



31 December 2020

CLARIFICATION STATEMENT REGARDING THE NEW ELK MINE START-UP MINE PLAN

Allegiance Coal Limited (**Allegiance**) refers to its announcement to the Australian Securities Exchange dated 30 December 2020 (**Announcement**) entitled “New Elk Start-Up Mine Plan Finalised” and provides details of all material assumptions on which the production target and forecast financial information is based in that Announcement. Allegiance notes the Announcement provided details only of updated operating and capital cost estimates and referred to previous announcements detailing the other material assumptions.

Key performance indicators life of mine	Units	Value
LOM average coal price	US\$/t	130.6
Annual average revenue	A\$M	271.7
Annual average EBITDA	A\$M	76.6
Exchange rate	AUD:USD	0.77
Net present value @ 8% pre interest and tax	A\$M	566
Net present value @ 8% post tax	A\$M	393
Internal rate of return pre tax	%	573
Internal rate of return post tax	%	301

Coal reserves and coal sales life of mine	Units	
Annual average ROM coal production	Mtonnes	1.2
Average product coal yield	%	71
Annual average saleable coal production	Ktonnes	849
Mine life	Years	24.3
Annual average coal acquired for blending	Ktonnes	752
Annual average coal sales	Mtonnes	1.6

Start-up capital		US\$M
Wash-plant upgrade		5.0
Mine access and ventilation		0.2
Mine infrastructure mostly related to conveyor systems		4.0
Refurbishment of mining equipment and some purchases	Two production units	6.8
Other mining support equipment & rail investment		1.7
Total Start-up Capital (excludes contingency)		17.7

Operating costs life of mine		US\$/Saleable t
Mining		28.7
Coal processing		4.4
General and administration		2.8
Marketing costs		2.4
Haulage		0.9
Rail to port and loaded		42.1
Total all-in cash cost FOB pre-interest and tax		81.3

Production Targets and Forecast Financial Information

Allegiance notes the following in relation to the production targets and forecast financial information disclosed in this Announcement:

- All material assumptions on which the production targets and forecast financial information are based are disclosed in the Announcement;
- The coal resources and reserves on which the production targets are based have been prepared by competent persons in accordance with the requirements of JORC Code (2012 Edition of the “Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”) (**JORC Code**); and
- The production targets and forecast financial information in this announcement are underpinned solely by a combination of coal reserves and measured and indicated coal resources. The relevant proportions of probable coal reserves and proven coal reserves is 12:78.

Prior Studies

Allegiance has undertaken three prior studies to the New Elk Start-up Mine Plan:

- A feasibility study undertaken by Stantec announced on 28 November 2019 (**Feasibility Study**);
- An optimisation study undertaken by Stantec focused on reducing the start-up capital requirement announced on 31 January 2020; and
- A second optimisation study undertaken by Stantec focused again on further reducing the start-up capital requirement announced on 29 April 2020.

Acquisition of New Elk and Lorencito

On 27 April 2020, Allegiance acquired coal leases at the neighbouring Lorencito Property which contains the same coal seams as New Elk but of particular interest is the Primero seam, and on 27 October 2020, Allegiance completed the acquisition of 100% of the New Elk Mine, consolidating both holdings. Combined, the New Elk Mine and the Lorencito Property comprise 744Mt of coal resources.

New Elk Coal Resources

In July 2012, Agapito Associates, Inc., declared a mineral resource estimate for New Elk of 656Mt in accordance with National Instrument NI 43-101 ‘Standards of Disclosure for Mineral Projects’ (**NI 43-101**). The mineral resource estimate is shared across 8 coal seams 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

In its November 2019 announcement, Allegiance released the results of the Feasibility Study including, amongst other things, a statement of resources in accordance with the JORC Code and NI 43-101 in relation to the Green, Blue and Allen seams only, as set out below.

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

The calculated in-place coal resources for the Primero seam located in the Lorencito Property is 87.6Mt, summarised in the table below by reference to coal seam thickness.

In place coal seam thickness (feet)	Demonstrated in place coal resources (metric tonnes)
3.0 to 4.0	24.5
4.0 to 5.0	33.8
5.0 to 6.0	23.0
6.0 +	6.3
Total	87.6

As disclosed in Allegiance’s announcements of 5 and 9 December 2019, the Lorencito Property has been the subject of several drill programmes totalling 217 holes, geological and scoping studies, the most recent Allegiance is aware of was by Mine Engineers, Inc. from Wyoming, dated November 2008 (**Study**). The Study developed a geological model based on existing coal exploration and coal bed natural gas wells covering eight coal seams, including the Primero seam.

In its resource estimation, the Study relied on resource estimates from a report dated 1997 prepared by Reserve Services of Laramie, Wyoming, US, prepared in conformity with guidelines of the U.S Bureau of Mines and U.S Geological Survey “Coal Resource Classification System” (USGS Circular No. 891, 1983) (**Source Report**). The Source Report categorised the resources in accordance with USGS Circular No. 891, 1983, as ‘Demonstrated in place coal resources’, and then went on to apply parameters to categorise the ‘in place’ resources as Measured and Indicated. Under USGS Circular No. 891, 1983, Demonstrated in place coal is the sum of Measured and Indicated resources. The Study relied upon the Source Report to establish the same categorisation of ‘in place coal’ but did not proceed to break that down into further categories.

Cautionary Statement. Other than the mineral resource estimates in relation to the Green, Blue and Allen seams set out in the Allegiance’s 28 November 2019 announcement, investors should note that the mineral resource estimates for the New Elk Mine and the Lorencito Property in this Announcement are foreign estimates under ASX Listing Rule 5.12 and are not reported in accordance with the JORC Code and, a competent person has not done sufficient work to classify the foreign estimates as a mineral resource under the JORC Code and it is uncertain that following further exploration or evaluation work that this foreign estimate will be able to be reported as a mineral resource in accordance with the JORC Code.

New Elk Coal Reserves

The results of the Feasibility Study also included a statement of reserves in accordance with the JORC Code and NI 43-101 in relation to the Green, Blue and Allen seams only, as set out below.

Reserves			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

Estimation Methodology

Coal seams were correlated by constructing lithological cross-sections and comparing coal seams and other lithologic units for geometry and continuity. Modelling was conducted using Carlson™ software, a widely used gridded seam modelling program. Moisture content of the coal seams is considered uniform, given that as-received coal moisture content typically falls within a narrow range. For the Blue seam, this can range from 3.5 to 6.0 percent, but more consistently ranges between 3.8 to 4.8 percent. For the Allen seam, the range is typically between 4.0 to 5.0 percent.

A minimum coal thickness of 3.0 foot was used for calculating in-place coal resources. A minimum coal thickness of 4.0 foot was used in the mine planning process for determination of coal reserves, with exceptions for accessing adjacent coal resource blocks and developing to ventilation shaft locations where required. A minimum barrier of 300 foot was maintained between existing mine workings and projected mining in the Allen seam.

Coal resource estimates have not been constrained by metallurgical factors. In-situ coal densities were not available, therefore a conservative density of 82.5 pounds per cubic foot was used. The USGS Circular 891 criteria of 1,320ft from data points for Measured and 3,960ft for Indicated assurance categories was used for classifying resources. A competent person deemed this system to be appropriate in accordance with the 2014 Guidelines for compliance with the JORC Code. Relative accuracy of the resource estimates is dependent on the number of data points and the density and reliability of those data points. The New Elk property has a relatively high level of confidence in that 70% of the total resources are classified as Measured, and 78% of the total reserves are classified as Proven. In addition, this region of Colorado has been extensively mined in the past.

New Elk Project Summary

The New Elk Mine is located in Las Animas County in southeast Colorado bordering northeast New Mexico, and sits within the Raton Basin which according to U.S Geological Survey Paper 1625-A, has an estimated 15 billion metric tonnes of coal. The Raton Basin has had active coal mines for nearly 150 years producing good quality hard coking coals for domestic steel production. The Raton Basin hosts low sulphur, mid to high volatile hard coking coals, typically with excellent plasticity which is an important element in the blending of coking coals in blast furnace steel production.

