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# **Allegiance Coal Limited**

**ABN 47 149 490 353**

**Interim Report - 31 December 2015**

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### 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:

Level 2  
49-51 York 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 14 March 2016. The directors have the power to amend and reissue the financial report.

## Directors' Report

31 December 2015

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 2015.

### 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:

Anthony Howland-Rose - Chairman  
Colin Randall - ceased on 7 August 2015  
David Deitz  
Peter Donkin

### Principal activities

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

### Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$204,410.

### Kilmain Project

#### History

The Kilmain Project (EPC 1298 and EPC 1917) is a 56km<sup>2</sup> area within the Bowen Basin. The project area is located 85 km southeast of Emerald and 12km west of the Rolleston rail line. The project area on its eastern boundary adjoins the BMA Togara South Project while on the western boundary adjoins the Bandanna Energy's Arcturus Project and to the north the Bandanna Energy Springsure Creek Project.

The Kilmain project has potential for an underground deposit of coking/PCI/ thermal coal within the Rangal Coal Measures.

The JEA signed with JOGMEC provides Allegiance Coal with funding for all of the planned exploration expenditure over three years including seismic exploration, drilling and associated coal quality analysis within the Kilmain Project area. Funding provided under the JEA will also allow Allegiance to build a comprehensive geological and mining model of the area utilising the new data along with previous company drilling and historical data within and adjacent to the tenements.

#### Current

In August 2015, further drilling commenced of 2 cored holes each preceded by a pilot chip hole. A total of 980 metres were drilled in the cored holes and 1,250 metres in the pilot holes. Geophysical logging then occurred. Rock samples of roof and floors of coal seams has been taken and dispatched for testing in order to evaluate the potential for use of non conventional mining methods. The report on this last stage of work is being prepared.

#### Back Creek

The Back Creek project in the Surat Basin is well suited to gain benefit from development of Surat Basin infrastructure. However under the current market condition the potential rate of development of the required infrastructure is unknown and thus the future for the project is under review.

**Corporate**

Cash: At 31 December, 2015 the company held \$1,490,317 in cash.

**Loans**

Mineral & Coal Investments Pty Ltd (MCI) is a fully owned subsidiary of Allegiance Coal Limited. MCI had loans to the value of \$2,146,500 owing to Gullewa and C. Randall & Associates Pty Ltd, which were due for repayment on 30 June, 2015 if certain conditions were met. Those conditions were not met

Holder	Project Name	Location	Tenement No.	No. of Sub-Blocks	Status
Mineral & Coal Investments Pty Ltd	Back Creek	Surat Basin	EPC 1297	20	Granted
Mineral & Coal Investments Pty Ltd	Kilmain	Bowen	EPC 1298	16	Granted
Mineral & Coal Investments Pty Ltd	Kilmain	Bowen	EPC 1917	2	Granted

**Significant changes in the state of affairs**

Mr Colin Randall ceased his role as Managing Director of the Company and has left the Company's board.

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.

**Going Concern**

The financial statements have been prepared on a going concern basis as the company's major shareholder, Gullewa Limited, continues to provide support to enable the group to meet its obligations as and when they fall due. Should this support not continue and should other avenues of support not become available then that would cast doubt on the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the ordinary course of business.

**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 Deitz

Director

14 March 2016



# SCS AUDIT & CORPORATE SERVICES PTY LTD

ABN 99 165 260 444

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

As lead auditor for the review of Allegiance Coal Limited for the half-year ended 31 December 2015, 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 contraventions 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, 14 March 2016

## Statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2015

	Note	Consolidated	
		31 Dec 2015 \$	31 Dec 2014 \$
<b>Revenue</b>		21,062	59,783
Interest income		32,006	31,626
	3	53,068	91,409
<b>Expenses</b>			
Employee benefits expense	4	(65,939)	(417,421)
Depreciation and amortisation expense	4	(5,626)	(16,013)
Impairment of assets	4	-	(252,071)
Administration expenses		(101,678)	(41,160)
Listing expense		(20,359)	(19,883)
Loss on disposal of assets		-	-
Finance costs	4	(63,876)	(72,820)
<b>Loss before income tax benefit</b>		(204,410)	(727,959)
Income tax benefit – R&D refund		-	125,795
<b>Loss after income tax benefit for the half-year attributable to the owners of Allegiance Coal Limited</b>		(204,410)	(602,164)
Other comprehensive income for the half-year, net of tax			-
<b>Total comprehensive income for the half-year attributable to the owners of Allegiance Coal Limited</b>		(204,410)	(602,164)
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share		(0.12)	(0.34)
Diluted earnings per share		(0.12)	(0.34)

\* 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 2015

	Note	Consolidated	
		31 Dec 2015 \$	30 June 2015 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,490,317	1,602,759
Trade and other receivables		279,847	134,786
Other		4,390	47,137
<b>Total current assets</b>		<b>1,774,554</b>	<b>1,784,682</b>
<b>Non-current assets</b>			
Property, plant and equipment		-	5,626
Exploration and evaluation	5	3,247,339	3,279,425
<b>Total non-current assets</b>		<b>3,247,339</b>	<b>3,285,051</b>
<b>Total assets</b>		<b>5,021,893</b>	<b>5,069,733</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		197,229	169,935
Borrowings	6	2,145,891	2,020,022
Employee benefits		4,027	620
JOGMEC Investment		-	-
<b>Total current liabilities</b>		<b>2,347,147</b>	<b>2,190,577</b>
<b>Total liabilities</b>		<b>2,347,147</b>	<b>2,190,577</b>
<b>Net assets</b>		<b>2,674,746</b>	<b>2,879,156</b>
<b>Equity</b>			
Issued capital	7	9,137,801	9,137,801
Reserves		376,786	376,786
Accumulated losses		(6,839,841)	(6,635,431)
<b>Total equity</b>		<b>2,674,746</b>	<b>2,879,156</b>

\* 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 2015

<b>Consolidated</b>	<b>Issued Capital</b> <b>\$</b>	<b>Reserves</b> <b>\$</b>	<b>Accumulated losses</b> <b>\$</b>	<b>Total equity</b> <b>\$</b>
Balance at 1 July 2014	9,137,801	376,786	(6,040,867)	3,473,720
Loss after income tax benefit for the half-year			(602,164)	(602,164)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(602,164)	(602,164)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	61,500	-	61,500
Balance at 31 December 2014	9,137,801	438,286	(6,643,031)	2,933,056

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

\* 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 2015

	Note	Consolidated	
		31 Dec 2015	31 Dec 2014
		\$	\$
<b>Cash flows from operating activities</b>			
Payments to suppliers (inclusive of GST)		(279,786)	(1,597,106)
Other receipts		19,483	59,783
		(260,303)	(1,537,323)
Interest received		32,006	31,626
Income taxes refunded		73,094	125,795
<b>Net cash from/(used in) operating activities</b>		<b>(155,203)</b>	<b>(1,379,902)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment			(1,404)
Payments for exploration and evaluation		(382,882)	(427,781)
Payments for security deposits			(2,329)
Proceeds from sale of property, plant and equipment			-
<b>Net cash (used in) investing activities</b>		<b>(382,882)</b>	<b>(431,514)</b>
<b>Cash flows from financing activities</b>			
Loan repayment		61,993	(1,199,090)
Contribution from Joint Venture - JOGMEC		363,651	1,164,901
<b>Cash flows (used in) financing activities</b>		<b>425,644</b>	<b>(34,189)</b>
Net increase/(decrease) in cash and cash equivalents		(112,441)	(1,845,605)
Cash and cash equivalents at the beginning of the financial half-year		1,602,758	3,184,900
Cash and cash equivalents at the end of the financial half-year		1,490,317	1,339,295

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

## Notes to the financial statements

31 December 2015

### 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 shall be read in conjunction with annual financial statements of the Company for the year ended 30 June 2015 together with any public announcements made during the following half-year.

