ALLEGIANCE COAL
LIMITED

30 October 2017

ACTIVITIES REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2017

HIGHLIGHTS

- The Company completes a review of the staged production pre-feasibility study (**Staged Production PFS**) for the Company's Telkwa Metallurgical Coal Project (**Project**), and achieves amongst other things a significant reduction in start-up capital expenditure.

- SRK Consulting (Canada) Inc. delivers the stage one production pre-feasibility study (**Stage 1 PFS**) in relation to the Project (ahead of schedule) which again demonstrates excellent economic outcomes.

- Independent Investment Research initiates coverage of the Company with a base case (250kctpa) valuation of $0.37 per share and an expanded case (1Mctpa) valuation of $0.82 per share.

- The seaborne metallurgical coal outlook remains very positive.

Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 30 September 2017.

Mr Malcom Carson, Non Executive Chairman, commented:

"In Q3 2017 the Company outperformed on its deliverables and released the Stage 1 PFS and the Staged Production PFS Review in relation to the Project well ahead of time. In so doing, the Company not only reduced the Project start-up capital expenditure by 32 percent, but also confirmed that the Project could sustain itself in the lowest five percentile of the global seaborne metallurgical coal cost curve producing at just 250,000 saleable tonnes per annum. As I said in the Company's announcement on 11 September 2017, 'It is truly a remarkable achievement that a bulk commodity mining operation can be so low on the cost curve without the benefit of scale and volume to drive unit costs down'. The Company's approach to staged development is vindicated by SRK's work, and the Company is now committed and focused on accelerating the Project towards permitting".

Staged Permitting and Production

The staged approach to permitting and production is pivotal to the Company's objective of putting a safe and environmentally sustainable mine into production quickly, that is both affordable and achievable for the Company.

ALLEGIANCE COAL
LIMITED

On 3 July 2017, the Company announced (**3 July Announcement**) the results of the Staged Production PFS and on 11 September 2017 the Company announced the results of the Stage 1 PFS which included the results of a review of the Staged Production PFS.

The Staged Production PFS assessed the viability of the Project across the entire reserve base of 42.5 million tonnes of saleable coal. It assumed the commencement of mining at 250,000 saleable tonnes per annum under the Sub-EA permitting process (as explained in the 3 July Announcement), ramping to 1.75 million saleable tonnes per annum in four years if permitted to do so under a Full EA permitting process (again as explained in the 3 July Announcement).

The Stage 1 PFS assessed the viability of the Project at two levels:

- Assuming the Company is only ever permitted to mine at the rate of 250,000 saleable tonnes per annum; and also

- Assuming the Company is permitted to increase production to 500,000 saleable tonnes per annum on the basis such a ramp-up would involve almost no additional capital expenditure.

Both the Staged Production PFS and the Stage 1 PFS were undertaken by SRK Consulting (Canada) Inc. (**SRK**) assisted by other mining and resources specialists. The three production scenarios assessed by SRK all delivered excellent economic results, summarized in the table below.

Annual Sale Coal Production	Units	250,000t	500,000t	1.75Mt
All-in-FOB cash cost per sold tonne (pre-tax)	US$/t	54	51	55
Start-up CAPEX (incremental from 250kt)	US$M	35	2	162
Average annual revenue (US$110t)	US$M	28	55	192
Average annual EBITDA	US$M	14	30	97
Average EBITDA ratio to revenue	%	50	54	50
Unleveraged pre-tax NPV_{10}	US$M	51	83	416
Unleveraged pre-tax IRR	%	32	54	37
Permitting timing (incremental from 250kt)	Years	2	1	3

The Staged Production PFS and Stage 1 PFS results validate the Company's staged approach to production:

- Starting small with a low start-up capital expenditure mining 250,000 saleable tonnes per annum and permitted within two years under the Sub-EA process;

- Doubling production with only $2M of additional capital expenditure (funded from cashflow) to 500,000 saleable tonnes per annum permitted within one additional year and again under the Sub-EA process; and

- Ramping up to 1M or more saleable tonnes per annum permitted under the full EA process over three additional years.

At whatever level of production, the Project is able to sustain its all-in-FOB cash cost between US$51/t and US$55/t, and position itself firmly in the lowest five percentile of the global seaborne metallurgical coal cost curve. It follows therefore, that in all cases, the Project generates excellent financial results providing the Company with the flexibility to develop the Project mitigating capital, environmental and permitting risk in a way that few if any bulk commodity projects can.

Initiating Research Coverage

Independent Investment Research (**II Research**) initiated coverage over the Company in Q3 2017. A copy of the research coverage is available on the Company's website (direct link below).
http://www.allegiancecoal.com.au/irm/PDF/1256_0/IndependentInvestmentResearchSeptember2017

II Research undertook a valuation of the Project independently assessing the Stage 1 PFS results delivered by SRK, and then assessing their own ramp-up of the Project to 1M saleable tonnes per annum. II Research's results are summarized in the table below.

