



30 January 2019

ACTIVITIES REPORT FOR THE QUARTER ENDING 31 DECEMBER 2018

HIGHLIGHTS

- Allegiance secures Itochu Corporation of Japan (**Itochu**) as its joint venture partner to underpin the funding and development of the Tenas Metallurgical Coal Project (**Tenas Project**).
 - Itochu completes tranche 1 investment of C\$1.5M (A\$1.6M), in consideration for 5.3% of the share capital in Telkwa Coal Limited (**TCL**).
 - The definitive feasibility study for the Tenas Project producing 750,000 saleable tonnes per annum of metallurgical coal for at least 20 years, is nearing completion (**Tenas DFS**).
 - Environmental studies carried out by TCL over the last two years to establish baseline data for environmental impact assessment of the Tenas Project, are completed.
 - The environmental impact assessment process (**EA Process**), together with the permitting of the Tenas Project, have commenced.
 - The benchmark hard coking coal price started and finished the quarter strongly at US\$212/mt and US\$215/mt respectively.
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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 2018.

Itochu invests in TCL

Itochu's origins date back to 1858, and 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.

As previously announced on 5 November 2018, during the period prior to granting of permits to mine the Tenas Project, Itochu has agreed to invest C\$6.6M (A\$6.9M) in TCL, subscribing 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 completed in January 2019, 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 and which was received by TCL in November 2018);
- C\$1.5M for a further 4.8% interest in TCL, following completion of a positive Tenas Project DFS, targeted for completion towards the end of Q1 2019; 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.

This investment represents an enterprise value for TCL of C\$33M (approximately A\$35M), and equates to an Allegiance share price of 6.8 cents, a premium of 19% to Allegiance’s last traded share price of 5.7 cents.

It is anticipated the investment by Itochu will provide TCL with the capital to complete all work required to obtain permits to mine the Tenas Project including the Tenas DFS and the EA Process.

Tenas definitive feasibility study nearing completion

Commencing work at the start of Q3 2018, the Tenas DFS for the Tenas Project remains on schedule for completion in Q1 2019.

SRK Consulting (Canada) Inc. (**SRK**) and Sedgman Canada, are the two lead consultants with SRK responsible for mine planning and design, mine infrastructure and water management, and Sedgman Canada responsible for the coal preparation plant and related infrastructure. Additional specialist consultants have been appointed for the design and costing of power, roads and bridges, and the rail loadout.

As the Tenas DFS nears completion, the Board is confident the Tenas Project target metrics set out below will be achieved. The target metrics are materially consistent with those previously announced.

Tenas Project Target Key Metrics		
Total coal resource	Tonnes	36,500,000
Total mined coal	Tonnes	20,000,000
Total saleable coal	Tonnes	14,800,000
Annual saleable coal production	Tonnes per annum	750,000
Life of mine average strip ratio	BCM/ROMt	3.8:1
Life of mine yield	%	74
Mine life	Years	20

Environmental baseline studies complete

Almost two years of environmental baseline studies critical to the EA Process and permitting have been completed. Some environmental monitoring will continue during the EA Process, particularly in relation to water. Studies covered included:

- Water quality;
- Fish, fish habitat and aquatic resources;
- Atmospherics such as water and dust;
- Terrestrial such as terrain, soils, vegetation and wildlife; and
- Cultural and archaeology.

TCL was fortunate to have received an enormous amount of environmental data from comprehensive studies undertaken by previous Tenas Project owners during the 1980s and the 1990s. The baseline data collected by TCL has, amongst other things, been used to augment that historical data, creating in effect, more than 20 years of environmental baseline data.



Not only did this reduce the cost to TCL of collecting environmental data, more importantly, it arms TCL with an excellent data base of environmental information for the EA Process and permitting.

The EA Process and Permitting commenced

The Company lodged what is referred to in Canada as a “Project Description” in relation to the Tenas Project, with the Environmental Assessment Office of British Columbia (EAO) in October 2018. The EAO is the BC Government body responsible for managing the EA Process.

The Project Description is a legislated requirement which outlines the Tenas Project in significant detail, and provides the EAO with an indication of how ‘ready’ a proponent is for environmental assessment and permitting. Once accepted, the EAO will issue a ‘section 10’ order, formally accepting the project for review. That section 10 order was issued to TCL in November 2018.

The EAO has placed increased emphasis and importance on proponents to be properly prepared for this process before seeking a section 10 order. It is encouraging to TCL that the order was issued so promptly after lodging the Project Description.

	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							
<i>Application Development (Pre-Application Phase)</i>							
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							
<i>Application Submission and Review (Application Phase)</i>							
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							
<small>Notes: ¹ Dates shown are Telkwa Coal's best estimates only. ² Progressive reclamation at specific sites may begin during the Operation Phase. Post-closure reclamation activities are anticipated to require two to three years, with continued monitoring beyond this time frame.</small>							

While there is always, and remains, potential for delays in the EA Process and permitting, to date, TCL is tracking to its timetable on key components, highlighted in the Schedule above.

While the section 11 order has not been issued yet by the EAO, the EAO has nevertheless allowed the EA Process to continue in accordance with the schedule. The section 11 order is an order by the EAO setting

the scope, procedures and methodologies for the EA Process, public and First Nations consultation, and the establishment of a technical working group (TWG).

Since TCL is already advanced in public and First Nations consultation, notwithstanding the section 11 order has not been issued, the TWG was established by the EAO following the section 10 order, with the first TWG meeting taking place near Telkwa on 27 November 2018. The second TWG meeting is being held on 31 January 2019, again near Telkwa.

TCL understands from the EAO that the section 11 order will be issued in the coming weeks.

Community

TCL held its second 'Open House' out of five planned, in Telkwa on 28 November 2018. This followed the first Open House held on 23 May 2018 and the third is planned for early Q2 2019.

Members of the public of Telkwa, and neighbouring communities, totalling almost 100 arrived between 4.30pm and 8.30pm, to meet with TCL management and consultants, and to view and discuss a series of story boards illustrating and explaining the many facets that make up the Tenas Project. Sixteen story boards were on display.

Each story board was managed by either TCL management or an independent expert in the relevant field, providing answers to questions and issues raised by members of the public.



The photo above captures one of the story boards with members of the public engaged in conversation (left side), and to the right side the Mayor (sitting) and Deputy Mayor (standing) of Telkwa Village also in attendance. Copies of the story boards may be viewed on the Company's website on the direct web-link that follows. http://www.allegiancecoal.com.au/irm/PDF/1500_0/communityengagement



Metallurgical Coal Market Update

Despite analyst predictions of a correction to the premium low volatile hard coking coal price amid continued uncertainty around US trade sanctions, environmental policy in China, and signs of curtailment in Chinese demand, the coking coal market was well supported in the quarter. The premium low volatile market started the quarter at US\$212/mt and finished at US\$215/mt.

Kilmain and Back Creek Projects

The Kilmain and Back Creek projects remain under review.

Corporate

At the date of this report, the Company had 511 million shares on issue and \$2.2 million cash at bank.

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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 definitive 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.

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