



30 January 2017

ACTIVITIES REPORT FOR THE QUARTER ENDING 31 DECEMBER 2016

HIGHLIGHTS

- Allegiance completes the acquisition of all the shares in Telkwa Coal Limited, which owns the advanced Telkwa Coking Coal project (**Telkwa Project** or **the Project**) located in northwest British Columbia, Canada.
 - Allegiance commences its pre-feasibility study on the Telkwa Project.
 - Allegiance commences discussions with First Nations and the Ministry of Energy and Mines of the Government of British Columbia in relation to the Telkwa Project.
 - Significant cost savings were achieved by locating nine historical groundwater wells, seven of which were still operational, installed by previous Telkwa Project owners some 20 years ago.
 - The Board is strengthened by the appointment of David Fawcett, a mining engineer with over 40 years experience in the coal industry, primarily in Western Canada.
 - Allegiance raises \$2.5 million by way of a private placement to sophisticated investors and completes a consolidation of its share capital on a 1 for 5 basis.
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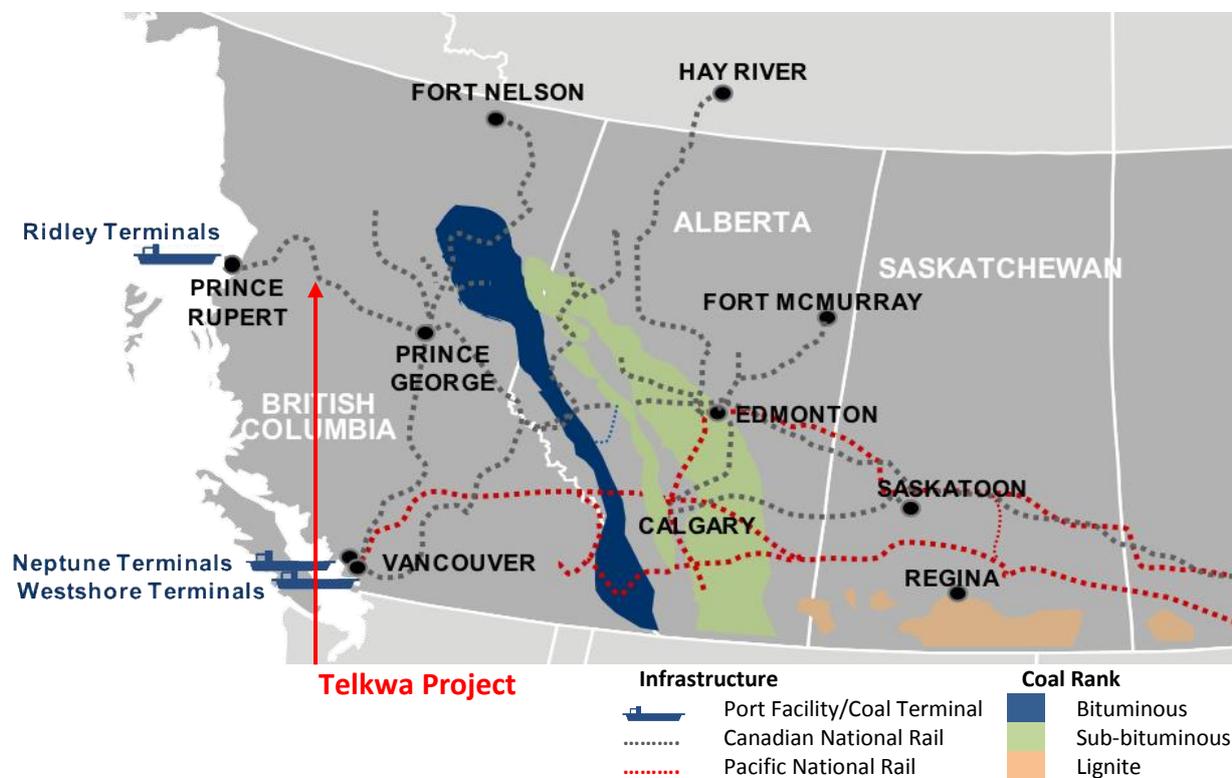
Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 31 December 2016.

