

14 May 2018

INITIAL RESULTS RECEIVED FROM COAL WASHABILITY AND QUALITY TESTING OF THE TENAS METALLURGICAL COAL DEPOSIT

HIGHLIGHTS

- The initial set of coal washability and quality results from the Tenas metallurgical coal deposit verify the integrity of the large coal quality database that the Company inherited from the extensive drilling and coal sampling of previous project owners.
 - The results indicate that the yield of washing raw coal to clean coal is higher than the historical data suggests, which in turn should improve project economics.
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Allegiance Coal Limited (**Allegiance** or the **Company**) releases the initial set of coal washability and quality test results from coal recovered by its February 2018 drill programme in relation to the Tenas metallurgical coal deposit (**Tenas Project**).

Mr David Fawcett, Non Executive Chairman, commented:

"I am very pleased by the first set of coal test results. We are very fortunate to have inherited an enormous database of information, including coal quality, gathered in the 1980s and 1990s. While we have every confidence in the accuracy and integrity of that data, verifying that data, particularly in relation to coal quality, is an important step for us, towards finalising project financing."

As previously announced, the Company recently completed a 34 drill hole programme from 18 drill pads within the Tenas Project comprising:

- Eight PQ diamond core holes: three for the installation of water monitoring wells and five for rock samples to support geochemistry studies and collect coal samples for testing;
- 12 sonic geotechnical holes to gather data to support the feasibility study; and
- 14, 150mm core drill holes, recovering 1,400 kilograms of coal for coke oven tests by the Company and three north Asian steel mills.

The sample coal was sent to two locations for analysis:

- Birtley Coal & Minerals Testing in Calgary, Alberta (**Birtley**), for sizing, washability, and comprehensive coal quality analyses; and

- SGS Mineral Testing in Lakefield, Ontario (**SGS**), to undergo a pilot wash to generate product coal samples for coke oven tests by the Company, and for two steel mills in Japan and one steel mill in South Korea.

The Tenas Project was the subject of a pre-feasibility study in 2017 confirming 59Mt of JORC compliant resource from three shallow coal seams, all in the measured category, and of which 21Mt has been converted into saleable coal reserves at a strip ratio of 5.8:1 BCM/ROMt.

The initial set of coal washability test results are those undertaken by Birtley and cover ash, moisture, volatile matter, fixed carbon, sulphur, and FSI (free swell index). More detailed coal analyses including most importantly petrographics and CSR (coke strength after reaction), being undertaken by Canmet and SGS, will follow over the next four weeks, along with the results of the pilot wash being undertaken by SGS.

The washed coal results at a specific gravity cut-off point (**SG**) of 1.60, are summarised by the table below:

Drill Hole	Diameter	Inherent Moisture	Ash	Volatile Matter	Fixed Carbon	Sulphur	FSI
T18-02D	85mm	1.04%	8.6%	22.5%	67.9%	0.85%	2.5
T18-05D	85mm	1.45%	8.0%	25.1%	65.5%	0.81%	3.0
T18-01D T18-03D	85mm	1.13%	8.7%	26.8%	63.5%	0.95%	3.5
T18-03B T18-08B T18-14B	150mm	1.06%	8.9%	26.6%	63.4%	0.95%	4.0

Results are based on an air dried basis (or inherent moisture), except for sulphur which is based on 10% total moisture.

The coal quality parameters highlighted are consistent with the historical coal quality data summarised in Table 7 of the Company's 17 September 2017 announcement releasing the Stage 1 PFS Results (refer page 6 of that announcement) (**Stage 1 PFS**). In both cases, the coal was washed to an SG of 1.60.

The point of difference between the recent test work and the historical data is the wash yield. The Birtley washability tests recovered coal at an average yield of 84 percent. While that will be reduced by dilution from mining and coal processing loss, the probable plant yield is likely to be better than the yield predicted by Sedgmen Canada in the Stage 1 PFS, which indicated a coal yield of 74 percent.

Two factors appear to contribute to the improved yield:

- The historical yield only included coal that was above 0.15mm in size thereby leaving coal behind; and
- Coal sampling and processing technology is simply better today than it was 20 years ago ensuring more coal is recovered.

Yield has a significant impact on both mine revenue and project economics. Like grade in hard-rock mining, it is an important driver in the success of a mining project and a likely improvement in yield prediction is an excellent result for the Tenas Project, and the Company.



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About Allegiance Coal

Allegiance Coal is a publicly listed (ASX:AHQ) Australian company advancing a metallurgical coal mine into production in British Columbia, Canada. The Telkwa metallurgical coal project (**Project**) includes three pit areas comprising 148Mt of JORC compliant coal resource of which 131Mt is in the Measured Category. In 2017 the Company completed a pre-feasibility study declaring 43Mt of saleable coal reserves, and positioning the Project in the lowest five percentile of the global seaborne metallurgical coal cost curve. The Company is now undertaking a full feasibility study of the Tenas Pit (**Tenas Project**) which represents 21Mt of those saleable coal reserves and is advancing the Tenas Project towards permitting and production.

Coal Resources and Reserves

The coal resources and reserves referred to in this announcement (unless otherwise stated in this announcement) were first reported in the Company's release of its Staged Production PFS results on 3 July 2017 Announcement (**3 July Announcement**). The Company confirms that it is not aware of any new information or data that materially affects the information included in the 3 July Announcement and that all material assumptions and technical parameters underpinning the estimates in the 3 July Announcement continue to apply and have not materially changed.
