ALLEGIANCE COAL LIMITED

ABN 47 149 490 353

Interim Report - 31 December 2018

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 8 March 2019. The directors have the power to amend and reissue the financial report.

Directors' Report

31 December 2018

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 2018.

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:

David Fawcett – Non-executive Chairman
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.

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.

Malcolm Carson – Non-executive Director
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.

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 $718,100.

Telkwa metallurgical coal project
The Telkwa metallurgical coal 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 contribute to exceptionally low operating costs.

Definitive Feasibility Study
Commencing work at the start of the current half-year, the Definitive Feasibility Study (DFS) for the Tenas Metallurgical Coal Project (Tenas Project) is on schedule for completion in Q1 2019.

SRK Consulting (Canada) Inc. and Sedgman Canada, are the two lead consultants with SRK responsible for mine planning and design, mine infrastructure and water management, and Sedgman Canada responsible for the coal preparation plant and related infrastructure. Additional specialist consultants have been appointed for the design and costing of power, roads and bridges, and the rail loadout.

The Tenas Project target metrics are set out below.

Total coal resource	Tonnes	36,500,000
Total mined coal	Tonnes	20,000,000
Total saleable coal	Tonnes	14,800,000
Annual saleable coal production	Tonnes per annum	750,000
Life of mine average strip ratio	BCM/ROMt	3.8:1
Life of mine yield	%	74
Mine life	Years	20

Environmental baseline studies

Almost two years of environmental baseline studies critical to the EA Process and permitting have been completed. Some environmental monitoring will continue during the EA Process, particularly in relation to water. Studies covered included:

- Water quality;
- Fish, fish habitat and aquatic resources;
- Atmospherics such as water and dust;
- Terrestrial such as terrain, soils, vegetation and wildlife; and
- Cultural and archaeology.

The consolidated entity was fortunate to have received an enormous amount of environmental data from comprehensive studies undertaken by previous Tenas Project owners during the 1980s and the 1990s. The baseline data collected by the the Group has, amongst other things, been used to augment that historical data, creating in effect, more than 20 years of environmental baseline data. Not only did this reduce the cost to the Group of collecting environmental data, more importantly, it arms the Group with an excellent data base of environmental information for the EA Process and permitting.

The EA Process and Permitting

The Group lodged what is referred to in Canada as a “Project Description” in relation to the Tenas Project, with the Environmental Assessment Office of British Columbia (EAO) in October 2018. The EAO is the BC Government body responsible for managing the EA Process.

The Project Description is a legislated requirement which outlines the Tenas Project in significant detail, and provides the EAO with an indication of how ‘ready’ a proponent is for environmental assessment and permitting. Once accepted, the EAO will issue a ‘section 10’ order, formally accepting the project for review. That section 10 order was issued to the Group in November 2018.

A ‘section 11’ order is an order by the EAO setting the scope, procedures and methodologies for the EA Process, public and First Nations consultation, and the establishment of a technical working group (TWG). The TWG was established by the EAO following the section 10 order, with the first TWG meeting taking place on 27 November 2018 and the second TWG meeting on 31 January 2019.

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. The Group held its second ‘Open House’ out of five planned, in Telkwa on 28 November 2018. This followed the first Open House held on 23 May 2018 and the third is planned for early Q2 2019.

Joint Venture Agreement with Itochu
In November 2018, Itochu Corporation of Japan and the Group entered binding agreements to establish the 'Telkwa Met Coal Joint Venture" (Joint Venture), to underpin the funding and development of the Tenas Project.

The Joint Venture provides for two stages of investment. Stage 1 comprises an investment by Itochu in Telkwa Coal Ltd (TCL) of C$6.6M, by way of a subscription for shares in TCL representing 20 percent of the issued share capital of TCL, as follows:

- C$1.5M for a 5.3% interest in TCL completed in January 2019, following the issue of the section 10 order which was received by TCL in November 2018;
- C$1.5M for a further 4.8% interest in TCL, following completion of a positive Tenas Project DFS, subject to Itochu's approval at the time; and
- C$3.6M for a further 9.9% interest in TCL, following lodgement of an application for an Environmental Assessment Certificate, targeted for Q3 2019, subject to Itochu's approval at the time.

TCL is the Group's Canadian subsidiary that owns a 100 percent interest in the Telkwa metallurgical coal project. Prior to entering the Joint Venture, TCL was a wholly owned subsidiary of the Company.

Itochu's origins date back to 1858 and it is one of the largest commodity trading houses in the world. As at March 2018 it had total assets of A$111 billion, annual revenue of A$80 billion, and was ranked 204 on the Fortune 500 global list of companies.

