ALLEGIANCE COAL
LIMITED

29 April 2020

# ALLEGIANCE ACHIEVES FURTHER REDUCTION IN START-UP CAPEX AT THE NEW ELK HARD COKING COAL MINE

---

## HIGHLIGHTS

- Allegiance reschedules the commencement of its first three production units in year one of production to reduce the start-up capital requirement at the New Elk hard coking coal mine (**New Elk Mine**), from US$40M to US$24M, both of which include working capital.

- The saleable coal tonnes, the total mine capital expenditure and the total cash operating costs from the mine plan announced on 31 January 2020 (**Start-up Mine Plan**), remain the same, all that changes is the timing in cash costs and capital expenditure incurred, and production.

---

Allegiance Coal Limited (**Allegiance** or **Company**) is pleased to report that following a further review of the New Elk Mine plan by independent mine engineers, Stantec, the New Elk Mine start-up capital (including working capital), has been further reduced from US$40M (as summarised in the Company's 31 January 2020 Announcement), to US$24M.

The US$40M start-up capital number in the Start-up Mine Plan was itself a reduction of the start-up capital number of US$56M derived from the New Elk Mine maiden feasibility study also undertaken by Stantec, the results of which the Company announced on 28 November 2019 (**Feasibility Study**).

Chairman and Managing Director, Mark Gray commented:

*"The Board continually challenges itself to assess the best way in which to develop New Elk, and to create as many options as are available given the availability of capital and the state of the steel, and steel making coal industries. This revision to the Start-up Mine Plan, what we call the 'Slow Start-up Mine Plan', offers Allegiance the ability to commence production with a significantly lower start-up capital demand, if Allegiance is required, or feels it would be prudent at the time, to do so. Allegiance continues to work with its potential equity and debt providers in sourcing the capital needs of New Elk, and remains confident of doing so given the potential low cost of New Elk to deliver coal to the seaborne market, coupled with what we believe will be a major loss of coking coal supply this year as high cost producers are forced out of the market."*

## Background

In its 28 November 2019 ASX announcement, Allegiance released the results of the Feasibility Study declaring a coal resource of 268Mt and saleable coal reserves of 45Mt, summarised in the two tables below.

| New Elk Resources | Seam height | Measured Mt | Indicated Mt | Inferred Mt | Total Mt |
|---|---|---|---|---|---|
| Green seam | 3.0 foot | 19.1 | 17.7 | 5.6 | 42.4 |
| Blue seam | 3.0 foot | 89.6 | 31.4 | 9.1 | 130.2 |
| Allen seam | 3.0 foot | 68.9 | 25.4 | 0.7 | 95.1 |
| **Total** | **3.0 foot** | **177.6** | **74.4** | **15.6** | **267.6** |

| New Elk Reserves | Seam height | | Proven Mt | Probable Mt | Saleable Mt |
|---|---|---|---|---|---|
| Green seam | 4.0 foot | | 0.8 | - | 0.8 |
| Blue seam | 4.0 foot | | 17.7 | 4.5 | 22.2 |
| Allen seam | 4.0 foot | | 16.7 | 5.5 | 22.1 |
| **Total** | **4.0 foot** | | **35.2** | **9.9** | **45.1** |

The New Elk Resources and Reserves were derived from predominantly two of eight coal seams with a coal seam cut-off thickness of three foot. The total estimated coal resource however is 656Mt, based on a technical report prepared in accordance with National Instrument 43-101 by Agapito Associates, Inc. in July 2012, and summarised in the table below.

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

**Cautionary statement:** Investors should note that the Agapito mineral resource estimates for New Elk are foreign estimates under ASX Listing Rule 5.12 and are not reported in accordance with the JORC Code (2012 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves"). A competent person has not done sufficient work to classify the foreign estimates as mineral resources in accordance with the JORC Code. It is uncertain that following evaluation and or further exploration work that the foreign estimates will be able to be reported as mineral resources in accordance with the JORC Code.

The Feasibility Study mine plan delivered 45Mt of saleable coal reserves at an average rate of 2Mtpa over 23 years and required US$56M of start-up capital (including 2020 working capital). As disclosed in the Company's 31 January 2020 ASX announcement, Stantec revised the Feasibility Study mine plan driven at Allegiance's request by two key objectives:

- First, to develop a start-up mine plan that would allow Allegiance more time to prudently assess the New Elk Mine's production ramp-up options; and
- Second, to reduce the start-up capital requirement.

In its 31 January 2020 ASX announcement, Allegiance delivered the results of the Start-up Mine Plan which on a standalone basis, without any production ramp-up, could produce 23Mt of saleable coal at an average rate of 1.4Mtpa for 15 years and required US$40M of start-up capital (including 2020 working capital).

The Start-up Mine Plan required four underground coal production units each commencing as follows:

- Production unit 1, on day 1;
- Production unit 2 in month 2;
- Production unit 3 in month 4; and
- Production unit 4 in year 4.