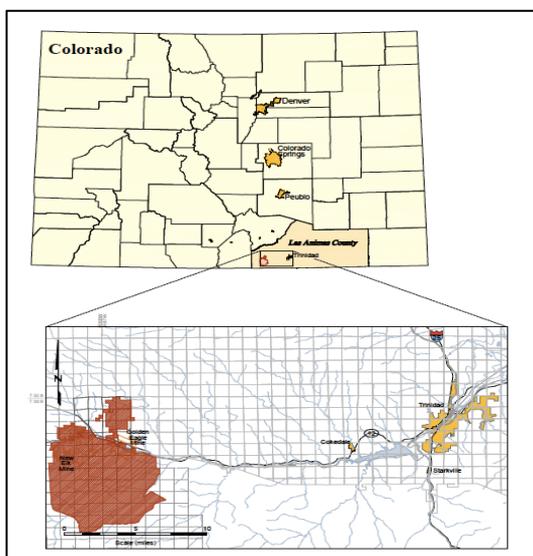


Image: Mine location, southern Colorado

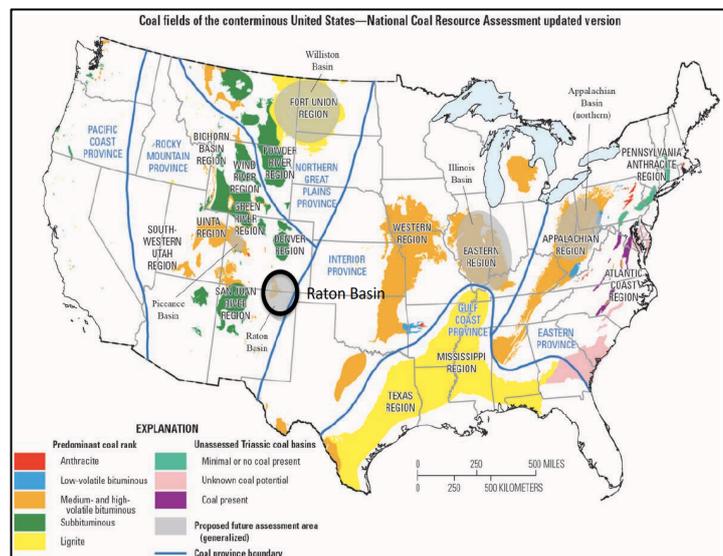
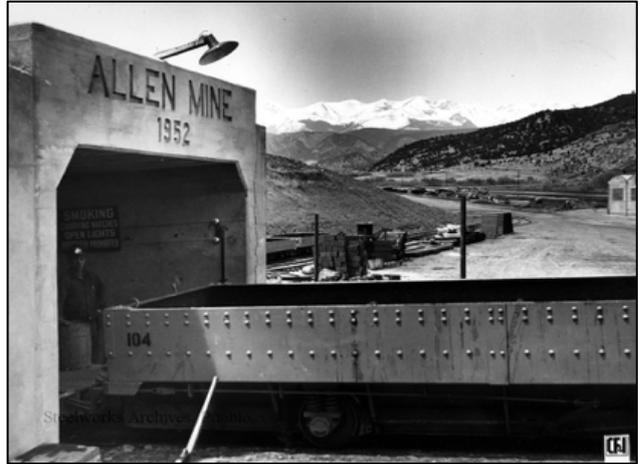


Image: Raton sedimentary basin where the Mine is located

The Mine was first named the 'Allen Mine', and commenced production in 1951 supplying coking coal to the Pueblo Steel Mill located approximately 100 miles north of the Mine. In the late 1970s, the Pueblo Steel Mill transitioned from blast furnace steel production to electric arc furnace no longer requiring hard coking coal. Notwithstanding this, the Allen Mine continued production through to 1989 supplying coal to local power utilities, and the wash-plant continued operating until 1996 servicing neighbouring mines.



Images: historical portal entry into the Allen Mine

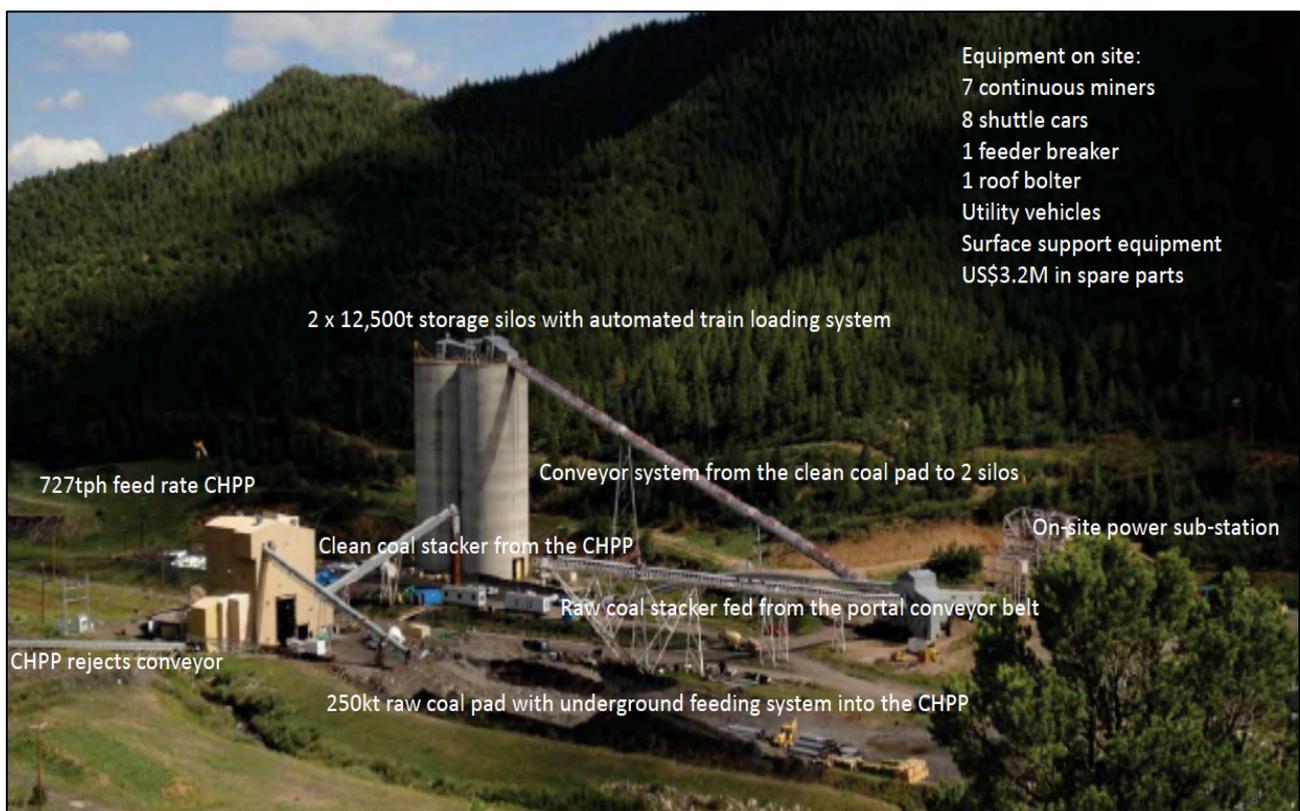
The Mine was acquired by Cline Mining Corporation (**Cline**) in 2008 for C\$17 million. In 2010, the Mine was re-opened under the name 'New Elk Mine'. Cline upgraded the Mine infrastructure, including the wash-plant and supporting infrastructure, developed a second underground portal entry, and recommenced production at an estimated capital cost of some C\$150 million.

