



27 July 2018

ACTIVITIES REPORT FOR THE QUARTER ENDING 30 JUNE 2018

HIGHLIGHTS

- Definitive feasibility study production rate for the proposed Tenas Mine set at 750,000 saleable tonnes per annum, for a 22 year mine life at an average strip ratio of just 3.2:1 BCM/ROMt.
 - Two steel mills from north Asia who took bulk sample coal from the Company's February 2018 drill programme for their own coal quality analysis have completed their tests and confirmed that Tenas coal is suitable for coke production and PCI use.
 - Discussions with potential joint venture partners continue, with site visits from two companies completed, and a third company scheduled for August 2018.
 - The Company's coal quality and washability tests from its February 2018 drill programme are nearing completion with positive results, vindicated by the expressions of interest received from the steel mills.
 - During the quarter, the metallurgical coal market saw some volatility with prices for spot branded premium hard coking coal declining to US\$178/mt FOB in April, and peaking in June at US\$201/mt FOB.
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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 2018.

Definitive Feasibility Study Project Metrics

The Company invested a considerable amount of time and resources during the first six months of 2018 engaging with key stakeholders before committing to a production rate in relation to its Tenas Metallurgical Coal Project (**Project**). This enabled the Company to refine the Project to accommodate a variety of stakeholder interests at an early stage of development, before proceeding to formal permitting.

With the benefit of two pre-feasibility studies completed in 2017, the Company had a comprehensive database of information from which it could tailor the Project in response to comments and concerns.

At the proposed production rate, the Company believes the Tenas Project definitive feasibility study (**Tenas Project DFS**) has very strong attributes, summarised in the following table.

Tenas Project Key Metrics		
Total coal resource	Tonnes	36,500,000
Total mined coal	Tonnes	23,700,000
Total saleable coal	Tonnes	16,800,000
Annual saleable coal production	Tonnes per annum	750,000
Life of mine average strip ratio	BCM/ROMt	3.2:1
Life of mine yield	%	71
Mine life	Years	22
Initial capital expenditure	US\$ million	62
Average life of mine operating cost	FOB US\$/t	55.8

Additional Resources

While the Tenas Project DFS has limited itself to mining 23.7Mt of raw coal for a 22 year mine life, the Telkwa Metallurgical Coal Project comprising all of its three deposits has an additional 102Mt of coal resource.

Coal Resource Deposits	Measured Mt	Indicated Mt	Inferred Mt	Total Mt
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 2017 Pre-feasibility studies concluded that 42.5Mt of coal resource could be recovered at a strip ratio of 5.8:1 BCM/ROMt and at an average FOB cash cost of US\$54.8/t.

The total resource provides the opportunity, subject to further studies and permitting, to increase the rate of production or, at the planned production rate of 750,000 saleable tonnes per annum, for a very long mine life providing long, sustainable economic growth to the Telkwa BC region; something that has been stressed by the local community as important.

Steel Mills confirm demand for Telkwa Coal

Four north Asian steel mills were approached by Allegiance in December 2017 to review the coal specifications for Telkwa coal supplied from the Tenas deposit. All four registered interest and were supplied with bulk sample coal recovered from the February 2018 drill programme.

These steel mills were approached for several reasons, the two key reasons being:

- They are within a comparable shipping distance to the major suppliers of seaborne metallurgical coal from central Queensland, Australia;
- They wish to source alternative coking coal supply to Australia, and their options to do so cost effectively, are very limited.

To date, two of those steel mills have completed their own coal quality analysis and both have confirmed their interest in Tenas coal for use in the coke oven or in the blast furnace as a PCI coal.



One of those steel mills also noted that Tenas coal, as a mid-volatile semi-soft coking coal, was very limited in supply on the seaborne market, a market dominated by the high-volatile semi-soft coking coals from New South Wales, and would be a coal sought after for this reason.

The Company is awaiting the test results from the other two steel mills.

During the quarter, additional interest has been identified from independent coke producers in the same region. The Company is considering recovering additional bulk sample coal in its 2019 drill programme for further coal quality analysis by other potential customers. The 2019 drill programme will be focussed primarily on the collection of additional geo-technical data to support mine construction engineering.

Joint Venture Partner Discussions

Over the last six months, the Company has hosted site visits from two potential joint venture partners who are evaluating investing and participating in the Telkwa Project. A site visit from a third potential joint venture partner is scheduled for August.

