



23 April 2018

ACTIVITIES REPORT FOR THE QUARTER ENDING 31 MARCH 2018

HIGHLIGHTS

- \$3.9 million was raised by way of a private placement.
 - SRK (Canada) Inc. was appointed lead consultant for, and commenced, the feasibility study for the proposed Tenas Mine (**Tenas Project**), which forms part of the Telkwa Metallurgical Coal Project (**Project**).
 - A 34 drill hole programme was successfully completed to support the Tenas Project feasibility study and to supply sample coal for coke oven tests by the Company and north Asian steel mills.
 - Mr David Fawcett assumed the role as Chairman of the Board of Directors coupled with relocation of the Company's Managing Director, Mr Mark Gray, to Telkwa, British Columbia.
 - The spot branded premium hard coking coal price is trading at US\$183.00 per tonne.
-

Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 31 March 2018.

Mr David Fawcett, Non Executive Chairman, commented:

"During the quarter the Company continued to progress the project rapidly as it had done in 2017. The Company is now fully funded to complete all environmental baseline studies and mine, plant and infrastructure design, to prepare the Company for the permitting of the Tenas Project. In addition, relationships have been established with several north Asian steel mills and commodity trading houses enabling the Company to enter into meaningful discussions on coal off-take and project funding. The Board's priority is to maintain that momentum as the Company advances the Tenas Project towards production."

Strong Demand Received in Capital Raising

Seeking to raise \$3 million, on 29 March 2018, the Company received binding commitments for \$3.9 million, before costs, pursuant to a private placement to sophisticated and professional investors at \$0.05 per share.

The majority of the funds raised are being applied towards the development of the Tenas Project, in particular to:



- Complete environmental baseline studies;
- Complete the feasibility study; and
- Undertake an effects assessment in preparation for permit applications.

Tenas Project Feasibility Study Commences

SRK (Canada) Inc. has been appointed to lead, and has commenced, the Company's feasibility study of the Tenas Project. SRK was the lead consultant for the two pre-feasibility studies undertaken in relation to the Project in 2017, the results of which were announced to the market on 3 July 2017 and 12 September 2017.

The target date for completion of the feasibility study is 30 September 2018. Progress reports will be published progressively as aspects of the feasibility study are completed.

The feasibility study will focus solely on the construction and operation of a metallurgical coal mine in the Tenas Project area which comprises 21Mt of saleable coal reserves (representing fifty percent of the Project's reserves), producing on average 240,000 saleable tonnes per annum. The coal will most likely be sold to north Asian steel mills.

Completion of Drill Programme

In February 2018, the Company completed a 34 drill hole programme from 18 drill pads comprising:

- Eight PQ diamond core holes: three for the installation of water monitoring wells and five for rock samples to support geochemistry studies;
- 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, for sizing, washability, and comprehensive coal quality analyses; and
- SGS Mineral Testing in Lakefield, Ontario, 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 wash tests are almost complete, following which the results will be published by the Company and washed coal shipped to the various locations for coke oven tests. The Company expects its coke oven test results to be published by the end of May 2018.



Mr David Fawcett appointed Chairman of the Board

To increase the Company's focus on the Project, Mr David Fawcett, a British Columbia resident, was appointed Non Executive Chairman with Mr Malcolm Carson stepping down as chairman whilst remaining on the Board as a Non Executive Director. Mr Fawcett's record as a 40 year mining engineer veteran in the Canadian coal industry is exceptional and he has assisted in the creation of substantial shareholder value through the development of several coal mining companies.

Mr Fawcett's appointment aligns with the relocation of Mr Mark Gray, Telkwa Coal's founder and the Company's Managing Director, to Telkwa, British Columbia, where Mr Gray will lead the Company in its engagement with First Nations, the local community and government agencies. The Board views these relationships as critical to the permitting of the Tenas Project and believes the responsibility of developing and managing them is one for the Company's chief executive.

Metallurgical Coal Market Update

During quarter, the metallurgical coal market was dominated by nervousness around supply disruptions in Queensland (summer storms and cyclones), severe cold weather in China, and geopolitical concerns as the US implemented trade tariffs on Chinese steel and aluminium imports.

The market enjoyed prices over US\$260 per tonne for benchmark hard coking coal in early January 2018 continuing the strong price cycle of late 2017. By the end of January 2018 the price declined to US\$216 per tonne caused by a build-up of raw material inventories in China and slowing Chinese demand for steel. In addition, Queensland port congestion eased and the nervousness about weather affecting supply from Queensland abated.

The markets rebounded in February 2018 to US\$235 per tonne following supply cut announcements from Teck Resources, inventory depletions in China, and Aurizon's announcement that planned maintenance would cut about 20Mts of supply through the Queensland rail system over the next three years. In addition, during the Chinese New Year, buyers started to build inventories again, domestic Chinese supply started to tighten and demand for seaborne premium hard coking coal increased along with metallurgical coal prices.

In early March 2018 the US announced a 25 percent trade tariff on Chinese steel and aluminium. The impact on steel and hard coking coal prices was immediate. Rebar prices decreased sharply as Chinese steel inventories increased. The reaction from the Chinese mills was equally swift with announcements of steel production cuts in Tangshan. This announcement seemed to arrest the price decline for rebar. However, the sentiment for raw materials remained negative with premium hard coking coal prices declining to below US\$200 per tonne and finishing at US\$195 per tonne by the end of March 2018. Speculation about a possible trade war escalated during March 2018 as China considered its response to the US trade tariffs. In the meantime, steel prices continued to decline as inventories increased.

Coking coal prices during the quarter remain above the long-term average price range assumed in the Company's pre-feasibility studies of US\$140 per tonne to US\$170 per tonne for premium benchmark coking coal.



Taking a longer-term perspective, Teck Resources in an investor presentation in February 2018 expressed the view that seaborne coking coal demand from Europe, Vietnam, India and Brazil will support prices as Chinese coal capacity reduces due to environmental and mine safety issues.

Kilmain and Back Creek Projects

The Kilmain and Back Creek projects remain under review.

Corporate

At quarter end, accounting for the impact of the Placement completed in April 2018, the Company had 464 million shares on issue and cash of \$4.8 million.

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**) is the Company's flagship project comprising 148Mt of JORC compliant coal resource of which 134Mt is in the Measured Category. The Project and has been the subject of extensive historical exploration and most recently of a pre-feasibility study declaring 43Mt of proven and probable reserves, and positioning the Project in the lowest five percentile of the global seaborne metallurgical coal cost curve.

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 3 July 2017 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.