Itochu will have the right to appoint two directors to the Board of TCL, one of whom will be the Marketing Director, and the Company will have the right to appoint three directors. TCL will take responsibility for the operation of the Tenas mine, while Itochu will take responsibility for the marketing, sale and delivery of Tenas coal. Itochu will be the sole and exclusive sales agent for all Telkwa coal.

The stage 1 investment was based on a value for TCL of C$33M (A$35M), a premium to the market capitalisation of the Company of A$25M, at the time the agreement was concluded.

The stage 2 investment by Itochu arises after completion of the Tenas Project DFS and all permits to mine the Tenas Project are granted. Itochu has the right to subscribe for additional shares in TCL up to a maximum of 50% of TCL's share capital. The valuation of TCL for the purposes of Stage 2 investment is to be agreed between the Company and Itochu, or failing agreement, by an independent valuation of the Tenas Project assuming all permits to mine have been granted, as they will have been by this stage. The Company expects the valuation of TCL for Stage 2 investment to be greater than the Stage 1 investment valuation.

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 2018.

Corporate
Cash: At 31 December, 2018 the consolidated entity held $1,458,329 in cash.

In September 2018, the Company completed a Placement to raise $2.4 million, before costs, allotting 45.97 million shares. The funds raised are to be applied towards delivery of the Tenas Project DFS and for general working capital.

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

David Fawcett
Chairman
8 March 2019

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 2018, 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
8 March 2019

Statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2018

	Note	Consolidated 31 Dec 2018 $	Consolidated 31 Dec 2017 $
Revenue			
Interest income		4,727	3,090
Other revenue		-	-
	3	4,727	3,090
Expenses			
Employee benefits expense	4	(467,561)	(431,730)
Administration and other expenses		(220,019)	(100,023)
Foreign exchange gain / (loss)		192,190	(27,713)
Investor relations		(36,579)	(52,218)
Legal fees		(13,450)	(3,480)
Listing expense		(39,899)	(28,332)
Travelling expenses		(119,283)	(61,973)
Finance costs	4	(18,226)	(21,355)
Loss before income tax expense		(718,100)	(723,734)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Allegiance Coal Limited		(718,100)	(723,734)
Other comprehensive income for the half-year, net of tax			
Foreign exchange movement		(419,949)	(64,222)
Total comprehensive income for the half-year attributable to the owners of Allegiance Coal Limited		(1,138,049)	(787,956)
		Cents	**Cents**
Basic earnings per share		(0.15)	(0.57)
Diluted earnings per share		(0.14)	(0.19)

* 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 2018

	Note	Consolidated 31 Dec 2018 $	Consolidated 30 June 2018 $
Assets			
Current assets			
Cash and cash equivalents		1,458,329	2,935,188
Trade and other receivables		161,606	213,349
Other		207,227	50,829
Total current assets		1,827,162	3,199,366
Non-current assets			
Exploration and evaluation	5	11,868,833	9,065,712
Total non-current assets		11,868,833	9,065,712
Total assets		13,595,995	12,265,078
Liabilities			
Current liabilities			
Trade and other payables		948,998	735,942
Total current liabilities		948,998	735,942
Non-Current liabilities			
Borrowings	6	637,604	619,378
Total non-current liabilities		637,604	619,378
Total liabilities		1,586,602	1,355,320
Net assets		12,109,393	10,909,758
Equity			
Issued capital	7	25,030,667	22,775,212
Reserves		(150,848)	563,641
Accumulated losses		(12,770,426)	(12,429,095)
Total equity		12,109,393	10,909,758

* 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 2018

Consolidated	Issued Capital $	General reserve $	Share based payment reserve $	Foreign currency translation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2018	22,775,212	16	633,900	(70,275)	(12,429,095)	10,909,758
Loss after income tax expense for the half-year	-	-	-	-	(718,100)	(718,100)
Other comprehensive income for the half-year, net of tax	-	-	-	(419,949)	-	(419,949)
Total comprehensive loss for the year	-	-	-	(419,949)	(718,100)	(1,138,049)
Transactions with owners in their capacity as owners:						
Contributions by owners						
Share issues, net of costs	2,255,455	-	-	-	-	2,255,455
Share based payments	-	-	82,229	-	-	82,229
Expiry of options granted under Director Option Scheme	-	-	(376,769)	-	376,769	-
Balance at 31 December 2018	25,030,667	16	339,360	(490,224)	(12,770,426)	12,109,393

