ALLEGIANCE COAL
LIMITED

29 January 2021

ACTIVITIES REPORT FOR THE QUARTER ENDING 31 DECEMBER 2020

HIGHLIGHTS

- Allegiance finalises the New Elk start-up mine plan with a target date for commencement of mining, subject to raising the start-up capital requirement, of June 2021.

- The start-up capital requirement has been reduced to just US$13.5M from US$24M (as announced on 29 April 2020).

- Allegiance enters into a coal off-take contract with Mays Mining of Alabama (**Mays Mining**) to acquire 60,000 tonnes per month of high sulphur, high-vol 'A' coking coal for a contract term of four years, to blend with New Elk's low sulphur high vol 'B' coking, and to sell the coal as a blended product with improved coking qualities.

- New Elk coal sales from Convent Marine Terminal in New Orleans are planned to commence June 2021 at 75ktpm increasing to 137ktpm by December 2021 made up as follows:

  - 40ktpm of New Elk Blue seam coal from June 2021 increasing to 73ktpm by December 2021; and

  - 35ktpm of Mays Mining Pratt seam coal from June 2021 increasing to 64ktpm in December 2021.

- By December 2021 annualised coal sales are planned to reach 1.6Mt and thereafter continues to average around that number.

- Delays in completing water quality and quantity flow predictions for the Tenas Metallurgical Coal Project (**Tenas Project**) means Allegiance is now likely to lodge its application for an Environmental Assessment Certificate with the BC Environmental Assessment Office (**EAO**) in March 2021. Notwithstanding the delay, to reach this milestone is a significant achievement activating a time regulated process that could see the Tenas Project securing an Environmental Assessment Certificate in Q4 this year.

- Media reports confirm a Chinese ban on the importing of Australian coal sending premium low-vol benchmark coking coal (FOB Queensland) to US$100/t while China off-sets that loss in supply with increased demand from Canada and the US sending US low vol coking coal to US$157/t and US high vol 'A' coking coal to US$151/t.

Allegiance Coal Limited: Suite 107, 109 Pitt Street, Sydney NSW 2000
ABN 47 149 490 353 **T:** +61 2 9233 5579 **F:** +61 2 9233 1349 **E:** info@allegiancecoal.com.au **W:** www.allegiancecoal.com.au

Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 31 December 2020.