Production recommenced in 2011 with coal intended for sale on the global seaborne market via the Port of Corpus Christi in the Gulf of Mexico. The Mine operated for several months but was forced to close in July 2012 when world hard coking coal prices plummeted. Following this, Cline filed for bankruptcy protection, which resulted in all liabilities being extinguished, and the senior secured creditor ultimately taking ownership of Cline and its subsidiary, New Elk Coal Company LLC, Inc. (**NECC**). It has remained on care and maintenance since. As a result of the prior investment by the original Mine owners and more recently Cline, the Mine is fully built with upgraded infrastructure and generally in a very good state of repair. Key mine components include:

- A full spread of production equipment including;
 - 7 Joy rebuilt 14cm15 continuous miners; one new with no hours; two with less than 2,000 hours; and three with less than 3,000 hours;
 - 7 Joy SC10 shuttle cars;
 - 1 feeder breaker;
 - 1 roof bolter;
 - 3 scoops (underground utility vehicles);
 - Several underground power units;
 - Conveyor drives, structure and belt; and
 - An estimated US\$3.2M in inventory and spare parts.
- Two separate portals and declines (including access road, belt road and ventilation road) into the Blue seam 20 metres below surface and the Allen seam 200 metres below surface;

- Rock crusher bin receiving ROM coal by conveyor belts from both portals and feeding the ROM coal pad by a stacker conveyor;
- ROM coal pad and dual underground feeding systems conveying ROM coal into the coal handling and preparation plant (CHPP) and then conveying washed coal to the product pad;
- CHPP with a nameplate of 727tph feed rate;
- Product coal pad underground fed conveyor feeding system to two silos with holding capacity of 25k/t;
- CHPP rejects dump with direct conveyor;
- Power sub-station;
- Office buildings, wash-house, warehouse and workshop with 10 tonne overhead crane;
- Surface support equipment including 40t dump truck, grader, front-end loader and back-hoe.

The below image provides a visual appreciation of the mine infrastructure in place.



Mining

Mining Method and Equipment

Coal will be mined with continuous miners adopting the place change room and pillar method.

Room and pillar mining is the predominant underground coal mining method in the US, unlike Australian underground coal mines where longwall mining is more prevalent.

Longwalls are expensive and capital intensive and generally the privilege of the major coal mining companies whose balance sheets can absorb the initial capital investment and the holding costs while a Longwall is either being transferred to a new panel or is not operating because of geological interruptions to production. Theoretically, they deliver lower operating costs and recover more of the coal resource but are inflexible and prone to major downtime through relocations and unpredictable geology.

Room and pillar mining is less capital intensive and while perceived by many to be higher in operating cost, can be extremely efficient and low cost if operated as 'super sections'. Room and pillar mining is also flexible to unpredictable geology and can easily manoeuvre around geological intrusions when encountered, without disrupting production. For these reasons, Allegiance has adopted room and pillar mining.



Image: examples of the main items of equipment in a room and pillar operation

A super section involves two continuous miners operating on each section. This can be either with two continuous miners operating concurrently on a section or sequentially, that is, as one machine has completed a cut, the operator will 'walk through' to the other side of the section and commence a new cut with the second machine.

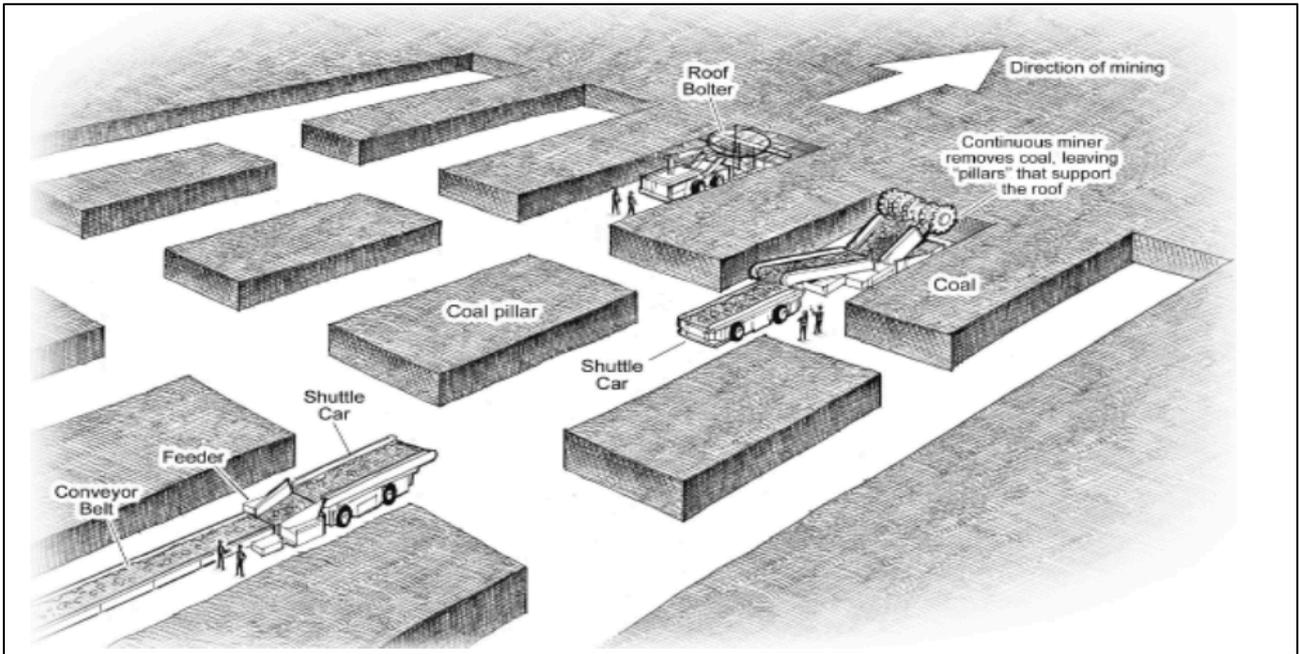
While the operator is making the new cut with the second machine, a crew-hand will reposition the first machine for its next cut. When the operator has completed the cut with the second machine, he or she will return to the first machine and execute another cut, and so the sequence continues without any, or limited, downtime in production during a shift.

Typically, two to three shuttle cars (coal haulers), convey coal from a continuous miner to a feeder breaker while the continuous miner is being operated.

The feeder breaker sizes the coal and then feeds it on to a conveyor belt which then transfers the coal outside the mine to a stockpile before being fed into the CHPP.

Once a continuous miner completes a cut, and is withdrawn, a roof-bolter enters the cavity and drills bolts into the roof to support the roof, or any part of it, from falling.

The picture below illustrates a room and pillar sequence in operation with a single continuous miner section. As discussed, New Elk will operate with two continuous miners in a 'walk through super section' with seven to nine headings (the picture below only has five headings typical of a single continuous miner section).



The capital cost for the two production units on commencement of production which forms part of the start-up capital is summarised in the table below.

