ALLEGIANCE COAL
LIMITED

1 December 2020

ALLEGIANCE ENTERS INTO A 4 YEAR CONTRACT TO ACQUIRE 2.7 MILLION TONNES OF ALABAMA HIGH SULPHUR HIGH-VOL 'A' HARD COKING COAL TO BLEND WITH ITS NEW ELK LOW SULPHUR HIGH-VOL 'B' HARD COKING COAL ON PRODUCTION START-UP

HIGHLIGHTS

- Allegiance has entered into a coal off-take contract with Mays Mining of Alabama to acquire 60,000 tonnes per month of high sulphur, high-vol 'A' hard coking coal for a contract term of four years. This brand of Alabama hard coking coal is sold typically into the domestic thermal coal market due to its high sulphur content.

- Allegiance will rail around 65,000 tonnes per month of its New Elk high-vol 'B' hard coking coal to Convent Marine Terminal (CMT) located in New Orleans, an active coal port in an active neighbourhood for coal export to the seaborne market.

- Allegiance will buy the Alabama coal loaded in a barge on the Black Warrior River, west of Birmingham Alabama, and barge the coal to CMT where it will maintain two separate stockpiles of New Elk and Alabama coal, respectively.

- Allegiance will initially blend its low sulphur New Elk high-vol 'B' hard coking coal with the high sulphur Alabama high-vol 'A' hard coking coal at a ratio of +/- 53% to 47%, ensuring the sulphur remains below the 1% threshold for US high vol coking coals on the seaborne market.

- Allegiance intends to sell around 125,000 tonnes per month of a higher quality, blended high-vol hard coking coal to the seaborne market, from an active coal port in a neighbourhood where global steel mills frequently send vessels to buy Alabama hard coking coals.

- The cost of rail from New Elk to CMT is marginally higher than the cost to Houston which is off-set in part by lower port costs. Overall however, the improvement in value of a blended New Elk and Alabama coking coal, and the margin gained on buying and selling the Alabama coking coal, improves the financial performance of New Elk mine significantly.

- Allegiance's current plan, subject to raising the start-up capital, is to commence production at New Elk late Q2 2021 (including the purchase of Alabama coal), allowing several months to refurbish the New Elk coal preparation plant and its existing production equipment.

- Allegiance will update the market on the New Elk start-up mine plan, production schedule, and reduced start-up capital expenditure, in the very near future.

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Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to announce that it has secured an initial 2.7 million tonnes of Alabama high sulphur high volatile 'A' hard coking coal which will be used to blend with New Elk hard coking coal prior to sale on the seaborne market.

Chairman and Managing Director Mark Gray, noted as follows:

- Our New Elk mine is a low sulphur hard coking coal deposit for which we will receive no credit from the global steel mills for delivering a sulphur content of 0.5%, 50% below the sulphur threshold of <1% for US high-vol hard coking coals on the seaborne market. East Coast US hard coking coals are typically higher in sulphur than the majority of coking coals that reach the seaborne market.

- This led us to search for high quality hard coking coals in the Alabama coalfields, which might suffer from sulphur penalties or at worst, be ignored as a coking coal altogether. The Pratt coal seam in Alabama is one such coal: a high-vol 'A' hard coking coal typically with a sulphur content (>1.5%) which is rejected both domestically and globally by the steel mills and therefore when mined, is typically sold into the domestic thermal coal market.

- Buying Pratt coal at a local domestic thermal coal price (with upside opportunity for the vendor), blending it with New Elk coals, and selling the blended product as a high quality hard coking coal on the seaborne market enables Allegiance to exceed its start-up production target of 1.4Mt of saleable coal at substantially less capital expenditure required, and to arbitrage the value of the Pratt coal whilst increasing the market value of the New Elk coal. And this is by no means a short-term strategy. There is an abundance of Pratt seam coal which continues to be sold to the domestic thermal coal market from other mines, as well as large deposits of this coal sitting undeveloped.