Receipt of the Company's coal quality and washability test results, along with the feedback from the target steel mills following their own coal quality analysis, has proved valuable in this process.

Joint venture discussions have generally revolved around direct investment into Telkwa Coal Ltd by way of a share subscription for a minority interest to meet part or all of the equity financing component, along with balance sheet support for the debt financing component, of mine construction, and the granting of the coal marketing rights to that party. Although discussions with all parties remain on-going, shareholders are cautioned that the timing of any potential joint venture investment is uncertain.

February 2018 Drill Programme Coal Quality and Washability Results

As previously announced on 14 May 2018, the Company received its initial coal washability and quality test results from the Tenas Project. Further results have since been received, and have continued to affirm the initial results and in particular:

- The coal quality, except in relation to the two parameters below, is consistent with the historical coal quality data, validating that data;
- The vitrinite mean maximum reflectance, commonly referred to as RoMax, is higher improving the rank of the coal considerably; and
- The calorific value, or heat content, is also higher, improving the coal's appeal for use for PCI.

The reflectance of vitrinite is regarded by many coal experts as the most definitive measure of a coal's rank. In recent discussions with the target steel mills, the Company was advised that in selecting a coking coal, some steel mills were more interested in the coal's RoMax than they were with other key parameters. Telkwa coal's RoMax was historically recorded at 0.84, which is below what the steel mills would typically expect of a coking coal. The Company's recent petrographic analysis determined that



number to be incorrect, with RoMax test results ranging from 0.93 to 1.10, and the Company is advised one steel mill achieved an average reading of 1.12. These are very good results.

Calorific value, typically of more interest to the thermal coal market for its heat content and the ability to generate more energy from less coal, is also very important in the PCI coal market. The calorific value of Telkwa coal was historically recorded at 7250kcal/kg (adb) at 9% ash. The Company's recent coal quality test results recorded the calorific value at 7550kcal/kg (adb) at 9% ash, considerably better. This, along with the ability to wash to a lower ash yet maintain a good yield, has improved the coal's appeal for PCI, with one target steel mill expressing an interest in the coal for that purpose.

Updated Geological Model

As previously announced on 18 June 2018 (and clarified on 26 June 2018), the Company updated the geological model for the Tenas deposit based on data collected from the February 2018 drill programme. The new geological model interpreted a small increase in the coal resource in the Tenas deposit but more importantly, interpreted a significant reduction in waste material, and in turn, a significant reduction in the ratio of waste material to raw coal.

Community Engagement

During the quarter, the Company held its first of five planned 'open houses' with the local and regional community. Under the environmental assessment process as it relates to permitting, an applicant is required to undertake at least two community meetings, or 'open houses'. The Company is planning five (including the one held) over the next 18 months.

The open house involved 16 information boards, each of which was supervised by an environmental baseline consultant responsible for the relevant discipline. Copies of the information boards can be found at www.allegiancecoal.com.au/irm/PDF/1389_0/telkwacoalohboards.

Environmental Baseline Studies

As has been previously announced, the Company remains active in its environmental monitoring and assessment of environmental baselines. The bulk of the studies are now nearing completion which marks the end of a very substantial piece of work by the Company in relation to the Tenas project.

The data collected, along with the substantial environmental data collected and recorded by previous Telkwa Project owners, will form a key component in the Company's environmental assessment process underpinning the permitting process.

Metallurgical Coal Market Update

During the quarter, the metallurgical coal market experienced some volatility derived mainly from logistics issues at various times in Australia, USA, Canada and Mongolia, as well as fears of a trade war between China and the USA.



The price declined in April from US\$196/mt FOB to US\$174/mt FOB driven by spot cargo availability after the effects of Cyclone Iris abated. This was followed by an increase in buying activity before the Chinese Labour Day holiday with a price rebound to US\$178/mt FOB.

May prices firmed to US\$191/mt FOB from fresh demand mainly from India. Logistics issues in Canada (Canadian Pacific Railway strike), the USA, Australia and Russia continued to dominate market sentiment. Aurizon's proposed service cuts and dispute with the Queensland Competition Authority implied further restrictions of supply adding to an ongoing negative outlook towards logistics contributing to the firmness of May prices.

The fundamentals for metallurgical coal demand remained strong into June. Prices rallied to a month high of US\$201/mt FOB on limited availability of high quality, low volatile Queensland coking coal. In addition, China continued its efforts to hold domestic coke makers accountable to environmental compliance, as well as coal mine operators to safety standards, closing non-compliant mines.

