ALLEGIANCE COAL

LIMITED

ABN 47 149 490 353

Interim Report - 31 December 2017

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 26 February 2018. The directors have the power to amend and reissue the financial report.

Directors' Report

31 December 2017

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 2017.

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
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.

Mark Gray – Managing Director
Mr. Gray founded Telkwa Coal Limited (a wholly owned subsidiary of the Company) and secured the farm-in rights to the Telkwa metallurgical coal project in September 2014. He is a corporate lawyer with 30 years transactional experience gained as a lawyer with Herbert Smith in London, a partner with Bell Gully in New Zealand, and as a director of the investment bank Barclays de Zoette Wedd, also in London. For the last 12 years Mr. Gray has been an advisor to and company executive of mining companies and operations including underground coal in Australia, and open pit mining in Africa, as well as exploration and development projects in several minerals including coal.

David Fawcett – Non-executive Director
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
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.

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

Review of operations
The loss for the consolidated entity after providing for income tax amounted to $723,734.

Telkwa metallurgical coal project
The Telkwa metallurgical coal project (Project) located in the north west of British Columbia, Canada is the consolidated entity's flagship project. The Project has been the subject of extensive historical drilling, exploration and evaluation activities. The consolidated entity is focused on fast tracking this project towards mine permitting and production.

The Project enjoys exceptional location to rail and port. This coupled with simple geology, a low strip ratio of waste rock to coal, and a good coal wash yield of 75 percent, contribute to exceptionally low operating costs.

Pre-feasibility studies
On 3 July 2017, the Company announced (3 July Announcement) the results of the Staged Production Pre-feasibility Study (Staged Production PFS) for the Project. The study assessed the viability of the Project across the entire reserve base of 42.5 million tonnes of saleable coal. It assumed the commencement of mining at 250,000 saleable tonnes per annum under the sub-environmental assessment permitting process, ramping to 1.75 million saleable tonnes per annum in four years for a mine life of 28 years at a strip ratio of 5.8:1 BCM/ROMt. The results of the study showed robust project economics.

Subsequently, in September 2017, the Company released the results of the Stage 1 Pre-feasibility Study (Stage 1 PFS) along with its internal review of the Staged Production PFS. The Stage 1 PFS assessed the viability of the Project assuming the consolidated entity is only ever permitted to mine at the rate of 250,000 saleable tonnes per annum for a mine life of 19 years at a strip ratio of 1.9:1 BCM/ROMt. In addition, because the start-up capital invested in the Stage 1 PFS had an actual production capacity of 500,000 saleable tonnes per annum, the Stage 1 PFS also assessed mining at 500,000 saleable tonnes per annum at the same strip ratio of 1.9:BCM/ROMt for a mine life of 11 years.

Both the Staged Production PFS and the Stage 1 PFS were undertaken by SRK Consulting (Canada) Inc (SRK) assisted by other mining and resources specialists.

The studies declared 148.1Mt of JORC compliant coal resources up to a strip ratio of 5.8:1 BCM/ROMt of which 134Mt (equating to 90 percent of all coal resources) was in the measured category. Of that 148.1Mt, 42.5Mt was converted into saleable coal reserves suitable for use by the steels mills as either a semi-soft coking coal or a mid-volatile PCI coal.

In all three cases outstanding results were delivered. In particular, the studies concluded that at whatever rate of production, the Project could operate at an all-in-FOB cash cost of between US$51/t to US$55/t positioning the Project in the lowest five percentile of the global seaborne metallurgical coal cost curve.

Drill Programme
Permits were granted to commence a drill programme necessary to support environmental baseline data, and from which coal core will be taken and sent for coal tests and quality analysis. Coal core will also be made available to the steel mills for drum and coke oven tests.

Environmental
The consolidated entity commenced its environmental baseline studies in relation to the Project in May 2017. All disciplines covering surface water quality, groundwater reconnaissance, terrestrial resources, fisheries and aquatics and culture and archaeology, are well underway. The studies are on schedule to be completed in Q3 2018.

Three hydrometric stations and eleven water quality stations were established for monitoring Tenas Creek, Goathorn Creek and the Telkwa River.

Two groundwater sampling sessions have been conducted with sampling to resume in early 2018 and with three new wells to be included once they are drilled in Q1 2018.

Meteorology, dustfall and noise monitoring stations have been installed at the mine site area. Dustfall and noise data are being collected to inform the human and wildlife assessments.

