27 August 2019

UPDATE ON THE ACQUISITION OF THE NEW ELK HARD COKING COAL MINE

Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to update the market on the planned acquisition of the New Elk hard coking coal mine, located in southeast Colorado (**Mine**).

As previously announced on 15 July 2019, Allegiance entered into a binding and conditional terms sheet (**Terms Sheet**) to acquire all the shares in New Elk Coal Company, LLC (**NECC**), which company owns the Mine (**Acquisition**).

The Mine has been on care and maintenance since late 2012 following the fall in coking coal prices and the subsequent bankruptcy of NECC's shareholder, Cline Mining Corporation (**Cline**).

The Mine is fully constructed and permitted for production.

Image: Aerial view of the New Elk Coal Mine today: ROM and Product pads; CHPP; and twin storage silos.

The purchase price for the shares in NECC is US$1.

Completion of the purchase must take place before 14 July 2020 (**Completion**). Allegiance hopes to complete significantly earlier, as is set out in the following table.

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The Terms Sheet conditions to Completion are summarised in the table below including the dates for completion set out in the Terms Sheet, along with the Allegiance's revised target dates for completion.

Condition	Terms Sheet Due Date	Allegiance Target Date
Legal and financial due diligence	14 September 2019	14 September 2019
Review Mine geological model	14 October 2019	Completed
Obtain shareholder approval	14 June 2019	14 October 2019
Execute formal legal documentation	14 June 2020	15 October 2019
Complete Mine feasibility study	14 April 2020	15 December 2019
Raise US$8M of completion payments	14 June 2020	15 December 2019
Raise working capital to commencement mining	14 June 2020	15 December 2019
Complete acquisition	14 July 2020	30 December 2019

Update on Conditions

Legal and Financial Due Diligence

Legal due diligence is nearing completion and at this stage it appears the rights to coal through the landowners comprising the vast majority of the coal resource, and the coal the subject of the feasibility study, are in good standing.

In addition, permits to mine are also in good standing.

Financial due diligence is also nearing completion and at this stage it appears the bankruptcy proceedings of Cline have eliminated all material liabilities save those owed to Cline, who it is agreed under the Terms Sheet, is to be repaid from an initial payment of US$11M on completion of the Acquisition, and the balance from operating cash flow from the Mine.

Geological Model

Stantec, one of the World's largest multi-disciplinary civil, mining and environmental management consultancy firms, who recently acquired Norwest Corporation, a highly regarding mining consultancy firm based in North America, has been retained to review and update the geological model to the Mine.

Stantec has completed the review of the geological model.

Cline commissioned an independent National Instrument 43-101 Technical Report in July 2012 (**Report**). Once the feasibility study is completed Stantec will be in a position to report the resource in accordance with the JORC Code (2012 edition). The Report declared a mineral resource estimate of 656Mt of coal at a seam height cut-off of three feet. Coal seam thickness varies from three to nine feet.

Cautionary Statement: Investors should note that the mineral resource estimates for the Mine in this announcement are foreign estimates under ASX Listing Rule 5.12 and are not reported in accordance with JORC Code (2012 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves") (**JORC Code**). 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.

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The Company further cautions investors that, other than exclusivity to the planned acquisition to 14 July 2020, the material provisions of the Terms Sheet in relation to the potential acquisition are and remain non-binding and that an investment decision should not be made on the basis of this information. There can be no certainty that any binding agreement or agreements will be reached, or that any concluding transaction will eventuate.

Feasibility Study and Mine Plan

Stantec has also been retained to undertake the Mine feasibility study.

The mineral resource estimate (in metric tonnes), set out in the Report, is shared across eight coal seams summarised in the table below.

Coal Seam top down	Seam height	Measured Mt	Indicated Mt	Inferred Mt	Total Mt
Green	3 to 7 feet	29.94	24.95	0.09	**53.98**
Loco	3 to 4 feet	13.06	27.22	24.13	**64.41**
Blue	3 to 5 feet	47.36	34.56	0.82	**82.74**
BCU	3 to 6 feet	11.61	33.38	27.22	**72.21**
Red	3 to 4 feet	21.14	9.34	0.00	**30.48**
Maxwell	3 to 9 feet	65.41	65.05	15.79	**146.24**
Apache	3 to 5 feet	45.63	51.53	13.97	**111.13**
Allen	3 to 5 feet	38.83	43.45	12.79	**95.07**
Total		**271.97**	**289.48**	**94.80**	**656.26**

As noted above in the Cautionary Statement, the mineral resource estimates for the Mine are foreign estimates under ASX Listing Rule 5.12 and are not reported in accordance with the JORC Code.

The Feasibility Study will target mining in the Green, Blue and Allen coal seams.