Mr Malcom Carson, Non Executive Chairman, commented:

“It is an understatement to say that the quarter was extremely busy, and hugely productive for Allegiance. The completion of the acquisition of all the shares in Telkwa Coal Limited, which owns the advanced Telkwa coking coal project, in a market of strengthening demand for seaborne metallurgical coal, was a game changer for the Company. With 828 historical drill holes for more than 91,000 metres of drilling, 321 of which were cored for sampling, and multiple bulk samples and trenching, the Telkwa Project has in today’s dollars, something in the order of \$40 million of exploration data. We are truly fortunate to have been able to secure this Project for the consideration paid, and we will now do all that we can, to fast track the Telkwa Project into production.”

Acquisition of Telkwa Coal Limited

On 23 November 2016, shareholders approved the acquisition of all the shares in Telkwa Coal Limited in consideration for the issue of 50 million shares equating to a purchase price of \$1,250,000 at a deemed share price of \$0.025, on a post consolidation basis.



The Telkwa Project enjoys exceptional location, situated immediately adjacent to Canadian National Rail’s railway line. Whereas the majority of northeast and southeast British Columbia’s coal, and Alberta’s, experiences geographical challenges connecting to the railway line and must then be hauled in excess of 1000km to Ridley Terminals, the Project has simple access and just a 360 km rail haul. This is a very significant capital and operating cost advantage.

The Company is now committed to fast tracking the Telkwa Project into production. The planned timetable towards production (which is subject to change) is summarized in the table below.

	2017				2018				2019				2020				2021			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
First Nations	Project participation and review				Socio-eco agreement				Continual project participation											
Project studies	PFS				BFS															
Environmental	Baseline studies				Continual environmental monitoring															
Permitting	Constant Govt. dialogue				Filings		Decision													
Marketing	Secure JV partner																			
Financing	Secure mine finance																			
Development									Construction											
Small mine									First coal				Full scale mining							
Major mine									Permitting											



Pre-feasibility Study

The Project has already been the subject of several separate feasibility studies* by Shell in 1992 and Manalta Coal Limited in 1993, 1996, and the last in 1997. Each study expanded the recoverable coal based on additional drilling which increased both the modelled annual rate of production and the life of mine.

The final study completed in 1997 contemplated recovering 29.7Mt of coal at a strip ratio of 5.7:1 BCM/ROMt, and focused on mining 1.2Mtpa of clean coal for a life of mine of 18 years. The 1997 study did not include all mineable areas focussing on 2 of 3 allowing the third area to be developed in the future. The life of mine therefore at that planned rate of production would likely be well in excess of 20 years.

Notwithstanding the prior studies*, Allegiance resolved to undertake its own studies commencing with a pre-feasibility study (**PFS**), in compliance with National Instrument 43-101 and the 2012 JORC Code, for completion and delivery by 30 June 2017. The PFS terms of reference are to focus initially on a small, low capital and low operating cost mine, producing 240,000tpa of clean coking coal, and will include a plan to increase production to ~1.5Mtpa clean coking coal.

SRK and Sedgman were engaged in January 2017 and December 2016, respectively, to lead the delivery of the PFS. Several other consultants were also engaged to provide specialized reports in specific areas.

SRK will be responsible for geological and mine modelling, mine engineering, geotechnical and water management. Sedgman will be responsible for coal processing and mine-site infrastructure. All contracts were agreed to on a fixed cost basis.

Mr Malcom Carson noted:

“Yet again, this highlights the very significant amount of work that has been undertaken by previous Project owners. Allegiance’s immediate objective in relation to the PFS is simply to bring this work up to a NI 43-101 and 2012 JORC compliant level, quickly, and at minimal cost”.

*Not compliant with the 2012 JORC Code.

Key Stakeholder Engagement

In December 2016, Allegiance commenced dialogue and engagement with the indigenous peoples in whose territory the Telkwa Project is located. Both Allegiance and the local First Nations group are working towards the completion of an initial Communications and Engagement Agreement. If and when that agreement is completed, Allegiance will update the market.