- This is very much a long-term strategy for Allegiance which we are extremely excited by. While we start the New Elk mine in our Blue seam, a low sulphur high vol 'B' hard coking coal, we intend to commence production in our Primero seam 12 months later, which is a low sulphur high vol 'A' hard coking coal. When we get to blend Pratt with Primero, we truly will be delivering a premium high vol hard coking coal product to the seaborne market for which we expect to command a premium price.

Summary of offtake contract

Allegiance has entered into a binding terms sheet, subject only to completion of formal legal documentation, with Mays Mining, Inc., a private family owned coal mining business with existing operations in Alabama (**Mays**). Allegiance has met with several mine owners who produce Pratt coal, all of whom are potential future partners when Allegiance increases its production at New Elk. Mays however, is well known to the New Elk project management team and a producer Allegiance can trust to deliver, on time, and within specification.

Allegiance will acquire from Mays:

- Upon New Elk commencing production at ~32,500 tonnes per month, 30,000 tonnes per month of Pratt coal at 1.5% sulphur (**Pratt**), for total saleable coal per month of 62,500 tonnes; and

- Upon New Elk reaching ~65,000 tonnes per month within six months of commencement of production at New Elk, 60,000 tonnes per month of Pratt, for total saleable coal per month of 125,000 tonnes.

The term of the contract is four years equating to around 2.7 million tonnes of Pratt coal bought, more if Allegiance is able to ramp to 125,000 tonnes more quickly than six months post New Elk start-up.

Allegiance will pay for the Pratt coal fortnightly upon the coal being washed, weighed, and tested for specification compliance at the mine site. Mays will then direct load from the mine site into a barge on the Black Warrior River (west of Birmingham), where the coal under Allegiance's control will be barged approximately 400 miles to CMT, and unloaded into its own stockpile awaiting ship loading and blending.

Allegiance will pay Mays a fixed price for the coal, along with a bonus payment of an agreed share of the FOB sales price above US$110 per tonne, that Allegiance achieves for the blended coal.

In addition, Allegiance has agreed with Mays to construct a wash plant adjacent to the Pratt coal, which is also adjacent to the Black Warrior River and an existing, operational, barge load out. To do so will reduce May's haulage costs of having to truck the raw Pratt coal to a wash plant 10 miles from the mine site, and back, and avoid any port barge loading fees by direct loading from the wash plant. Helping Mays to maintain a good margin for the Pratt coal provides Allegiance with comfort that Mays will be a safe, and reliable supplier. By owning the wash plant, Allegiance will be able to control the quality of the coal being loaded, and give Allegiance security around future supply.

Improvement in New Elk coal quality from blending with Pratt

The New Elk mine commences production in the Blue seam which outcrops at surface, is already developed with portal entries, fan ventilation, belting, and the mains advanced 350 metres underground. It is the easiest, quickest, and cheapest seam within which to commence mining.

Image: Blue seam portal entries left to right: fan; personnel and materials; and belt.

New Elk's premium coal, the Primero seam, is planned to be brought into production around 12 months after production commences in the Blue seam, once permits to mine underground in the Primero seam are re-instated. An open pit mining permit for the Primero exists, and an underground mining permit did exist though the prior owner allowed it to lapse. Allegiance understands that the re-instatement of the underground mining permit is a simple process provided the surface footprint does not change.

The table below summarises key coal quality parameters of the Blue and Primero seams, standalone and blended with Pratt coal, and are compared with a range of key high-vol 'A' hard coking coal specifications. The table also contains some key coal quality parameters for premium low-vol hard coking coal from Australia, which is the benchmark coal on the seaborne market against which all coking coals are priced.

