ALLEGIANCE COAL
LIMITED

ABN 47 149 490 353

Interim Report - 31 December 2019

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 6 March 2020. The directors have the power to amend and reissue the financial report.

Directors' Report

31 December 2019

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 2019.

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

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

Malcolm Carson – Non-executive Director
Mr. Carson is currently the Executive Chairman of 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.

Larry Cook – Non-executive Director
Mr. Cook has over 40 years of technical knowledge of underground coal mining and methods. For the first 20 years of his career he worked in various underground roles in coal mines primarily in West Virginia. He is highly regarded in both the US and Australia as an extremely capable underground coal mining engineer. Previous positions include Vice President of Operations at Mid-Vol Mining, Madison WV; General Superintendent at Mistic Energy Inc, Beckley WV; Mine Manager of five underground coal mines owned by Eastern Associated Coal Corporation in Wharton WV; founding shareholder and director of Bounty Industries Ltd providing contract mining at Ivanhoe Colliery, NSW, for Centennial Coal and at German Creek Colliery, Central QLD, for Anglo Coal. Most recently, Mr. Cook recommissioned the Donkin underground coal mine located in Nova Scotia, Canada.

Jonathan Reynolds – Finance Director
Mr. Reynolds is a chartered accountant with more than 25 years' experience across many sectors spent mostly in financial management roles. Most recently, he was finance director of a resource investment house, managing investments across a range of commodities, including coal. Prior to that he held the position of chief financial officer with a number of listed entities and before that was a senior manager with an international firm of chartered accountants. He is a member of Chartered Accountants Australia and New Zealand and a fellow of Financial Services Institute of Australia.

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

Review of operations
The loss for the consolidated entity after providing for income tax amounted to $6,058,767.

Telkwa metallurgical coal project
The Company remains focussed on advancing the proposed Telkwa metallurgical coal project (Telkwa Project) to production. The Telkwa Project is located on the western side of British Columbia (BC), Canada, 375km by both rail and road to the deep water port of Prince Rupert and the Ridley Island Coal Terminal.

The key attractions of the Telkwa Project are its:
- relatively low mining strip ratio;
- relatively simple mining and coal washing process;

- access to rail, port, power, water, workforce and services; and
- existing large database of information obtained from exploration and evaluation by present and previous owners.

The Telkwa Project comprises three open pit areas all within close proximity of each other: Tenas, Goathorn, and Telkwa North. The JORC Code 2012 coal resource statement across all three coal deposits is as follows:

Coal Resource (Mt)	Measured	Indicated	Inferred	Total
Tenas	27.1	9.4	-	36.5
Goathorn	59.5	9.2	0.2	68.9
Telkwa North	15.7	3.7	1.0	20.4
Total	102.3	22.3	1.2	125.8

The Company's initial focus is on developing the Tenas deposit (Tenas Project).

The results of the Tenas Project definitive feasibility study were announced on 18 March 2019 (DFS), and the Upside DFS on 2 July 2019. The Upside DFS was driven by a desire for better utilisation of equipment and labour over the project mine-life.

The results of the Upside DFS are summarised below.

	Upside
Tenas saleable coal reserves	16.55Mt
Saleable coal per annum production years 1 to 4	750kt
Saleable coal per annum production years 5 to 6	1.05Mt
Saleable coal per annum production years 7 to 15	1.35Mt
Mine-life (production years)	14.4 years
Potential to extend mine-life from additional resources	22 years
All-in FOB cash cost (ex-port) before interest & tax	US$45.0/t
Revenue mine-life annual average	US$131M
EBITDA mine-life annual average	US$74M
EBITDA ratio to revenue mine-life annual average	57%
Start-up capital expenditure	US$55.8M
NPV8% pre-tax	US$381M
IRR pre-tax	60.8%
Capital payback after commencement of production	2.5 years

Significantly, the DFS studies concluded that the Tenas Project is likely to be one of, if not, the lowest cost producers of metallurgical coal on the global seaborne market.

Post DFS optimisation work has been ongoing focussing on reducing sustaining capital as well as mitigating potential environmental impacts with engineering solutions to enhance the EA Application.

Environmental Impact Assessment
During the half-year the Company has continued its studies assessing potential environmental impacts.