The Ministry of Mines and Energy of the Government of British Columbia (**MEM**) is a key organisation in the mine permitting process. MEM recently established the ‘Major Mine Permitting Office’ (**MMPO**) to manage the entire permitting process for new projects. This was driven, to a large degree, by delays that many proponents were experiencing with their mine permitting applications. It is a welcome initiative supported by Allegiance.



In December 2016, Allegiance also met with key MEM officials, including those from within the MMPO, to introduce the Project and Allegiance, and importantly, to outline Allegiance's planned schedule and timetable to the lodging of mine permit applications in 2H 2018.

Allegiance was also fortunate at a separately organised meeting to meet with, and present to, the Deputy Minister for the Ministry of Energy and Mines.

Allegiance and MMPO officials will meet again towards the end of 1Q 2017 to agree on the process the Project will follow, as well as the baseline programmes planned to commence in April this year.

2016 Groundwater Sampling Programme

As was previously announced to the market, nine groundwater wells installed some 20 years ago, seven of which were in good operating condition, were located, and from which three field water samples were taken. The estimated cost saving from this find is C\$200,000.

In total, Allegiance is aware of the existence of some 40 historical groundwater wells and intends to locate these in Q3 2017. Presuming a majority of them are found to be operating, as was the case with seven of the nine already found, further and greater cost savings to the Project could be made.

Mr David Fawcett strengthens the Board

As was previously announced to the market, Mr David Fawcett, a mining engineer with over 40 years experience in the coal industry, primarily in Western Canada, joined the Board.

His achievements in the coal industry in North America are outstanding, including co-founding two of Canada's largest coal companies, Western Canadian Coal Corporation and Peace River Coal. Western Coal was taken over by Walter Energy Inc. for C\$3.5 billion, and Peace River Coal was acquired by Anglo American for C\$630 million.

Mr Fawcett was the recipient of the Coal Association of Canada's Award of Distinction in 2015 recognising his achievements and contribution to the coal industry in Canada.

Allegiance is very fortunate to have Mr Fawcett's insight and input into the development of not only the Telkwa Project, but to Allegiance as a whole.

Coking Coal Market Update

The coking coal market surged to a record price (AUD terms) of USD308 per MT FOB in Q4 2016, believed to be on the back of an increase in steel demand in China, a reduction in coking coal production in China and supply disruptions and production limitations from Australia. The robustness of steel demand in China, despite a reduction in steel exports, appears to have surprised analysts, amongst others.

The curtailment of coking coal production from high cost Chinese coking coal mines to 276 days had an unexpected and significant effect on the market as did the disruption of supply from coking coal mines in Queensland and New South Wales. It is understood the Chinese mines have now reverted back to



330 days production with a consequent correction to prices. With Australian high quality coking coal supply constrained, Canadian exports increased towards the end of 2016.

The Asia HRC (USD500) and Bar (USD450) steel price is supporting current coking coal and iron ore prices - as they are in Europe (HRC USD580). It is expected the Q1 2017 settlement of USD285 per MT FOB in to Japan will insulate coking coal producers from some of the recent downside in spot prices.

It is understood that despite the downturn in pricing, the coking coal market remains resilient at or around USD175 per MT FOB for spot cargoes in Q1 2017. It would appear that there is no apparent significant increase in production of high quality coking coal from Australia. Accordingly, market analysts believe coking coal prices will remain above USD150 per MT well in to 2017.

Kilmain and Back Creek Projects

Both the Kilmain and Back Creek Projects are under review. There were no activities of note during the quarter ended 31 December 2016.

Corporate

Contemporaneous with the acquisition of Telkwa Coal Limited, shareholders approved a consolidation of the Company's share capital on a 1 for 5 basis, and the issue of 66.667 million shares by way of a private placement to sophisticated investors, raising \$2.5 million.

The capital raised enabled the company to commit to and expedite its PFS programme for the Telkwa Project, and to commence the permitting process towards mine development and production.

In addition, the Telkwa Project tenement owner, Altius Minerals Corporation, agreed to convert payments due to it under the Company's Farm-in Agreement (as is set out in the Company's announcement dated 16 September 2016), into shares in the Company acquiring 10.956 million shares in consideration for \$410,861.

For more information, please contact:

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