

30 July 2019

ACTIVITIES REPORT FOR THE QUARTER ENDING 30 JUNE 2019

HIGHLIGHTS

- Allegiance enters into a binding and conditional terms sheet to acquire the New Elk hard coking coal mine located in southeast Colorado, US.
 - Allegiance publishes the results of its upside case to the definitive feasibility study in relation to the Tenas Metallurgical Coal Project (**Tenas Project**).
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Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 30 June 2019.

Planned acquisition of the New Elk hard coking coal mine

The Company announced the planned acquisition of all the shares in the New Elk Coal Company, LLC, (**NECC**) for US\$1, which company owns the New Elk hard coking coal project located in southeast Colorado. The mine is fully permitted, fully constructed, and comprises 656Mt of hard coking coal.

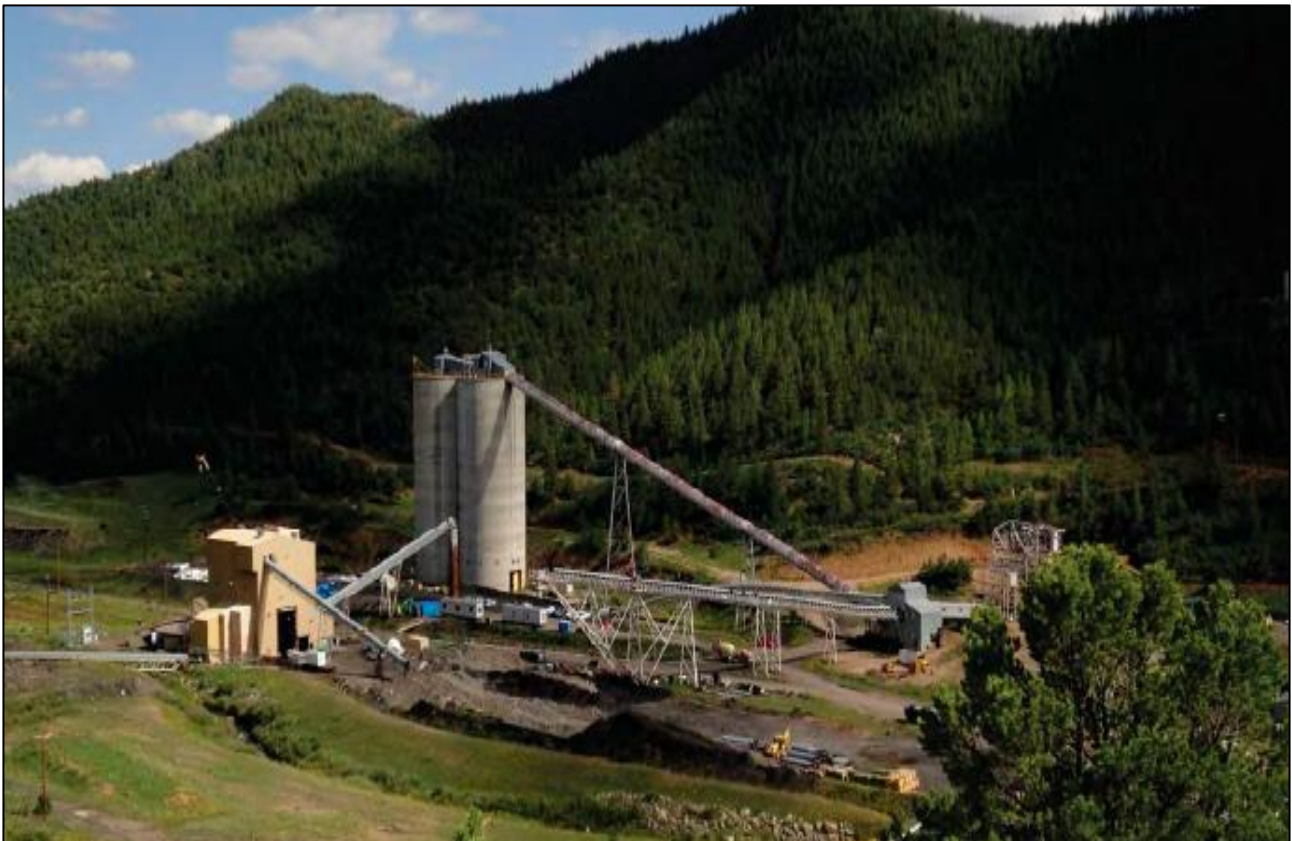


Image: Aerial view of the New Elk Coal Mine today: ROM and Product pads; CHPP; and twin storage silos.



