



28 July 2017

ACTIVITIES REPORT FOR THE QUARTER ENDING 30 JUNE 2017

HIGHLIGHTS

- SRK Consulting (Canada) Inc. delivers the staged production pre-feasibility study (**PFS**) for the Company's Telkwa Metallurgical Coal Project (**Project**), on schedule and with outstanding results.
 - Allegiance completes a fully subscribed 1 for 3 rights issue raising \$1,412,473.
 - Allegiance commences its baseline studies and environmental monitoring in relation to the Project.
 - Mark Gray, the founder and Managing Director of Telkwa Coal Limited joins the Board as its Managing Director.
 - The seaborne metallurgical coal outlook remains very positive.
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Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 30 June 2017.

Mr Malcom Carson, Non Executive Chairman, commented:

*"Q2 2017 was all about delivering a positive PFS in relation to the Project, on time. Management is to be commended for its efforts in achieving that, and moreover, in such convincing fashion. The PFS results, released to the market on 3 July 2017 (**ASX PFS Release**), speak for themselves, they are quite outstanding. For the Project to be positioned in the lowest five percentile of the global seaborne metallurgical coal cost curve, is a rare result. It provides a natural hedge to the volatility of the metallurgical coal price and the movement in exchange rates, and underwrites the Project's potential. Our primary focus now is to refine the PFS to stage one development and in so doing, create the blueprint for stage 1 mine permitting".*

Staged Production PFS

The staged approach to permitting and production is pivotal to the Board's objective of putting a safe and environmentally sustainable mine into production quickly, that is both affordable and achievable for the Company.

The PFS assumes production commences at 250,000 tonnes per annum of saleable coal, ramping in year three to 750,000 saleable tonnes per annum, and in year four to 1,750,000 saleable tonnes per annum. As is discussed in detail in the ASX PFS Release, 250,000 tonnes per annum is relevant because to mine



at that rate or less, under British Columbia mining and environmental legislation, involves a potentially quicker permitting process, and as the PFS disclosed, has a low start up capital expenditure requirement. The PFS confirmed therefore, that the Company's approach is very much achievable.

The table below, part of which is extracted from the ASX PFS Release, summarises the key highlights.

PFS Key Highlights	Units	
Proven and probable reserves of saleable coal (Reserves)	Mt	42.5
Average life of mine strip ratio to recover the Reserves	BCM/PRODt	8.5:1
Clean all metallurgical coal yield for the Tenas pit (50% of Reserves)	%	75
Clean all metallurgical coal yield for all three pits	%	68
Stage one start-up capital expenditure	US\$M	51
All in FOB cash cost (pre-corporate taxes)	US\$	55
Assumed average sales price over 30 years for a Telkwa PCI delivered product	US\$	110
EBITDA margin ratio	%	50
FOB cash cost plus sustaining capital breakeven point	US\$	60
Post-tax net present value @ 10%	US\$M	243
Post-tax internal rate of return	%	30

The Company's immediate focus is to undertake and deliver a pre-feasibility study based solely on stage one production, assuming that 250,000 tonnes per annum of saleable coal is all that Allegiance is permitted to mine. The stage one pre-feasibility study (**Stage 1 PFS**) is due for delivery prior to the end of calendar year 2017.

The Stage 1 PFS is the blueprint for commencement of mine development. It is the study that will form the basis of the Company's project description in discussions with the Ministry of Energy and Mines, British Columbia and other Government Departments, with First Nations, with the local community, and ultimately the basis for the Company's applications for permits to operate a mine.

Rights Issue fully subscribed

As previously announced to the market on 4 May 2017 and 31 May 2017, the Company was successful in placing all of the shares offered for subscription under its April 2017 rights issue offer, raising \$1,412,473. The Directors acknowledge the support of existing shareholders and welcome the new shareholders who subscribed for the shortfall.

Baseline studies and environmental monitoring commences

Following the successful rights issue, Allegiance commenced its baseline studies and environmental monitoring. The baseline studies will run until the middle of 2018, the results of which will form the basis of an affects assessment of the Project to support the Company's applications for permits to mine. Environmental monitoring is ongoing.

Mark Gray joins the Board as its Managing Director

As previously announced to the market on 29 May 2017, Mark Gray, the founder of Telkwa Coal Limited, joined the Board as the Company's Managing Director. Mark's appointment is vindicated already by the delivery, on schedule, of an outstanding PFS.



Kilmain and Back Creek Projects

Both the Kilmain and Back Creek Projects remain under review. There were no activities of note during the quarter ended 30 June 2017.

Metallurgical Coal Market Update

After a protected negotiating period with Nippon Steel and Sumitomo Metal Corporation the Queensland premium hard coking coal Q2 2017 settlement ended with an agreement to price Q2 2017 deliveries using a new pricing index formula. The price will be calculated using the spot indices from S&P Global Platts, Argus Media and The Steel Index. The premium hard coking coal Q2 2017 price was set at around \$190-195 a tonne.

The recent volatility due to Cyclone Debbie and similar weather events in the past has contributed to the move to index pricing. It would appear that most Australian hard coking coal suppliers have accepted the new pricing methodology.

In the meantime lower grade metallurgical coals are expected to stay on fixed priced contracts for now. The June Quarter semi-soft price settled at US\$126/t FOB Australia whilst June Quarter 2017 low-volatile PCI coal price settled at US\$135/t. These prices are significantly higher than the price assumptions adopted by SRK in the PFS.

Spot prices for hard coking coal have remained firm the last weeks of the June Quarter with premium hard coking coal trading at around US\$175 per metric tonne supported by strong demand in China and India. Prices appear to remain firm with globalCOAL Metallurgical Coal trading at US\$175 for the month of July, 2017.

The longer term outlook for metallurgical coal remains positive. Analysts predict that Chinese steel demand in the infrastructure, machinery and automotive industries will underpin demand for metallurgical coal. The Chinese One Belt/One Road initiative will likely create demand with the building of new railway lines, bridges, pipelines, power transmission lines and a port. The recent closure of induction furnaces will result in greater reliance on blast furnace crude steel production which in turn will increase demand for seaborne metallurgical coal.

The Asian steel mills ability to absorb higher raw material costs is also a positive sign for metallurgical coal for the rest of the year.

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About Allegiance Coal

Allegiance Coal is a publicly listed (ASX:AHQ) Australian company fast tracking a metallurgical coal mine into production in British Columbia, Canada. The Telkwa metallurgical coal project (**Project**) is the Company's flagship project comprising 148Mt of JORC compliant coal resource and has been the subject of extensive historical exploration. Located 1,000 km north of Vancouver, the Project sits uniquely on the western side of British Columbia, immediately adjacent to a major Canadian National Rail line, with a 360 km rail haul to the deep water port of Prince Rupert and Ridley Island Coal Terminal. British Columbia has one of Canada's and North America's most competitive, flexible and supportive business climates. Consistently receiving AAA credit ratings, its vast resources, low taxes, stable and well regulated financial system and Government, makes for a wonderful country in which to invest.

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 ASX announcement of 3 July 2017 (**Previous Announcement**). The Company confirms that it is not aware of any new information or data that materially affects the information included in the Previous Announcement and that all material assumptions and technical parameters underpinning the estimates in the Previous Announcement continue to apply and have not materially changed.
