

Wednesday 4th July, 2018

Portfolio Stock Developments

Allegiance Coal - (ASX: AHQ, Share Price: \$0.05, Market Cap: \$23m, coverage initiated @ \$0.022 in June 2017 – *current gain of 127%*)



Key Catalyst

AHQ has finalised the Project Description for its Tenas Metallurgical Coal Project, which will be lodged with relevant government agencies in August 2018 to commence the permitting process.

With all of the speculative hype around battery materials companies, it's easy for investors to forget about fundamentals. AHQ is a relatively unusual beast because it's elected to focus on coal – a commodity that's likely not be at the forefront of most investors' thinking. Nevertheless, AHQ's share price has more than doubled since we initiated coverage a year ago. AHQ has been a quiet but very successful achiever, focused on advancing its Telkwa metallurgical coal project in northwest British Columbia, Canada. The stock's major attraction is its potential for low-cost production and strong earnings. The company has had strong interest from Asian steel mills and is methodically de-risking the project, having already completed two Pre-feasibility Studies, along with a revised resource estimate and geological model that should flow through favourably into a Definitive Feasibility Study (DFS) to be completed during Q4 2018.

Latest Activity

Tenas Project Update

AHQ has finalised the Project Description for its Tenas Metallurgical Coal Project. The Project Description will be lodged with the relevant government agencies in August 2018 to commence the permitting process.

The Project Description will now be fed into the Tenas Definitive Feasibility Study (DFS) and formally submitted to the relevant government agencies in August 2018. The Tenas DFS is scheduled for completion during Q4 2018.

The following important factors contributed to the Project Description:

- A clear indication from key stakeholders for the Tenas Project to participate in the British Columbia Environmental Assessment Act's environmental review process.
- A desire by AHQ's shareholders and potential joint venture partners that it capitalise on current strong demand and pricing for metallurgical coal to increase planned production beyond that allowed by the sub-EA process.
- A preference from the local community for the transfer of saleable coal from the coal wash-plant to the rail load-out via a dedicated private haul road rather than a public highway.
- Canadian National Rail's requirement for a 3.5km train rail loop rather than the 1.5km rail siding agreed to and incorporated into the 2017 PFS.
- The maximum operating capacity of the coal wash-plant, which was to be operated at 240,000 saleable tonnes per annum, but would have an installed capacity of approximately 750,000 saleable tonnes per annum.
- A preference to retain a small operating footprint.
- An objective to maintain a low start-up capital expenditure requirement.

Coal Resources

Following completion of the Updated Geological Model, which was prepared in accordance with the JORC 2012 Edition (JORC Code), the resource statement for the Tenas deposit is 36.5 million tonnes..

Tenas Coal Resource	Measured Mt	Indicated Mt	Inferred Mt	Total Mt
C seam	4.5	1.5	-	6.0
1U seam	4.5	1.6	-	6.1
1 seam	18.1	6.3	-	24.3
Total	27.1	9.4	-	36.5

Geology, Mining & Processing

The three main economic seams range from a minimum mineable thickness of 0.8m to 9m in thickness. There is a high level of confidence in the geological interpretation, especially in areas of the resource that have been included in the measured category.

The Tenas coal will be mined at 750 kctpa. At that rate of production, with 16.8 Mt of saleable coal, the Tenas deposit has a potential mine life of 22 years at an average life-of-mine strip ratio of 3.2:1 BCM/ROMt (4.2:1 BCM/PRODt).

Initial Capital

The estimated start-up capital expenditure is based on the start-up capital expenditure of the Large Mine PFS of US\$51M, with some additional start-up capital expenditure items brought forward which were anticipated to be delayed in the Large Mine PFS.

Initial Capital Expenditure	US\$M
Equipment	7.5
Pre-strip	1.3
Coal handling preparation plant and related Infrastructure	15.4
Mine infrastructure	18.3
Water management	13.3
Rail loop and loadout	6.0
Total Initial Capital	61.8

Coal Quality & Pricing

Tenas semi-soft coking coal (SSCC) is expected to be well received due to the limited availability of mid-volatile SSCC on the seaborne market, in contrast to the more readily available high-volatile SSCC coals. The market should react favourably to the introduction of a new mid-volatile SSCC, not only as diversification from Australia, but also due to the fact that current Canadian SSCC supplies are being reduced. Looking beyond strictly the Australian SSCC, not all SSCC on the seaborne market has similar favourable quality specifications. Kobie Koornhof & Associates (Koornhof), a respected British Columbia coal market specialist, has assessed the current market pricing for Tenas coal at US\$133.45/t.