The EA Process and Permitting
The Company has continued to make solid progress advancing the Tenas Project towards permitting and production. During the half-year, the Company completed the Value Components with the Environmental Assessment Office (EAO). The Company has continued to work with the EAO on finalising the draft Application Information Requirements (AIR Document). It is hoped the AIR Document will be finalised in the June 2020 quarter for public comment leading to the lodgement of an Application for an Environmental Assessment Certificate and permits to mine in the September 2020 quarter.

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 third 'Open House' in Telkwa in November 2019.

Joint Venture Agreement with Itochu

Itochu Corporation of Japan's origins date back to 1858 and it is one of the largest commodity trading houses in the world. In November 2018, Itochu 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. In July 2019, following completion of the Tenas Project DFS, the consolidated entity received the Stage 1 tranche 2 subscription of C$1.5M from Itochu, taking Itochu's equity interest in TCL to 10.1%. Following lodgement of an Application for an Environmental Assessment Certificate, subject to Itochu's approval at the time, the consolidated entity expects to receive the Stage 1 tranche 3 subscription from Itochu of C$3.6M for a further 9.9% equity interest in TCL.

The stage 2 investment by Itochu arises after 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.

New Elk metallurgical coal project

In July 2019, the Company announced that it had entered into a binding and conditional terms sheet (Terms Sheet) with Cline Mining Corporation (Cline) to acquire all the shares in the New Elk Coal Company, LLC, (NECC), which company owns the New Elk hard coking coal project (Project) located in southeast Colorado, United States (Mine). In January 2020, the Terms Sheet was formalised into a binding acquisition agreement, conditional only on the Company raising the mine start-up capital which must occur prior to 15 July 2020.

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

NECC is debt free, except for debt owing to Cline totalling C$55M (Debt).

The key terms of the acquisition are:

- The purchase price for the shares in NECC is US$1.
- The Debt will be repaid by NECC to Cline as follows:
  - US$3M in cash on Completion;
  - US$3M in shares in the Company to be issued on Completion;
  - US$5M to replace the Colorado State Mine reclamation bond on Completion;
  - The balance to be repaid from 60 percent of Mine operating cash flow.

A National Instrument 43-101 Technical Report was undertaken for NECC in July 2012, which declared a mineral resource estimate of 656 million tonnes. Investors should note that the mineral resource estimates for NECC are foreign estimates under ASX Listing Rule 5.12 and are not reported in accordance with 2012 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC Code). Except as set out below in relation to the Allen, Blue and Green seams a competent person has not done sufficient work to classify the foreign estimates as a mineral resource under the JORC Code and it is uncertain that following further exploration or evaluation work that this foreign estimate will be able to be reported as a mineral resource in accordance with the JORC Code.

In the half-year, the Company completed a feasibility study (Study) on the Project, the results of which exceeded the Company's expectations based on its initial internal review of the Project. The Study positions the Project, uniquely for a US coal producer and exporter, in the lowest cost quartile of the seaborne metallurgical coal cost curve sitting amongst the lowest cost producers of hard coking coal in the US.

Pursuant to the Study, Stantec Consulting Services, Inc prepared a statement of resources and reserves in accordance with the JORC Code and NI 43-101 in relation to the Green, Blue and Allen seams only, as is set out in tables below.

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

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

In January 2020 the Company updated the Study simplifying the mine plan in the early years of production to reduce start-up and sustaining capital (Updated Study).

The results of the Study and Updated Study are summarised below.

	Updated Study	**Study**
New Elk saleable coal reserves	23Mt	45Mt
Saleable coal per annum production years 1 to 4	1.4Mt	2.0Mt
Mine-life (production years)	15 years	23 years
Yield mine-life average (all metallurgical coal product)	76%	72%
FOB cash cost (ex-port) before royalties interest & tax	US$78/t	US$74/t
Revenue mine-life annual average	A$290M	A$370M
EBITDA mine-life annual average	A$107M	A$153M
EBITDA ratio to revenue mine-life annual average	57%	57%
Start-up capital including working capital in 2020	US$40M	US$56M
Sustaining capital in 2021 and 2020	US$35M	US$67M
NPV8% pre-tax	A$560M	A$1.24B
IRR pre-tax	121%	130%

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 2019.

