



5 December 2019

ALLEGIANCE ENHANCES THE PLANNED ACQUISITION OF THE NEW ELK COAL MINE WITH A COMPLEMENTARY ACQUISITION OF COAL FROM AN ADJACENT PROPERTY

HIGHLIGHTS

- Allegiance has entered into a non-binding Memorandum of Understanding (**MOU**) to acquire additional coal resources from the land adjacent (**Lorencito Property**) to the New Elk hard coking coal mine (**New Elk Mine**), located in southeast Colorado, U.S.
 - The MOU sets out the key commercial terms to the acquisition and a timeline for completion of binding agreements by 15 January 2020.
 - The Lorencito Property contains the same coal bearing units that exist in the New Elk Mine including many of the same coal seams. Of particular interest is the Primero seam with quality parameters that appear to meet high-vol 'A' hard coking coal specifications.
 - The Primero seam outcrops at surface providing low cost access to coal.
 - The additional resource enables Allegiance to enhance the mine plan further both as to coal quality, production rate, and minimising upfront capital expenditure to gain access to coal.
-

Allegiance Coal Limited (**Allegiance** or the **Company**) refers to its prior announcement of 15 July 2019 (**15 July Announcement**) relating to the planned acquisition of the New Elk Mine, and most recently, the release by the Company of the feasibility study results in relation to the New Elk Mine on 28 November 2019 (**28 November Announcement**). Allegiance is now pleased to announce the planned acquisition of an additional 87.6Mt of hard coking coal from the adjacent Lorencito Property increasing New Elk Mine resource base from 656Mt to 744Mt of contiguous hard coking coal.

Cautionary Statement

Other than the mineral resource estimates in relation to the Green, Blue and Allen seams set out in the 28 November 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 JORC Code (2012 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves") (**JORC Code**). Other than the mineral resource estimates in relation to the Green, Blue and Allen seams set out in the 28 November Announcement, 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. The Company further cautions investors that the material provisions of the terms sheet relating to the planned acquisition of the New Elk Mine (as referred to in the 15 July Announcement), and the MOU in relation to this 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 in relation to both potential acquisitions.

Unlike the New Elk Mine, the Lorencito Property is not permitted for production. Initial inquiries by the Company indicate permits to mine can be obtained within two years.

Acquisition Rationale

While the New Elk Mine is a world class asset in its own right, the Lorencito Property offers very low capital cost access to additional coal and creates excellent blending opportunities to consistently deliver a premium hard coking coal to the seaborne market.

Primero seam out-crop provides easy, low cost access to underground coal

As can be seen from the two images below, the Primero seam outcrops at surface and provides simple, low cost access to the coal seam for underground mining.



What is also very encouraging from these two pictures is the large slab of sandstone on top of the Primero coal seam which provides excellent roof conditions in underground mining requiring the lowest level of roof support (minimising mining costs), and minimises out-of-seam dilution that can negatively impact on yield.

Blending potential to deliver a coal that consistently meets high-vol 'A' hard coking coal specifications

At this stage, the Company is of the view that the Primero seam can, on its own, be sold as a high-vol 'A' hard coking coal meeting typical specifications for that coal category, summarised in the table below.

Moist	Ash	VM	FC	S	FSI	Fluidity	RoMax
%	%	%	%	%		ddpm	
1.0	8.5	31	55.5	0.6	7-9	28,000	0.97

Of particular note is the low sulphur which will attract a premium. The vast majority of high-vol hard coking coals sold on the East Coast of the U.S. contain sulphur at and in excess of 1.0%.

The Company will also give consideration to blending the Primero seam with the Allen seam from the New Elk Mine. As was highlighted in the 15 July Announcement, and in the table below, the coal quality of the Allen seam in the New Elk Mine meets some, but not all high-vol 'A' coal specifications and is likely to be priced between high-vol 'A' and high-vol 'B'. The cells shaded below are where the Allen seam falls short of high-vol 'A' coal specifications.

Moist	Ash	VM	FC	S	FSI	Fluidity	RoMax	Phos
%	%	%	%	%		ddpm		%
1.0	8.5	36	55.5	0.6	8-9	30,000+	0.87	0.05

Blended 50:50, set out below, the coals are complimentary and should meet high-vol 'A' coal specifications.