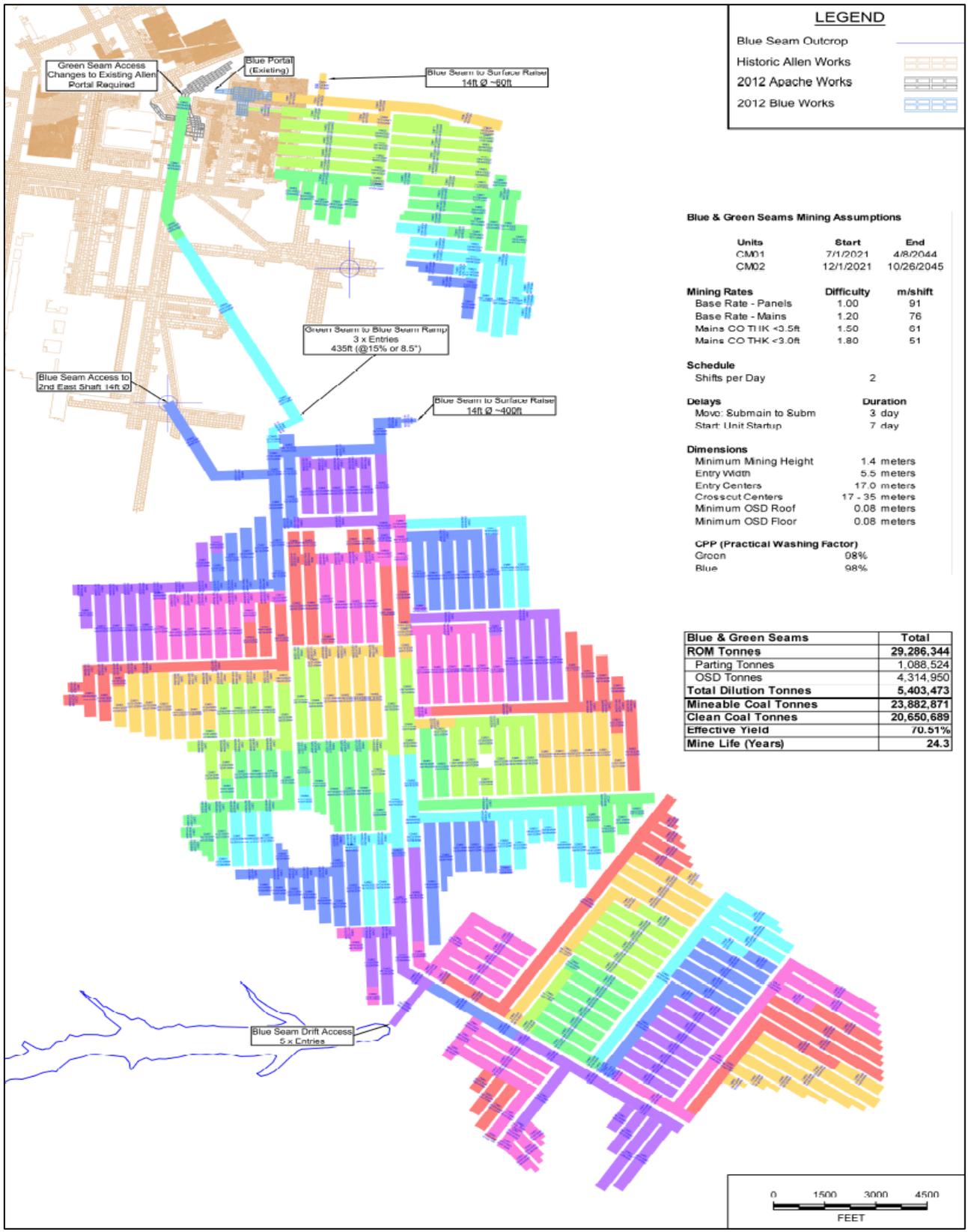
Pricing listed in orange is equipment already owned subject only to on-site refurbishment while all other items of equipment are required to be purchased prior to the start of production.

Table 8: Production Equipment	New Cost US\$	Rebuild US\$	Unit 1 US\$	Unit 2 US\$
Joy 14CM15 continuous miner	5,000,000	1,675,000	290,000	290,000
Joy 14CM15 continuous miner	5,000,000	1,675,000	290,000	290,000
Joy 10SC Shuttle car	1,200,000	550,000	75,000	75,000
Joy 10SC Shuttle car	1,200,000	550,000	75,000	75,000
Joy 10SC Shuttle car	1,200,000	550,000	75,000	75,000
Fletcher RR11 roof bolter	1,300,000	445,000	98,000	445,000
Fletcher RR11 roof bolter	1,300,000	445,000	445,000	445,000
Stamler BF 17 feeder breaker	1,250,000	480,000	480,000	480,000
S&S 488 battery scoop	1,200,000	255,000	55,000	55,000
Power centre	450,000		900,000	900,000
Proximity detection	212,550		425,100	425,100
Parts car	14,000		14,000	14,000
Duster	20,000		20,000	20,000
Total	19,221,550	6,640,000	3,242,100	3,589,100

Mine Plan

The Mine Plan was driven by coal seam height, and coal quality that would meet the requirements of steel mills and to that end focussed on the two following seams:

- The shallow Blue seam (which is already established with portal entries and main headings); and
- The very shallow Green seam used as an access road to the point at which a new decline can be established into the southern area of the Blue seam.



LEGEND

- Blue Seam Outcrop
- Historic Allen Works
- 2012 Apache Works
- 2012 Blue Works

Blue & Green Seams Mining Assumptions

Units	Start	End
CM01	7/1/2021	4/8/2044
CM02	12/1/2021	10/26/2045

Mining Rates	Difficulty	m/shift
Base Rate - Panels	1.00	91
Base Rate - Mains	1.20	76
Mains CO THK <3.5ft	1.50	61
Mains CO THK <3.0ft	1.80	51

Schedule	
Shifts per Day	2

Delays	Duration
Move: Submain to Subm	3 day
Start: Unit Startup	7 day

Dimensions	
Minimum Mining Height	1.4 meters
Entry Width	5.5 meters
Entry Centers	17.0 meters
Crosscut Centers	17 - 35 meters
Minimum OSD Roof	0.08 meters
Minimum OSD Floor	0.08 meters

CPP (Practical Washing Factor)	
Green	98%
Blue	98%

Blue & Green Seams	Total
ROM Tonnes	29,286,344
Parting Tonnes	1,088,524
OSD Tonnes	4,314,950
Total Dilution Tonnes	5,403,473
Mineable Coal Tonnes	23,882,871
Clean Coal Tonnes	20,650,689
Effective Yield	70.51%
Mine Life (Years)	24.3

The Mine Plan was designed with a minimum coal seam height of 4.0 foot allowing for 6 inches of unavoidable out-of-seam dilution. Therefore, a mining height of 4.5 foot provides ample room for conventional lower profile underground mining equipment to operate remaining in the coal seam, and for the Mine to be adequately ventilated. Limiting coal recovery to 4.0 foot does reduce the recovery of some coal, but the

gains in retaining a high yield far outweigh loss of coal resource. This is the primary benefit of a large resource base - a mine plan can be designed around high yielding coal but still with a large recoverable resource.

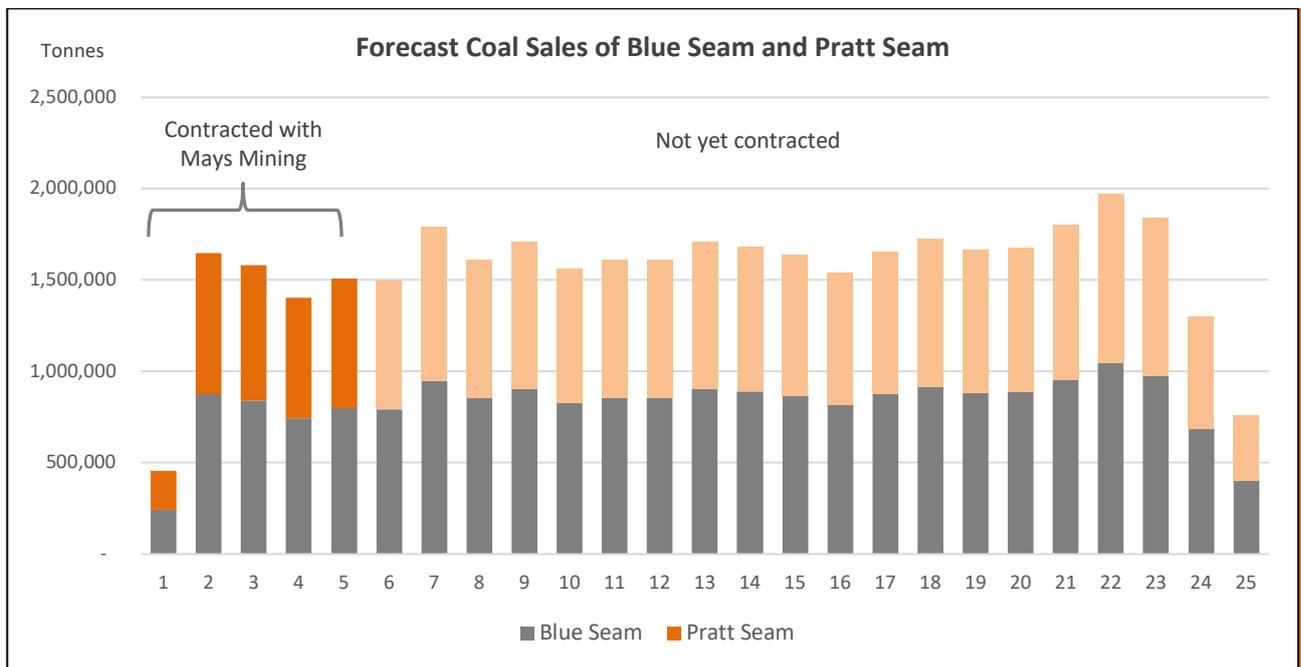
Mining commences in the Blue seam where the portal entries (belt road, ventilation, and men and materials) are already established and the main headings already advanced 150m underground. One super section is set-up in the Blue seam on commencement with the second starting six months after the first.

