



25 January 2017

## ACTIVITIES REPORT FOR THE QUARTER ENDING 31 DECEMBER 2017

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### HIGHLIGHTS

- \$3.6 million, before costs, raised by way of a private placement to advance the Telkwa Metallurgical Coal Project (**Project**) towards permitting and production.
  - Project ownership moves to 100 percent.
  - Japanese and Korean steel mills express interest in Telkwa metallurgical coal both as end users and as Project joint venture investors.
  - The premium hard coking coal price continued to gain strength in Q24 2017 finishing the year at US\$236/t driven by strong market fundamentals.
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Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 31 December 2017.

Mr Malcolm Carson, Non Executive Chairman, commented:

*“Q4 2017 marked the first anniversary of the Company’s acquisition of the Telkwa Metallurgical Coal Project (**Project**), and in that time the Company has advanced the Project expeditiously towards permitting, project funding and production. The work programme for 2018 aims to position the Company where, subject to permitting, it is ready to commence mine construction and production. This includes completing detailed mine and engineering design, settling rail and port contracts, securing coal off-take agreements and mine construction finance. An enormous amount to deliver in the coming year but a challenge we are confident we will achieve.”*

### Quick re-cap of 2017

In addition to commencing its environmental baseline studies for permitting, two pre-feasibility studies were delivered in calendar year 2017.

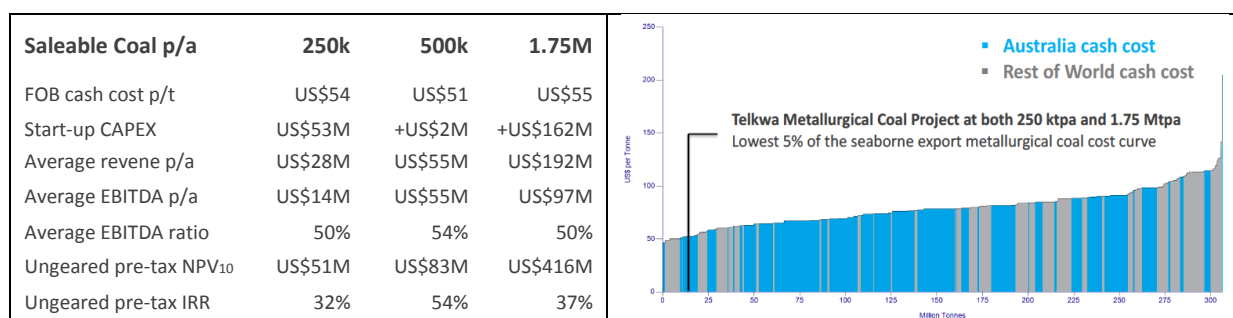
The first assumed a production rate of 1.75M saleable tonnes per annum commencing production at 250k saleable tonnes per annum, before ramping to 1.75M after four years for a mine life of 28 years at a strip ratio of 5.8:1 BCM/ROMt.

The second pre-feasibility assumed the Project is only ever permitted by Government at the start-up rate of 250k saleable tonnes per annum for a mine life of 19 years at a strip ratio of 1.9:1 BCM/ROMt. In addition, because the start-up capital invested in the second pre-feasibility study had an actual production capacity of 500k saleable tonnes per annum, the second pre-feasibility study also assessed