Corporate
Cash: At 31 December, 2019 the consolidated entity held $1,430,706 in cash.

In August 2019, following shareholder approval, the Company placed 0.8 million ordinary shares with directors raising $0.06 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 2019, the Company completed a placement of 22.02 million ordinary shares to sophisticated and professional investors raising $3.08 million, before costs. The capital was raised to fund the definitive feasibility study and mine plan in connection with the New Elk Project and the studies and assessments required to support the Tenas Project mine permit application process.

In October 2019, the Company completed a share purchase plan issuing 2.5 million ordinary shares and raising $0.62 million, before costs. The capital was raised to fund the definitive feasibility study and mine plan in connection with the New Elk Project and the studies and assessments required to support the Tenas Project mine permit application process.

In December 2019, following shareholder approval the Company allotted 2.5 million performance shares to the New Elk Project Originators.

Board
In July 2019, Larry Cook was appointed as a Non-Executive Director of the Company with specific responsibility to direct the feasibility study and the recommissioning and operation of the New Elk metallurgical coal project. Mr Cook is a coal mining engineer with almost 50 years' experience mining coal in the US and Australia, and in particular, US underground coal.

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

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

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

On behalf of the directors

____
Mark Gray
Chairman and Managing Director
6 March 2020

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

As lead auditor of Allegiance Coal Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

- No contravention of any applicable code of professional conduct in relation to the review.

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

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

Sydney
6 March 2020

Statement of comprehensive income

For the half-year ended 31 December 2019

	Note	Consolidated 31 Dec 2019 $	 31 Dec 2018 $
Revenue			
Interest income		1,958	4,727
Other revenue		-	-
	3	1,958	4,727
Expenses			
Employee benefits expense	4	(2,264,923)	(467,561)
Administration and other expenses		(156,245)	(220,019)
Foreign exchange (loss) / gain		(122,044)	192,190
Investor relations		(32,547)	(36,579)
New Elk project evaluation		(2,516,649)	-
Legal fees		(40,522)	(13,450)
Listing expense		(50,217)	(39,899)
Travelling expenses		(124,390)	(119,283)
Finance costs	4	(753,188)	(18,226)
Loss before income tax expense		(6,058,767)	(718,100)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to			
Equity holders of the Company		(6,040,629)	(718,100)
Minority interests		(18,138)	-
Loss for the half-year		(6,058,767)	(718,100)
Other comprehensive income / (loss) for the half-year, net of tax			
Foreign exchange movement		6,033	(419,949)
Gain on dilution of interest in subsidiary		986,567	-
Total comprehensive loss for the half-year attributable to the owners of Allegiance Coal Limited		(5,066,167)	(1,138,049)
		Cents	**Cents**
Basic loss per share		(1.08)	(0.15)
Diluted loss per share		(1.05)	(0.14)

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

Statement of financial position

As at 31 December 2019

	Note	Consolidated 31 Dec 2019 $	30 June 2019 $
Assets			
Current assets			
Cash and cash equivalents		1,430,706	2,595,626
Trade and other receivables		153,042	101,475
Other		45,307	47,438
Total current assets		1,629,055	2,744,539
Non-current assets			
Exploration and evaluation	5	18,609,791	16,508,615
Total non-current assets		18,609,791	16,508,615
Total assets		20,238,846	19,253,154
Liabilities			
Current liabilities			
Trade and other payables		890,611	1,913,538
Borrowings	6	965,491	962,761
Total current liabilities		1,856,102	2,876,299
Non-Current liabilities			
Borrowings	6	1,352,704	655,533
Total non-current liabilities		1,352,704	655,533
Total liabilities		3,208,806	3,531,832
Net assets		17,030,040	15,721,322
Equity			
Issued capital	7	31,239,055	27,423,519
Reserves		2,162,827	243,878
Accumulated losses		(17,602,447)	(12,548,385)
Total equity attributable to equity holders of the Company		15,799,435	15,119,012
Minority interest		1,230,605	602,310
Total equity		17,030,040	15,721,322

* 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 2019

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

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

Statement of changes in equity

For the half-year ended 31 December 2019 (continued)