## Slow Start-up Mine Plan

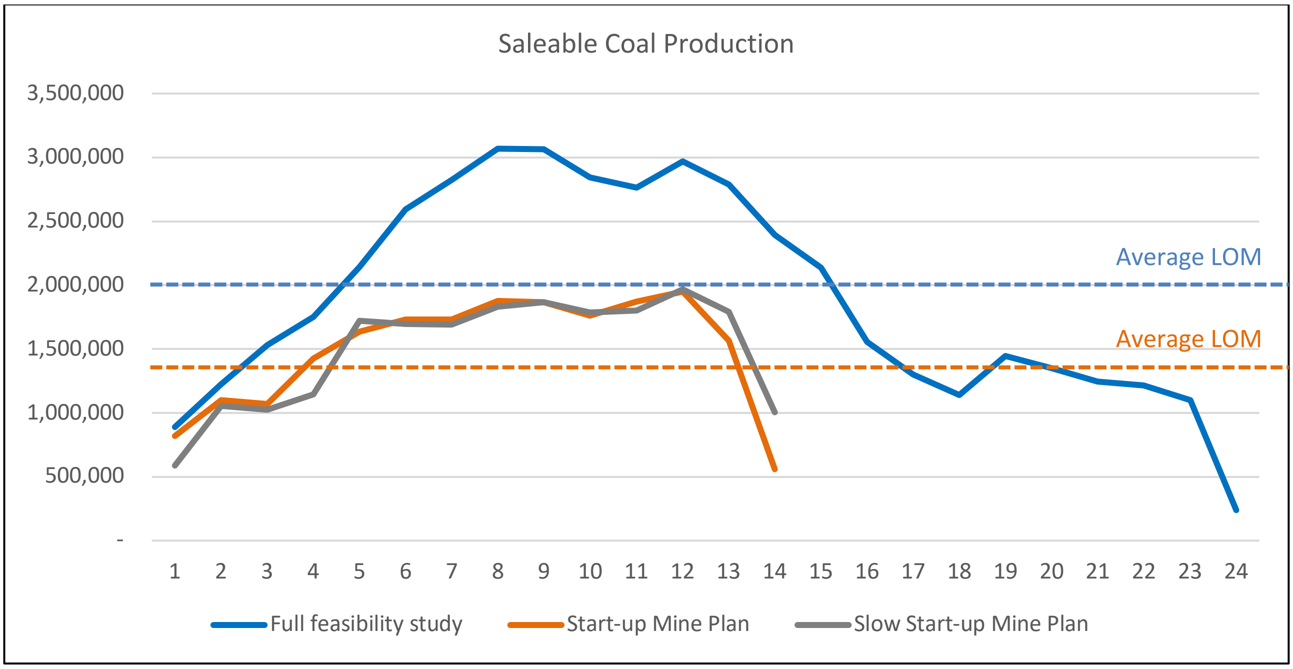
Driven by Allegiance's desire to reduce start-up capital further, Stantec re-scheduled the mine plan and equipment as follows:

- Production unit 1, on day 1;
- Production unit 2 in month 7;
- Production unit 3 in month 10; and
- Production unit 4 in year 4.

This has resulted in a reduction in the start-up capital from US$40M to US$24M. While the Slow Start-up Mine Plan delays start-up capital by six months, Allegiance can delay it further if at the time that would be prudent to do so, or conversely, Allegiance can bring the capital expenditure forward, if the capital is available and again if it would be prudent to do so. What is important to the Board, is the Slow Start-up Mine Plan provides Allegiance with options and flexibility to respond quickly to the circumstances that exist.

## No Material Change other than Start-up CAPEX

The key takeaway from Stantec's work is that the delay in capital expenditure does not materially change the total capital and cash operating costs nor in any way the saleable coal tonnes. The graph below illustrates the three mine plans derived from the Feasibility Study, the Start-up and the Slow Start-up Mine Plans.




As is evident, other than a reduction in saleable coal production in the first year, 590kt (Slow Start-up) v 820kt (Start-up), which is recovered in year 14, the production profile is very similar. Allegiance will now focus analysis on the potential to increase production in year two onwards with coal mined from the Primero seam in the neighbouring Lorencito property, subject to completing a feasibility study in H2 2020, and extending the life of mine with Primero coal and the other six coal seams from the New Elk Mine.

ALLEGIANCE COAL
LIMITED

---

Authorised for release by Chairman and Managing Director, Mark Gray.

For more information, please contact:

**Mr Mark Gray**
Chairman & Managing Director
Mobile : +61 412 899979
Email : mgray@allegiancecoal.com.au

**Mr Jonathan Reynolds**
Finance Director
Mobile : +61 408 229 953
Email: jreynolds@allegiancecoal.com.au

**About Allegiance Coal**
Allegiance Coal is a publicly listed (ASX:AHQ) Australian company based in Vancouver, BC Canada, and is focussed on developing and mining metallurgical coal projects in North America and Western Canada. The Company is developing the Tenas metallurgical coal project, located in northwest British Columbia, in partnership with Itochu Corporation. The Tenas Project has a completed definitive feasibility study and is now in the permitting process targeting H2 2022 for the commencement of production. On 22 January 2020, the Company announced the acquisition, subject to conditions, of the New Elk hard coking coal mine, a fully permitted and constructed mine located in southeast Colorado, US. The Company is targeting to return the New Elk mine to production in 2020.

**New Elk Resources & Reserves and Production Targets**
Allegiance refers to its announcements of 15 July 2019 and 28 November 2019 regarding the resource estimates for the New Elk Mine insofar as they relate to the estimates other than the Green, Blue and Allen seams. Allegiance confirms that it is not aware of any new information or data that materially affects the information included in those announcements and that all material assumptions and technical parameters underpinning the estimates in the previous announcements continue to apply and has not materially changed. Allegiance refers to its announcement of 31 January 2020 regarding the production targets and forecast financial information in respect of the New Elk Mine. Allegiance confirms that all the material assumptions underpinning the production targets and forecast financial information derived from the production target in that announcement continue to apply and have not materially changed, except in respect of the timing of the capital expenditure and production as disclosed in this announcement.

---