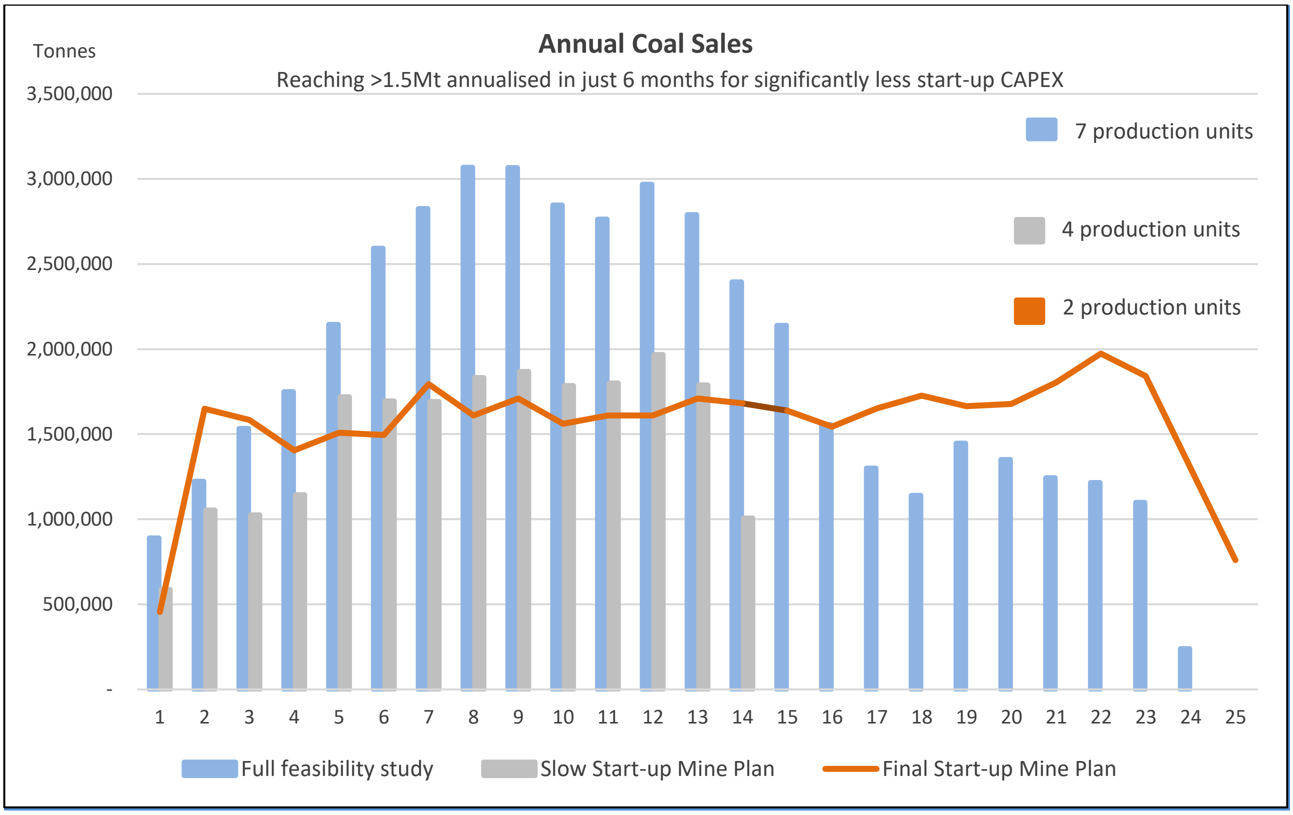
New Elk mine plan simplified

Key changes to the New Elk Final Start-up Mine Plan from the previous Slow Start-up Mine plan announced on 29 April 2020 were:

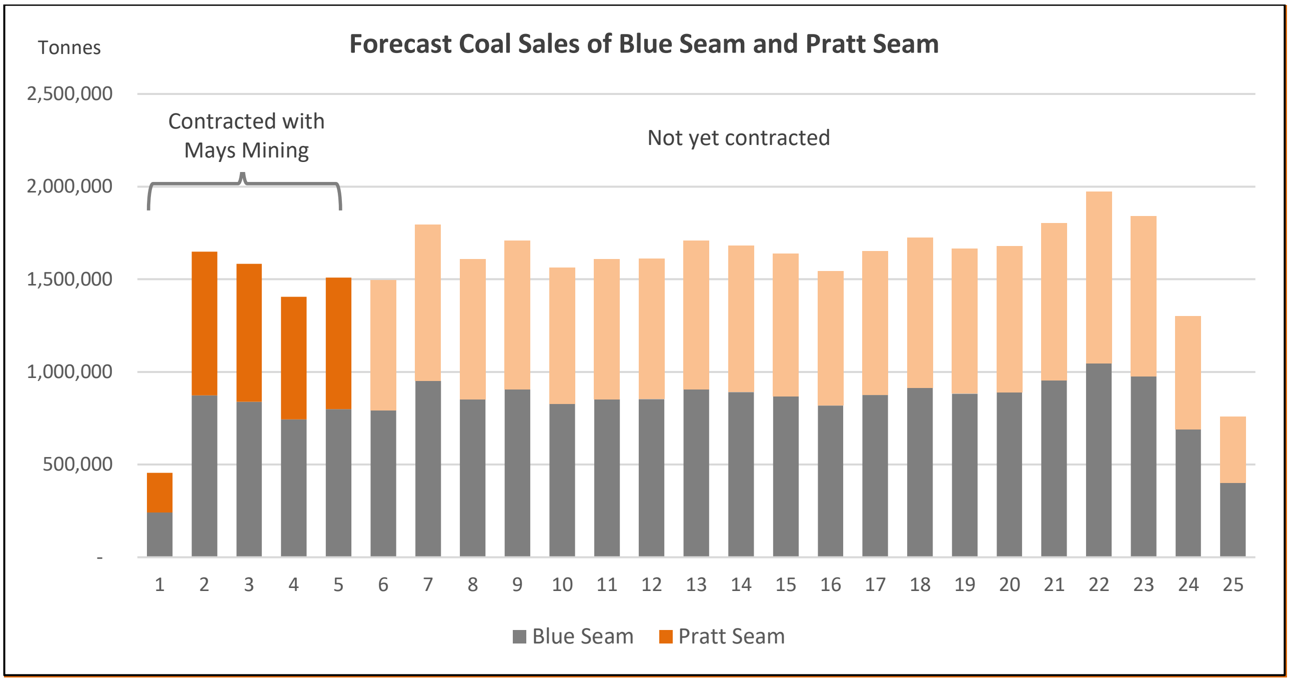
- A reduction in the number of production units from four to two;
- A rescheduling of labour and the production units to mine the entire Blue seam reserve; and
- An extended Blue seam mine life from 15 to 24 years.

