



29 October 2018

ACTIVITIES REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2018

HIGHLIGHTS

- Definitive feasibility study for the proposed Tenas Mine producing 750,000 saleable tonnes per annum is on schedule, target completion early calendar Q1 2019.
 - Environmental baseline studies are nearing completion in Q4 2018, leading to preparation of an Environmental Assessment Certificate Application, target filing date Q3 2019.
 - The permitting process has formally commenced with lodgement of a Project Description with the Environmental Assessment Office, British Columbia.
 - Joint Venture partner discussions continue to progress positively.
 - The metallurgical coal market remained strong with continuing demand for steel within China and coal supply disruptions to the seaborne market.
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Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 30 September 2018.

Definitive Feasibility Study on Schedule

The Definitive Feasibility Study (**DFS**) for the Tenas Metallurgical Coal Project (**Tenas Project**) is on schedule for completion in Q1 2019.

SRK Consulting (Canada) Inc. (**SRK**) and Sedgman Canada, are the two lead consultants with SRK responsible for mine planning and design, mine infrastructure and water management, and Sedgman Canada responsible for the coal preparation plant and related infrastructure. Additional specialist consultants have been appointed for the design and costing of power, roads and bridges, and the rail loop. The Tenas DFS target metrics remain the same as previously announced with some refinements following the detailed mine scheduling undertaken so far by SRK.

Tenas Project Key Metrics		
Total coal resource	Tonnes	36,500,000
Total mined coal	Tonnes	20,000,000
Total saleable coal	Tonnes	14,800,000
Annual saleable coal production	Tonnes per annum	750,000
Life of mine average strip ratio	BCM/ROMt	3.8:1
Life of mine yield	%	74
Mine life	Years	20

Environmental Baseline Studies Ending

The environmental baseline studies commenced almost two years ago. They are a major undertaking for any mining proponent in Canada. The studies are critical to the permitting process establishing the environmental baselines prior to assessing environmental impacts from mining and mitigations for:

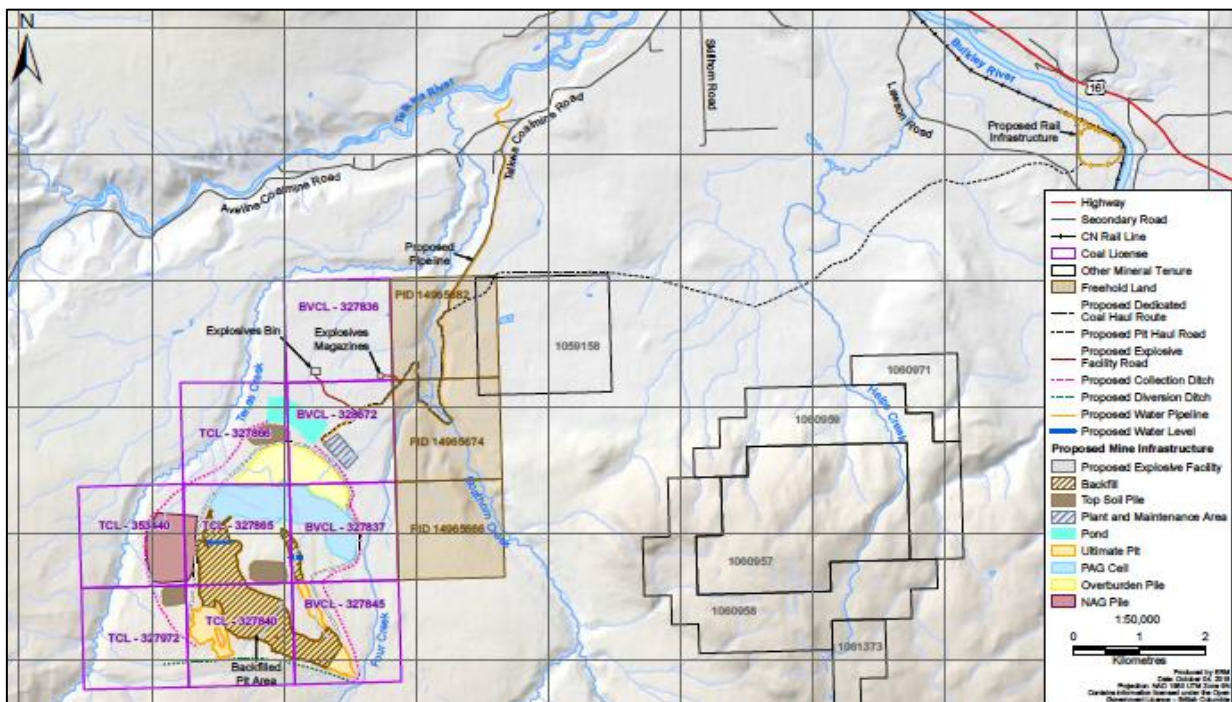
- Water quality;
- Fish, fish habitat and aquatic resources;
- Atmospherics such as water and dust;
- Terrestrial such as terrain, soils, vegetation and wildlife; and
- Cultural and archaeology.

