



28 April 2017

ACTIVITIES REPORT FOR THE QUARTER ENDING 31 MARCH 2017

HIGHLIGHTS

- Allegiance continues to progress the Telkwa Metallurgical Coal Project (**Project**) pre-feasibility study (**PFS**) in line with its market guidance, due for delivery by 30 June 2017.
 - Allegiance and the Office of the Wet'suwet'en have signed a Communication and Engagement Agreement as a first step in acknowledging Clan decision-making with respect to the Project .
 - Allegiance commences wider engagement with the local community including most importantly, with the Office of the Mayor, Telkwa.
 - In consultation with the Office of the Wet'suwet'en, Allegiance selects its team of environmental consultants, and commences its baseline studies and environmental monitoring.
 - Allegiance files a Notice of Work Programme with the Regional Office of the Ministry of Energy and Mines involving six 150 metre deep large diameter core drill holes to be undertaken in Q3 2017.
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Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 31 March 2017.

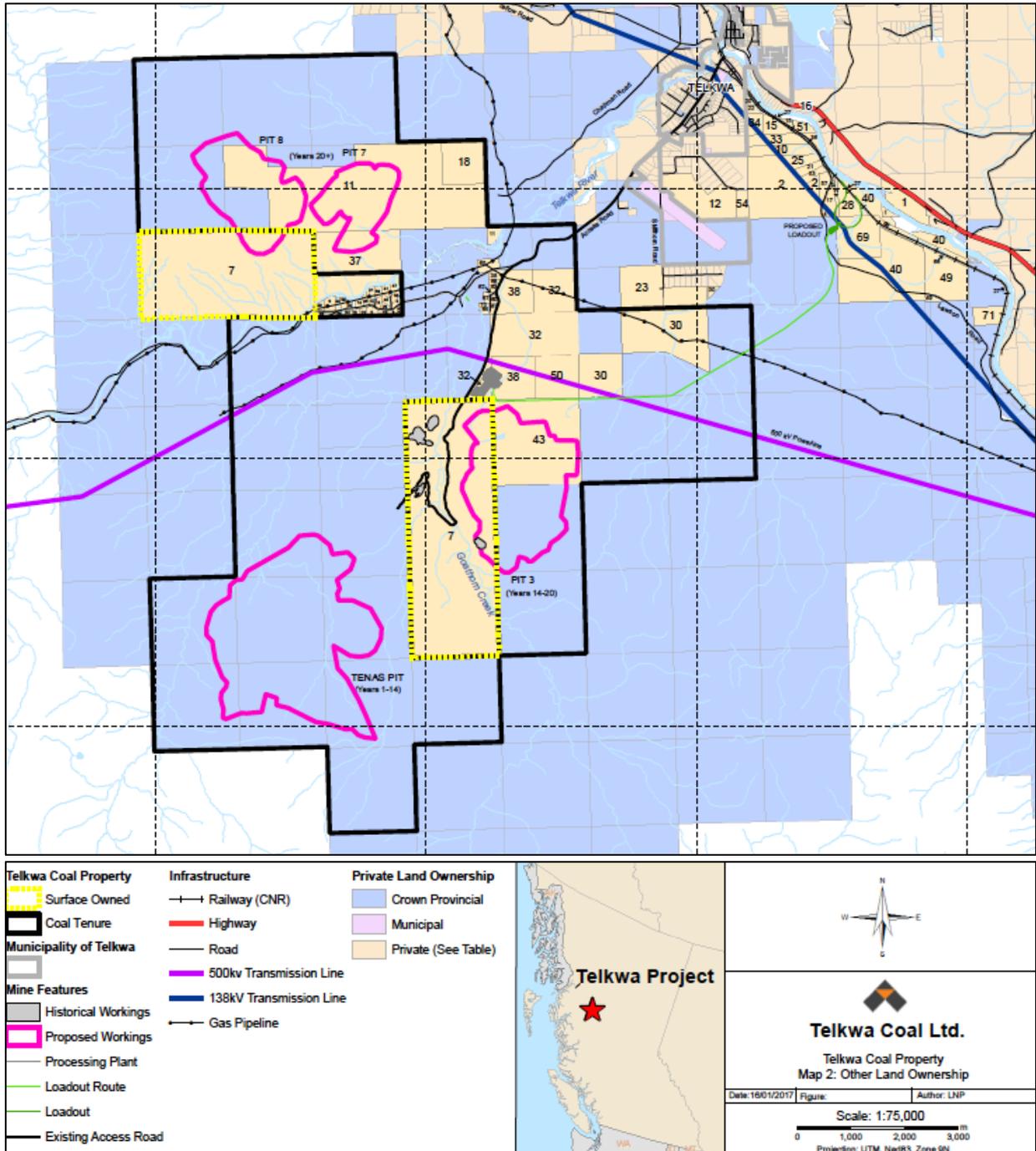
Engagement with the Office of the Wet'suwet'en

