



22 August 2018

Ms Anjuli Sinniah
Australian Securities Exchange Limited
Level 40 Central Park
152 - 158 St George's Terrace
PERTH WA 6000

By Email: anjuli.sinniah@asx.com.au and tradinghaltspert@asx.com.au

Dear Ms Sinniah

ASX JUNE QUARTER 2018 CASH FLOW REPORT QUERY

We refer to your letter dated 21 August 2018 regarding Allegiance Coal Limited's (**Allegiance or the Company**) Appendix 5B quarterly cash flow report for the quarter and 12 months ended 30 June 2018 (**Appendix 5B**) and respond to each point as follows:

1. Does AHQ expect that it will continue to have negative operating cash flows for the time being and, if not, why not?

In common with resource exploration and development companies, Allegiance expects that it will continue to have negative operating cash flows until such time as it is able to bring an operating mine into production.

2. Has AHQ taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

The Company requires additional funding to meet its business objectives and intends to secure such funding from sources including but not limited to:

- Further equity capital raisings;
- The potential farm-out of participating interests in the Company's tenements and rights; and / or
- Other financing arrangements.

As reflected in the Appendix 5B, during the year ended 30 June 2018, the Company generated proceeds from the issue of shares amounting to \$7,541,000, before costs (year ended 30 June 2017: \$4,044,000).

As also reflected in the Appendix 5B, as at 30 June 2018 the Company had cash on hand of \$2,935,000.



The Company currently has capacity to place, without shareholder approval, up to 69,779,273 ordinary shares in accordance with ASX Listing Rule 7.1 and 46,519,515 ordinary shares in accordance with ASX Listing Rule 7.1A.

The Company refers to its June 2018 quarterly activities report released to the ASX on 27 July 2018, wherein, inter alia, it advised that 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 metallurgical coal project (**Telkwa Project**) with a site visit from a third potential joint venture partner currently underway. Although discussions with the parties remain on-going, the timing of any potential joint venture investment is uncertain.

The Company's officers are in regular contact with Allegiance's major shareholders and other potential investors and the Directors believe on reasonable grounds that the financing steps outlined above will be successful.

3. Does AHQ expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Having carefully assessed the likelihood of securing additional funding (as set out in the answer to question 2 above), the Company's ability to effectively manage its expenditures and cash flows from operations and the opportunity to farm-out participating interests in existing tenements and rights, the Directors believe that the Company will be able to continue its operations and meet its business objectives for the foreseeable future.

4. Please provide any other information that AHQ considers may be relevant to ASX forming an opinion on whether AHQ is in compliance with Listing Rule 12.2 (a listed entity's financial condition must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing).

The Company is advancing the Telkwa Project in British Columbia, Canada, into production. The Telkwa 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 Telkwa 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.

The Company refers to its announcement to the ASX dated 3 July 2018, headed "Tenas Metallurgical Coal Project Description and Production Target Finalised for Definitive Feasibility Study and Permitting" (**3 July 2018 Announcement**).

The following is a summary of key components of the Project Description:

- Total coal resource of 36.5 million tonnes.
- Of that total, an estimated 23.7 million tonnes of coal will be mined.
- Yield of 71% for an 8% ash product, recovering around 16.8 million tonnes of saleable coal.



- Production rate of 750,000 saleable tpa.
- Mine life of 22 years.
- Predicted average strip ratio of 3.2:1 BCM/ROMt.
- Estimated start-up capital expenditure of approximately US\$61.8 million.
- Estimated FOB operating cash cost of approximately US\$55.8/t.

As stated in the 3 July 2018 Announcement, to continue development of the Tenas Project to the conclusion of permitting, the Company requires additional funding to be secured from sources including but not limited to the following:

- Further equity capital raisings to sophisticated or professional investors;
- The potential farm-out of participating interests in the Project; and/or
- Other financing arrangements.

The Company will require around A\$5 million to reach the conclusion of permitting. Currently the Company anticipates sourcing this capital from either a placement to sophisticated or professional investors or alternatively from a joint venture arrangement. Thereafter, the Company does anticipate requiring additional funds to meet its corporate overhead during the period the permit applications are progressed estimated to be no more than an additional A\$2 million.

Once the Tenas Project is permitted, the Company will require further funding for the development start-up capital expenditure estimate of US\$61.8 million including but not limited to:

- Further equity capital raisings;
- Project finance;
- Vendor finance;
- Customer finance;
- The potential farm-out of participating interests in the project; and/or
- Other financing arrangements.

5. Please confirm that AHQ is in compliance with Listing Rule 3.1 and that there is no information about its financial condition that should be given to ASX in accordance with that Rule that has not already been released to the market.

We confirm that the Company is in compliance with ASX Listing Rule 3.1.

6. Please confirm that AHQ's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of AHQ with delegated authority from the board to respond to ASX on disclosure matters.

We confirm that the Company's response to the questions has been authorised by the Company Secretary, being the officer of the Company with delegated authority from the Board to respond to ASX's letter.



Yours sincerely
Allegiance Coal Limited

A handwritten signature in black ink, appearing to read "Jonathan Reynolds". The signature is fluid and cursive, with a large initial "J" and a long, sweeping tail.

Jonathan Reynolds
Company Secretary

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

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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 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.



21 August 2018

Mr Jonathan Reynolds
Allegiance Coal Limited

By email: jreynolds@allegiancecoal.com.au

Dear Mr Reynolds

Allegiance Coal Limited (“AHQ”): Appendix 5B Query

I refer to AHQ’s Appendix 5B quarterly report for the period ended 30 June 2018 lodged with ASX Market Announcements Platform on 27 July 2018 (the “Appendix 5B”).

ASX notes that AHQ has reported:

- negative net operating cash flows for the quarter of \$1,616,000;
- cash at the end of the quarter of \$2,936,000; and
- estimated cash outflows for the next quarter of \$1,920,000.

It is possible to conclude, based on the information in the Appendix 5B that if AHQ were to continue to expend cash at the rate indicated by the Appendix 5B, AHQ may not have sufficient cash to continue funding its operations. In view of that, ASX asks AHQ to respond separately to each of the following questions and requests for information:

1. Does AHQ expect that it will continue to have negative operating cash flows for the time being and, if not, why not?
2. Has AHQ taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
3. Does AHQ expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
4. Please provide any other information that AHQ considers may be relevant to ASX forming an opinion on whether AHQ is in compliance with Listing Rule 12.2 (a listed entity’s financial condition must, in ASX’s opinion, be adequate to warrant the continued quotation of its securities and its continued listing).
5. Please confirm that AHQ is in compliance with Listing Rule 3.1 and that there is no information about its financial condition that should be given to ASX in accordance with that Rule that has not already been released to the market.
6. Please confirm that AHQ’s responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of AHQ with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under, and in accordance with Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than **3pm AWST Friday 24 August 2018**. If we do not have your response by then, ASX will have no choice but to consider suspending trading in AHQ’s securities under Listing Rule 17.3.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, AHQ's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at anjuli.sinniah@asx.com.au and tradinghaltspert@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rule 3.1

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A.

In responding to this letter, you should have regard to AHQ's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

It should be noted that AHQ's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in AHQ's securities under Listing Rule 17.1.

If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

Anjuli Sinniah
Senior Adviser, Listings Compliance (Perth)