By the end of the quarter the possible extent of US/China trade barriers was being assessed with a sense of negativity toward the Chinese steel industry. The quarter ended with prices at or around US\$200/mt FOB for spot branded premium hard coking coal but with negative undertones.

Kilmain and Back Creek Projects

The Kilmain and Back Creek projects remain under review.

Corporate

At quarter end, the Company had 465 million shares on issue and cash of \$2.9million.

For more information, please contact:

Mr David Fawcett

Chairman, Allegiance Coal Limited

Mobile : +1 604 612 2376

Email: dfawcett@allegiancecoal.com.au

Mr Mark Gray

Managing Director, Allegiance Coal Limited

Mobile : +61 412 899979

Email: mgray@allegiancecoal.com.au

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 125.8Mt of JORC compliant coal resource of which 102.3Mt is in the Measured Category; 22.3Mt is in the Indicated Category; and 1.2Mt is in the Inferred Category. In 2017 the Company completed a pre-feasibility study declaring 42.5Mt of saleable coal reserves, positioning the Project in the lowest five percentile of the global seaborne metallurgical coal cost curve. The Company is now undertaking a definitive 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 & Reserves

The coal resources referred to in this announcement (unless otherwise stated in this announcement) were first reported in the Company's release of its updated geological model on 18 June 2018, supplemented by its 26 June 2018 announcement (together the **18 June June Announcement**). The coal 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 (**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 18 June Announcement or the 3 July Announcement and that all material assumptions and technical parameters underpinning the estimates in the 18 June Announcement and the 3 July Announcement continue to apply and have not materially changed.

Competent Person Statement

The information in this ASX Announcement that relates to Mineral Resources and Reserves, unless otherwise stated, is based on information reviewed and compiled by Mr Dan Farmer, a registered professional engineer with the Association of Professional Engineers and Geoscientists of British Columbia. Mr Farmer is engaged by the Company on a full-time basis and has sufficient experience which is relevant to the style of mineralisation and the type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code (2012 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves"). Mr Farmer, as competent person for this announcement, has consented to the inclusion of the information in the form and context in which it appears herein.

Tenement Summary

Tenure Number	Owner	Project	Tenure Type	Area (ha)
British Columbia				
DL 230; PID - 014-958-724	Telkwa Coal Ltd	Telkwa	Freehold	259
DL 237; PID - 014-958-732	Telkwa Coal Ltd	Telkwa	Freehold	259
DL 389; PID - 014-965-666	Telkwa Coal Ltd	Telkwa	Freehold	262
DL 391; PID - 014-965-674	Telkwa Coal Ltd	Telkwa	Freehold	262
DL 401; PID - 014-965-682	Telkwa Coal Ltd	Telkwa	Freehold	259
353440	Telkwa Coal Ltd	Telkwa	Coal License	259
334059	Telkwa Coal Ltd	Telkwa	Coal License	269
327972	Telkwa Coal Ltd	Telkwa	Coal License	259
327836	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327837	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327838	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327839	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327845	Buckley Valley Coal Ltd	Telkwa	Coal License	259
328672	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327834	Telkwa Coal Ltd	Telkwa	Coal License	130
327840	Telkwa Coal Ltd	Telkwa	Coal License	259
327865	Telkwa Coal Ltd	Telkwa	Coal License	259
327866	Telkwa Coal Ltd	Telkwa	Coal License	259
327936	Telkwa Coal Ltd	Telkwa	Coal License	259
327944	Telkwa Coal Ltd	Telkwa	Coal License	259
327951	Telkwa Coal Ltd	Telkwa	Coal License	259
327952	Telkwa Coal Ltd	Telkwa	Coal License	259
327953	Telkwa Coal Ltd	Telkwa	Coal License	259
327954	Telkwa Coal Ltd	Telkwa	Coal License	259
327964	Telkwa Coal Ltd	Telkwa	Coal License	259
327965	Telkwa Coal Ltd	Telkwa	Coal License	259
Australia				
1279	Mineral & Coal Investments PL	Back Creek	Exploration Permit	6200
1298	Mineral & Coal Investments PL	Kilmain	Exploration Permit	2800
1917	Mineral & Coal Investments PL	Kilmain	Exploration Permit	2800