Investors should note that the mineral resource estimates for New Elk in this announcement are foreign estimates under ASX Listing Rule 5.12 and are not reported in accordance with JORC Code (2012 Edition of the “Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”) (**JORC Code**). A competent person has not done sufficient work to classify the foreign estimates as a mineral resource under the JORC Code and it is uncertain that following further exploration or evaluation work that this foreign estimate will be able to be reported as a mineral resource in accordance with the JORC Code. The Company further cautions investors that, other than exclusivity to the planned acquisition to 14 July 2020, the material provisions in relation to the potential acquisition of New Elk are and remain non-binding and that an investment decision should not be made on the basis of this information. There can be no certainty that any binding agreements will be reached, or that any concluding transaction will eventuate.

Key aspects of the planned acquisition are:

- The purchase price for the shares in NECC is US\$1.
- Completion of the purchase must take place before 14 July 2020 (**Completion**). Allegiance hopes to complete significantly earlier.
- NECC is debt free, except for debt owing to Cline totalling C\$55M (**Debt**).
- The Terms Sheet provides that the Debt will be repaid by NECC to Cline as follows:
 - US\$3M in cash on Completion of the acquisition of the shares in NECC;
 - US\$3M in Allegiance shares issued on Completion;
 - US\$5M to replace the Colorado State Mine reclamation bond on Completion;
 - The balance to be repaid from an agreed percentage of Mine operating cash flow.
- The Mine is fully constructed and permitted for the production of hard coking coal.
- A National Instrument 43-101 Technical Report was undertaken for NECC in July 2012, which declared a mineral resource estimate of 656 million tonnes.
- The Terms Sheet conditions to Completion are that Allegiance will:
 - Undertake legal and financial due diligence by 14 September 2019;
 - Review the geological model to the Mine by 14 October 2019;
 - Undertake a feasibility study (**Feasibility Study**) to develop a mine plan for production by 14 April 2020;
 - Raise US\$5M to replace the Colorado State Mine reclamation bond by 14 June 2020;
 - Raise US\$3M to meet the cash payment part of Debt reduction by 14 June 2020;



- By 14 June 2020, raise sufficient working capital to bring the Mine back into production;
- Obtain shareholder approval to the purchase by 14 June 2020;
- Enter into transaction documentation with Cline by 14 June 2020; and
- Completion shall be no later than 14 July 2020.

The Mine is located in Las Animas County in southeast Colorado bordering northeast New Mexico, and sits within the Raton Basin which according to U.S Geological Survey Paper 1625-A, has an estimated 15 billion metric tonnes of coal.

The Mine has access to both international and domestic steel mill markets.

The Mine is near rail that can supply coal to the seaborne export market via either the Pasadena Deepwater Terminal or the Houston Bulk Terminal both located in Houston Port on the Gulf of Mexico, as well as rail access to a steel mill nearby in northeast Mexico that currently buys coal from the eastern coal mines of US and the seaborne market. While the rail haul is further, the Mine can also potentially supply coal to the steel mills in eastern US.

The Mine sits in the Raton Basin of southeast Colorado and northeast New Mexico that has had active coal mines for nearly 150 years producing good quality hard coking coals for domestic steel production. The Raton Basin hosts low sulphur, mid to high volatile hard coking coals, typically with excellent plasticity which is an important element in the blending of coking coals in blast furnace steel production.

The Mine was first named the 'Allen Mine', and commenced production in 1951 supplying coking coal to the Pueblo Steel Mill located approximately 100 miles north of the Mine. In the late 1970s, the Pueblo Steel Mill transitioned from blast furnace steel production to electric arc furnace no longer requiring hard coking coal.