- Mining will commence in the Blue seam, a High Vol B hard coking coal. The portal access including underground road access, belt road and ventilation road, are fully constructed and currently sealed for safety. Allegiance intends to re-open the portal once regulatory approval is obtained, to inspect the state of the headings and assess what, if any, remedial work to the portal and the headings is required prior to the commencement of production. The main headings have already been advanced 350 metres underground.

- Mining will commence in the Allen seam, a High Vol A/B hard coking coal, approximately one year after mining commences in the Blue seam, coinciding with the completion of the re-laying of railway track from the Mine to the main railway line that connects to the Port of Houston. The Allen seam also has established separate portal access from the Mine surface. Stantec is, however, considering development of a new decline commencing in the Green seam drifting down to the Allen seam. Approval is also being sought from the regulatory authorities to open the Allen portal for inspection and assessment.

- Mining will commence in the Green seam at a time yet to be determined by the feasibility study, subject to regulatory approval. The Green seam is the shallowest seam which outcrops the Mine at various locations. Access to this coal is by simple box-cut exposing the coal seam at surface, and driving mains into the coal directly off the box-cut.

The scale of the resource has enabled Allegiance to progress the development of a mine plan focussing on coal quality and favourable mining conditions to optimise the value of the resource.

While the other coal seams will not feature in the feasibility study, the Mine plan will be developed in such a way that these coal resources are not sterilised from future mining, providing multiple mining options for the Mine beyond the feasibility study mine plan.

Stantec has commenced mine planning of the Blue Seam and it is anticipated mine planning of the Allen seam will commence early September 2019.

Capital Raising

Discussions have commenced with several resource investment funds in relation to debt financing the start-up capital expenditure requirements for the commencement of mining in the Blue seam, and the US$8M of completion payments to Cline.

Shareholder Approval

Direction has been obtained from the ASX confirming that the Acquisition will not require re-compliance of Chapters 1 and 2 of the ASX Listing Rules. Shareholder approvals for the Acquisition are however required. Allegiance is currently preparing a Notice of Meeting and Explanatory Memorandum which will be posted to shareholders in due course.

Formal Documentation

Drafting of formal Acquisition documentation has also commenced, to be ready for signature following shareholder approval of the Acquisition.

Update on Mine Operations

Production Equipment

The major underground production equipment located at the mine includes;

- 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;
- 8 Joy SC10 shuttle cars;
- 2 feeder breakers;
- 1 roof bolter (another 3 will be required to be purchased);
- 4 scoops (underground utility vehicles);

The production and ancillary equipment has been inspected by Combs Equipment Group based in Kentucky. Combs previously owned Phillips Machines who were, up until the business was sold, the largest equipment rebuild business in the Appalachia coal belt.

Phillips Machines undertook the rebuild of the majority of production equipment located at the Mine for Cline in 2011, and is very familiar with the equipment.

To commence production in the Blue seam, the following items of equipment including Combs estimated costs, will be refurbished by Combs along with some additional items of equipment to be purchased.

Machine	Status	Number	Cost US$
Joy 14CM15 Continuous Miner	Refurb	4	1,160,000
Joy 10SC Shuttle Car	Refurb	8	600,000
Stamler BF14 Feeder Breaker	Refurb	1	75,000
Stamler BF14 Feeder Breaker	Buy	1	495,000
Fletcher DDR Roof Bolter	Refurb	1	98,000
Fletcher DDR Roof Bolter	Buy	1	485,000
Stamler 35C Scoops	Refurb	3	165,000
Total			**3,078,000**

The Mine also has an estimated US$3.4M of inventory and spare parts.

CHPP

The coal handling, processing and preparation plant (**CHPP**) has a name plate feed rate of 800t/h.

The CHPP has been inspected by a mineral processing consultant who was previously hired by the company that undertook a US$8.5M upgrade of the CHPP for Cline in 2011 (**CHPP Expert**). Following the inspection, the CHPP appears to be in good condition and will require minimal capital to start-up and return to operation.

The CHPP is a two circuit plant using cyclones for course material, and spirals for mid-size and fine material. Allegiance intends to add a third circuit (flotation), prior to the commencement of production, to specifically handle fine material. The CHPP records indicated the spiral circuit frequently clogged because of the fine material. A desginated fines circuit should resolve that issue and should also improve product yield. The CHPP Expert is currently costing the addition of the floatation circuit.

Rail

The Mine is located 21 miles from the main line rail operated by BNSF Railway. The Mine has leased access to a fully constructed rail siding and rail-loadout adjacent to the main line rail, also in a good state of repair.

Image: rail loadout

Image: feeding system into the rail loadout

A sealed road runs for 21 miles from the Mine to the rail loadout. On commencement of production in the Blue seam, coal will be hauled from the Mine on the road in 30t road trucks to the rail loadout. The transport contract is yet to be negotiated.