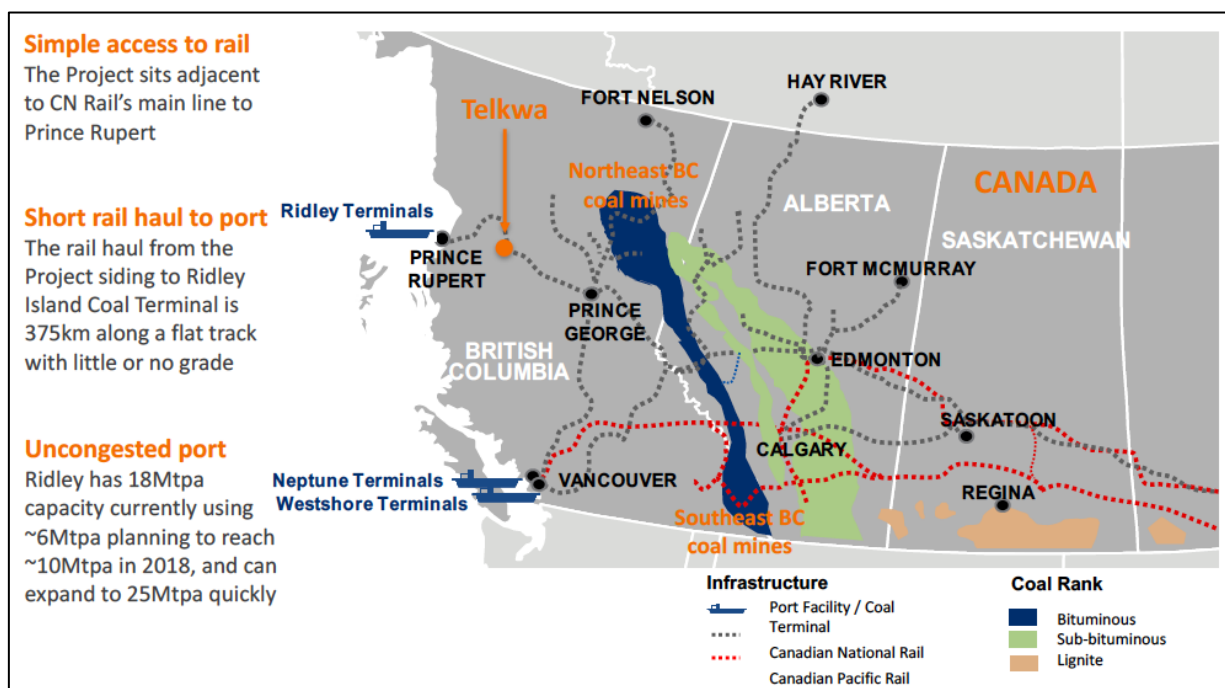
mining at 500k saleable tonnes per annum at the same strip ratio of 1.9:BCM/ROMt for a mine life of 11 years.

The studies declared 148.1Mt of JORC compliant coal resources up to a strip ratio of 5.8:1 BCM/ROMt of which 134Mt (equating to 90 percent of all coal resources) was in the measured category. Of that 148.1Mt, 42.5Mt was converted into saleable coal reserves suitable for use by the steels mills as either a semi-soft coking coal or a mid-volatile PCI coal.

In all three cases outstanding results were delivered. In particular, the studies concluded that at whatever rate of production, the Project could operate at an all-in-FOB cash cost of between US\$51/t to US\$55/t positioning the Project in the lowest five percentile of the global seaborne metallurgical coal cost curve.



Located in the northwest of British Columbia, Canada, the project enjoys exceptional location to rail and port. This coupled with simple geology, a low strip ratio of waste rock to coal, and a good coal wash yield of 75 percent, contribute to the exceptionally low operating costs that the Project enjoys.





### Capital Raising Oversubscribed

During Q4 2017, Bell Potter Securities lead managed the Company's first widely marketed capital raising since its acquisition of the Project at the end of 2016.

The Company initially sought to raise between \$2 million to \$3 million but expressions of interest were overwhelming and the company closed the placement to 'professional' and 'sophisticated' investors oversubscribed raising \$3.6 million (before costs).

The funds raised are being applied towards work necessary to advance the Project towards permitting and in particular:

- Completion and delivery of environmental baseline studies by 30 June 2018 (as reported previously on 17 October 2017);
- Conducting, in Q1 2018, the six hole drill programme necessary to support environmental baseline data, and from which coal core will be taken and sent for coal tests and quality analysis; and
- Commencing the feasibility study on stage 1 production (250,000 saleable tonnes per annum).

The capital raising was well supported by existing shareholders but also saw a large number of new shareholders enter the share register improving spread and liquidity.

### The Company Acquires 100 percent Project Ownership

During Q4 2017, the Company moved to 100 percent ownership of the Project.

The Company's title to the Project was originally founded on farm-in rights where upon the satisfaction of certain milestones, the final being the grant of a permit to mine coal, the Company would earn its way to 90 percent Project ownership.

Whilst the farm-in structure provided a low up-front acquisition cost enabling cash resources to be applied to the Project rather than the purchase price, the ownership structure posed complications to project and joint venture financing, both of which were gaining traction with interested parties in 2017.

The Board was successful in negotiating with the Project owner, Altius Minerals Corporation (**Altius**), a cancelling of the farm-in agreement, and the acquisition of 100 percent ownership of the Project in consideration for the issue of 40,600,000 ordinary shares in the Company, and the continued performance of the milestone obligations.

The acquisition also saw Altius, a diversified mining royalty company listed on the Toronto Stock Exchange (TSX:ALS) with a market capitalization of around C\$520 million, become a very substantial shareholder holding 14 percent of the Company's share capital. With C\$65 million per annum of royalty revenue and current available liquidity for investment of around C\$150 million, the Board welcomed Altius's participation in and commitment to the Company.