The primary purpose of mining the Green seam is to drive headings in coal southwards to reach a point where a decline can be established into the southern portion of the Blue seam. A consequence of the 4.0 foot coal seam height cut-off, is that the Blue seam areas are not contiguous, separated by areas of coal less than 4.0 foot.

There is a significant area of 4.0 foot plus coal to the north of the current Blue seam mine plan which is not incorporated into the Mine Plan (or the images above) pending securing additional mineral and surface rights. Allegiance is working to secure these additional coal resources which, if successful, will have the effect of enabling the mine plan for the Blue seam to be considerably extended.

Production Schedule

The table below highlights the production of Blue seam coal and also includes the Pratt seam coal acquired, which is discussed in the ‘Coal Quality, Blending and Pricing’ section of this Announcement.



Production is planned to commence in June 2021 with the first production unit producing 40k tonnes per month from the Blue seam increasing in December 2021 with the start of the second production unit to 73k tonnes per month and annualised production averaging 1.6M tonnes for the life of mine.

Allegiance intends to commence mining in the Primero seam in year three to either add to or replace (all or part) Blue seam production due to the better coal quality in the Primero seam. Allegiance must first complete a feasibility study in relation to the Primero seam and get the Primero mine permit re-instated which it hopes to have completed by the end of 2021. Further announcements will follow regarding this in due course.

Labour Requirements

The mine will operate two, 9 hour production shifts per day and one overlapping maintenance shift per day for equipment maintenance, advancement of conveyor belts and section power, and general mine repairs and other idle work. The production schedule is based on a total of 261 production days per year.

Each production unit will have 10 crew members totalling a production workforce of 60 by December 2021. An additional 7 underground support employees and 17 general employees will be engaged at full production, resulting in a total of 84 employees. Allegiance intends to recruit Appalachia coal miners to form the nucleus of each production unit, supplementing the crew numbers with local, less experienced mine workers.

Coal Handling and Preparation Plant

Coal Preparation

The CHPP circuitry consists of;

- Heavy media vessel;
- Heavy media cyclones; and
- Spirals.

The CHPP has a nameplate feed rate of 727tph. The CHPP was reviewed by Performance Industries, Inc, a specialist coal processing consultancy from West Virginia, USA, whose principals undertook a review of the CHPP when the mine was acquired by Cline.

The current circuit provides:

- Raw coal is separated by screens into various size fractions;
- The coarse material is sent to the Heavy Media Vessel;
- The next size fraction down is sent to the Heavy Media Cyclone;
- The remaining raw product is sent to the Classifying Cyclones;
- The plus 100 mesh is sent to the Spiral Circuit; and
- The minus 100 mesh material that is separated from the raw coal feed via the classifying cyclones is discarded and sent to the thickener for refuse disposal.

The minus 100 mesh size fraction is 8 percent of the plant feed.

Currently there is no equipment in the CHPP to process this ultra-fine portion of the plant feed. The review recommended the installation of a fine coal circuit in the plant using eight 500 cubic foot conventional flotation cells as well a screen-bowl dryer will be added to dewater the ultra-fine coal recovered and at least a portion of the spiral clean coal as well. Due to the reduced level of production as compared to the November 2019 Feasibility Study, Allegiance will not make these upgrades at this stage but will likely do so once it increases production.

However, modifications will be made to the meter belt presses in the CHPP which are not adequate to process the amount of material being removed from the thickener underflow at the rated capacity on the flowsheet.

Replacing with 3-meter belt presses along with the recovery of the fine coal in the flotation circuit will increase the feed rate to the flowsheet rating and allow for a refuse product to be produced that is capable of being handled. The capital cost of upgrading the CHPP is summarised in the table below.

CHPP capital items	US\$
Raw coal handling	878,355
Plant refurbishment	758,838
Belt press	691,336
Radial clean coal stacker	450,184
Water only cyclone circuit	736,680
Total	3,515,393

It is anticipated that some items of the CHPP upgrade can be purchased second-hand and that the likely upgrade cost will be nearer US\$2M. For purposes of the financial forecast, an allowance of US\$5 million has been provided for CHPP capital expenditure.

Coal Handling

The raw coal feed to the CHPP is by way of a feed tunnel with four vibratory feeders. The clean coal product goes out of the CHPP on a single conveyor deposited onto the clean coal pile. This conveyor extends across the road to a single stacking tube.

Logistics

For the first 36 months of production, Blue seam coal will be conveyed from the CHPP to a rail loadout and siding adjacent to railway track owned by BNSF Rail, in 30t road trucks on a sealed road for 21 miles. During this period, track will be re-laid from BNSF's line to the CHPP after which train sets will be loaded from the two 12,500t silos located at the Mine.

Blue seam coal will then be railed on BNSF's line by Union Pacific Railroad (**UP**) 1,242 miles to Convent Marine Terminal located on the southern Mississippi River, in New Orleans (**CMT**).



Contemporaneously, Pratt seam coal will be loaded on a barge on the Black Warrior River, west of Birmingham Alabama, and then barged to CMT where it will maintain two separate stockpiles for blending the Blue and Pratt coals.

Allegiance has signed indicative commercial terms with both UP and CMT, is now currently undertaking credit review with both partners, and has received formal legal documentation for review and finalisation.

Coal Quality, Blending & Pricing

Blue Seam Quality

Blue seam coal will be washed at an SG of 1.50 to produce a target 9% ash, high volatile coking coal, at an average life-of-mine saleable coal yield of 71%.

Kobie Koornhof & Associates Inc (**Koornhof**), a respected coal market specialist with particular expertise in North American coals, provided Allegiance with an analysis of Blue seam coal by reference to US high volatile 'B' coking coals (**HVB**), summarised and discussed in this section.

According to Koornhof, the Blue seam compares favourably with representative quality ranges for HVB, in particular as it relates to volatile matter, reflectance and rheology.

Koornhof noted that with a large number of HVB coking coal in the market (although likely diminishing in a lower coal price environment), it is important to focus on a coal's distinguishing features. In the case of the Blue seam, the key quality parameter relates to the low sulphur content.

While 9% ash is regarded as a typical ash by reference to the majority of coking coals on the seaborne market, because US hard coking coals (sold from the east coast of the US), typically deliver a lower ash compared to Australia, a small penalty is expected if Blue seam coal is also sold via the east coast of the US to Europe and South America but not if sold into Asia.