Notwithstanding this, the Allen Mine continued production through to 1989 supplying coal to local power utilities, and the wash-plant continued operating until 1996 servicing neighbouring mines.

The Mine was acquired by TSX listed Cline Mining Corporation in 2008 for C\$17 million. In 2010, the Mine was re-opened under the name 'New Elk Mine'. Cline upgraded the Mine infrastructure, including the wash-plant and supporting infrastructure, developed a second underground portal entry, and recommenced production at an estimated capital cost of some C\$150 million.

The Mine operated for several months but was forced to close in July 2012 when world hard coking coal prices plummeted. Following this, Cline filed for bankruptcy protection, which resulted in all liabilities being extinguished, and the senior secured creditor ultimately taking ownership of Cline and its subsidiary NECC. It has remained on care and maintenance since.

A National Instrument 43-101 Technical Report was undertaken for NECC by Agapito Associates, Inc., a US nationally recognised engineering firm, in July 2012 (**Report**). The Report declared a mineral resource estimate of 656Mt of coal resources at a seam height cut-off of three feet. Coal seam thickness varies from three to nine feet.

The mineral resource estimate (in metric tonnes) is shared across eight coal seams summarised in the table below.

Coal Seam top down	Seam height	Measured Mt	Indicated Mt	Inferred Mt	Total Mt
Green	3 to 7 feet	29.94	24.95	0.09	53.98
Loco	3 to 4 feet	13.06	27.22	24.13	64.41
Blue	3 to 5 feet	47.36	34.56	0.82	82.74
BCU	3 to 6 feet	11.61	33.38	27.22	72.21
Red	3 to 4 feet	21.14	9.34	0.00	30.48
Maxwell	3 to 9 feet	65.41	65.05	15.79	146.24
Apache	3 to 5 feet	45.63	51.53	13.97	111.13
Allen	3 to 5 feet	38.83	43.45	12.79	95.07
Total		271.97	289.48	94.80	656.26

The Feasibility Study will target the following coal seams:

- The Green seam, because it outcrops at the mine-site and can be mined by either highwall or underground mining with simple box-cut access as a stand-alone operation;
- The Blue seam which already has portal access including underground road access, belt road and ventilation road, and where the main headings have already been advanced 350 metres underground; and
- The Allen seam which also already has separate portal access including underground road access, belt road and ventilation road and, as is discussed below, has the best coal quality.

While the other coal seams are unlikely to feature in the Feasibility Study to any great degree, the Mine plan will be developed in such a way that these coal resources are not sterilised from future mining.

The Allen seam has the best and most consistent coal quality within the Mine. It will be the target seam in the Feasibility Study and will likely be blended with the other coal seams when required to improve their quality. The Allen seam sits between the high volatile 'A' coking coal, and high volatile 'B' coking coal categories. Key coal quality parameters are taken from the Report and are summarised in the table below (adb).

Moist	Ash	VM	FC	S	FSI	Fluidity	RoMax	Phos
%	%	%	%	%		ddpm		%
1.0	8.5	35	55.5	0.6	8-9	30,000+	0.85	0.06

The fluidity, which is the main attraction to US hard coking coal from the world steel mills, is high volatile 'A' supported by very low sulphur for US coals which are typically >1%, and a high free swell index. The volatile matter and RoMax sit in the high volatile 'B' category. The Allen seam should attract strong interest from world steel mills. The remaining seams are all high volatile 'B' hard coking coals with varying parameters. The key coal quality parameters for all remaining seams are taken from the Report and are summarised in the table below (adb).