The half-year financial report was authorised for issue by directors on 14 March 2016.

#### **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 2015 annual financial report for the financial year ended 30 June 2015, 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.

#### **Going concern**

For the half-year ended 31 December 2015, the consolidated entity incurred a loss from continuing operations after tax of \$204,410 (31 December 2014: \$602,164). In the same period the consolidated entity had operating cash outflow of \$155,203 (31 December 2014: cash outflow of \$1,379,902) and outflows due to investing activities of \$382,882 (31 December 2014: \$431,514).

The financial statements have been prepared on a going concern basis as the company's major shareholder, Gullewa Limited, continues to provide support to enable the group to meet its obligations as and when they fall due. The Directors have concluded that it is appropriate to prepare the accounts on a going concern basis. Should this support not continue and should other avenues of support not become available then that would cast doubt on the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the ordinary course of business.

At this time, the directors are of the opinion that no asset is likely to be realized for an amount less than the amount at which it is recorded in the financial statements relating to the recoverability and classification of recorded asset amounts or to the amount and classification of liabilities that might be necessary should the company not continue as a going concern.

A cash flow forecast for the next 12 months prepared by management has indicated that the consolidated entity will only have sufficient cash assets to be able to meet its debts as and when they fall due if Gullewa Limited continues to support the company.

The consolidated entity has commitments for exploration and evaluation for the next three years. Due to current market conditions the company will not commit to all of the minimum expenditure for the next three years and this has resulted in the impairment expense in the current financial period.

## Notes to the financial statements

31 December 2015

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

### Note 2. Operating segments

#### *Identification of reportable operating segments*

The consolidated entity is organised into one operating segment being the acquisition and exploration of coal tenements in Australia. 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 2015	31 Dec 2014
	\$	\$
Interest	32,006	31,626
Other revenue	21,062	59,783
<b>Total Revenue</b>	<b>53,068</b>	<b>91,409</b>

### Note 4. Expenses

	Consolidated	
	31 Dec 2015	31 Dec 2014
	\$	\$

Loss before income tax includes the following specific expenses:

#### *Depreciation*

Leasehold improvements	1,188	241
Plant and equipment	252	2,956
Motor vehicles	-	-
Computer equipment	887	11,966
Office equipment	3,299	850
<b>Total depreciation</b>	<b>5,626</b>	<b>16,013</b>

#### *Impairment*

Exploration and evaluation	-	252,071
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#### *Finance costs*

Interest and finance charges paid/payable	63,876	72,820
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#### *Rental expense relating to operating leases*

Minimum lease payments	-	1,125
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#### *Employee benefits expense*

Defined contribution superannuation expense	2,819	27,192
Share-based payments expense	-	61,500
Employee benefits expense	63,120	328,729
<b>Total employee benefits expense</b>	<b>65,939</b>	<b>417,421</b>

## Notes to the financial statements

31 December 2015

### Note 5. Exploration and Evaluation

	Consolidated	
	31 Dec 2015	30 June 2015
	\$	\$
Exploration and Evaluation – at cost	7,332,875	6,996,378
Less: impairment	(2,146,098)	(2,146,098)
Joint Venture - JOGMEC	(1,939,438)	(1,570,855)
<b>Total Revenue</b>	<b>3,247,339</b>	<b>3,279,425</b>

#### Reconciliations

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

	Exploration and	Total
	evaluation	
	\$	\$
Balance at 1 July 2015	3,279,425	3,279,425
Additions	564,412	564,412
Joint Venture - JOGMEC	(596,498)	(596,498)
Impairments of assets	-	-
<b>Balance at 31 December 2015</b>	<b>3,247,339</b>	<b>3,247,339</b>

The impairment expense during the current period relates to tenements that have been relinquished or have been written down to recoverable amount.