Telkwa Project Summary Valuation			
Saleable tonnes per annum	**Units**	**250,000t**	**1Mt**
Un-funded, pre-tax NPV8	A$M	71	312
Un-funded, pre-tax IRR	%	32.0	44.2
Funded, pre-tax NPV8	A$M	72	245
Peak annual free cashflow – funded	A$M	10	43
Peak Annual EBITDA	A$M	11	45
Implied 5x EBITDA multiple	A$M	56	227
Un-funded, pre-tax value per share	A$	0.31	1.38
Funded, post-tax value per share	A$	0.14	0.49

II Research then undertook a valuation of the Company as a whole, separately valuing Stage 1 production of 250,000 saleable tonnes per annum as a fully funded project, and then attributed a value to the balance of the Project's in-situ coal resources (**Base Case Valuation**). II Research's Base Case Valuation is summarized in the table below:

Allegiance Base Case Valuation Summary					
Asset	**A$**	**Risk Factor**	**Risked A$**	**Per Share**	**Notes**
Telkwa Stage 1 Operation	71M	50%	35M	0.16	NPV8 pretax
Other Telkwa Coal Resources	465M	10%	47M	0.21	
Cash	1.64M	100%	1.64M	0.01	30 Jun 17
Total	**537M**		**83.5M**	**0.37**	

II Research then undertook an expanded valuation of the Company ramping production in year five from 250,000 to 1M saleable tonnes per annum as a fully funded project, and again attributed a value to the remainder of the Project's in-situ coal resources (**Expanded Case Valuation**). II Research's Expanded Case valuation is summarized in the table below:

Allegiance Expanded Case Valuation Summary					
Asset	**A$**	**Risk Factor**	**Risked A$**	**Per Share**	**Notes**
Telkwa Stage 1 Operation	312M	50%	156M	0.70	NPV8 pretax
Other Telkwa Coal Resources	274M	10%	27M	0.12	
Cash	1.64M	100%	1.64M	0.01	30 Jun 17
Total	**588M**		**185M**	**0.82**	

The key takeaway for the Company from II Research's initiating coverage of the Project in particular, was the accuracy and robustness of SRK's work in delivering both the Staged Production PFS and the Stage 1 PFS. The key economic indicators were all within the same range. While the Board took great comfort from SRK's credibility and reputation in delivering the two pre-feasibility studies, it is always prudent and beneficial to undertake a peer review of work and II Research's independent assessment of the Project provides that additional layer of comfort.

Environmental Baseline Studies

The Company commenced its environmental baseline studies in relation to the Project in May 2017. As previously reported by the Company on 17 October 2017, all disciplines covering surface water quality, groundwater reconnaissance, terrestrial resources, fisheries and aquatics and culture and archaeology, are all well underway. The studies are on schedule to be completed in calendar Q3 2018.

Stakeholder Engagement

During Q3 2017, meetings took place with First Nations, the British Columbia Ministry of Energy and Mines, the Mayor of Telkwa's office, and other regional special interest groups. Now that the Stage 1 PFS has been completed and the Company has a clear blueprint for the commencement of Project development, the Company plans to expand community engagement over Q4 2017 into 2018.

Kilmain and Back Creek Projects

Both the Kilmain and Back Creek Projects remain under review. There were no activities of note during the quarter ended 30 September 2017.

Metallurgical Coal Market Update

According to the World Steel Association, global steel production for January to September 2017 is up 5.6 percent year on year to 1.27Bt. Chinese crude steel production for September was 71.8Mt, a 3.7 percent decrease month on month, but a 5.3 percent increase year on year.

The market for prime hard coking coal coal traded in a range of US$210/t to US$145/t before recovering to around US$180/t toward the end of the third quarter. Chinese supply side reform and adverse weather conditions in China and Queensland has had a positive effect on the market.

Nippon Steel settled the Q3 2017 prime hard coking coal price based on a three-month (June to August) average index price at US$170.35/t FOB. While JFE Steel settled Q3 2017 PCI early at US$115/t. NSC settled later at US$127.50/t after a resurgence in Q3 2017 metallurgical coal pricing.

As for the fourth quarter, seasonal factors are expected to influence domestic coking coal supply in China. It is also anticipated that the Chinese government will continue to implement pollution abatement policies by closing down more inefficient steel making facilities. Reliance on larger, efficient coastal Chinese BOF production will increase, therefore requiring high quality imported metallurgical coal from the seaborne market.

The outlook for metallurgical coal in Q4 2017 remains very positive.

Corporate

As at 30 September 2017, the Company had a cash balance of $0.7 million. Subsequent to the quarter-end, as announced on 24 October 2017, the Company has raised $3.67 million through a placement of shares with 'sophisticated investors', and 'professional investors'.

Funds from the placement will be recieved in two tranches:

- $1.02 million before costs under the Company's existing 15 percent placing capacity in accordance with ASX Listing Rule 7.1, to be received on or about 30 October 2017; and
- Subject to shareholder approval, $2.65 million before costs, to be received on or about 5 December 2017.

The Company is now very well placed to execute its programmes to expedite the Project towards permitting.

For more information, please contact:

Mr Malcolm Carson
Chairman, Allegiance Coal Limited
Mobile: +61 417 692 849
Email: mcarson@allegiancecoal.com.au

Mr Mark Gray
Managing Director, Allegiance Coal Limited
Mobile: +61 412 899979
Email: mgray@allegiancecoal.com.au

About Allegiance Coal
Allegiance Coal is a publicly listed (ASX:AHQ) Australian company fast tracking a metallurgical coal mine into production in British Columbia, Canada. The Telkwa metallurgical coal project **(Project)** is the Company's flagship project comprising 148Mt of JORC compliant coal resource of which 131Mt is in the Measured Category. The Project and has been the subject of extensive historical exploration and most recently of a pre-feasibility study declaring 43Mt of proven and probable reserves, and uniquely positioning the Project in the lowest five percentile of the global seaborne metallurgical coal cost curve.

Coal Resources and Reserves
The coal resources and reserves referred to in this announcement (unless otherwise stated in this announcement) were first reported in the 3 July 2017 Announcement. The Company confirms that it is not aware of any new information or data that materially affects the information included in the 3 July Announcement and that all material assumptions and technical parameters underpinning the estimates in the 3 July Announcement continue to apply and have not materially changed.