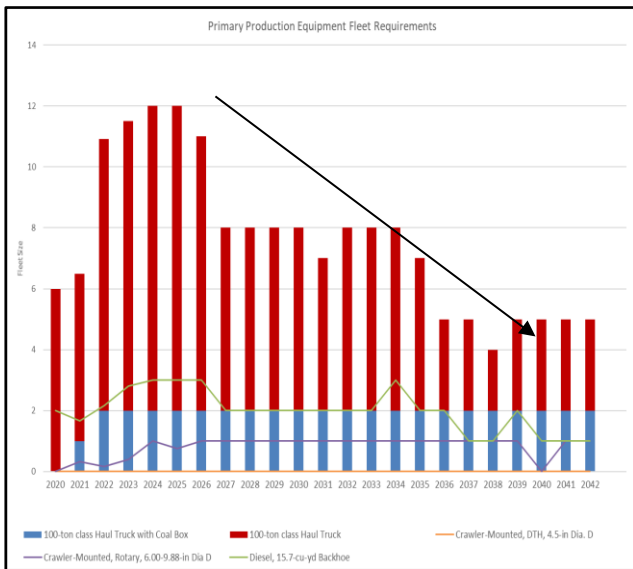
Moist	Ash	VM	FC	S	FSI	Fluidity	RoMax	Phos
%	%	%	%	%		ddpm		%
1.0	8.5	35	55.5	0.5	6-7	15k to 30k	0.85	0.10

The planned acquisition has the potential to accelerate the pathway to production and cashflow for Allegiance, bridging the gap between permitting and production of the Tenas Project, as well as mitigating the risk of delays in permitting the Tenas Project.

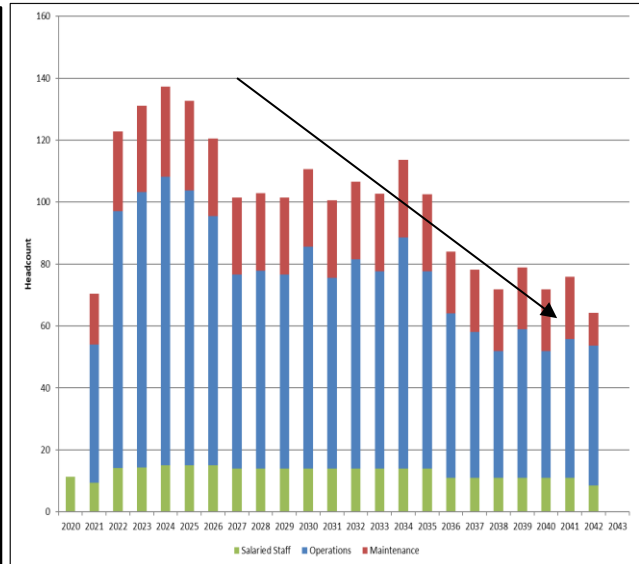
Upside case to the Tenas definitive feasibility study results

During the quarter the Company completed the upside case to the definitive feasibility study in relation to the Tenas Project (**Upside DFS**). The results of the Tenas Project definitive feasibility study were announced on 18 March 2019 (**DFS**), and the Upside DFS on 2 July 2019.

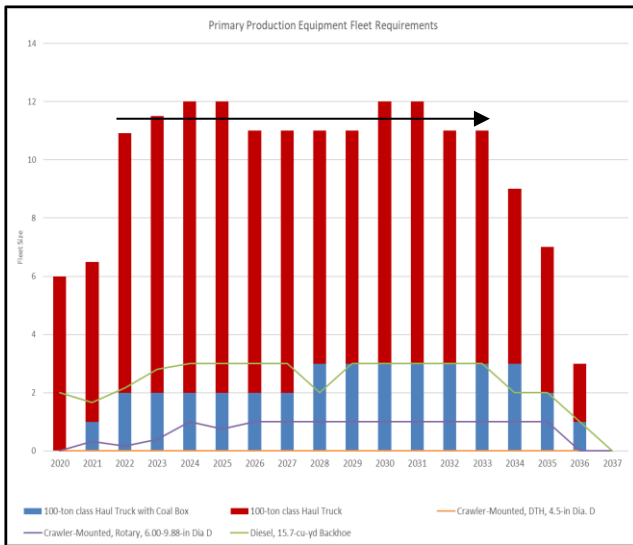
The Upside DFS was driven by a desire for better utilisation of equipment and labour over the mine-life of the Tenas Project, highlighted in the graphs below.