Tenas SSCC Pricing v Q3 2018 Benchmark Pricing	US\$/t
Semi-soft coal	137.00
Sulphur penalty	5.30
Ash credit	1.75
Tenas current market price	133.45

Operating Costs

Operating costs have been estimated applying first principles and covering all aspects of the mining operation including waste removal, coal recovery, coal processing, haulage, road, maintenance, water management, reclamation and site administration. The Project has potential to be a very low cost producer, in fact one of the lowest cost producers, and is well positioned to be a reliable, long term supplier of metallurgical coal to Asian steel mills. Operating costs were estimated relying on unit costs derived from the Small Mine PFS and Large Mine PFS.

Operating Costs		US\$/saleable t
Site Costs		
Waste removal	Combination of load, haul and dozer push	16.8
Coal recovery	Load and haul	6.4
Coal processing	140tph modular and scalable wash-plant	5.0
Other site costs	Water management and reclamation	5.9
General and admin		3.0
Freight Costs		
Marketing		0.2
Haulage	Clean coal load and haul from CHPP to rail loop	2.6
Rail and port		13.1
Royalties	Payable to third parties	2.8
Total Operating Costs	Pre corporate tax & BC Govt. mineral tax	55.8

Permitting and Indicative Timeline

The Tenas Project producing 750ktpa of saleable coal triggers a review under the British Columbia Environmental Assessment Act. It does not however trigger a Canadian Federal Government review under the Canadian Environmental Assessment Act. AHQ intends to pursue 'concurrent permitting' whereby both the environmental assessment review and the application for permits to operate a mine, are processed in parallel. The updated permitting process and timeline is summarised below (noting it is subject to change):

- Q3 18 Project Description lodged with British Columbia Government agencies in August 2018;
- Q3 18 Section 10 order, pre-application process commences;
- Q4 18 Section 11 order, confirms requirement for an Environmental Assessment review;
- Q1 19 Finalisation of Valued Components Document;
- Q2 19 Finalisation of Application Information Requirements;
- Q3 19 Submit draft Environmental Assessment for Environmental Assessment Act