The ash chemistry is inferior to HVB and phosphorus content is much higher than that of most US coking coals, which in the European markets will incur penalties but again, if sold direct into the Asian markets, it is likely no penalties will apply. Despite a higher than normal base acid ratio, the CSR falls within the required range for HVB HCC.

In summary, Koornhof concluded that the Blue seam will be accepted as a HVB coking coal.

Blending with the Pratt seam

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

Allegiance will initially blend its low sulphur HVB Blue seam with the high sulphur HVA Pratt seam 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.

Koornhof also analysed the Blue Pratt blend and noted the Pratt coal presents as a HVA based on favourable volatile matter and rheology; however it does not meet the HVA standard for vitrinite reflectance;

consequently, Pratt coal reports at the lower end of HVA coals for strength index, calculated stability and CSR. While a reflectance below 1.00 will count against its classification as a HVA, this will likely be balanced by the very attractive dilatation of 300+%.

The table below summarises the Blue Pratt blend and is compared to HVA specifications.

		Blue	Pratt	Pratt/Blue	HVA
Proximate					
Ash	%	9	9	9	6-8
Volatile Matter	%	36	32	34	31-34
Sulphur	%	0.5	1.5	<1%	<1%
Rheology					
FSI		7	8	7.5	7-9
Fluidity	ddpm	25,000+	30,000+	30,000	>30,000
Dilatation	%	140	300	220	220-350
Ash Chemistry					
Phosphorous	%	0.08	0.04	0.06	>0.009
CSR		44	50	47	>50
Petrography					
Reflectance	%	0.87	0.94	0.91	1.0-1.15
Strength index		3.06	3.50	3.30	>3.50

The Blue Pratt blend meets HVA quality parameters in the important areas of volatile matter content and rheology, with excellent fluidity and dilatation.

While strength index is good, key parameters such as reflectance, stability and CSR do not meet HVA requirements.

Ash chemistry of the Blue Pratt blend is compromised by unfavourable chemistry in both the individual coals. High base/acid ratios are expected to result in low CSR numbers in both the constituent coals and in the Pratt Blue blend.

Phosphorus content in both the individual coals gives rise to phosphorus in the Blue Pratt blend which is much higher than what is expected for a HVA coking coal to European and South American steel mills. This is, however, within an acceptable range for the majority of more modern Asian steel mills that utilise dephosphorizing equipment.

Koornhof concluded, that the Blue Pratt blend achieves a number of goals towards improving the quality of the Blue seam coal:

- Rheology is significantly increased, rendering fluidity and dilatation to the levels expected from HVA coking coals, while also markedly improving the FSI;
- Rank is improved by reducing the volatile matter to within the range for HVA coals; and
- Moderate but noticeable improvement in the petrographic parameters.

These improvements may to a degree be offset by less prominent parameters such as strength index, calculated stability and CSR, which report short of those for HVA coking coals, and which might lead to potentially moderate price discounting off the HVA coals.

The Blue Pratt blend is however, expected to be priced at a premium to the HVB coking coals.

Pricing

Koornhof has not yet completed a price analysis of the Blue Pratt blend. For the time being, the New Elk Mine Start-up Plan has relied on Koornhof's pricing of a stand-alone Blue seam, which based on Koornhof's analysis, is a lesser quality coal than the Blue Pratt blend. It follows, the current pricing in the New Elk Mine Start-up Mine Plan is likely conservative.

In addition to coal analysis, Koornhof provided Allegiance with a price guide for the Blue seam coal. The pricing model for the Blue seam took into consideration the quality assessment provided earlier, factoring in the price relationships between the various coking coal brands.

In determining price competitiveness, a number of penalties and premia were applied by Koornhof to the quality of the Blue seams in relation to average qualities for HVB and in particular:

- Sulphur: a premium of 0.75% of price for every 0.1% of sulphur below the average sulphur of 0.95%;
- Ash: a penalty of 1.75% of price for every 1% of ash above the average ash content of 8%;
- CSR: a penalty of 0.5% of price for every 1% of CSR below the average CSR of 49.

The table below summarises Koornhof's price outlook for the Blue seam as derived from prices for premium low vol HCC (**PLV**) and US HVB, incorporating the various penalties and premia.

	US\$/t
PLV HCC	165.00
US HVB discount 17%	28.05
US HVB price	136.95
Sulphur premium	3.59
CSR penalty	-3.42
ASH penalty	-2.40
Total penalties/premia	-2.23
New Elk price	134.72

Koornhof predicts prices of US\$150/t - US\$180/t with short term swings from US\$130/t - US\$200/t. Taking an average price of US\$165/t, this translates to a price of US\$137/t for HVB.

On that basis, according to Koornhof, the Blue seam pricing is estimated at US\$134.72/t.

For the purposes of the New Elk Start-up Mine Plan however, Allegiance has used a lower price of US\$130.64/t due to recently depressed coal prices caused by the COVID 19 pandemic.

Sales and Marketing

Allegiance has finalised an exclusive sales and marketing agreement with M Resources Trading Pty Ltd (**M Resources**) in relation to coal produced from New Elk.

M Resources was established in 2011 by Mr Matthew Latimore and to date has managed close to 400 shipments globally of mostly metallurgical coal and since then has built up a strong global customer base in Asia, India, South America and Europe, including the natural targets for New Elk coking coals such as Brazil, Europe as well as Japan, Korea and Taiwan.

As part of the agreement, M Resources will provide up to US\$15M of off-take financing mitigating overseas customer credit risk and bridging the cashflow gap for Allegiance between coal loaded on a vessel at port, and delivered to the customer.

Capital

The start-up capital expenditure is summarized in the table below. Start-up capital expenditure is modest due to the Mine being fully built. Pre-production activities therefore are focussed on refurbishing the equipment, rehabilitating the Mine and upgrading the CHPP.

Start-up capital expenditure		US\$M
Wash-plant upgrade		5.0
Mine access and ventilation		0.2
Mine infrastructure mostly related to conveyor systems		4.0
Refurbishment of mining equipment and some purchases	Two production units	6.8
Other mining support equipment & rail investment		1.7
Total Start-up Capital (excludes contingency)		17.7

The sustaining capital expenditure over the life of mine is summarized in the table below. The rail spur will provide the ability for the Mine to ramp-up production. The balance of the sustaining capital expenditure is predictable relating to more infrastructure and mining equipment to expand the Mine and maintain the production rate.

Sustaining Capital		US\$M
Mine access and ventilation		8.2
Mine infrastructure		57.9
Rail spur		19.6
Mining equipment		60.7
Total Sustaining Capital (excludes contingency)		146.4

Operating Costs

The Mine operating costs are summarized in the table below.

Operating costs life of mine		US\$/Saleable t
Mining		28.7
Coal processing		4.4
General and administration		2.8
Marketing costs		2.4
Haulage		0.9
Rail to port and loaded		42.1
Total all-in cash cost FOB pre-interest and tax		81.3

Rail is the most significant cost due to the distance from New Elk to CMT.

Underground mine operating costs are influenced most by:

- Coal seam height (the extent of out-of-seam dilution);
- Geology (the extent of igneous intrusions); and
- Roof and floor conditions.

The sum of these inputs dictates what is a reasonable advance rate, what is involved in securing the roof and the likely yield of clean coal from ROM coal.

The Mine has competent roof, ranging from sandstone to siltstone to mudstone, and limited structure. Consequently, average advance rates per shift of 250 feet (in main entries) and 300 feet (in panels) for a 'walk through super section' was assumed in the Mine Plan.

The Mine Plan was designed at a 4.0 foot coal thickness cut-off allowing for 6 inches of unavoidable out-of-seam dilution, which will deliver an excellent CHPP average LOM yield estimated to be around 71%. The key objective in doing this is to mine 'in the coal seam' and avoid out-of-seam dilution.