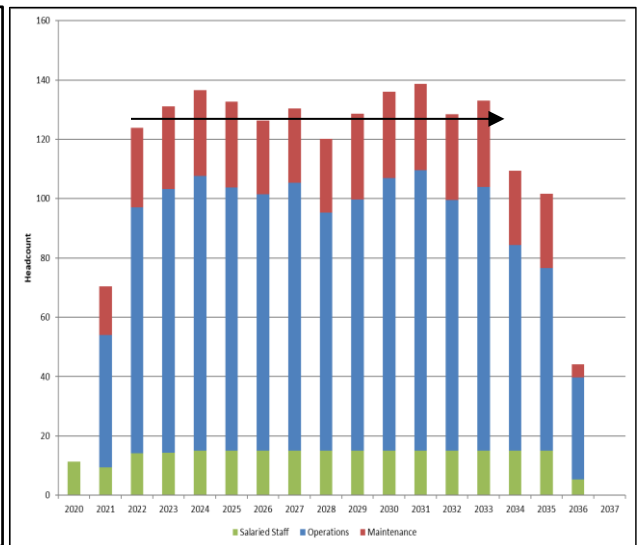
Primary equipment requirements under the DFS



Labour requirements under the DFS



Primary equipment requirements under the Upside Case



Labour requirements under the Upside Case

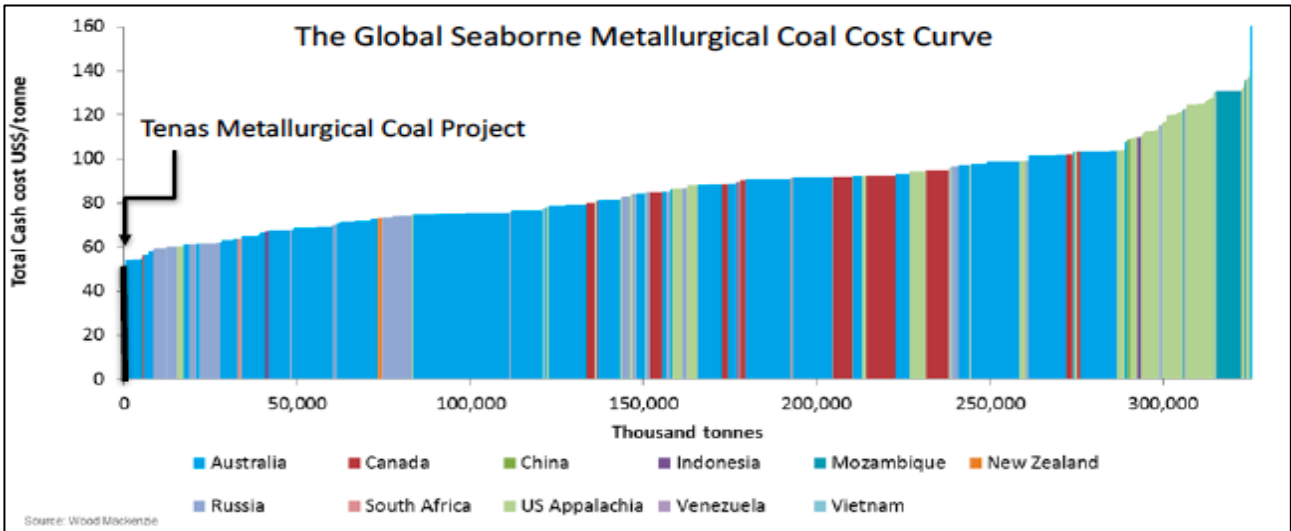
During the DFS review, the opportunity was identified to improve equipment and labour utilisation in year six when a decline in usage emerged after completion of construction of water management infrastructure. Rather than retiring equipment and a significant proportion of the workforce in year six, the Upside Case DFS revised the mine plan to maintain continuity of equipment and labour.

The ramp-up is solely the result of re-deployment of equipment and labour from mine development work to pit operations. The ramp-up requires minimal capital expenditure limited to modifications to the wash plant infrastructure at start-up of US\$1.5M, and to the wash plant in year four, prior to ramp-up, of US\$5.3M. Key changes arising from the Upside DFS to the DFS are summarised in the table below.