Terrestrial resources include terrain, soil, vegetation and wildlife. Activities have included mapping of bioterrain, terrain stability, soils, ecosystem and wetlands. Rare and invasive plant surveys were conducted as well as assessment of timber values. Wildlife studies included terrestrial invertebrates, amphibians/reptiles, birds, bats, furbearers such as marten, fisher, lynx, wolf, coyote, along with bears and ungulates such as caribou, moose and deer.

The consolidated entity has engaged SRK to conduct desktop work on water and waste management strategies.

Stakeholder Engagement
Engagement with First Nations, the British Columbia Ministry of Energy and Mines, the Mayor of Telkwa's office, and other regional special interest and community groups has been an ongoing area of focus for the consolidated entity over the half-year.

Commencement of Discussions with Japanese and South Korean Steel Mills
Following the completion of the two pre-feasibility studies referred to earlier in this report, the Company commenced a process of presenting the Project, and in particular the coal quality and economics, to prospective steel mill customers.

Given the short shipping distance from the Project's coal port of departure at Prince Rupert, the Company perceives the Japanese and South Korean steel mills to be the most likely buyers of Telkwa metallurgical coal.

Meetings were held in Tokyo and Seoul, following which several expressions of interest were submitted to the Company in relation to both the off-take of coal, and direct Project investment.

Kilmain and Back Creek Projects, Queensland
Both the Kilmain and Back Creek Projects remain under review. There were no activities of note during the half-year ended 31 December 2017.

Corporate
Cash: At 31 December, 2017 the consolidated entity held $3,018,402 in cash.

In October 2017, the Company completed a Placement to raise $3.6 million, before costs. The funds raised are to be applied to work necessary to advance the Telkwa project towards permitting and in particular: completion and delivery of environmental baseline studies; conducting a drill programme necessary to support environmental baseline data, and from which coal core will be taken and sent for coal tests and quality analysis; and commencing the feasibility study on stage 1 production. 33.9 million shares were allotted in October 2017 under the Company's 15 percent capacity in accordance with ASX Listing Rule 7.1 to raise $1 million, before costs. 85 million shares were allotted in December 2017 following shareholder approval to raise $2.6 million, before costs.

In December 2017, the Company entered an agreement with Altius Minerals Corporation (Altius) to acquire 100% ownership of the Telkwa project in consideration for the allotment to Altius of 40.6 million shares, and the continued performance of the previously agreed milestone obligations. Up until the acquisition, the Company had earned 20 percent project ownership, and had the right to earn up to 90 percent project ownership upon satisfaction of several milestones. The remaining 10 percent Project ownership would be retained by Altius who had a free carry on its project equity in relation to a small mine.

Loan Repayments
In December 2017, the consolidated entity repaid promissory notes with a face value of $100,000. The notes, which had been issued by Telkwa Coal Ltd prior to its acquisition by the Company were unsecured, repayable on demand and bore interest at 7.5% pa.

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

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Malcolm Carson
Chairman
26 February 2018

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 2017, 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.

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Brian Taylor
Director
SCS Audit & Corporate Services Pty Ltd
Sydney
26 February 2018

Statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2017

	Note	Consolidated 31 Dec 2017 $	Consolidated 31 Dec 2016 $
Revenue			
Interest income		3,090	5,041
Other revenue		-	-
	3	3,090	5,041
Expenses			
Employee benefits expense	4	(431,730)	(150,360)
Depreciation and amortisation expense	4	-	-
Administration and other expenses		(100,023)	(57,249)
Foreign exchange (loss) / gain		(27,713)	11,599
Investor relations		(52,218)	-
Legal fees		(3,480)	(100,920)
Listing expense		(28,332)	(25,934)
Travelling expenses		(61,973)	(13,814)
Present value discount on Gullewa Ltd loan	6	-	108,466
Finance costs	4	(21,355)	(15,381)
Loss before income tax expense		(723,734)	(238,552)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Allegiance Coal Limited		(723,734)	(238,552)
Other comprehensive income for the half-year, net of tax			
Foreign exchange movement		(64,222)	14,436
Total comprehensive income for the half-year attributable to the owners of Allegiance Coal Limited		(787,956)	(224,116)
		Cents	**Cents**
Basic earnings per share		(0.57)	(0.70)
Diluted earnings per share		(0.19)	(0.14)