As announced on 27 April 2017, following several months of consultation, Telkwa Coal Limited, Allegiance's wholly owned subsidiary that owns and manages the Project, entered into a Communication and Engagement Agreement with the Office of the Wet'suwet'en, representing the first step in developing and progressing a working relationship with the Wet'suwet'en people, in relation to the Project. The Office of the Wet'suwet'en represents the title rights and interests of over 7,000 members belonging to the five Clans, twelve House Groups of the Wet'suwet'en First Nations group, in whose territory the Project is located.

Engagement with the Office of the Mayor of Telkwa

The town of Telkwa has a population of less than 2,000 people most of whom work in surrounding towns such as Smithers, 12 km to the north.

The town has a long history in coal mining dating back to the 1920s when coal was mined in the Project area up until the late 1960s for domestic power consumption. The town and neighbouring areas also support the local forestry industry which has a large industrial foot print in the region, as well as the greater interior of British Columbia.



The map above illustrates the location of the Project to the town of Telkwa, and importantly, the Project's proximity to infrastructure including existing roads, power, and rail. The map also highlights



the surface land ownership, very little of which is in private hands. Most of it is owned by the Provincial Government, with two large areas owned by Altius Minerals Corporation, Allegiance's Project partner.

Earlier this month, Allegiance met with and presented to the Office of the Mayor of Telkwa, and undertook, with the assistance of the Mayor's Office, to commence wider consultation with the Telkwa community once the PFS is completed.

Commencement of Baseline Studies

In January 1997, Manalta Coal Ltd, the then Project owner, completed an Application for a Project Approval Certificate, prepared in accordance with the British Columbia Environmental Assessment Act (as it was in 1997).

Manalta noted in the preface to the Application that, "In order to provide full disclosure to the public, First Nations and government agencies, Manalta Coal Ltd has included much of the relevant baseline data and consultants' reports which have been compiled over the 18 years that the Project has been studied".

Allegiance has access to all of that material and data. The knowledge base is extensive, and the cost savings to Allegiance, immense.

As recently announced, Allegiance has commenced its own new Baseline Studies and environmental monitoring in relation to the Project. Allegiance's strategy is to augment the historical data in the design and delivery its own Baseline Studies to maximise as best it can, the benefit of all the knowledge providing a high level of confidence in assessing environmental affects.

The PFS remains on Track and on Schedule

The Project PFS made rapid progress in the March quarter.

Key deliverables were:

1. Appointed SRK Consulting and Sedgman as the lead consultants;
2. Completed the Coal Assessment Report which included the positioning and pricing of Telkwa coal into the seaborne metallurgical coal market;
3. Completed the geological model for the 3 pits to a feasibility standard and confirmed the resource tonnages;
4. Completed pit optimization models for the 3 pits giving guidance on coal tonnages at various strip ratios and confirmed sizable tonnes at low strip ratios;
5. Completed mine planning and scheduling for the 3 pits;
6. Settled on the washplant size and design.