Studies will conclude in Q4 2018 with some residual work continuing into 2019. The raw data has been, and will continue to be, lodged on the information datasite of the Ministry of Energy, Mines & Petroleum Resources, British Columbia, available for public review.

Formal Permitting Commenced

The Company has lodged what is referred to as a “Project Description” in relation to the Tenas Project with the Environmental Assessment Office of British Columbia (**EAO**). The EAO is the BC Government body responsible for managing the environmental assessment and permitting process.

The Project Description is a legislated requirement which outlines the proposed project in significant detail, and provides the EAO with an indication of how ‘ready’ a proponent is for environmental assessment and permitting. Once accepted, the EAO will issue a ‘section 10’ order, formally accepting the project for review. The Company anticipates receiving a section 10 order in Q4 2018.



The map on the prior page illustrates the Tenas Project, while the table below outlines the environmental assessment and permitting process, both taken from the Project Description.

Tenas Project – EA Schedule	2018						2019						2020														
Task	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9
Project Description				■																							
Section 10 Order				■																							
Section 11 Order					■																						
Valued Component (VC) draft				■																							
VC finalization				■	■	■																					
AIR ⁽¹⁾ draft						■																					
AIR finalization							■	■	■	■	■	■	■	■	■												
EA/Concurrent MAPA ⁽²⁾ - EMA PA ⁽³⁾																											
EA screening																											
EA acceptance																											
EA review																											
EA decision																											
Permit																											

Notes:
¹ AIR = Application Information Requirements or Terms of Reference
² MAPA = Mines Act Permit Application
³ EMA PA = Environmental Management Act Permit Application
⁴ BC Government EA Revitalization Process is in progress, with new legislation and regulation expected in the fall of 2019.

Joint Venture Partner Discussions

As previously announced on 13 September 2018, the Company entered into a non-binding terms sheet (**Terms Sheet**) in relation to a potential investment in the Telkwa Project by a major Japanese trading house. Those discussions are progressing satisfactorily. The Company will make a further announcement in the event that an agreement is concluded and binding agreements are executed.

The Company cautions investors that the provisions of the Terms Sheet in relation to the potential investment and joint venture is and remains non-binding and that an investment decision should not be made on the basis of this information. There can be no certainty that binding agreements will be reached, or that any concluding transaction will eventuate.

Metallurgical Coal Market Update

Early in the quarter, the price for spot branded premium hard coking coal weakened to a low of US\$172/mt. Initially, market nervousness around the implications of proposed US tariff increases on Chinese goods softened prices.

However, the market soon rebounded with signs of increased steel demand in China based on positive housing and infrastructure data. Hard coking coal prices rallied as steel inventories reduced and hot rolled coil and rebar prices increased - the steel rebar futures price reached its highest level since February 2013.



Hard coking coal prices surged to over US\$190/mt FOB by mid-September as the full extent of the lower steel inventories became clear, added to increased Chinese steel demand. Hard coking prices continued to firm and looked set to break through the US\$200/mt FOB level until the announcement by the US of further proposed tariffs on Chinese goods.

The arrival of Cyclone Florence in the US, and the halting of production at Peabody's North Goonyella Mine in Central Queensland following an underground fire, caused supply disruptions to the seaborne market which took the hard coking coal price to US\$208/mt FOB.

The spot price for premium hard coking coal settled at US\$200/mt FOB for the quarter, while Nippon Sumitomo Steel Corporation settled Q3 2018 Semi Soft Coking Coal at US\$129/mt FOB, and LV PCI at US\$137/mt FOB.

Kilmain and Back Creek Projects

The Kilmain and Back Creek projects remain under review.

Corporate

The Company raised \$2.4 million via a placement of shares pursuant to section 708(8) of the Corporations Act 2001 with 'sophisticated investors', and section 708(11) of the Corporations Act 2001 with 'professional investors'.

For more information, please contact:

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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 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.

Production Target

The production target referred to in this announcement (unless otherwise stated in this announcement) was first reported in the Company's release of its Tenas Metallurgical Coal Project Description and Production Target on 3 July 2018 (3 July 2018 Announcement). The Company confirms that all the material assumptions underpinning the production target in the 3 July 2018 Announcement continue to apply and have not materially changed.

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