* 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 2017

	Note	Consolidated 31 Dec 2017 $	Consolidated 30 June 2017 $
Assets			
Current assets			
Cash and cash equivalents		3,018,402	1,637,343
Trade and other receivables		73,231	94,832
Other		123,967	127,120
Total current assets		3,215,600	1,859,295
Non-current assets			
Exploration and evaluation	5	5,668,342	3,218,003
Total non-current assets		5,668,342	3,218,003
Total assets		8,883,942	5,077,298
Liabilities			
Current liabilities			
Trade and other payables		223,196	245,115
Borrowings	6	-	104,895
Total current liabilities		223,196	350,010
Non-Current liabilities			
Borrowings	6	601,449	583,222
Total non-current liabilities		601,449	583,222
Total liabilities		824,645	933,232
Net assets		8,059,297	4,144,066
Equity			
Issued capital	7	19,096,458	14,650,402
Reserves		564,747	371,838
Accumulated losses		(11,601,908)	(10,878,174)
Total equity		8,059,297	4,144,066

* 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 2017

Consolidated	Issued Capital $	General reserve $	Share based payment reserve $	Foreign currency translation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2017	14,650,402	16	376,770	(4,948)	(10,878,174)	4,144,066
Loss after income tax expense for the half-year	-	-	169,063	-	(723,734)	(554,671)
Other comprehensive income for the half-year, net of tax	-	-	-	(64,222)	-	(64,222)
Total comprehensive loss for the year	-	-	169,063	(64,222)	(723,734)	(618,893)
Transactions with owners in their capacity as owners:						
Contributions by owners		-	-	-	-	
Share issues, net of costs	4,446,056	-	88,068	-	-	4,534,124
Balance at 31 December 2017	19,096,458	16	633,901	(69,170)	(11,601,908)	8,059,297

Consolidated	Issued Capital $	General reserve $	Option reserves $	Foreign currency reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2016	9,137,801	16	376,770	-	(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	16	376,770	14,436	(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 2017

	Note	Consolidated 31 Dec 2017 $	 31 Dec 2016 $
Cash flows from operating activities			
Payments to suppliers (inclusive of GST)		(598,315)	(503,516)
Other receipts		-	-
		(598,315)	(503,516)
Interest received		3,090	5,041
Interest paid		(7,500)	-
Income taxes		-	-
Net cash (used in) operating activities		(602,725)	(498,475)
Cash flows from investing activities			
Payments for exploration and evaluation		(1,183,163)	(403,613)
Net cash (used in) investing activities		(1,183,163)	(403,613)
Cash flows from financing activities			
Share issues, net of costs		3,316,123	2,908,692
Loans raised		-	200,000
Loan repayments		(100,000)	(1,526,927)
Contribution from Joint Venture - JOGMEC		-	31,591
Cash flows from financing activities		3,216,123	1,613,356
Net increase in cash and cash equivalents		1,430,235	711,268
Exchange fluctuations		(49,176)	(26,065)
Cash and cash equivalents at the beginning of the financial half-year		1,637,343	1,418,192
Cash and cash equivalents at the end of the financial half-year		3,018,402	2,103,395

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

Notes to the financial statements

31 December 2017

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 2017 together with any public announcements made during the following half-year.

The half-year financial report was authorised for issue by directors on 26 February 2018.

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 2017 annual financial report for the financial year ended 30 June 2017, 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 finally ascertain whether they contain economically recoverable reserves and can be commercially developed.

For the half-year ended 31 December 2017 the consolidated entity reported a net loss of $723,734 (2016: $238,552) and net operating cash outflows of $602,725 (2016: $498,475). The operating cash outflows have been funded by cash inflows from equity raisings of $3,316,123 (2016: $2,908,692) during the half-year. As at 31 December 2017 the consolidated entity had net current assets of $2,992,404 (2016: $1,960,330) including cash reserves of $3,018,402 (2016: $2,103,395).

The balance of these cash reserves may not be sufficient to meet the consolidated entity's planned expenditure and evaluation budget, including exploration activities, evaluation, operating and administrative expenditure, for the 12 months to 28 February 2019. In order to fully implement its exploration and evaluation strategy, the consolidated entity will require additional funds.