Key deliverables over the next month prior to completion of the PFS include:

1. Complete water management plans;
2. Select the power option (currently there are three):
 - a) 500kva line that transects the Project tenements;
 - b) 138kva line that passes through the town of Telkwa; and
 - c) 25kva that runs up to the edge of the property boundary.
3. Select the rail siding option, of which there are several, all immediately east of the Project around 10km from the main pit areas of Tenas and Goathorn, and all of which do not involve privately owned land.

The PFS remains on track and schedule for delivery by 30 June 2017.

Q3 2017 Drill Programme

As announced to the market on 28 April 2017, while the Project has already been the subject of 828 drill holes, 321 of which were core holes, Allegiance intends to drill a further six in Q3, 2017:

- Three of which are ground water wells for water quality sampling as part of its Baseline Studies; and
- Three of which are for rock and coal quality testing.

Geochemistry analysis will be undertaken to update Project data for the purposes of the management of waste rock from mining.

Coal quality analysis will be undertaken to update coal quality data with new and more recent technology, including coke tests which were not previously done by earlier Project owners.

In addition, Allegiance has been approached by another coal development company to undertake coal blending tests. Core from these drill holes will be retained for this purpose, and there is a possibility that blending tests with operating mines within British Columbia may also be undertaken.

Coking Coal Market Update

The coking coal market surged to a record price (AUD terms) of USD308/t FOB in Q4 2016, on the back of, we understand, an increase in steel demand in China, a reduction in coking coal production in China from 330 days to 276, and supply disruptions and production limitations from both China and Australia.

With China reverting back to 330 days production in Q1 2017, and a resolution of supply disruptions, spot prices declined in the quarter settling at around USD145/t to 150/t FOB. The bonus for producers is that Q1 2017 contract prices settled at USD285/t FOB in to Japan mitigating the affects of the spot price decline.



Spot prices surged again in April 2017 hitting USD305/t FOB as a result of supply disruptions out of the Bowen Basin caused by Cyclone Debbie. The volume of Bowen Basin coal impacted by Cyclone Debbie has been quantified and the schedule for resolution is now known. Whilst resolution is clear regarding rail there is still some uncertainty about the affects the cyclone has had in the mines.

The daily GlobalCOAL Met Coal Closing Physical Forward Curve as at 24 April 2017, shows a steady return to pre Cyclone Debbie price levels of around USD175/t FOB Australia over the coming months.

Kilmain and Back Creek Projects

Both the Kilmain and Back Creek Projects remain under review. There were no activities of note during the quarter ended 31 March 2017.

Corporate

Allegiance commenced a 1 for 3 rights issue at \$0.025 per share potentially raising \$1.4 million if all rights were to be taken up, or the balance of rights not taken up placed by the Board at its discretion. The offer closes on 1 May 2017. The purpose of the offer is to fund:

1. The Commencement of the Baseline Studies this spring and summer seasons in British Columbia;
2. Complete the Q3, 2017 drill programme; and
3. General working capital.

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About Allegiance Coal

Allegiance Coal is a publicly listed (ASX:AHQ) Australian company fast tracking a metallurgical coal mine into production in British Columbia, Canada. The Telkwa metallurgical coal project (**Project**) is the Company's flagship project comprising 165Mt of JORC compliant coal resource and has been the subject of extensive historical exploration. Located 1,000 km north of Vancouver, the Project sits uniquely on the western side of British Columbia, immediately adjacent to a major Canadian National Rail line, with a 360 km rail haul to the deep water port of Prince Rupert and Ridley Island Coal Terminal. British Columbia has one of Canada's and North America's most competitive, flexible and supportive business climates. Consistently receiving AAA credit ratings, its vast resources, low taxes, stable and well regulated financial system and Government, makes for a wonderful country in which to invest.
