



13 December 2017

## ALLEGIANCE RECEIVES INTEREST FROM JAPANESE AND KOREAN STEEL MILLS IN RELATION TO ITS TELKWA METALLURGICAL COAL PROJECT

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### HIGHLIGHTS

- Following recent meetings in Tokyo and Seoul, Japanese and Korean steel mills express an interest in Telkwa metallurgical coal.
  - Timing is perfect as the British Columbia Government has now approved the Company's drill programme in relation to its Telkwa Metallurgical Coal Project (**Project**).
  - Metallurgical coal will be recovered from the programme and amongst other things will be made available to the steel mills for drum and coke oven tests.
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Allegiance Coal Limited (**Company**) is pleased to announce it has been granted permits by the British Columbia Government to commence its drill programme in relation to the Project. This will enable the Company to supply metallurgical coal for drum and coke oven tests to steel mills in Japan and Korea, who have recently expressed an interest in Telkwa coal for use as a semi soft coking coal in their coke ovens and as a PCI coal in their blast furnaces for steel production.

Mr Malcom Carson, Non-Executive Chairman, commented:

*"Timing could not have been better. Following a recent trip by Management to Japan and Korea for meetings with local steel mills and trading houses, where strong interest was expressed by these organisations for Telkwa coal, the Company has been granted permits to commence its drill programme from which coal can be made available to the steel mills. This sets the Company up very nicely for calendar year 2018 and expediting the Project towards permitting and production".*

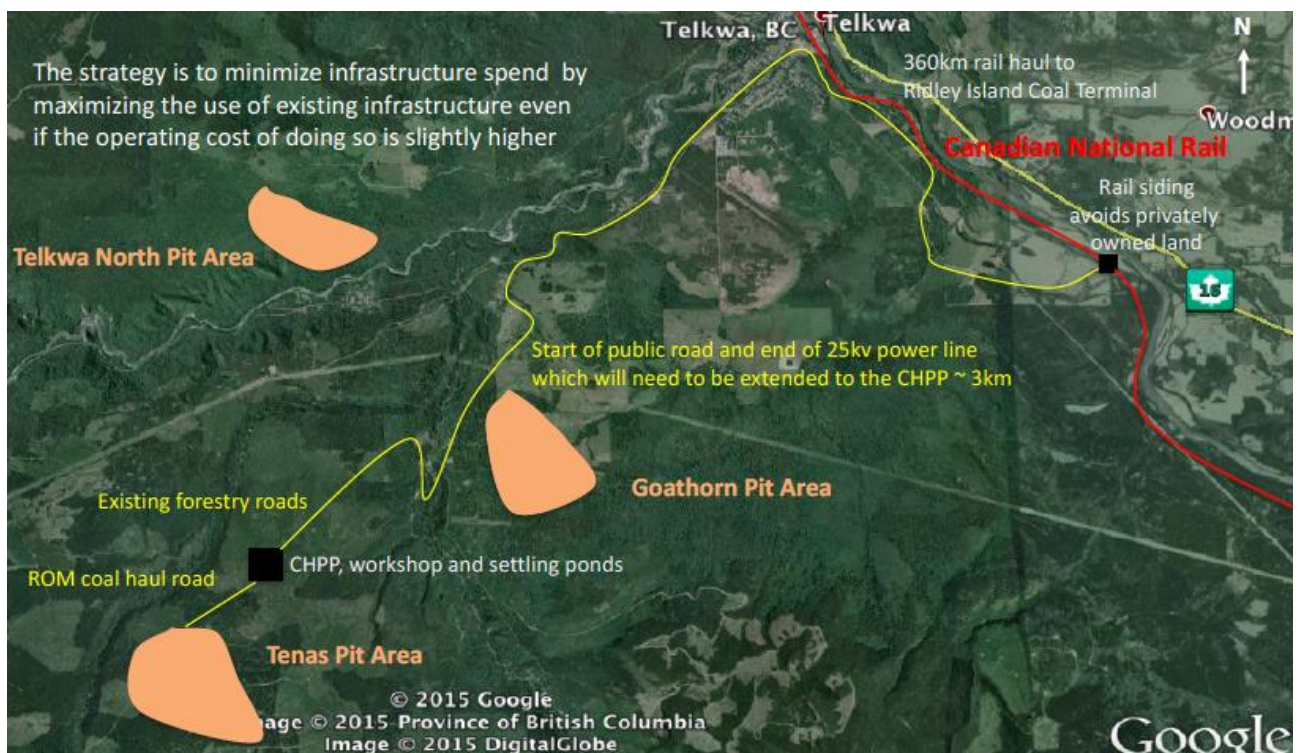
The Company had previously filed a notice of works application with the British Columbia Government to undertake a drill programme from which the Company would:

- As part of its discussions with joint venture and off-take partners, take coal core from drill holes for:
  - Sampling to update its coal quality database; and
  - Drum and coke oven tests by steel mills.
- As part of its environmental baseline studies and ongoing environmental assessment:
  - Install several ground water wells; and

- Undertake geotechnical rock analysis for mine design and geochemical rock analysis for waste management planning.

The drill programme has now been approved by the Government and will commence in Q1 2018 with coal assays expected to be received and results released in Q2 2018.

The holes will be drilled in the Project's Tenas Pit where 50 percent or 21Mt of the Project's saleable coal reserves are located. The Tenas Pit will be the sole focus of the Company's feasibility study in H1 2018, and the Company's applications for permits to mine 240k saleable coal tonnes per annum.



The north Asian steel mills such as those in Japan and Korea are in search of alternative sources of supply of metallurgical coal, to reduce their reliance on Australian sourced product. Australia represents around 65 percent of seaborne metallurgical coal trade. Supply disruptions out of Australia, particularly from severe weather events as well as time delays experienced by coal vessels trying to berth at Australian ports, creates major issues for these steel mills who want to keep their coke ovens and blast furnaces operating reliably and efficiently to produce steel. Added to that are the price spikes that all too frequently accompany weather events in Australia and the inability of these steel mills in particular to mitigate those price spikes.

Telkwa metallurgical coal is an ideal alternative source of supply, being situated close to Prince Rupert and the Ridley Island Coal Terminal. Ridley Island Coal Terminal is a shorter shipping distance than Australia to Japan, Korea and Taiwan. In addition, Telkwa's low production costs will provide the steel mills with the assurance of continuity of supply during periods of low metallurgical coal prices as the Project sits in the lowest five percentile of the seaborne metallurgical coal cost curve. Telkwa will remain in production and be a reliable supplier to the mills regardless of price volatility.

The Company anticipates drum and coke oven tests to be undertaken by several steel mills in Q2 2018.



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**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 134Mt is in the Measured Category. The Project has been the subject of extensive historical exploration and most recently of a pre-feasibility study declaring 43Mt of proven and probable reserves, uniquely positioning the Project in the lowest five percentile of the global seaborne metallurgical coal cost curve.

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