pty Ltd	-	220,000
Loan – Hydromining Coal Australia Pty Ltd	-	(609)
Loan – Gullewa Ltd	-	1,775,240
	100,625	1,994,631

Promissory Notes: unsecured promissory notes repayable by Telkwa Coal Ltd on demand, bearing interest at 7.5% per annum.

Non-current

	Consolidated	
	31 Dec 2016 $	**30 June 2016 $**
Loan – Gullewa Ltd	659,000	-
Less : Present value discount of Gullewa Ltd loan	(108,466)	-
Add : Unwinding of present value discount of Gullewa Ltd loan	14,759	-
	565,293	-

In 2011, the consolidated entity entered loan facility agreements with Gullewa Ltd. On 4 August 2016 the parties entered a deed of loan variation, whereby Gullewa was paid $1,104,000 in partial satisfaction of the amount owed to it under the 2011 agreements. The balance outstanding of $659,000, which is unsecured, may be satisfied by the issue and allotment of shares in Allegiance Coal Ltd at a price of $0.025 per share (subject to any share reconstruction and shareholders' approval) or by repayment in cash, subject to Gullewa's agreement. The loan will be interest free until 4 August 2019, after which interest will accrue on any unpaid balance. The loan must be repaid in full, whether in cash or by the issue and allotment of shares, by 4 August 2021.

Further, as the loan contains an interest-free period, AASB 9 *Financial Instruments* requires the full amount of $659,000 to be discounted back to present value. Using prevailing market interest rates for an equivalent loan of 5.995%, the fair value of the loan at 4 August 2016 is estimated at $550,534. The difference of $108,466 is the benefit derived from the interest-free period of the loan and is recognised as a deferred expense. A total of $14,759 represents the unwinding of the present value discount up to 31 December 2016.

Notes to the financial statements

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Note 7. Equity

Issued capital

	Consolidated	
	31 Dec 2016 $	30 June 2016 $
Ordinary shares - fully paid	13,296,493	9,137,801

Consolidated	31 Dec 2016 Number	30 June 2016 Number	31 Dec 2016 $	30 June 2016 $
Balance at 1 July	176,666,674	176,666,674	9,137,801	9,137,801
Shares issued for cash in September 2016	26,400,000	-	132,000	-
Less costs			(10,067)	-
Share consolidation, one for five	(162,453,324)	-		
	40,613,350	176,666,674		
Shares issued for acquisition of Telkwa Coal Ltd	50,000,000	-	1,250,000	-
Share issued to settle liabilities of Telkwa Coal Ltd	12,216,282	-	458,111	-
Shares issued for cash in November 2016	66,666,671	-	2,500,000	-
Less costs		-	(171,352)	-
Balance at 31 December	169,496,303	176,666,674	13,296,493	9,137,801

In September 2016, the Company completed a placement of 5.28 million ordinary shares (on a post-consolidation basis) to sophisticated investors raising $132,000, before costs.

Contemporaneously with the acquisition of Telkwa Coal Ltd (TCL), in November 2016, shareholders approved a consolidation of the Company's share capital on a 1 for 5 basis, and the issue of 66.667 million shares by way of a private placement to sophisticated investors, raising $2.5 million, before costs. The capital raised enabled the Company to commit to and expedite its PFS programme for the Telkwa project, and to commence the permitting process towards mine development and production. In addition, the Telkwa project tenement owner, Altius Minerals Corporation, agreed to convert payments due to it under Farm-in Agreement, into shares in the Company acquiring 10.956 million shares in consideration for $410,861. Furthermore, a consultant to TCL elected to be allotted 1.26 million shares in consideration for $47,250 of outstanding invoices.

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

Notes to the financial statements

31 December 2016

Note 8. Related party transactions

Parent entity
Allegiance Coal Limited is the parent entity.

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

	Consolidated	
	31 Dec 2016 $	**31 Dec 2015 $**
Payment for other expenses:		
Consulting fees paid to a company in which Mr Carson has an interest	25,800	-
Consulting and administration fees paid to Gullewa Ltd, in which Mr Deitz has an interest	27,992	13,159
Reimbursement of expenses paid to Gullewa Ltd, in which Mr Deitz has an interest	4,708	-
Consulting fees paid to a company in which Mr Deitz has an interest	23,080	-
Consulting fees paid to a company in which Mr Reynolds has an interest	46,499	-
Reimbursement of expenses paid to a company in which Mr Reynolds has an interest	1,580	-

Receivable from and payable to related parties
The following balances are outstanding at the reporting date in relation to transactions with related parties.

	Consolidated	
	31 Dec 2016 $	**30 June 2016 $**
Current payables:		
Consulting and administration fees payable to parent entity, Gullewa Ltd	-	62,470
Consulting fees payable to a company in which Mr Carson has an interest	5,280	-

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

	Consolidated	
	31 Dec 2016 $	**30 June 2016 $**
Current borrowings:		
Loan from Gullewa Ltd	-	1,775,240
Non-current borrowings:		
Loan from Gullewa Ltd, net of present value of discount	565,293	-

Borrowings include capitalised interest.

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

Notes to the financial statements

31 December 2016

Note 9. Acquisition of subsidiary undertakings

Under a share purchase agreement the Company acquired the entire issued share capital of Telkwa Coal Ltd, a company incorporated in British Columbia, Canada and which holds the farm-in rights to the Telkwa Coal Project.

The consideration for the acquisition was settled by the issue of 50 million ordinary shares in the Company to the vendors at a deemed price of $0.025 per share for a total consideration of $1,250,000.

Assets and liabilities acquired at fair value:

	Consolidated 31 Dec 2016 $
Assets	
Trade and other receivables	11,622
Exploration and evaluation	1,507,538
	1,519,160
Liabilities	
Trade and other payables	169,160
Loan advances payable	100,000
	269,160
Net assets	1,250,000
Consideration	
Issue of ordinary shares	1,250,000

Note 10. Events after the reporting period

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 11. Share-based payments

Employee Option Scheme
Details of the Employee Option Scheme are disclosed in the annual financial report.

Set out below are summaries of options granted under the plan, after accounting for the November 2016 consolidation of the Company's share capital:

Grant date	Expiry date	Exercise Price	Balance at the start of the half-year	Granted	Exercised	Expired/ forfeited/ Other	Balance at the end of the half-year
27/11/2013	27/11/2018	$0.2475	820,000	-	-	-	820,000
			820,000	-	-	-	820,000

Directors' declaration

31 December 2016

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

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

   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

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

On behalf of the directors

Malcolm Carson
Chairman
7 March 2017
Sydney

Auditor review report

31 December 2016

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

We have reviewed the accompanying half-year financial report of Allegiance Coal Limited, which comprises the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising a statement of accounting policies and selected explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year end or from to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASS 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Allegiance Coal Limited ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report,

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

Auditor's Independence Declaration

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

Auditor review report (continued)

31 December 2016

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

Emphasis of Matter

Without amendment to our conclusion we emphasise the following matter:

Going Concern

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

SCS Audit & Corporate Services Pty Ltd

Brian Taylor
Director

Sydney, 7 March 2017