The loss in annual New Elk production from the reduction in production units has been off-set by the purchase of a similar amount of coal from Mays Mining thus maintaining a similar coal sales profile (for the first 15 years) to the Slow Start-up Mine Plan.

The graph below illustrates annual coal sales (noting the first period is just 7 months) from both New Elk Blue seam coal production and the purchase of Pratt seam coal from Mays Mining (Final Start-up Mine Plan), compared to the Full Feasibility Study Mine Plan announced on 28 November 2019 and the Slow Start-up Mine Plan announced on 29 April 2020.



The graph below illustrates the split in coal sales between the Blue seam and the Pratt seam (both contracted via Mays Mining and uncontracted), for the life of mine for the Blue seam reserves. While Allegiance has only contracted an initial four years of supply of Pratt seam coal from Mays Mining, Mays does have further supply and there is an abundance of this coal from other potential suppliers in Alabama.



The strategy of blending high quality but high sulphur coking coal with New Elk's low sulphur coals is a long term strategy, whether the blending is with the Blue seam, the Primero seam or any of New Elk's other nine coal seams.

New Elk start-up capital expenditure and the capital requirement reduced

In two revisions of the start-up mine plan at New Elk, Allegiance reduced the start-up capital expenditure (excluding working capital and financial leases) from US$40M in the Full Feasibility Study Mine Plan announced on 28 November 2019, to US$28M (31 January 2020 announcement) and then to US$24M (29 April 2020 announcement), the latter being the Slow Start-up Mine Plan. Under the Final Start-up Mine Plan the start-up capital expenditure is US$17.7M (summarised in the table below).

Major capital invested in the first 6 months of production	US$M
Wash-plant upgrade	5.0
Mine access and ventilation	0.2
Mine infrastructure mostly related to conveyor systems	4.0
Refurbishment of first production unit of equipment (with some new items purchased)	3.2
Refurbishment of second production unit of equipment (with some new items purchased)	3.6
Other mining support equipment	1.3
Investment in rail	0.4
Total	**17.7**

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.

With the reduction in production units from four to two, there has been a subsequent significant reduction in sustaining capital from US$209M in the Slow Start-up Mine Plan to US$146M in the Final Start-up Mine Plan.

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, as previously announced.

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.

New Elk funding for the start-up capital

Allegiance has commenced the capital expenditure programme to meet the June production start date utilising its current cash reserves secured from the placement it completed in November 2020 along with two separate drawdowns on the convertible note arrangement it has with Mercer Street Global Opportunity Fund LLC (as discussed in more detail in the 'Corporate' section of this report).

To complete the capital expenditure programme and provide start-up working capital Allegiance intends to raise US$15M in project debt.

Allegiance has a conditional terms sheet with Nebari Natural Resources Credit Fund 1 LP (**Nebari**) 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. Due diligence is progressing well.

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.

New Elk cash operating costs increase slightly

The life of production Blue seam cash operating costs for New Elk (before royalties, interest and tax) have increased slightly, as compared to the November 2019 feasibility study, due to:

- A further rail haul to New Orleans versus Houston off-set in part by lower port costs; and
- No provision had been made for the appointment of an external sales and marketing agent in the feasibility study.