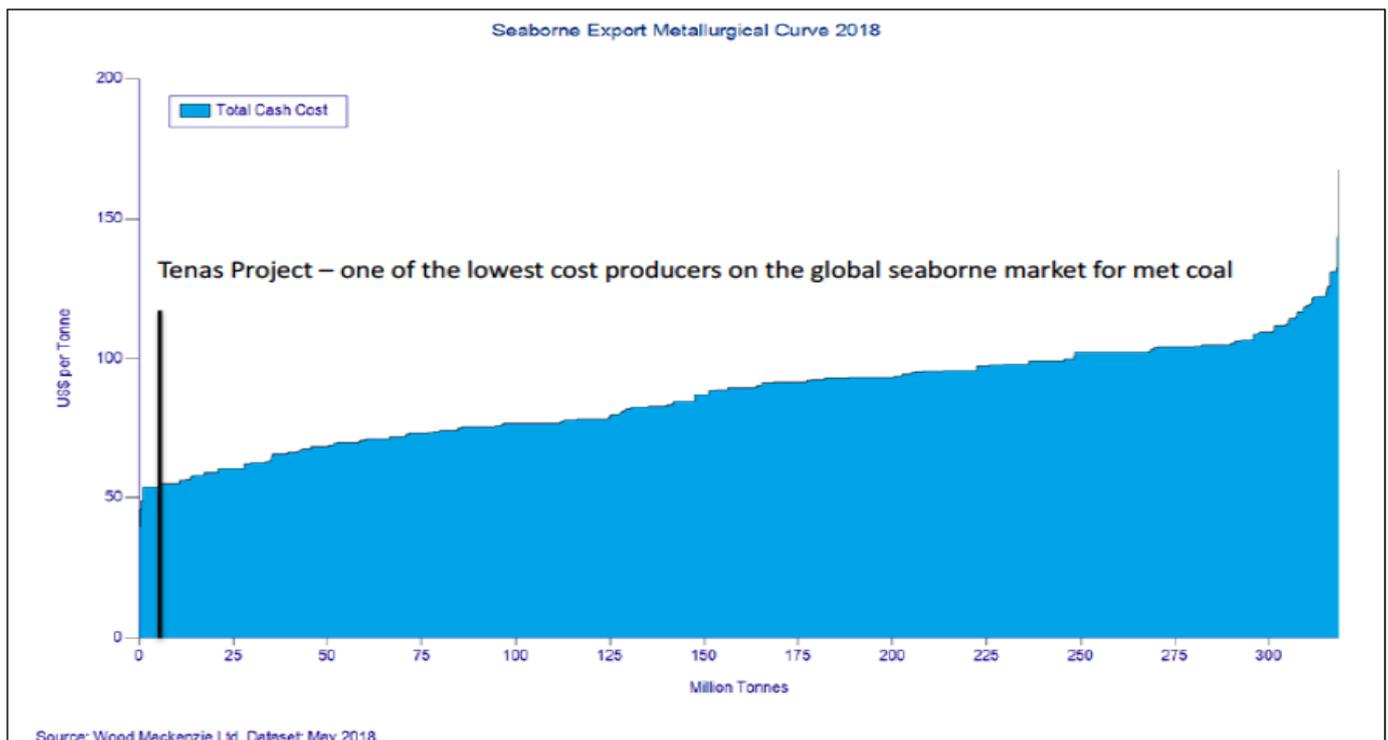
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- Q4 19 Environmental Act review commences and is currently regulated for 180 days;
- Q1 20 Environmental review continues – the project may go into suspension to resolve any issues;
- Q2 20 Relevant Ministers currently have 45 days to issue Environmental Assessment certificate;
- Q3 20 Permits to mine are generally granted 60 days after Environmental Assessment certification.

Technical Significance

AHQ believes it was prudent to take the time to engage with First Nations, the broader local community and the various levels of government, before committing to a Project Description. This has enabled the project to be refined to accommodate a variety of interests at an early stage of development. AHQ will continue to consult with all stakeholders as it advances the Project through the planning and permitting stages.

As potentially the lowest cost producer of metallurgical coal in British Columbia, and in the lowest five percentile of coal producers in the global seaborne metallurgical coal market, the Project has capacity to weather the volatility of metallurgical coal prices. The graph below highlights the Project's extremely low operating costs relative to the seaborne market.



Summary

The key attraction of AHQ is its modest market capitalisation when compared with the development/corporate potential of its Telkwa coal project. Many grassroots exploration plays in the battery materials sector have market values significantly larger than AHQ, with no defined JORC resources let alone any sort of tentative production potential.

Furthermore the project is eminently 'do-able', a trait that isn't common in terms of most bulk commodity projects. The project has access to all requisite railway and port infrastructure – a capex saving that can be measured in the hundreds of millions of dollars.

AHQ anticipates that by the end of 2018, all environmental and socio-cultural baseline programs with respect to Telkwa will be complete in time for a regulatory submission during Q1 2019 - subject to both the completion of a feasibility study during Q4 2018. Assuming submission of the joint Mines Act and Environmental Management Act permit applications during Q1 2019, approval is anticipated during H2 2019.

AHQ will remain firmly held within our Portfolio.

Disclaimer: Gavin Wendt, who is a director of Mine Life Pty Ltd ACN 140 028 799, compiled this document. It does not constitute investment advice. I wrote this article myself, it expresses my own opinions and I am not receiving compensation for it. In preparing this article, no account was taken of the investment objectives, financial situation and particular needs of any particular person. Investors need to consider, with or without the assistance of a securities adviser, whether the information is appropriate in light of the particular investment needs, objectives and financial circumstances of the investor. Although the information contained in this publication has been obtained from sources considered and believed to be both reliable and accurate, no responsibility is accepted for any opinion expressed or for any error or omission in that information. I have no positions in the stock mentioned and no plans to initiate any positions within the next 72 hours.