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

* 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 2018

	Note	Consolidated 31 Dec 2018 $	31 Dec 2017 $
Cash flows from operating activities			
Payments to suppliers (inclusive of GST)		(935,071)	(598,315)
Other receipts		-	-
		(935,071)	(598,315)
Interest received		4,727	3,090
Interest paid		-	(7,500)
Income taxes		-	-
Net cash (used in) operating activities		(930,344)	(602,725)
Cash flows from investing activities			
Payments for exploration and evaluation		(2,801,970)	(1,183,163)
Net cash (used in) investing activities		(2,801,970)	(1,183,163)
Cash flows from financing activities			
Share issues, net of costs		2,255,455	3,316,123
Loan repayments		-	(100,000)
Cash flows from financing activities		2,255,455	3,216,123
Net (decrease) / increase in cash and cash equivalents		(1,476,859)	1,430,235
Exchange fluctuations		-	(49,176)
Cash and cash equivalents at the beginning of the financial half-year		2,935,188	1,637,343
Cash and cash equivalents at the end of the financial half-year		1,458,329	3,018,402

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

Notes to the financial statements

31 December 2018

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 2018 together with any public announcements made during the following half-year.

The half-year financial report was authorised for issue by directors on 8 March 2019.

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 2018 annual financial report for the financial year ended 30 June 2018, 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 2018 the consolidated entity reported a net loss of $718,100 (2017: $723,734) and net operating cash outflows of $930,344 (2017: $602,725). The operating cash outflows have been funded by cash inflows from equity raisings of $2,255,455 (2017: $3,316,123) during the half-year. As at 31 December 2018 the consolidated entity had net current assets of $878,164 (2017: $2,992,404) including cash reserves of $1,458,329 (2017: $3,018,402).

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 29 February 2020. In order to fully implement its exploration and evaluation strategy, the consolidated entity will require additional funds.

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

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

- Further contributions from Itochu in accordance with the agreements entered between the Group and Itochu;
- Further equity capital raisings;
- The potential farm out of participating interests in the Group's tenements and rights; and / or
- Other financing arrangements.

Notes to the financial statements

31 December 2018

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, 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 2018 $	**31 Dec 2017 $**
Interest	4,727	3,090
Other revenue	-	-
Total Revenue	4,727	3,090

Note 4. Expenses

	Consolidated	
	31 Dec 2018 $	**31 Dec 2017 $**
Loss before income tax includes the following specific expenses:		
Finance costs		
Interest and finance charges paid/payable	18,226	21,355
Rental expense relating to operating leases		
Minimum lease payments	40,655	20,936
Employee benefits expense		
Superannuation contributions	-	-
Employee benefits expense	385,332	262,667
Share based payments	82,229	169,063
Total employee benefits expense	467,561	431,730

Notes to the financial statements

31 December 2018

Note 5. Exploration and Evaluation

	Consolidated	
	31 Dec 2018 $	**30 June 2018 $**
Exploration and Evaluation – at cost and fair value	15,407,949	12,604,828
Less: impairment	(3,539,116)	(3,539,116)
	11,868,833	9,065,712

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 2018	9,065,712	9,065,712
Additions – Telkwa metallurgical coal project, at cost	2,878,123	2,878,123
Foreign exchange movement	(75,002)	(75,002)
Balance at 31 December 2018	11,868,833	11,868,833

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 2018.

Note 6. Borrowings

Non-current

	Consolidated	
	31 Dec 2018 $	**30 June 2018 $**
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	87,070	68,844
	637,604	619,378

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 $87,070 represents the unwinding of the present value discount up to 31 December 2018.

Notes to the financial statements

31 December 2018

Note 7. Equity

Issued capital

	Consolidated 31 Dec 2018 $	Consolidated 30 June 2018 $
Ordinary shares - fully paid	25,030,667	22,775,212

Consolidated	31 Dec 2018 Number	30 June 2018 Number	31 Dec 2018 $	30 June 2018 $
Balance at 1 July	465,195,159	225,995,235	22,775,212	14,650,402
Shares issued for cash in October 2017	-	119,209,924	-	3,576,298
Less costs			-	(348,242)
Shares issued for acquisition of 10% interest in Telkwa metallurgical coal project	-	40,600,000	-	1,218,000
Less costs			-	(6,474)
Shares issued for cash in April 2018	-	79,390,000	-	3,969,500
Less costs			-	(284,272)
Shares issued for cash in September 2018	45,970,287	-	2,390,455	-
Less costs			(135,000)	-
Balance at period end	511,165,446	465,195,159	25,030,667	22,775,212

In October 2017, the Company completed a placement of 119.21 million ordinary shares to sophisticated and professional investors raising $3.58 million, before costs. The capital was raised to commence the definitive feasibility study, complete environmental baseline studies, and to undertake a drilling programme at the Tenas Project.