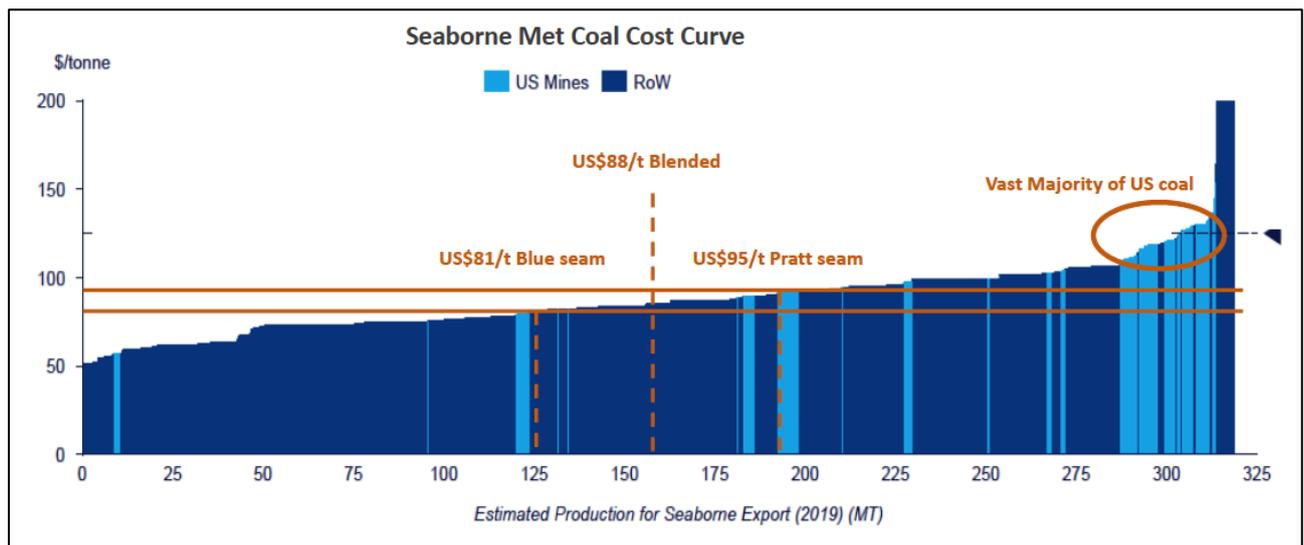
Most US metallurgical coal mines do not have this luxury and mine in 2.0 to 4.0 foot of coal, but still have to mine to a 4.5 foot horizon to enable conventional equipment to efficiently operate in the mine, and to allow the mine to be appropriately ventilated. This means most US underground metallurgical coal mines must mine an equal amount, if not more, rock to coal, driving the ROM to clean coal yield to below 50% and the impact that this has on cost, is significant.

New Elk is fortunate in that the scale of its resource has enabled Stantec to design a mine plan in 4.0-foot plus coal with a large resource base to allow for a long mine life.

The life of mine cash cost for New Elk Blue seam coal places New Elk in the lower half of the seaborne metallurgical coal cost curve and amongst the lowest cost producers of US metallurgical coal.

Allegiance will purchase Pratt coal for a fixed price in addition to a bonus payment of 30% of the FOB port sales price that Allegiance achieves over US\$110/tonne.

The all-in cash cost for Pratt coal, which includes the fixed price payment (but not the bonus payment as it is variable to FOB price), barge and port costs, is around US\$95/tonne. It is important to note that there is no sustaining capital or interest cost to purchasing Pratt coal. It is, therefore, except for the cash bonus payment, an all-in cash cost.



The weighted average FOB port cash cost for Blue seam and Pratt seam coal is around US\$87.5/tonne, placing this coal near the middle of the seaborne met coal cost curve, but still amongst the lowest for US coking coals.

Financing

The Board of Allegiance considers that there is a reasonable basis to assume the necessary funding for recommencement of production will be able to be obtained when required, because of (but not limited to) the reasons outlined below.

The start-up capital expenditure is spread over the first six months of production and therefore, some capital expenditure will during that period be funded from cashflow generated from the first production unit sales. The second production unit is not scheduled to commence until December 2021 meaning the refurbishment of that equipment will commence after production commences, and the cost of conveyor drives, belting and structure, is spent as one mines and advances underground.

Payment for coal sales is anticipated to be received when the coal is placed on the ground at the port prior to loading into the vessel funded by:

- US\$15M of off-take finance facility from M Resources Pty Ltd, referred to above; and
- US\$10M of off-take finance yet to be concluded.

Taking account of the above, the start-up capital requirement is US\$13.5M which includes US\$10M applied to capital expenditure and US\$3.5M applied to working capital.

Allegiance intends to raise this from US\$15M of project finance debt.

Allegiance has a conditional terms sheet with Nebari Natural Resources Credit Fund 1 LP for US\$25M, the details of which were announced on 30 March 2020. The terms sheet is subject to, amongst other things, Nebari completing independent, third party, due diligence to its satisfaction.

Allegiance delayed commencement of the independent due diligence until it had settled on its Final Start-up Mine Plan. Accordingly, Nebari has now commenced the independent third party due diligence which for the most part involves a peer review by independent mining consultants of the Final Start-up Mine Plan, and this should be completed in February 2021.

In addition to the start-up capital requirement, an initial debt cash repayment amount of US\$6M falls due to Cline Mining Corporation upon the commencement of mining. This is anticipated to be funded by Allegiance internally.

If an additional US\$10M of off-take finance cannot be secured, then an additional US\$10M of start-up working capital will be required to fund the time delay for receipt of funds for coal sales that exceed the US\$15M pool of off-take funding. Allegiance anticipates it will raise the additional off-take finance as it can be secured by the coal on the ground at the port, which will already have been sold to a steel mill customer.

Allegiance is engaged with several other mining investment houses who may provide the debt funding, and is also engaged with its shareholders, and several institutions who have expressed an interest in providing part of the start-up capital by way of a private placement in Allegiance.

Project Economics

In addition to the coal production inputs discussed throughout this announcement, additional inputs into the key performance indicators of the Project economics are set out in the table below.

Additional inputs to Key Performance Indicators	Units	Value
Colorado State severance tax (first 300,000 per quarter exempt)	US\$/t	0.85
US Federal and State Corporate tax rate	%	25.63
AUD:USD exchange rate	US\$	0.77

The Project key performance indicators are summarized in the table below.

Key performance indicators life of mine	Units	Value
LOM average coal price	US\$/t	130.6
Net present value @ 8% pre interest and tax	A\$M	566
Net present value @ 8% post tax	A\$M	393
Internal rate of return pre tax	%	573
Internal rate of return post tax	%	301

Sensitivity analysis was undertaken to determine the effect on the post-tax NPV_{8%} and the IRR. The results of the sensitivity analysis are set out in the tables below.

		Operating and Capital Costs (US\$M)							
NPV (US\$M)	303	2,576	2,944	3,312	3,680	4,048	4,417	4,785	
Price US\$/Product tonne	91.45	344	224	97	-44	-238	-449	-669	
	104.51	470	347	216	79	-86	-297	-526	
	117.58	596	470	336	193	43	-151	-382	
	130.64	718	587	449	303	145	-19	-250	
	143.70	844	710	567	416	255	86	-116	
	156.77	970	832	685	529	364	189	7	
	169.83	1,096	954	803	643	473	293	104	

		Operating and Capital Costs (US\$M)							
IRR (%)	301%	2,576	2,944	3,312	3,680	4,048	4,417	4,785	
Price US\$/Product tonne	91.45	>500%	329%	56%	1%	<0%	<0%	<0%	
	104.51	>500%	>500%	219%	32%	<0%	<0%	<0%	
	117.58	>500%	>500%	>500%	129%	18%	<0%	<0%	
	130.64	>500%	>500%	>500%	301%	59%	6%	<0%	
	143.70	>500%	>500%	>500%	>500%	157%	26%	<0%	
	156.77	>500%	>500%	>500%	>500%	334%	69%	10%	
	169.83	>500%	>500%	>500%	>500%	>500%	141%	27%	

The tables above show that the New Elk Mine performance indicators are sensitive to changes in commodity price and operating and capital costs.