A developed railway bed also exists from the Mine to the rail loadout, where it connects to the main railway line owned and operated by BNSF, and is then a rail haul of 950 miles to the Port of Houston. Subject to securing full right of way access, during year one of production, the railway track will be re-laid from the Mine to the main railway line, coinciding with the commencement of production in the Allen seam. Thereafter, all coal will be hauled by rail from the Mine.

Discussions have commenced with BNSF regarding the rail logistics solution for the Mine, and rates.

Port

The Port of Houston has three dry bulk terminals, two of which are operated by Kinder Morgan, and one by BNSF. Discussions have commenced with Kinder Morgan to utilise the Pasadena Deep Water Terminal (**PDWT**), which currently handles around 4.2Mt of petcoke, a by-product from the oil and gas industry.

Images: Pasadena Deep Water Terminal, Bay of Houston.

PDWT has up to 12Mtpa of handling capacity. As is evident from the image above, PDWT can handle at least another 6Mtpa of product. The two empty laydown pads in the image above, both have a standing storage capacity of 500kt each.

PDWT has a 40-foot draft and can receive mini-Capesize or 80,000t Panamax vessels. The coal loader generally operates at around 2,500t/h and can load an 80,000t vessel in less than 36 hours. There is little or no delays in berthing at the terminal.

Kinder Morgan has a second dry bulk terminal, the Houston Bulk Terminal (**HBT**), located just five miles from PDWT. If required, Kinder Morgan have suggested this can also be used as a back-up facility. HBT can handle up to 10Mtpa of capacity and is currently operating at around 5Mtpa. With a lower draft, however, HBT can only receive 60,000t Panamax vessels.

Allegiance is yet to inspect BNSF's dry bulk terminal.

Sales & Marketing

Discussions have commenced with commodity trading houses in relation to the sales and marketing of New Elk hard coking coal. Allegiance is also attending the 2019 Carbon Forum in Warsaw, in November 2019. The Carbon Forum is an invitation only event involving primarily the World's steel mills, the World's metallurgical coal producers (and advanced developers), and the commodity trading houses.

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About Allegiance Coal
Allegiance Coal is a publicly listed (ASX:AHQ) Australian company advancing a metallurgical coal mine to permitting and production in British Columbia, Canada, and a permitted hard coking coal mine to production in southeast Colorado, USA. The Telkwa metallurgical coal complex includes three pits comprising 125.8Mt of JORC compliant coal resource of which 102.3Mt is in the Measured Category (**Telkwa**). In July 2017 the Company completed a pre-feasibility study declaring 42.5Mt of saleable coal reserves across all three pits (**Tenas PFS**); in March 2019 a definitive feasibility study of the Tenas Pit (**Tenas Project**) in relation to 16.5Mt of those saleable coal reserves (**Tenas DFS**); and is now advancing the Tenas Project towards permitting and production. On 15 July 2019, the Company announced the planned acquisition of the New Elk hard coking coal mine located in southeast Colorado, US (**New Elk**). New Elk is fully permitted, fully built, and comprises 656Mt of NI 43-101 compliant hard coking coal. The Company is undertaking a feasibility study to develop a new mine plan to return New Elk to production, and complete the acquisition of New Elk before 14 July 2020.

Telkwa Coal Resources & Reserves
The coal resources referred to in this announcement relating to Telkwa (unless otherwise stated in this announcement) were first reported in the Company's release of its updated geological model on 18 June 2018, supplemented by its 26 June 2018 announcement (together the **June 2018 Announcement**). The coal reserves referred to in this announcement relating to Telkwa (unless otherwise stated in this announcement) were first reported in the Company's release of its Telkwa PFS results on 3 July 2017 (**July 2017 Announcement**), updated in the Tenas DFS on 18 March 2019 (**March 2019 Announcement**). The Company confirms that it is not aware of any new information or data that materially affects the information included in the July 2017 Announcement, the June 2018 Announcement or the March 2019 Announcement (together the **Announcements**), and that all material assumptions and technical parameters underpinning the estimates in the Announcements continue to apply and have not materially changed.

New Elk Coal Resource & Cautionary Statement
Investors should note that the mineral resource estimates for New Elk in this announcement are foreign estimates under ASX Listing Rule 5.12 and are not reported in accordance with JORC Code (2012 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves") (**JORC Code**). Investors are referred to the Company's announcement of 15 July 2019 (**July 2019 Announcement**) which included the disclosures required by ASX Listing Rule 5.12. The Company confirms that it is not in possession of any new information or data relating to the foreign estimates that materially impacts on the reliability of the estimates or the Company's ability to verify the estimates as mineral resources in accordance with the JORC Code. The Company confirms that the supporting information provided in the July 2019 Announcement continue to apply and have not materially changed.

The Company further cautions investors that, other than exclusivity to the planned acquisition to 14 July 2020, the material provisions in relation to the potential acquisition of New Elk are and remain non-binding and that an investment decision should not be made on the basis of this information. There can be no certainty that any binding agreements will be reached, or that any concluding transaction will eventuate.