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 loss for the half-year, net of tax	-	-	-	(419,949)	-	(419,949)
Total comprehensive loss for the half-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

* 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 2019

	Note	Consolidated 31 Dec 2019 $	Consolidated 31 Dec 2018 $
Cash flows from operating activities			
Payments to suppliers (inclusive of GST)		(2,819,303)	(935,071)
Other receipts		-	-
		(2,819,303)	(935,071)
Interest received		1,958	4,727
Interest paid		(69,721)	-
Income taxes		-	-
Net cash (used in) operating activities		(2,887,066)	(930,344)
Cash flows from investing activities			
Payments for exploration and evaluation		(3,351,390)	(2,801,970)
Net cash (used in) investing activities		(3,351,390)	(2,801,970)
Cash flows from financing activities			
Share issues, net of costs		3,490,536	2,255,455
Contributions from Joint Venture partner		1,633,000	-
Repayments of borrowings		(50,000)	-
Cash flows from financing activities		5,073,536	2,255,455
Net decrease in cash and cash equivalents		(1,164,920)	(1,476,859)
Cash and cash equivalents at the beginning of the financial half-year		2,595,626	2,935,188
Cash and cash equivalents at the end of the financial half-year		1,430,706	1,458,329

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

Notes to the financial statements

31 December 2019

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 2019 together with any public announcements made during the following half-year.

The half-year financial report was authorised for issue by directors on 6 March 2020.

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 2019 annual financial report for the financial year ended 30 June 2019. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

For the half-year ended 31 December 2019 the consolidated entity reported a net loss of $6,058,767 (2018: $718,100) and net operating cash outflows of $2,887,066 (2018: $930,344). The operating cash outflows have been funded by cash inflows from equity raisings of $3,490,536 (2018: $2,255,455) and project participation contributions from Itochu Corporation of Japan of $1,633,000 (2018: $nil) during the half-year. As at 31 December 2019 the consolidated entity had net current liabilities of $227,076 (2018 assets: $878,164) including cash reserves of $1,430,706 (2018: $1,458,329).

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 2021. In order to fully implement its exploration and evaluation strategy, the consolidated entity will require additional funds.

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

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

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

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

Notes to the financial statements

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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 2019 **$**	**31 Dec 2018** **$**
Interest	1,958	4,727
Other revenue	-	-
Total Revenue	1,958	4,727

Note 4. Expenses

	Consolidated	
	31 Dec 2019 **$**	**31 Dec 2018** **$**
Loss before income tax includes the following specific expenses:		
Finance costs		
Interest and finance charges paid/payable	753,188	18,226
Rental expense relating to operating leases		
Minimum lease payments	40,425	40,655
Employee benefits expense		
Superannuation contributions	-	-
Employee benefits expense	352,007	385,332
Share based payments	1,912,916	82,229
Total employee benefits expense	2,264,923	467,561

Notes to the financial statements

31 December 2019

Note 5. Exploration and Evaluation

	Consolidated	
	31 Dec 2019	**30 June 2019**
	$	**$**
Exploration and Evaluation – at cost and fair value	22,148,907	20,047,731
Less: impairment	(3,539,116)	(3,539,116)
	18,609,791	16,508,615

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 2019	16,508,615	16,508,615
Additions – Telkwa metallurgical coal project, at cost	2,036,781	2,036,781
Foreign exchange movement	64,395	64,395
Balance at 31 December 2019	18,609,791	18,609,791

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 2019.

Note 6. Borrowings

Current

	Consolidated	
	31 Dec 2019	**30 June 2019**
	$	**$**
Promissory Notes	893,134	943,134
Interest accrued	72,357	19,627
	965,491	962,761

In April 2019, the Company issued unsecured promissory notes with a face value totalling $992,503 repayable on 31 March 2020, bearing an implied interest rate of 12% pa.

Non-current

	Consolidated	
	31 Dec 2019	**30 June 2019**
	$	**$**
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	108,466	104,999
Interest accrued	693,704	-
	1,352,704	655,533

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

Notes to the financial statements

31 December 2019

and shareholders' approval) or by repayment in cash, subject to Gullewa's agreement. The loan was interest free until 4 August 2019, after which interest accrues 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.