Moist	Ash	VM	FC	S	FSI	Fluidity	RoMax	Phos
%	%	%	%	%		ddpm		%
1.0	8.5	33.5	55.5	0.6	7-9	30,000+	0.92	0.08

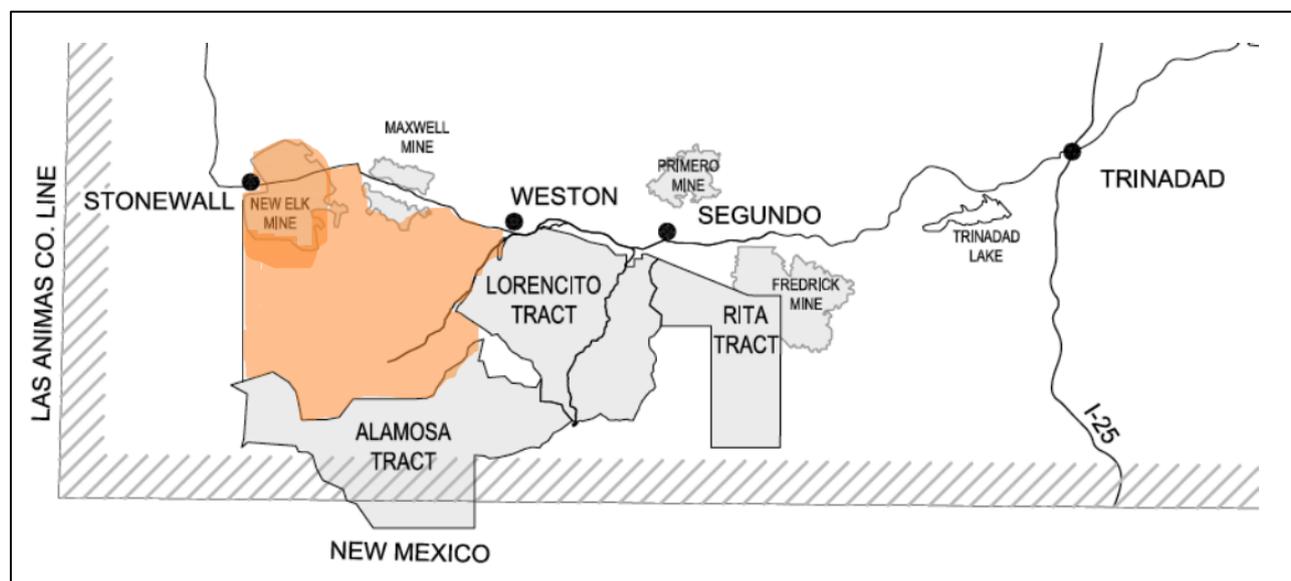
To illustrate the point, currently, the spot prices for premium low-vol hard coking coal, high-vol 'A' and high-vol 'B', as summarised in the table below, see premium low-vol and high-vol 'A' almost at parity, with high-vol 'B' at a small discount to both.

Platts premium low-vol HCC (Bowen Basin)	US\$137.75/mt
High-vol 'A' (East Coast U.S.)	US\$137.00/mt
High-vol 'B' (East Coast U.S.)	US\$131.00/mt

U.S. high-vol hard coking coals are highly regarded by the steel mills, which is reflected in the pricing relative to benchmark premium low-vol hard coking coal from the Bowen Basin, Central Queensland.

Lorencito Property Location

The Lorencito Property, referred to in the map below as the Lorencito Tract, borders the eastern boundary of the New Elk Mine (shaded orange), and is adjacent to the road and railway bed for easy transfer of mined coal from the Lorencito Property back to the wash plant located at the New Elk Mine.



Coal Resources

The Lorencito Property has been the subject of several drill programmes totalling 217 drill holes, geological and scoping studies, the most recent we are aware of was by Mine Engineers, Inc. from Wyoming, dated November 2008. 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.

The calculated in-place resources for the Primero seam is 87.6Mt, summarised in the table below by reference to coal seam thickness. As is evident, the vast majority of the coal resource exceeds 4 foot, which was the minimum coal seam height adopted in the New Elk Mine feasibility study referred to in the 28 November Announcement. From a mining perspective, the Primero is also potentially low cost.

In place thickness (feet)	in place tonnes (metric)
3.0 to 4.0	24,480,000
4.0 to 5.0	33,840,000
5.0 to 6.0	23,040,000
6.0 +	6,200,000
Total	87,560,000

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

Key Terms of the Planned Acquisition

The rights to the coal are owned by several US entities in partnership namely; MGP Mineral Enterprises LLLP, a Colorado limited liability limited partnership; C & N M Ranch, LP, a Texas limited partnership; Hill Ranch, Ltd, a Texas limited partnership; and Richard Bowie Hill, Trustee of the Richard Bowie Hill Inter Vivos Trust (collectively the **Sellers**).