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

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

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

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

Notes to the financial statements

31 December 2017

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

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

Note 2. Operating segments

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

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

Note 3. Revenue

	Consolidated	
	31 Dec 2017 $	**31 Dec 2016 $**
Interest	3,090	5,041
Other revenue	-	-
Total Revenue	3,090	5,041

Note 4. Expenses

	Consolidated	
	31 Dec 2017 $	**31 Dec 2016 $**
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	-	-
Office equipment	-	-
Total depreciation	-	-
Finance costs		
Interest and finance charges paid/payable	21,355	15,381
Rental expense relating to operating leases		
Minimum lease payments	20,936	6,913
Employee benefits expense		
Superannuation contributions	-	291
Employee benefits expense	262,667	150,069
Share based payments	169,063	-
Total employee benefits expense	431,730	150,360

Notes to the financial statements

31 December 2017

Note 5. Exploration and Evaluation

	Consolidated	
	31 Dec 2017	**30 June 2017**
	$	**$**
Exploration and Evaluation – at cost and fair value	9,207,458	6,757,119
Less: impairment	(3,539,116)	(3,539,116)
	5,668,342	3,218,003

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 2017	3,218,003	3,218,003
Additions – Telkwa metallurgical coal project, at cost	1,183,163	1,183,163
Additions – Telkwa metallurgical coal project, at fair value	1,218,000	1,218,000
Foreign exchange movement	49,176	49,176
Balance at 31 December 2017	5,668,342	5,668,342

In December 2017, the consolidated entity entered into an agreement to acquire from Altius Minerals Corporation (Altius), 100 percent ownership of all the rights to coal licences that make up the Telkwa metallurgical coal project (Project) (Acquisition). Up until the Acquisition, the consolidated entity had earned 20 percent Project ownership, and had the right to earn up to 90 percent Project ownership upon satisfaction of several milestones (as set out in the table below). The remaining 10 percent Project ownership would be retained by Altius who had a free carry on its Project equity in relation to a small mine. In consideration for the issue to Altius of 40.6 million ordinary shares in the Company, with a deemed fair value of $1,218,000, and the continued performance of the milestone obligations, Altius agreed to transfer full ownership of the Project to the consolidated entity. As security against the consolidated entity's performance of the milestone obligations, the consolidated entity has provided a charge over the Project. It is agreed that the charge shall be subordinated to Project debt finance.

Milestone	**Payment commitment**
Complete baseline studies and affected party agreements; and file small mine permit applications	C$300,000
Grant of small mine permits	C$500,000
Sale of 100,000 tonnes from a small mine	C$2 million
Grant of major mine permits	C$2 million
Sale of 500,000 tonnes from a major mine	C$5 million

The Telkwa metallurgical coal project has yet to reach a stage of development where a final determination of the technical feasibility or commercial viability can be assessed. In these circumstances, whether there is any indication that the asset has been impaired is a matter of judgement, as is the determination of the quantum of any required impairment adjustment. The Directors have used their experience to conclude that no impairment adjustment is required in the current half-year ended 31 December 2017.

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, by the year ended 30 June 2017, they resolved to fully impair exploration expenditure incurred in respect of these permit areas.

Notes to the financial statements

31 December 2017

Note 6. Borrowings

Current

	Consolidated	
	31 Dec 2017 $	**30 June 2017 $**
Promissory Notes	-	100,000
Interest accrued	-	4,895
	-	104,895

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

Non-current

	Consolidated	
	31 Dec 2017 $	**30 June 2017 $**
Loan – Gullewa Ltd	659,000	659,000
Less : Present value discount of Gullewa Ltd loan	(108,466)	(108,466)
Add : Unwinding of present value discount of Gullewa Ltd loan	50,915	32,688
	601,449	583,222

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 $50,915 represents the unwinding of the present value discount up to 31 December 2017.

Note 7. Equity

Issued capital

	Consolidated	
	31 Dec 2017 $	**30 June 2017 $**
Ordinary shares - fully paid	19,096,458	14,650,402

Notes to the financial statements

31 December 2017

Consolidated	31 Dec 2017 Number	30 June 2017 Number	31 Dec 2017 $	30 June 2017 $
Balance at 1 July	225,995,235	176,666,674	14,650,402	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)		
	225,995,235	40,613,350		
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)
Shares issued for cash in May 2017	-	56,498,932	-	1,412,473
Less costs			-	(58,564)
Shares issued for cash in October 2017	33,899,285	-	1,016,979	-
Less costs			(77,320)	-
Shares issued for cash in December 2017	85,310,639	-	2,559,320	-
Less costs			(182,855)	-
Less fair value of lead manager options			(88,068)	-
Shares issued for acquisition of 10% interest in Telkwa metallurgical coal project	40,600,000	-	1,218,000	-
Balance at 31 December	385,805,159	225,995,235	19,096,458	14,650,402

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 then Telkwa project tenement owner, Altius Minerals Corporation (Altius), 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.

In May 2017, the Company completed a one for three rights issue raising $1.4 million, before costs, through the allotment of 56.5 million shares. The capital raised enabled the Company to commence its environmental baseline studies at the Telkwa project.