Highlights	Upside DFS	DFS
Tenas saleable coal reserves	16.55Mt	16.55Mt
Saleable coal per annum production years 1 to 4	750kt	750kt
Saleable coal per annum production years 5 to 6	1.05Mt	750kt
Saleable coal per annum production years 7 to 15	1.35Mt	750kt
Mine-life (production years)	14.4 years	22 years
Potential to extend mine-life from additional resources	22 years	35 years
Strip ratio mine-life average (BCM/ROMt)	3.6:1	3.6:1
Yield mine-life average (all metallurgical coal product)	75%	75%
All-in FOB cash cost (ex-port) before interest & tax	US\$45.0/t	US\$49.7/t
Revenue mine-life annual average	A\$185M	A\$121M
EBITDA mine-life annual average	A\$105M	A\$64M
EBITDA ratio to revenue mine-life annual average	57%	53%
Start-up capital expenditure	US\$55.8	US\$54.3M
NPV8% pre-tax	A\$537M	A\$407M
IRR pre-tax	60.8%	56.9%
Capital payback after commencement of production	2.5 years	2.5 years

The results of the Upside Case improve the Tenas Project economics significantly and continue to give Allegiance confidence in the merits of this project. For a marginal increase in start-up capital expenditure of US\$1.5M, the pre-tax NPV increased by A\$130M, and post tax NPV by A\$82.5M, an increase of 32% with a corresponding increase in the internal rate of return.

Probably the most significant achievement in the Upside DFS however, is the reduction in cash costs from an already very low US\$49.7 per saleable tonne, to US\$45.0 per saleable tonne. The Tenas Project is likely to be one of, if not, the lowest cost producers of metallurgical coal on the global seaborne market.



Source: Wood Mackenzie seaborne metallurgical coal cost curve as at November 2018

Tenas Project EA process and permitting

The third Environmental Assessment Office (EAO) Technical Working Group meeting took place in Telkwa on 11 July 2019 with a site visit to the Tenas Project in addition to a meeting of the terrestrial and wildlife sub-committee of that Group.

	2016	2017	2018	2019	2020	2021	2022
Telkwa Coal Planning Process, Engagement, and Proposed Project Phases¹							
TCL Planning Studies		Pre-feasibility Study	Feasibility Study				
Tenas Project Phases					Construction	Operations	
Wet'suwet'en Engagement and Community Dialogue							
Community Open Houses			1	2 3	4 5		
Current Baseline Program / Ongoing Monitoring							
Meteorology, Air Quality, Noise, Groundwater, Surface Water Quality, Sediment Quality, Aquatic Resources, Fish and Fish Habitat, Visual Quality, Soils and Terrain, Vegetation, Wildlife and Wildlife Habitat			Baseline Program			Monitoring	
Regulatory Process (Environmental Assessment and Permitting)¹							
Application Development (Pre-Application Phase)							
Project Description submitted to BC EAO							
BC EAO issues Section 10 Order (determining Project is reviewable)							
BC EAO issues Section 11 Order (setting the scope and process for the review)							
BC publishes Valued Component Selection Summary							
BC EAO publishes draft Application Information Requirements							
BC EAO holds public comment period on Application Information Requirements							
Application Submission and Review (Application Phase)							
Applications for EA Certificate and Mines Act Permit submitted to BC EAO							
BC EAO evaluates, accepts, and reviews EA Certificate Application							
BC EAO holds public comment period of EA Certificate Application							
BC EAO makes EA Certificate decision and issues EA Certificate							
Mine Permit and Environmental Management Act Permit decision							

Notes: ¹ Dates shown are Telkwa Coal's best estimates only.
² Progressive reclamation of specific sites may begin during the Operation Phase. Post-closure reclamation activities are anticipated to require two to three years, with continued monitoring beyond that time frame.



With reference to the schedule above, the section 11 order was issued by the EAO during the quarter, while comments in reply to questions from the Technical Working Group on the draft Value Components have been submitted to the EAO.