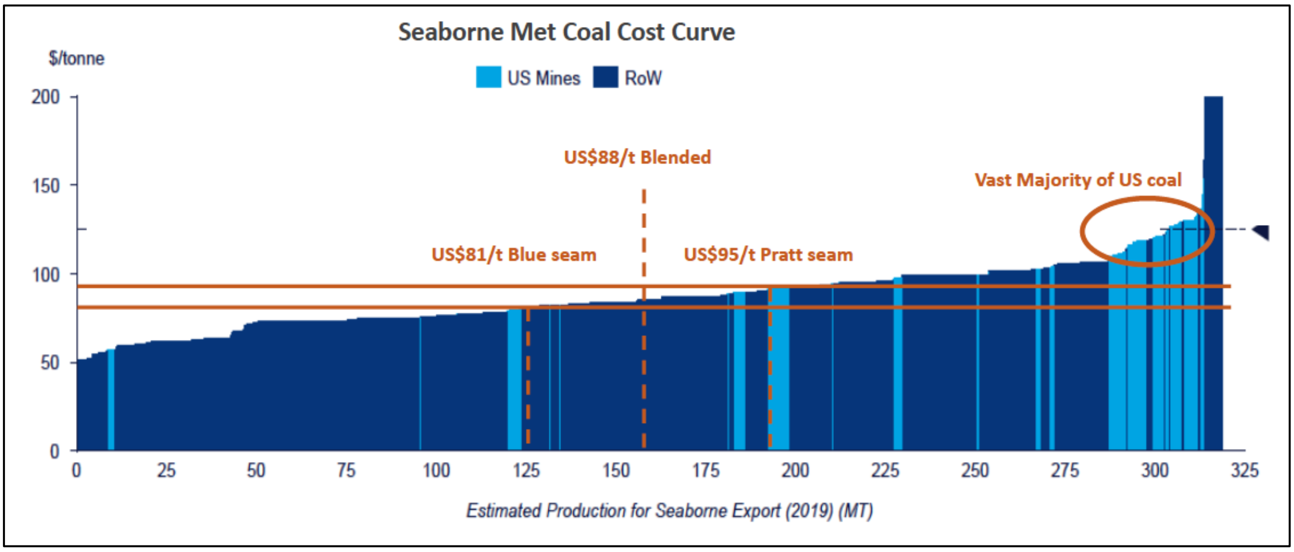
Operating costs are summarised in the table below and compared against the Full Feasibility Study costs announced on 28 November 2019.

Cash cost items	Full Feasibility Study - US$M	Final Start-up Mine Plan - US$M
Mining	30.2	28.7
Processing	4.5	4.4
General & Administration	1.2	2.8
Marketing (Blue and Pratt seam blended)	0.2	2.4
Haulage	0.2	0.9
Rail and Port	37.4	42.1
Total	**73.7**	**81.3**

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.



Source: Wood Mackenzie

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.

Tenas Project environmental assessment certificate application nearly complete

During the quarter the Company continued to work to finalise the Application Information Requirements document which forms the table of contents to the application for an Environmental Assessment Certificate. The final draft has been submitted to the EAO and it is anticipated it will be approved by the EAO in February 2021.

Parallel with this process, the Company has completed around 60% of the drafting of the application for an Environmental Assessment Certificate (the document presently runs to 15,000 pages). Completion of the remainder of the document was delayed by the need to review the water quality and quantity predictions which has now been completed to the satisfaction of Management. Drafting of the application has recommenced with a target date for lodgement of March 2021.

While this has been a demanding and more lengthy process than anticipated, the achievement of lodging an application for an Environmental Assessment Certificate cannot be understated. It activates a time regulated formal review process where the EAO has 180 days to review the application after which the Ministers for Environment and for Energy and Mines, both of British Columbia, have 40 days to decide on the granting of an Environmental Assessment Certificate.

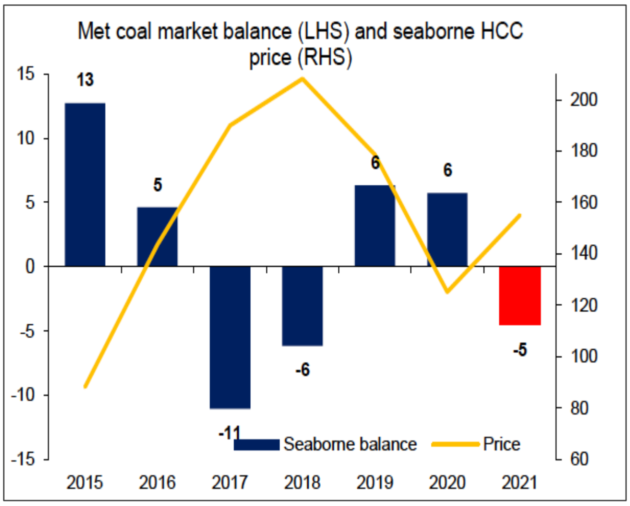
It follows therefore, that Telkwa Coal could potentially receive its Environmental Assessment Certificate in Q4 this year with permits to mine to follow.