		Blue	Primero	Pratt	Pratt Blue	Pratt Primero	HVA	PLV
					Blend	Blend	Range	Benchmark
Proximate								
Ash	%	9	9	9	9	9	6-8	9
Volatile Matter	%	36	32	32	34	32	31-34	18
Sulphur	%	0.5	0.6	1.5	<1%	<1%	<1%	0.8
Rheology								
FSI		7	8	8	7.5	8	7-9	7-9
Fluidity	ddpm	25,000+	25,000+	30,000+	30,000	30,000	>30,000	1,000
Dilatation	%	140	240	300	220	270	220-350	
Ash Chemistry								
Phosphorous	%	0.08	0.10	0.04	0.06	0.07	>0.009	+/-0.05
CSR		44	50	50	47	50	>50	>70
Petrography								
Reflectance	%	0.87	0.96	0.94	0.91	0.95	1.0-1.15	1.0-1.15
Strength index		3.06	3.50	3.50	3.30	3.50	>3.50	

Over the last decade, high-vol 'A' (**HVA**) has traded at an average discount to premium low-vol (**PLV**) of 6%, while high-vol 'B' (**HVB**) has traded at an average discount to PLV of 17%. Interestingly however, today, HVA is trading at a premium to PLV, and HVB at or slightly below PLV. This is due to the current prohibition on the import of Australian coal to China.

As is illustrated in the table, the key coal quality parameter that the steel mills are looking for in US high-vol hard coking coal is fluidity (for example, compare the fluidity of HVA to PLV). Fluidity is critical to enabling the steel mills to blend multiple coking coals in their coke oven feed. For that reason, the steel mills will accept a lower CSR (coke strength after reaction) in US high-vol coking coals to PLV. But the steel mills do expect CSR to be at or above 50 if it is to be a HVA.

The Blue seam standalone does not meet HVA coking coal specifications and would be priced in the HVB range; volatile matter is too high and all of fluidity, dilatation, CSR and petrography are too low. However, blended with Pratt at ~53% Blue to ~47% Pratt to ensure the sulphur content is <1%, the Blue seam is very close to meeting HVA specifications and will therefore command a better price than HVB. The Primero seam standalone is very close to HVA, and when blended with the Pratt at a similar ratio will deliver a good HVA hard coking coal to the seaborne market and command a premium price.

Allegiance is not concerned by the higher ash and phosphorous, and lower reflectance in the two coal blends compared with the HVA range. As can be seen by the PLV specifications, 9% ash and 0.07% phosphorous is acceptable to the steel mills (particularly in Asia), and lower reflectance is off-set by very good dilatation.

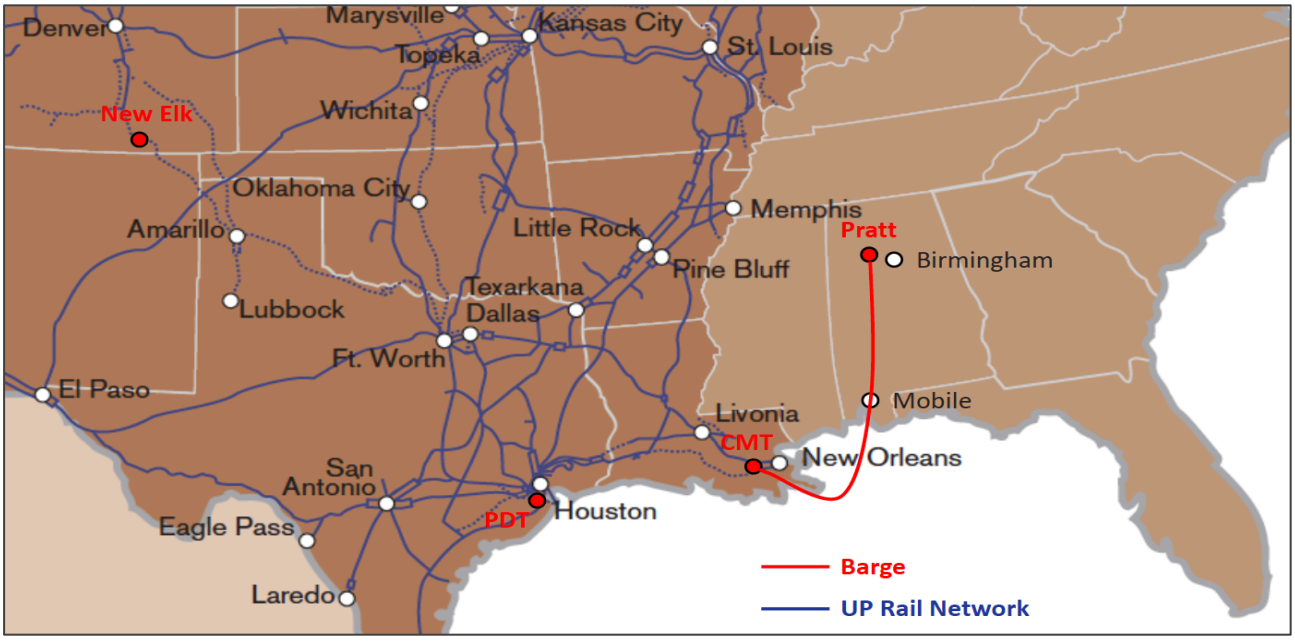
Improvement in export location with a change in port from Houston to New Orleans