### Commencement of Discussions with Japanese and South Korean Steel Mills

Following the completion of the two pre-feasibility studies referred to earlier in this report, in Q4 2017 the Company commenced a process of presenting the Project, and in particular the coal quality and economics, to prospective steel mill customers.

Given the short shipping distance from the Project's coal port of departure at Prince Rupert, the Board perceives the Japanese and South Korean steel mills to be the most likely buyers of Telkwa metallurgical coal.

The meetings held in Tokyo and Seoul were very positive following which several expressions of interest were submitted to the Company in relation to both the off-take of coal, and direct Project investment.

It is intended that coal core recovered from the Company's drill programme in Q1 2018, will be supplied to several of the steel mills for drum and coke oven tests in Q2 2018.

### Drill Programme

In Q4 2017, permits were granted to commence a drill programme necessary to support environmental baseline data, and from which coal core will be taken and sent for coal tests and quality analysis.

The timing of the drill programme is fortuitous in that coal core will also be made available to the steel mills for drum and coke oven tests.

The programme has commenced with the mobilization of labour and equipment to the Tenas area. It is expected drilling will commence in early February 2018, on schedule.

### Environmental Baseline Studies

Fieldwork supporting environmental baseline studies has wound down with the arrival of winter, and snow and ice on the ground. Fieldwork will recommence in Q2 2018 and complete in Q3 2018.

Desktop work is being undertaken by SRK Consulting (Canada) Inc. on water and waste management strategies which will be relied upon by the Company not only in its feasibility study, but also in its environmental effects assessment as a part of mine permitting.

### Stakeholder Engagement

Management met with the Ministry of Energy and Mines (**MEM**) delivering a detailed description of the Project at its planned production rate of less than 250,000 saleable tonnes per annum. Management intend to formally lodge the Project description with MEM and the Ministry of Environment towards the end of Q1 2018 following which the Company will be formally advised of the permitting timetable.

Constant engagement with First Nations and the Mayor of Telkwa's office, along with other regional special interest groups took place in the quarter.



### **Kilmain and Back Creek Projects**

The Kilmain and Back Creek projects remain under review.

### **Metallurgical Coal Market Update**

In Q4 2017, the metallurgical coal market surged from the previous quarter gains. Many factors appear to be contributing to the strength in the hard coking coal price including:

- Tightening of supply from Queensland and China;
- Continuing strong demand from China and later in the quarter from Japan, India and Vietnam;
- Port and rail congestion in Queensland;
- Industrial action in Mozambique and South32's Appin Colliery in Wolloongong; and
- Mine closures at Oaky Creek No.1 in the Bowen Basin, Central Queensland, and the revoking of the Tuhup Coal mining lease in Indonesia.

Overlaying these factors is an anxiety amongst the steel mills around potential supply disruptions from Queensland as the cyclone season approaches resulting in extra stocking of metallurgical coal inventory.

The premium hard coking coal price gained through the quarter from US\$177/t to finish the year strongly at US\$236/t. The robustness of the market is significant as the price increase has been driven by market fundamentals and not a weather related event.

Chinese steel production continues to show signs of positive growth with crude steel production for November 2017 increasing by 2.2 percent. This improvement reinforces the Chinese Government's commitment to close inefficient, loss making, polluting steel capacity. It also highlights an improvement in capacity utilisation for the larger coastal Chinese steel mills that rely almost exclusively on imported metallurgical coal.

World Steel reports global steel production increased by 3.7 percent in November 2017. BHP Billiton reports that emerging Asia (India, ASEAN and the South Asian countries) steel demand and the Chinese 'One Belt One Road' initiative will be a source of continued growth for finished steel. Asian and European steel prices remain strong ensuring steel mill profitability giving support to current metallurgical coal prices.

Despite an expected correction in early 2018 the outlook for steel markets and the metallurgical coal market for Q1 2018 remains positive.

### **Corporate**

At quarter end, the Company had 386 million shares on issue and cash of \$3 million.



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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 148Mt of JORC compliant coal resource of which 134Mt is in the Measured Category. The Project and has been the subject of extensive historical exploration and most recently of a pre-feasibility study declaring 43Mt of proven and probable reserves, and positioning the Project in the lowest five percentile of the global seaborne metallurgical coal cost curve.

**Coal Resources and Reserves**

The coal resources and reserves referred to in this announcement (unless otherwise stated in this announcement) were first reported in the 3 July 2017 Announcement. The Company confirms that it is not aware of any new information or data that materially affects the information included in the 3 July Announcement and that all material assumptions and technical parameters underpinning the estimates in the 3 July Announcement continue to apply and have not materially changed.

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