



5 November 2018

ITOCHU CORPORATION TO BE JOINT VENTURE PARTNER IN TELKWA PROJECT

- Itochu Corporation of Japan (**Itochu**), has agreed to invest in Telkwa Coal Limited (**TCL**), to underpin the funding and development of the Tenas Metallurgical Coal Project (**Tenas Project**).
 - TCL is Allegiance's wholly owned Canadian subsidiary that owns a 100 percent interest in the Telkwa Metallurgical Coal Project located in northwest British Columbia, Canada (**Telkwa Project**), which comprises 126Mt of JORC metallurgical coal resource from the Tenas Project, and the nearby Goathorn Creek and Telkwa North deposits.
 - The Tenas Project is currently the subject of a definitive feasibility study (**Tenas DFS**), and is in the permitting process for a 750ktpa operation, to deliver a mid-volatile semi-soft coking coal to the seaborne metallurgical coal market with a target FOB cash cost, ex-Port of Prince Rupert, of ~US\$55/t.
 - Itochu will be the sole and exclusive sales agent for all Telkwa coal.
 - Itochu's origins date back to 1858; today is one of the largest commodity trading houses in the world; as at March 2018 had total assets of A\$111 billion, annual revenue of A\$80 billion, and is ranked 204 on the Fortune 500 global list of companies.
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Allegiance Coal Limited (**Allegiance**) is pleased to announce that Itochu and Allegiance have completed and signed binding agreements to establish the "Telkwa Met Coal Joint Venture" (**Joint Venture**).

Mr David Fawcett, Non-Executive Chairman, commented:

"I cannot stress enough the significance of this achievement by Allegiance. To secure the financial and operational support of Itochu is a wonderful achievement. It is testament to the quality of the Tenas Project, and the strength of our management team that Itochu has the confidence in our ability to successfully secure permits to mine, and bring the Tenas Project into production. We look forward to a long and prosperous future with Itochu in relation to the Telkwa Project."

The Joint Venture provides for two stages of investment.

Stage 1 comprises an investment by Itochu in TCL of C\$6.6M, by way of a subscription for shares in TCL representing 20 percent of the issued share capital of TCL, as follows:

- C\$1.5M for a 5.3% interest in TCL, following the issue of a section 10 order under the Environmental Assessment Act of British Columbia (which formally acknowledges the Tenas Project has been accepted for environmental review and permitting) expected mid-November 2018;



- C\$1.5M for a further 4.8% interest in TCL, following completion of a positive Tenas DFS, targeted for completion in Q1 2019, subject to Itochu's approval at the time; and
- C\$3.6M for a further 9.9% interest in TCL, following lodgement of an application for an Environmental Assessment Certificate, targeted for Q3 2019, subject to Itochu's approval at the time.

The Stage 1 investment represents an enterprise value for TCL of C\$33M (approximately A\$35M).

During the Stage 1 Investment, Itochu will have the right to appoint two directors to the Board of TCL, one of whom will be the Marketing Director, and Allegiance will have the right to appoint three directors. TCL will take responsibility for the operation of the Tenas mine, while Itochu will take responsibility for the marketing, sale and delivery of Tenas coal.

It is a condition of the Stage 1 investment by Itochu that TCL will, prior to Itochu's investment, hold C\$1.5M of cash at bank (which Allegiance will fund from existing cash resources). Taking account of Itochu's Stage 1 Investment, TCL will therefore have available funding of C\$8.1M, which is currently expected to fully fund TCL through to the completion of permitting the Tenas Project.

The Stage 2 investment comprises the right by Itochu to make a further investment in TCL following the granting of permits to mine the Tenas Project, up to a maximum of 50 percent of the issued share capital in TCL, and based on a 'post permits to mine' valuation. The quantum and size of that investment will be discussed following completion of the Tenas DFS and prior to the completion of permitting.

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, and positioning the Project in the lowest five percentile of the global seaborne metallurgical coal cost curve. The Company is now undertaking a full 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.

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.