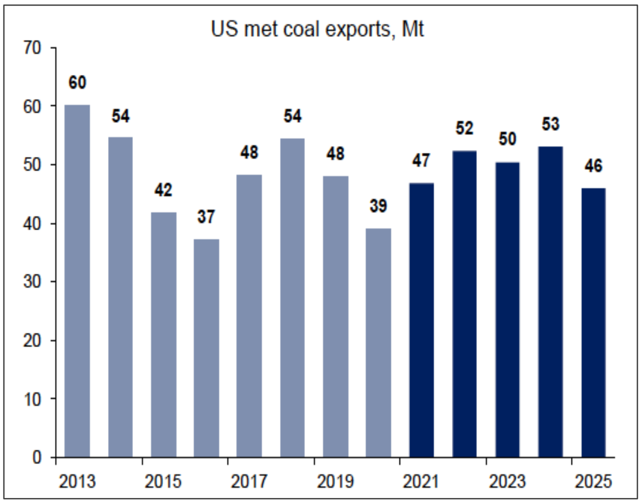
Coking coal market update

During the quarter, media reports confirmed that China has now formally banned Australian coal imports. As a direct consequence, Macquarie Research reported that benchmark premium low-vol hard coking coal lagged remaining at US$100/t levels (FOB Queensland), although non-Australian coking coal enjoyed better prices with Teck Resources reporting it received more than US$150/t (FOB Vancouver) for its coking coal from sales to China.

The Chinese ban also increased demand for US coking coals with US low vol coking coal reaching US$157/t, US high vol 'A' coking coal reaching US$151/t, and US high vol 'B' coking coal reaching US$130/t (FOB US East Coast).

In the last week there has been a rapid recovery in pricing of benchmark premium low-vol hard coking coal from Australia reaching US$157/t, driven by, according to Macquarie Research, a supply deficit in seaborne metallurgical coal caused by a recovery in ex-China crude steel production, along with sharp supply cuts in US metallurgical coal exports due to mine closures and bankruptcies in the US during the height of the pandemic.





Source: Macquarie Research 18 January 2021

Macquarie forecast premium low vol benchmark FOB Australia to remain at or above US$150/t through to the end of 2022 which sets an excellent price level for New Elk Blue/Pratt blend.

Kilmain and Back Creek Projects

EPC 1297 relating to the Back Creek project has been relinquished. The Kilmain project remains under review.

COVID-19

The Company has not suffered any direct impact from the COVID-19 pandemic as most work is desk based and staff have been able to work from home and communicate electronically and through virtual meetings.

However, the Company had been indirectly affected by the volatility to capital markets; through not being able to hold face to face meetings with stakeholders and potential investors and lenders; and due to the impact on the price for metallurgical coal which had been negatively impacted by concerns relating to the global outlook for economic recovery. These factors have delayed the Company's fund-raising initiatives.

As set out in the coking coal market update section above it appears the concerns relating to the global outlook for economic recovery have recently abated.

Expenditure on mining exploration activities

In accordance with ASX Listing Rule 5.3.1, the Company advises its exploration and evaluation expenditure during the December 2020 quarter totalled $1,438k for operating activities (included at Item 1.2(a) of the Appendix 5B) and $1,652k for investing activities (included at Item 2.1(d) of the Appendix 5B).

Operating activities payments relates to costs associated with the New Elk Project and include $1,000k for care and maintenance, $255k in relation to rehabilitation insurance bond premiums, and $183k for various engineering and consulting services. $302k of the investing activities payments relates to initial lease payments in respect of the Lorencito Property, $176k for the annual cost for the Telkwa coal licences, and with the balance of payments associated with the Tenas Project and relating principally to various environmental and engineering consulting services related to progressing the Application for Information Requirements document and preparing for submission of the Environmental Assessment Certificate documentation.

Activities conducted during the quarter are described in further detail in sections above.

Payments to Related Parties and their Associates

In accordance with ASX Listing Rule 5.3.5, payments to related parties of the Company and their associates during the quarter totalled $290k and related to remuneration to executive and non-executive directors. Refer to the Remuneration Report in the Annual Report for further details on director remuneration. These amounts are included at Item 6.1 of the Appendix 5B.

Corporate

In October 2020, on the Closing of the New Elk Mine acquisition, the Company allotted ordinary shares to Cline Mining Corporation, with an attributed value of $5.6M, as an initial debt repayment.