The MOU provides for the following:

- The Sellers will grant to the Company by way of lease, the exclusive right to all coal within the Lorencito Property, and facilitate the right to use surface area for coal access for underground mining, short term storage and conveyance of coal from the mine to the wash-plant at the New Elk Mine.
- In consideration, the Company will pay or grant to the Sellers:
 - US\$500,000 in cash upon completion of a feasibility study to the satisfaction of the Company;
 - US\$1,000,000 upon securing permits to mine coal in the Lorencito Property;
 - US\$2,000,000 upon the production of the first one million tonnes of clean coal;
 - A production royalty as set out in Schedule 1 to this announcement;
 - 2.5% of the equity in the company that will own the New Elk Mine, once the Lorencito Property is in production, and that equity interest will be non-dilutionary up to the capital cost required to reach 3Mt of annual saleable coal production;



- Complete binding agreements by 15 January 2020 (draft binding contracts are already progressed);
- Obtain Allegiance shareholder approval to the transaction, if required.

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. On 15 July 2019, the Company announced the planned acquisition of the New Elk hard coking coal mine, a fully permitted and constructed mine located in southeast Colorado, US. The Company intends to complete the acquisition of the New Elk Project in calendar Q1 2020 and return the mine to production mid-2020.

Cautionary Statement

Investors should note 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. Investors should also note that the material provisions in relation to the potential acquisition of the Lorencito Property 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.



Schedule 1: Lorencito Property Production Royalty

Royalties (select to match coal price) US\$/t x FOB price	US\$/t
1 to 100	1.00
100 to 109.9	2.00
110 to 119.9	3.00
120 to 129.9	4.00
130 to 139.9	5.00
140 to 149.9	6.00
150 to 159.9	7.00
160 to 169.9	8.00
170 to 179.9	9.00
180 to 189.9	10.00
190 to 199.9	11.00
200 to 209.9	12.00
210 to 219.9	13.00
220 to 229.9	14.00
230 to 239.9	15.00
240 to 249.9	16.00
250 to 259.9	17.00
260 to 269.9	18.00
270 to 279.9	19.00
280 plus	20.00

Notes:

t = metric ton

Coal Price (FOB) = gross sales price in vessel at export terminal



Schedule 2: Listing Rule 5.12 Foreign Resource Estimate Information

The information in this announcement relating to the Mineral Resource estimate for the Mine is a foreign estimate under ASX Listing Rule 5.12 and is 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 this foreign estimate 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. As such, the following information is provided in accordance with ASX Listing Rules 5.10 and 5.12.

ASX Listing Rule 5.12.1: The source and data of the historical estimates.

The source of the foreign estimate is taken from a Report titled ‘Geological Model and Estimate of Coal Resources Lorencito Tract, Los Animas County, Colorado’ dated 10 November 2008 and undertaken for the Sellers by Mine Engineers, Inc, Wyoming US (**Report**).

ASX Listing Rule 5.12.2: Whether the historical estimates use categories of mineralisation other than those defined in the JORC Code and if so, an explanation of the differences.

The report does not categorise the mineralisation by reference to the JORC Code.

ASX Listing Rule 5.12.3: The relevance and materiality of the foreign estimates to the entity.

The Company considers the foreign estimates to be both material and relevant as it provides an indication of size and scale of the Mine.

ASX Listing Rule 5.12.4: The reliability of the foreign resource estimates, including reference to any criteria in Table 1 of the JORC Code where are relevant to understanding of the reliability of the foreign estimates.

It is the opinion of the Company that these estimates are reliable and represent the results of work done to high standards, using quality sampling, testing and geological and geostatistical modelling. The foreign estimates represent best practice work at the time.

ASX Listing Rule 5.12.5: To the extent known, a summary of the work programmes on which the foreign estimates are based and a summary of the key assumptions, mining and processing parameters and methods used to prepare foreign estimates.

The initial data set evaluated was from the Colorado Geological Survey and was sorted to 138 holes for the vicinity of the Lorencito Property. Of the 138 holes, 100 were drilled for coal bed natural gas. The remaining 38 were from holes drilled for exploration of coal. The coal bed natural gas holes extend much deeper than the coal exploration holes.