Subsequent to the half-year end, the Company and Gullewa agreed that the Company would repay the loan in full and issue to Gullewa 6,800,000 ordinary shares, fully paid. The cost of the shares to be issued has been taken into account in the balance shown as owing to Gullewa as at 31 December 2019.

Note 7. Equity

Issued capital

	Consolidated	
	31 Dec 2019 $	**30 June 2019 $**
Ordinary shares - fully paid	31,239,055	27,423,519

Consolidated	**31 Dec 2019 Number**	**30 June 2019 Number**	**31 Dec 2019 $**	**30 June 2019 $**
Balance at 1 July	545,681,260	465,195,159	27,423,519	22,775,212
Shares issued for cash in September 2018		45,970,287		2,390,455
Less costs				(135,000)
Shares issued for cash in June 2019		34,515,814		2,588,686,
Less costs				(195,834)
Shares issued for cash in August 2019	801,666		60,125	
Less costs			(1,922)	
Shares issued for cash in September 2019	22,017,871		3,082,502	
Less costs			(248,651)	
Shares issued for cash in October 2019	4,425,688		619,600	
Less costs			(17,961)	
Performance shares vested in December 2019	2,500,000		325,000	
Less costs			(3,157)	
Balance at period end	575,426,485	545,681,260	31,239,055	27,423,519

In August 2019, following shareholder approval, the Company placed 0.8 million ordinary shares with directors raising $0.06 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 2019, the Company completed a placement of 22.02 million ordinary shares to sophisticated and professional investors raising $3.08 million, before costs. The capital was raised to fund the definitive feasibility study and mine plan in connection with the New Elk Project and the studies and assessments required to support the Tenas Project mine permit application process.

In October 2019, the Company completed a share purchase plan issuing 2.5 million ordinary shares and raising $0.62 million, before costs. The capital was raised to fund the definitive feasibility study and mine plan in connection with the New Elk Project and the studies and assessments required to support the Tenas Project mine permit application process.

In December 2019, following shareholder approval the Company allotted 2.5 million performance shares to the New Elk Project Originators. The fair value of the shares issued was $0.33 million.

At the 2019 annual general meeting, shareholders approved the issue of US$3 million worth of Debt Shares (subject to a maximum of 55,833,607 Shares) to be issued to Cline Mining Corporation on completion of the acquisition of the New Elk Project. No Debt Shares have been issued to date. Debt Shares are to be allotted at a deemed issue price equal to the higher of A$0.08 per Share or the 20-Day VWAP and a minimum exchange rate of 0.67 USD/AUD.

Notes to the financial statements

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

Note 8. Related party transactions

Parent entity
Allegiance Coal Limited is the parent entity.

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

	Consolidated	
	31 Dec 2019 $	**31 Dec 2018 $**
Payment for other expenses:		
Consulting fees paid to a company in which Mr Gray has an interest	204,169	219,703
Reimbursement of expenses paid to a company in which Mr Gray has an interest	112,519	81,955
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 Cook has an interest	59,319	-
Reimbursement of expenses paid to a company in which Mr Cook has an interest	8,902	-
Consulting fees paid to a company in which Mr Reynolds has an interest	105,000	90,000
Reimbursement of expenses paid to a company in which Mr Reynolds has an interest	11,663	8,289
Consulting fees paid to a company in which Mr Fawcett has an interest	-	37,500

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 2019 $	**30 June 2018 $**
Current payables:		
Consulting fees payable to a company in which Mr Gray has an interest	16,667	-
Reimbursement of expenses payable to a company in which Mr Reynolds has an interest	656	-

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

Note 9. Events after the reporting period

The Company procured a US$2.5 million loan from the Nebari Natural Resources Credit Fund 1 LP (Nebari). The loan, which is secured over the assets of the Company (excluding the shares in Telkwa Coal Limited), does not bear interest but is repayable by paying the amount of US$3.75 million to Nebari upon the earlier of the C$3.6 million tranche 3 payment to Telkwa Coal Limited from Itochu Corporation, or 31 December 2020.

In connection with the Nebari loan, the Company and Gullewa agreed the Company would repay the amount due to Gullewa in full and would issue to Gullewa 6,800,000 ordinary shares, fully paid. The cost of the shares to be issued, being $680,000, has been taken into account in the balance shown as owing to Gullewa as at 31 December 2019.