In December 2017, TCL increased its equity interest in the Telkwa Project to 100% through the allotment by the Company to Altius of 40.6 million shares, with a deemed value of $1.2 million.

In April 2018, the Company completed a placement of 79.39 million ordinary shares to sophisticated and professional investors raising $4 million, before costs. The capital was raised to fund the studies and assessments required to support the Tenas Project mine permit application process.

In September 2018, the Company completed a placement of 45.97 million ordinary shares to sophisticated and professional investors raising $2.4 million, before costs. The capital was raised to fund the definitive feasibility study of the Tenas Project and for general working capital.

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

Notes to the financial statements

31 December 2018

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 2018	**31 Dec 2017**
	$	**$**
Payment for other expenses:		
Consulting fees paid to a company in which Mr Fawcett has an interest	37,500	21,260
Consulting fees paid to a company in which Mr Gray has an interest	219,703	135,000
Reimbursement of expenses paid to a company in which Mr Gray has an interest	81,955	65,321
Consulting fees paid to a company in which Mr Carson has an interest	18,000	18,000
Consulting fees paid to a company in which Mr Reynolds has an interest	90,000	76,667
Reimbursement of expenses paid to a company in which Mr Reynolds has an interest	8,289	3,251

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 2018	**30 June 2018**
	$	**$**
Current payables:		
Reimbursement of expenses payable to a company in which Mr Gray has an interest	8,841	1,929
Reimbursement of expenses payable to a company in which Mr Reynolds has an interest	1,072	-

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

Note 9. Events after the reporting period

In November 2018, Itochu Corporation of Japan and the Group entered binding agreements to establish the 'Telkwa Met Coal Joint Venture" (Joint Venture), to underpin the funding and development of the Tenas Project. The Joint Venture provides for two stages of investment. Stage 1 comprises an investment by Itochu in Telkwa Coal Ltd (TCL) of C$6.6M, by way of a subscription for shares in TCL representing 20 percent of the issued share capital of TCL, as follows:

- C$1.5M for a 5.3% interest in TCL following the issue of the section 10 order;
- C$1.5M for a further 4.8% interest in TCL, following completion of a positive Tenas Project DFS, subject to Itochu's approval at the time; and
- C$3.6M for a further 9.9% interest in TCL, following lodgement of an application for an Environmental Assessment Certificate, targeted for Q3 2019, subject to Itochu's approval at the time.

TCL is the Group's Canadian subsidiary that owns a 100 percent interest in the Telkwa metallurgical coal project. Prior to entering the Joint Venture, TCL was a wholly owned subsidiary of the Company.

The first tranche C$1.5M (A$1.575M) for a 5.3% interest in TCL completed in January 2019.

Apart from the above, no matter or circumstance has arisen since 31 December 2018 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.

Notes to the financial statements

31 December 2018

Note 10. Share-based payments

Participants Securities Incentive Plan Options
Details of the Participants Securities Incentive Plan (PSIP) are disclosed in the annual financial report. The objective of the PSIP is to assist in the reward, retention and motivation of key directors, employees and consultants (Participants); link the reward of Participants to shareholder value creation; and align the interests of Participants with shareholders, by providing an opportunity to Participants to receive an equity interest in the Company. Each PSIP option entitles the holder to subscribe for one ordinary share upon exercise. During the half-year, the Company granted options over 2 million PSIP options. The options expire on 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 the filing of the Telkwa project mining permit applications; 500,000 on the receipt of the Telkwa project mining permit; 500,000 on 6 December 2020; and 500,000 on 6 December 2021.

Lead Manager Options
Details of the Lead Manager Options are disclosed in the annual financial report.

Director Option Scheme
Details of the Director Option Scheme (DOS) are disclosed in the annual financial report. These options expired, unexercised, during the current period.

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
6/12/18	6/12/22	$0.075	-	2,000,000	-	-	-	2,000,000
Lead Manager Options								
6/12/17	6/12/20	$0.05	5,000,000	-	-	-	-	5,000,000
DOS Options								
27/11/13	27/11/18	$0.2475	820,000	-	-	-	820,000	-
			14,070,000	2,000,000	-	-	820,000	15,250,000

Directors' declaration

31 December 2018

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 2018 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

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David Fawcett
Chairman
8 March 2019
Sydney

Auditor review report

31 December 2018

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 2018, 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 2018 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 2018

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 2018 and of its performance for the half-year ended on that date; and

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

Emphasis of Matter

Without amendment to our conclusion we emphasise the following matter:

Going Concern

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

SCS Audit & Corporate Services Pty Ltd

Brian Taylor
Director

Sydney, 8 March 2019