In November 2020, the Company completed a $7.5M private placement with sophisticated and professional investors including a number of highly credentialed institutional investors.

In July 2020, the Company secured up to $8M of funding by way of a secured convertible note issued to Mercer Street Global Opportunity Fund LLC, a New York based investment fund (Fund);

- $2M of which was drawn in the September 2020 quarter (tranche 1 and 2);
- $1M in October 2020 (tranche 3); and
- With further amounts to be drawn at the discretion of the parties' subject to any required shareholder approval (with $2M being drawn in January 2021).

In October 2020, following receipt of the third tranche of funds from the Fund, secured notes with a face value of $1.15M maturing 30 October 2021 were issued to the Fund, bringing the total face value of notes issued to $3.5M.

The notes are convertible at the Fund's election into ordinary shares on the following terms:

- For the tranche 1 and 2 notes, the conversion price is the lesser of A$0.10, or 92% of the lowest daily VWAP of Allegiance shares selected by the Fund for the 10 trading days on which Allegiance shares are traded in the ordinary course of business on the ASX ending on the date immediately prior to a conversion notice; and

- For the tranche 3 notes, the conversion price is the lesser of A$0.15, or 90% of the lowest daily VWAP of Allegiance shares selected by the Fund for the 10 trading days on which Allegiance shares are traded in the ordinary course of business on the ASX ending on the date immediately prior to a conversion notice.

If the note is not converted, it will be repaid on maturity at its issued face value. By 31 December 2020, the Fund had converted $725,000 of the notes to ordinary shares.

In December 2020, the Company and Nebari agreed to extend the time for repaying the Nebari secured bridge loan as follows:

- US$1.25M on 31 December 2020 (which was paid on 31 December 2020);

- US$1.25M on 14 February 2021; and

- US$1.5M on 31 March 2021.

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. 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.

Tenement Summary

Tenure Number	Owner	Project	Tenure Type	Area (ha)
British Columbia Canada				
DL 230; PID - 014-958-724	Telkwa Coal Ltd	Telkwa	Freehold	259
DL 237; PID - 014-958-732	Telkwa Coal Ltd	Telkwa	Freehold	259
DL 389; PID - 014-965-666	Telkwa Coal Ltd	Telkwa	Freehold	262
DL 391; PID - 014-965-674	Telkwa Coal Ltd	Telkwa	Freehold	262
DL 401; PID - 014-965-682	Telkwa Coal Ltd	Telkwa	Freehold	259
353440	Telkwa Coal Ltd	Telkwa	Coal License	259
334059	Telkwa Coal Ltd	Telkwa	Coal License	269
327972	Telkwa Coal Ltd	Telkwa	Coal License	259
327836	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327837	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327838	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327839	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327845	Buckley Valley Coal Ltd	Telkwa	Coal License	259
328672	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327834	Telkwa Coal Ltd	Telkwa	Coal License	130
327840	Telkwa Coal Ltd	Telkwa	Coal License	259
327865	Telkwa Coal Ltd	Telkwa	Coal License	259
327866	Telkwa Coal Ltd	Telkwa	Coal License	259
327936	Telkwa Coal Ltd	Telkwa	Coal License	259
327944	Telkwa Coal Ltd	Telkwa	Coal License	259
327951	Telkwa Coal Ltd	Telkwa	Coal License	259
327952	Telkwa Coal Ltd	Telkwa	Coal License	259
327953	Telkwa Coal Ltd	Telkwa	Coal License	259
327954	Telkwa Coal Ltd	Telkwa	Coal License	259
327964	Telkwa Coal Ltd	Telkwa	Coal License	259
327965	Telkwa Coal Ltd	Telkwa	Coal License	259
Queensland Australia				
1298	Mineral & Coal Investments PL	Kilmain	Exploration Permit	2800
1917	Mineral & Coal Investments PL	Kilmain	Exploration Permit	2800
EPC1297 relating to Back Creek relinquished in the period				
Colorado United States				
607075	New Elk Coal Company LLC	Lorencito	Coal Lease	7228
635047	New Elk Coal Company LLC	New Elk	Coal Lease	12,116
635047	New Elk Coal Company LLC	New Elk	Coal Lease	729
635047	New Elk Coal Company LLC	New Elk	Freehold	477
635047	New Elk Coal Company LLC	New Elk	Freehold	101