Apart from the above, no matter or circumstance has arisen since 31 December 2019 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 2019

Note 10. Commitments

In connection with the New Elk Mine acquisition, the Company is committed, until the acquisition closes, to pay Cline Mining Corporation US$150,000 per month toward mine care and maintenance costs.

Note 11. Share-based payments

Participants Securities Incentive Plan Options
Details of the Participants Securities Incentive Plan (PSIP) are disclosed in the annual financial report. The objective of the PSIP is to assist in the reward, retention and motivation of key directors, employees and consultants (Participants); link the reward of Participants to shareholder value creation; and align the interests of Participants with shareholders, by providing an opportunity to Participants to receive an equity interest in the Company. Each PSIP option entitles the holder to subscribe for one ordinary share upon exercise. During the half-year, the Company granted options over 6.45 million PSIP options. The options expire on 3 December 2024 and, subject to any capital restructure, have an exercise price of $0.28 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 : 950,000 on the commissioning of the New Elk Mine and commencement of production; 950,000 on the sale of the first 500,000 metric tonnes of coal from the New Elk Project; 950,000 on the sale of the second 500,000 metric tonnes of coal from the New Elk Project; 1,200,000 on 3 December 2020; 1,200,000 on 3 December 2021; and 1,200,000 on 3 December 2022.

Lead Manager Options
Details of the Lead Manager Options 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	Exercised	Expired/ forfeited / Other	Balance at the end of the half-year
PSIP Options							
6/12/17	6/12/22	$0.075	7,250,000	-	-	-	7,250,000
6/12/18	6/12/22	$0.075	2,000,000	-	-	-	2,000,000
3/12/19	3/12/24	$0.28	-	6,450,000	-	-	6,450,000
Lead Manager Options							
6/12/17	6/12/20	$0.05	5,000,000	-	-	-	5,000,000
			14,250,000	6,450,000	-	-	20,700,000

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

In total, 15 million Performance Rights have been issued in five separate classes, A through E. The Performance Rights will automatically vest and convert into Shares on a one for one basis upon satisfaction of milestones. A Performance Right will lapse upon the earlier to occur of: (a) the cessation of the holder's employment or other engagement with the Company; and (b) the Vesting Condition not being satisfied on or before the Expiry Date.

Notes to the financial statements

31 December 2019

Details of Performance Rights issued are summarised below:

- 2,500,000 Class A Performance Rights which vested in December 2019, following shareholder approval;
- 3,750,000 Class B Performance Rights which will vest upon Completion of the Mine acquisition, expiring 2 June 2021;
- 1,250,000 Class C Performance Rights which will vest on completion of the commissioning of the Mine and commencement of production, expiring 2 February 2022;
- 3,750,000 Class D Performance Rights which will vest on the sale of the first 500,000 metric tonnes of coal from the Mine, expiring 2 December 2022; and
- 3,750,000 Class E Performance Rights which will vest on the sale of the second 500,000 metric tonnes of coal from the New Elk Coal Project, expiring 2 December 2023.

Class	Expiry date	Exercise Price	Balance at the start of the half-year	Granted	Vested	Expired/ forfeited / Other	Balance at the end of the half-year
A	n/a	$nil	-	2,500,000	2,500,000	-	-
B	2/6/21	$nil	-	3,750,000	-	-	3,750,000
C	2/2/22	$nil	-	1,250,000	-	-	1,250,000
D	2/12/22	$nil	-	3,750,000	-	-	3,750,000
E	2/12/23	$nil	-	3,750,000	-	-	3,750,000
			-	15,000,000	2,500,000	-	12,500,000

Directors' declaration

31 December 2019

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 2019 and of its performance for the half-year ended on that date; and

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

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

On behalf of the directors

____

Mark Gray
Chairman and Managing Director
6 March 2020
Sydney

Auditor review report

31 December 2019

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 2019, 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 2019 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 2019

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 2019 and of its performance for the half-year ended on that date; and

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

Emphasis of Matter

Without amendment to our conclusion we emphasise the following matter:

Going Concern

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

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

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

Sydney
6 March 2020