The Company expects the Value Components document to be completed in this quarter and the draft Application Information Requirements document to be submitted to the EAO. That is the final document to be settled with the EAO before the applications for an Environmental Assessment Certificate and Permits to Mine, may be lodged.

Tenas Project Community

During the quarter, the Company organised and funded a charity barbeque with Telkwa Village residents to celebrate the start of summer holidays in British Columbia, with proceeds directed to the Telkwa day care centre. Some 100 residents attended.

Tenas Project First Nations

Dialogue is ongoing with the Office of the Wet'suwet'en particularly in relation to the presentation of Tenas Project information and discussions arising from the EAO Technical Working Group meetings.

Kilmain and Back Creek Projects

The Kilmain and Back Creek projects remain under review.

Corporate

During the quarter:

- The Company successfully raised A\$2.6M at A\$0.075 per share by way of a private placement with institutional and sophisticated investors;
- Itochu Corporation confirmed the results of the Tenas Project DFS and invested a further C\$1.5M into Telkwa Coal Limited (**TCL**) taking their shareholding in TCL to 10.1 percent; and
- The Company's Chairman, Mr. David Fawcett, officially retired and resigned from the Board after leading the Company for more than two years through a period a significant growth ending with the delivery of a compelling Tenas Project DFS.

At the date of this report, the Company had 546 million shares on issue.

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About Allegiance Coal

Allegiance Coal is a publicly listed (ASX:AHQ) Australian company advancing a metallurgical coal mine to permitting and production in British Columbia, Canada, and a permitted hard coking coal mine to production in southeast Colorado, USA. The Telkwa metallurgical coal complex includes three pits comprising 125.8Mt of JORC compliant coal resource of which 102.3Mt is in the Measured Category (**Telkwa**). In July 2017 the Company completed a pre-feasibility study declaring 42.5Mt of saleable coal reserves across all three pits (**Tenas PFS**); in March 2019 a definitive feasibility study of the Tenas Pit (**Tenas Project**) in relation to 16.5Mt of those saleable coal reserves (**Tenas DFS**); and is now advancing the Tenas Project towards permitting and production. On 15 July 2019, the Company announced the planned acquisition of the New Elk hard coking coal mine located in southeast Colorado, US (**New Elk**). New Elk is fully permitted, fully built, and comprises 656Mt of NI 43-101 compliant hard coking coal. The Company is undertaking a feasibility study to develop a new mine plan to return New Elk to production, and complete the acquisition of New Elk before 14 July 2020.

Coal Resources & Reserves

The coal resources referred to in this announcement relating to Telkwa (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 **June 2018 Announcement**). The coal reserves referred to in this announcement relating to Telkwa (unless otherwise stated in this announcement) were first reported in the Company's release of its Telkwa PFS results on 3 July 2017 (**July 2017 Announcement**), updated in the Tenas DFS on 18 March 2019 (**March 2019 Announcement**). The coal resources referred to in this announcement relating to New Elk (unless otherwise stated in this announcement) were first reported in the Company's announcement of its planned acquisition of New Elk Coal Company, LLC, on 15 July 2019 (**July 2019 Announcement**). The Company confirms that it is not aware of any new information or data that materially affects the information included in the July 2017 Announcement, the June 2018 Announcement, the March 2019 Announcement or the July 2019 Announcement (together the **Announcements**), and that all material assumptions and technical parameters underpinning the estimates in the Announcements continue to apply and have not materially changed.

Cautionary Statement

Investors should note that the mineral resource estimates for New Elk in this announcement are foreign estimates under ASX Listing Rule 5.12 and are not reported in accordance with JORC Code (2012 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves") (**JORC Code**). A competent person has not done sufficient work to classify the foreign estimates as a mineral resource under the JORC Code and it is uncertain that following further exploration or evaluation work that this foreign estimate will be able to be reported as a mineral resource in accordance with the JORC Code. The Company further cautions investors that, other than exclusivity to the planned acquisition to 14 July 2020, the material provisions in relation to the potential acquisition of New Elk are and remain non-binding and that an investment decision should not be made on the basis of this information. There can be no certainty that any binding agreements will be reached, or that any concluding transaction will eventuate.

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