The Mine can sustain a 26.5% decrease in product selling price resulting in a post tax NPV_{8%} of US\$5M and 10% post tax IRR. The Project can sustain a 18.5% increase in capital and operating costs resulting in a post tax NPV_{8%} of US\$6M and 10% post tax IRR.

Risks

The key risks in relation to the New Elk are summarised below.

The risks and uncertainties described below are not intended to be exhaustive. There may be additional risks and uncertainties that Allegiance is unaware of or that Allegiance currently considers to be immaterial, which may affect Allegiance.

Specific risks relating to Allegiance

Additional requirements for capital:

- Allegiance will require additional capital to fund further exploration or development of its existing or new projects, including the New Elk project and its Telkwa project;
- Allegiance may seek to raise further funds through equity or debt financing, joint ventures, production sharing arrangements or other means. Failure to obtain sufficient financing for Allegiance's activities and future projects may result in the delay and indefinite postponement of exploration, development or production on the New Elk Coal project and/or the Telkwa project or even loss of a property interest;
- There can be no assurance that additional finance will be available when needed or, if available, the terms of the financing might not be favourable to Allegiance and might involve substantial dilution to Shareholders.

Mine development risk:

- Possible future development of a mining operation at Allegiance's existing or new projects, including the New Elk project, is dependent on a number of factors including, but not limited to, the acquisition and/or delineation of economically recoverable mineralisation, favourable geological conditions, receiving the necessary approvals from all relevant authorities and parties, seasonal weather patterns, unanticipated technical and operational difficulties encountered in extraction and production activities, mechanical failure of operating plant and equipment, shortages or increases in the price of consumables, spare parts and plant and equipment, cost overruns, access to the required level of funding and contracting risk from third parties providing essential services;
- If Allegiance commences production, its operations may be disrupted by a variety of risks and hazards which are beyond its control, including environmental hazards, industrial accidents, technical failures, labour disputes, unusual or unexpected rock formations, flooding and extended interruptions due to inclement or hazardous weather conditions and fires, explosions or accidents. No assurance can be given that Allegiance will achieve commercial viability through the development or mining of any of its projects, including the New Elk project.

Estimation of resources and reserves:

- There is a degree of uncertainty to the estimation of mineral resources and ore reserves and corresponding grades being mined or dedicated to future production. Until mineral resources or ore reserves are actually mined and processed, the quantity of mineral resources and ore reserves must be considered as estimates only. In addition, the grade of mineral resources and ore reserves may vary depending on, among other things, ground conditions. Any material change in quantity and grades of mineral resources, ore reserves, may affect the economic viability of the properties. In addition, there can be no assurance that coal properties demonstrated in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production;
- Fluctuation in the price of coal, results of drilling, metallurgical testing and the evaluation of mine plans subsequent to the date of any mineral resource estimate may require revision of such estimate. Any material reductions in estimates of mineral resources and/or ore reserves, could have a material adverse effect on Allegiance's financial condition.

Title:

- The claims comprising the New Elk Coal project are governed by contracts relating to renewal and forfeiture. There is no guarantee that current or future lease contracts will be renewed;

- The contracts may be subject to a number of specific conditions including payment of rent and meeting minimum annual extraction commitments. The inability to meet these conditions in relation to the coal licenses could affect the standing of these coal licenses or restrict their ability to be renewed, adversely affecting the operations, financial position and performance of Allegiance.

Permits to Mine:

- Mining operations in North America are strictly controlled by permits to operate, governed by legislation. There can be no guarantee that current or future licences and applications, conversions or renewals to operate will be approved;
- The permits will be subject to a number of specific legislative conditions including payment of fees and meeting minimum performance conditions. The inability to meet these conditions could affect the standing of the permits or restrict their ability to be renewed, adversely affecting the operations, financial position and performance of Allegiance.

Sovereign and political risk:

- The activities related to the New Elk Coal Project will be governed by United States federal and state law. The Directors consider that the US government supports the development of natural resources by foreign investors. However, there is no assurance that future political and economic conditions in the USA will not result in the US government adopting different policies regarding foreign development and ownership of mineral resources. Any changes in policy may result in legislative changes affecting ownership of assets, taxation, rates of exchange, environmental protection, labour relations, repatriation of income and return on capital, all of which may adversely affect the operations, financial position and performance of Allegiance;
- Any potential future US operations of Allegiance are subject to a number of risks, including: potential difficulties in enforcing agreements and collecting receivables through foreign systems, potential difficulties in protecting rights and interests in assets, increases in costs for transportation and shipping, and restrictive governmental actions, such as imposition of trade quotas, tariffs and other taxes.
- Any of these factors could materially and adversely affect Allegiance's business, results of operations and financial condition.

Environment:

- The New Elk Coal project is subject to laws and regulations regarding environmental matters and Allegiance will require approvals from and compliance with all relevant authorities;
- Allegiance is unable to predict the effect of additional environmental laws and regulations that may be adopted in the future, including whether any such laws or regulations would materially increase Allegiance's cost of doing business or affect its operations in any area.

No market sector diversification:

- As Allegiance will be entirely exposed to the mining, and in particular the coal mining, sector, its business performance may be affected should this sector perform poorly.

COVID-19:

- The outbreak of coronavirus disease (COVID-19) is having a material effect on global economic markets. The global economic outlook is facing uncertainty due to the pandemic, which has had and may continue

to have a significant impact on capital markets and share price. Allegiance's share price may be adversely affected by the economic uncertainty caused by COVID-19.

- Further measures to limit the transmission of the virus implemented by governments around the world (such as travel bans and quarantining) may adversely impact the Company's operations. It could interrupt the Company carrying out its contractual obligations or cause disruptions to supply chains.

Mays Mining Coal Off-take Risk:

- Mays Mining may fail to deliver coal on time, if at all, and may also fail to deliver the Pratt coal seam in accordance with the agreed specifications.
- These risks while not impacting on the sale of Blue seam coal, could reduce the price received by Allegiance for the Blue seam coal without the blended Pratt seam coal.

General risks relating to Allegiance

Economic risks:

- General economic conditions, introduction of tax reform, new legislation, movements in interest and inflation rates and currency exchange rates may have an adverse effect on Allegiance's business activities and potential exploration and development programs, as well as on its ability to fund those activities.

Force majeure:

- Allegiance's projects now or in the future may be adversely affected by risks outside the control of Allegiance, including labour unrest, civil disorder, war, subversive activities or sabotage, fires, floods, explosions or other catastrophes, epidemics or quarantine restrictions.

Market conditions:

- Share market conditions may affect the value of Allegiance's Shares regardless of Allegiance's operating performance. Share market conditions are affected by many factors such as:
 - general economic outlook;
 - introduction of tax reform or other new legislation;
 - interest rates and inflation rates;
 - changes in investor sentiment toward particular market sectors;
 - the demand for, and supply of, capital; and
 - terrorism or other hostilities.
- The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resources stocks in particular. Neither Allegiance nor the Directors warrant the future performance of Allegiance or any return to Shareholders arising from the transactions the subject of this announcement or otherwise.

No guarantee in respect of investment

- The above list of risk factors ought not to be taken as exhaustive of the risks faced by Allegiance or by investors in Allegiance. The above factors, and others not specifically referred to above may, in the future, materially affect the financial performance of Allegiance and the value of Allegiance's securities.

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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.

New Elk Reserves and Reserves

Allegiance refers to its announcement of 28 November 2019 regarding the reserve estimates for the New Elk mine. Allegiance confirms that it is not aware of any new information or data that materially affects the information included in that announcement and that all material assumptions and technical parameters underpinning the estimates in the previous announcement continue to apply and has not materially changed. 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.