Drill hole collar location data for the coal bed natural gas holes were provided in the form of surface elevation and latitude and longitude, and in some cases UTM coordinates with an unknown datum. The information included data from several different companies, and it is assumed that different location datums may have been used by these companies. As the datum of the data provided was unknown, individual holes containing both UTM and latitude and longitude data were examined to determine the datum used. It was determined that the datum for both types of coordinates was NAD27, and that the units for the UTM coordinates were in meters. This was determined by trial and error through converting the latitude and longitude data to UTM using different datums until the correct transformation was found. With the correct datum determined, the collar locations were converted to Colorado State Plane NAD83, Zone South, and plotted on surface topography.



A report by Reserve Services from September 1997 was reviewed for coal exploration drill hole data. From this report, 79 coal exploration drill holes were selected for inclusion in the data set. The data included was summarized for top of coal depth, coal seam thickness, and seam naming for individual seams. Only seams labelled as Frederick seam and above in stratigraphic order were selected. Seams lower in sequence were not included due to thickness less than three feet and below drainage configuration.

The coordinates of these drill hole collar locations were converted to NAD 83 coordinate system and plotted on the surface topography for comparison with surface elevations. Discrepancies were found between the collar elevations and the surface topography but generally were within the contour interval of 7.5 minute quadrangle map that would have been available at the time the holes were drilled.

Then, drill hole names were compared to those shown on maps in a 1979 Report by the John T. Boyd Company. This comparison showed that the majority of the same named drill holes collar locations were offset a similar distance and direction from the Reserve Services locations. It is assumed that this shift was a function of plotting and/or a coordinate measuring error by Reserve Services. It was assumed that the locations shown on maps in the John T. Boyd Company report were plotted by manual methods and are correct as this document preceded other information available on these drill holes. The seam correlations in the Reserve Services drillholes were different from those in the John T. Boyd Company report. The two reports showed the same seam correlations for Ciruela and Primero seams including depth and total thickness. Coal and parting thickness from the Reserve Services information appeared more precise than information on the same drill holes from the John T. Boyd Company document. Therefore, correlation, naming convention, and thickness information was used from the Reserve Services report.

With these assumptions, the Reserve Services drill hole collar locations were corrected to match the maps in the John T. Boyd Company report. This correction made discrepancies between the drill hole elevations and surface topography even smaller, though sometimes still more than a contour interval off. Finally, those drill holes where the collar elevation was greater than one contour interval, were translated horizontally so they lie in a valley or on a ridge top, which resulted in surface topography and drill hole collar elevations being similar. Six of the drill holes from the Reserve Services holes could not be corrected to the surface topography using any of the above methods, so they were excluded from the model.

The 58 previously mentioned coal bed natural gas drill holes that were corrected to match the surface topography were compared to the Reserve Services drill holes to check seam correlations and naming. These drill holes did have coal seams named Ciruela, Primero, and Frederick seams in common with the Reserve Services holes, but depths and thicknesses were very different. In addition, logs of coal bed natural gas wells from the Colorado Oil and Gas Conservation Commission were reviewed to determine if these data would provide information on occurrence and thickness of coal seams. Although there were indications of coal seams on the logs, the relatively shallow location in the hole and the scale of the logs prevented thickness measurements and correlation with other drill hole information. Therefore, the coal bed natural gas data were not utilized.

Despite excluding the coal bed natural gas drill holes from the model, they were used in an attempt to translate correlations between data sets. Some of the coal bed natural gas drill holes intercepted three seams of interest: the Maxwell, Apache, and Allen seams. These seams are of interest due to historic underground mining activity in the area. Although it is suspected that the Reserve Services drillholes may have intercepted these seams, a generic lettered naming convention and locations prevented confirmation that these seams are present in the data. So the coal bed natural gas drill holes and old mine workings were inspected to determine if the G, F, E, or D seams from Reserve Services could be correlated with the Maxwell, Apache, or Allen seams from the coal bed natural gas drill holes and mines of these names. This analysis did not yield satisfactory results given the uncertainty of naming convention and correlation differences in the data sets.

The geologic model data set consists of the 73 Reserve Services drillholes, with their positions modified to match surface topography using the John T. Boyd Company report locations. The drill holes contain as many as eight different seams from the Frederick up in the stratigraphic column. The seams are, from top down: Ciruela, Weston, Primero, G Seam, F Seam, E Seam, D Seam, and Frederick.