New Orleans, along with neighbouring Port of Mobile, is a major US coal export hub with multiple coal terminals. Moving New Elk coal to New Orleans instead of Houston, although marginally more costly, creates better access to steel mill vessels. CMT is the only coal terminal in New Orleans that is set up to receive coal by rail, which is the only way New Elk can move coal to New Orleans affordably. All other coal terminals in New Orleans can only receive coal via barge, as can CMT as well.

Image: CMT located on the southern Mississippi River, New Orleans

CMT has 1.35M tonnes of storage capacity and annual outbound throughput capacity of 13.5M tonnes. CMT has two berths capable of receiving Cape and Panamax sized vessels. CMT also has two stacker-reclaimers enabling simultaneous ship loading from two different stockpiles for coal blending.

The map below illustrates rail of New Elk coal to CMT via Union Pacific Rail (and Canadian National Rail who own the last 50 miles of track into CMT), and barging Pratt coal to CMT down the Black Warrior River.



Source Map: Union Pacific Rail network owned and shared track rights

A revised rail rate has been agreed with Union Pacific Rail, as well as Canadian National Rail, and the port rate has been agreed with CMT. Overall, rail and port costs for New Elk to CMT are only marginally higher than the rail and port costs to Pasadena Deepwater Terminal (**PDT**) as estimated in the New Elk feasibility study announced on 28 November 2019. The extra rail mileage has been offset in part by lower port costs due to CMT being a more active, and efficient, coal handling port than PDT.

The extra cost however, gets New Elk coal to an active coal neighbourhood where there is a constant flow of steel mill vessels collecting Alabama hard coking coals as well as coking coals from Appalachia which are often barged down the Ohio River connecting to the Mississippi to make their way to several New Orleans coal terminals. More importantly however, the extra cost enables the blending opportunity with Alabama hard coking coals.

The costs of moving bulk commodities on water in the US and elsewhere globally, is typically a lot less than on rail. This has helped Allegiance to pay a fair fixed price for the Pratt coal, and to then move that coal to CMT at a cost acceptable to Allegiance. Allegiance has barge quotes from three barge operators, as well as a rail quote from Pratt to CMT, and will settle on one of the offers in the very near future.

New Elk mine plan

The New Elk mine plan has not changed from the mine plan announced on 29 April 2020 and before that, on 31 January 2020. Again, as was discussed in the 29 April 2020 announcement, all that has changed is the timing of the commencement of the production units, in particular, delaying the commencement of the third and fourth production units due to the purchase of Pratt coal achieving (in fact exceeding) Allegiance's target start-up production number of 1.4 million saleable tonnes per annum (also discussed in the 29 April 2020 announcement).

The production targets and forecast financial information as disclosed in this announcement in respect of New Elk were previously disclosed in Allegiance's announcements of 28 November 2019, 31 January 2020 and 29 April 2020. Allegiance confirms that all the material assumptions underpinning the production targets and forecast financial information as disclosed in the previous announcements in respect of New Elk continue to apply and have not materially changed.

Allegiance will provide a further update to the market on the new production schedule along with the revised New Elk start-up capital requirement once Stantec, Allegiance's independent mine engineering consultant, has completed the rescheduling of two production units within the existing mine plan.

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

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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. In October 2020, the Company completed the acquisition 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 2021.