### Note 6. Current liabilities - borrowings

	Consolidated	
	2015	2014
	\$	\$
Loan – Gullewa Limited	1,775,965	1,661,455
Loan – C Randall & Associates Pty Limited	370,535	359,176
Loan – Hydromining Coal Australia Pty Ltd	(609)	(609)
	<b>2,145,891</b>	<b>2,020,022</b>

Mineral & Coal Investments Pty Ltd (MCI) is a fully owned subsidiary of Allegiance Coal Limited. MCI had loans to the value of \$2,146,500 owing to Gullewa and C. Randall & Associates Pty Ltd, which were due for repayment on 30 June, 2015 if certain conditions were met. Those conditions were not met. Interest charged is based on the 90 day bank bill swap rate plus 4%.

### Note 7. Equity

#### Issued capital

	Consolidated	
	31 Dec 2015	30 June 2015
	\$	\$
Ordinary shares - fully paid	9,137,801	9,137,801

There were no movements in the issued capital of the company in either the current or prior half-years.

#### Dividends

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

## Notes to the financial statements

31 December 2015

### 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 2015	31 Dec 2014
	\$	\$
<b>Payment for other expenses:</b>		
Consulting and administration fees paid to parent entity, Gullewa Limited	13,159	54,879
Consulting and administration fees paid to other related party, C Randall & Associates Pty Limited		6,501

#### *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 2015	31 Dec 2014
	\$	\$
<b>Current receivables:</b>		
Trade receivables from other related party	609	609
<b>Current payables:</b>		
Consulting and administration fees payable to parent entity, Gullewa Limited	-	23,735
Consulting and administration fees payable to other related party, C Randal & Associates Pty Limited	-	15,356

#### *Loans to/from related parties*

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

	Consolidated	
	31 Dec 2015	30 June 2015
	\$	\$
<b>Current borrowings:</b>		
Loan from Gullewa Limited	1,775,965	1,661,455
Loan from C Randall & Associates Pty Limited	370,535	359,176

Non-current borrowings include capitalised interest.

#### *Terms and conditions*

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

### Note 9. Events after the reporting period

No matter or circumstance has arisen since 31 December 2015 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 10. Share-based payments

#### *Employee Option Scheme*

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

## Notes to the financial statements

31 December 2015

### Consultant Option Scheme

Details of the Consultant Option Scheme 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	Granted	Exercised	Expired/ forfeited/ other	Balance at the
			start of the half- year				end of the half- year
05/05/2011	01/01/2016*	\$0.2500	4,900,000	-	-	-	4,900,000
05/05/2011	01/01/2016**	\$0.2500	750,000	-	-	-	750,000
05/12/2013	27/11/2018*	\$0.0495	1,000,000	-	-	-	1,000,000
05/05/2013	27/11/2018*	\$0.0495	3,100,000	-	-	-	3,100,000
			9,750,000	-	-	-	9,750,000

\* Employee Option Scheme

\*\* Consultant Option Scheme

## Director declaration

31 December 2015

1. the financial statements and notes are in accordance with the Corporations Act 2001, including:
  - (i) comply with Accounting Standards AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
  - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
2. in the director's 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 made pursuant to s303(5) of the Corporations Act 2001.

On behalf of the directors



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David Deitz  
Director  
14 March 2016  
Sydney



## 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 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising a statement of accounting policies and selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year end or from 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 Standard 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 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 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.

**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 2015 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 emphasize the following matter:

**Going Concern**

The Directors opinion is detailed in the Note 1 of the half-year financial report, which indicated that the ability of the entity to continue as a going concern is independent upon continued financial support of the company's major shareholder. These conditions, along with other matters set out in Note1, 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 realize its assets and discharge its liabilities in the normal course of business.

  
.....  
Brian Taylor  
Director  
**SCS Audit & Corporate Services Pty Ltd**

Sydney, 14 March 2016