In October 2017, the Company completed a Placement to raise $3.6 million, before costs. The funds raised are to be applied to work necessary to advance the Telkwa project towards permitting and in particular: completion and delivery of environmental baseline studies; conducting a drill programme necessary to support environmental baseline data, and from which coal core will be taken and sent for coal tests and quality analysis; and commencing the feasibility study on stage 1 production. 33.9 million shares were allotted in October 2017 under the Company's 15 percent capacity in accordance with ASX Listing Rule 7.1 to raise $1 million, before costs. 85 million shares were allotted in December 2017 following shareholder approval to raise $2.6 million, before costs.

In December 2017, the Company entered an agreement with Altius Minerals Corporation (Altius) to acquire 100 percent ownership of the Telkwa project in consideration for the allotment to Altius of 40.6 million shares, and the continued performance of the previously agreed milestone obligations.

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

Notes to the financial statements

31 December 2017

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 2017 $	**31 Dec 2016 $**
Payment for other expenses:		
Consulting fees paid to a company in which Mr Carson has an interest	18,000	25,800
Consulting fees paid to a company in which Mr Gray has an interest	135,000	-
Reimbursement of expenses paid to a company in which Mr Gray has an interest	65,321	-
Consulting fees paid to a company in which Mr Fawcett has an interest	21,260	-
Consulting fees paid to a company in which Mr Reynolds has an interest	76,667	46,499
Reimbursement of expenses paid to a company in which Mr Reynolds has an interest	3,251	1,580
Consulting and administration fees paid to Gullewa Ltd, in which Mr Deitz has an interest	-	27,992
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

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 2017 $	**30 June 2017 $**
Current payables:		
Reimbursement of expenses payable to a company in which Mr Gray has an interest	1,929	-

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

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 held the then extant farm-in rights to the Telkwa 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

Notes to the financial statements

31 December 2017

Note 10. Events after the reporting period

No matter or circumstance has arisen since 31 December 2017 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

Participants Securities Incentive Plan Options
At the 2017 annual general meeting, the Company approved the creation of the Participants Securities Incentive Plan (PSIP). The objective of the PSIP is to assist in the reward, retention and motivation of key directors, employees and consultants (Participants); link the reward of Participants to shareholder value creation; and align the interests of Participants with shareholders, by providing an opportunity to Participants to receive an equity interest in the Company. Each PSIP option entitles the holder to subscribe for one ordinary share upon exercise. The options expire on the date that is five years after the date of issue (6 December 2022) and, subject to any capital restructure, have an exercise price of $0.075 each. The options vest as follows, subject to the Participant remaining engaged by the Company at all times up until the relevant condition is satisfied, : 500,000 on 6 December 2018; 500,000 on completion of Telkwa project baseline studies; 500,000 on completion of Telkwa project effected party agreements; 1,437,500 on the filing of the Telkwa project small mine permit applications; 1,437,500 on the receipt of the Telkwa project small mine permit; 1,937,500 on 6 December 2019; and 1,937,500 on 6 December 2020.

Lead Manager Options
The Company engaged Bell Potter Securities Limited as the Lead Manager for the October 2017 placement. At the 2017 annual general meeting, the Company approved the granting of 5 million Lead Manager options. Each Lead Manager Option entitles the holder to subscribe for one ordinary share upon exercise. The options expire on 6 December 2020 and, subject to any capital restructure, have an exercise price of $0.05 each.

Director Option Scheme
Details of the Director Option Scheme (DOS) are disclosed in the annual financial report.

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

Grant date	Expiry date	Exercise Price	Balance at the start of the half-year	Granted	Vested	Exercised	Expired/ forfeited / Other	Balance at the end of the half-year
PSIP Options								
6/12/17	6/12/22	$0.075	-	8,250,000	-	-	-	8,250,000
Lead Manager Options								
6/12/17	6/12/20	$0.05	-	5,000,000	5,000,000	-	-	5,000,000
DOS Options								
27/11/13	27/11/18	$0.2475	820,000	-	820,000	-	-	820,000
			820,000	13,250,000	5,820,000	-	-	14,070,000

Directors' declaration

31 December 2017

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 2017 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
26 February 2018
Sydney

Auditor review report

31 December 2017

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 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising a statement of accounting policies and selected explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASS 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Allegiance Coal Limited ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

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

Auditor review report (continued)

31 December 2017

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 2017 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, 26 February 2018