Surface topography from the United States Geological Survey 10 meter National Elevation Dataset (NED) was purchased as a digital product for use in preparation of a surface topography as part of the modelling work. This digital data is the surface that was used as an aid in evaluating drill hole locations and for determining depth of cover for the Primero Seam. Digital aerial photography from approximately 2005 was downloaded from a public source for use in evaluating drill hole locations based on the assumed data coordinate system.

Once all drill hole locations were located in the NAD 83 coordinate system, the locations were compared with the surface topography. The site topography and access limits locations where pads for drilling can be placed. If drill holes using the NAD 83 coordinate system were located on steep slopes away from ridge tops or valley floors and not on existing roads or adjacent to existing roads, these locations were evaluated for problems and either eliminated from further consideration or changed based on other more reliable information.

The coordinate system selected for this analysis is Colorado State Plan, Zone South NAD83 feet datum. As most of the drill hole information was collected prior to 1983, most all coordinate information was converted to this datum. Several steps were utilized to check and verify locations of drill holes including recent aerial photography and topography for the tract. Aerial topography shows most all the location pads for the coal bed natural gas drill holes and verification of these locations was easily completed. Because the topography is steep and access roads are typically limited to ridge tops and valley bottoms, coal exploration holes that plotted on steep slopes away from ridge tops and valley floors were assumed to have incorrect locations. Where the locations could be verified by maps from previous reports and studies, this data was assumed to be accurate. Locations and collar elevations that could not be verified by these means were not included due to this uncertainty.

The basis of coal seam naming and correlations is the Reserve Services report of September 1997. Geophysical logs from the 1970's and 1985 drilling programs, as available, were evaluated by Mr. Robert Lyman, a coal geologist familiar with the area and information collected by these two programs. The resulting naming and thickness information from this evaluation was used for this analysis. Other drill hole information, such as provided by the Colorado Geological Survey in a draft form, was combined with these data and utilized where it was consistent with the work completed by Mr. Lyman.

The data set was imported into SurvCAD by Carlson Mining 2009 to construct a 3D gridded-seam model. SurvCAD is an AutoCad-based software package that was developed specifically for the coal industry and is appropriate for the geology and site conditions at Lorencito tract. Structure of the coal seams was modeled using the triangulation algorithm. Thickness of the coal seams and partings was modeled using the inverse-distance squared algorithm. For areas where a seam was too deep to be intercepted by a drill hole, conformance was used to estimate that seam's position and thickness based on the surrounding data.

Of the seams present within the Lorencito Property, only the Primero seam is considered potentially minable because of thickness and sufficient tonnage for long term production. Other seams are too thin to be considered for underground mining.

JT Boyd Company, Mining & Geological Engineers based in Denver Colorado and acting from Freeport Coal Company, managed a coal washability and quality test programme in 1996 and 1997. Approximately 18,000 pounds of coal was recovered by way of a bulk sample from the Primero seam.

Full coal washability and quality analysis was undertaken by Commercial Testing and Engineering Company located in Chicago, and petrographic and coke analysis was undertaken by Consolidation Coal Company based in Pennsylvania.

ASX Listing Rule 5.12.6: Any more recent estimates or data relevant to the reported mineralisation available to the entity.

There are no recent estimates or data relevant to the reported mineralisation available to the Company.

ASX Listing Rule 5.12.7: The evaluation and or exploration work that needs to be completed to verify foreign estimates as mineral resources or reserves in accordance with the JORC Code.



A revision of the historical drilling information will be completed to ensure the integrity of the data, in addition to the geological model. The Company then intends to undertake a feasibility study in relation to the Primero seam comprised in the Lorencito Property in accordance with the JORC Code to validate the mineral coal resources and declare mineral coal reserves (**Evaluation Work**). Depending on the results of the feasibility study, the Company may conduct its own drilling programme, bulk sampling, geotechnical and hydrological testing.

ASX Listing Rule 5.12.8: The proposed timing of any evaluation and or exploration work that the entity intends to undertake and a comment on how the entity intends to fund that work.

The Company intends to commence the Evaluation Work immediately to be funded from existing working capital. The Company will decide on the need to undertake a drilling programme at the conclusion of the Evaluation Work.

Competent Persons Statement

The data in this announcement has been reviewed by Mr. Dan Farmer, a registered professional engineer with the Association of Professional Engineers and Geoscientists of British Columbia. Mr Farmer is engaged by the Company on a full time basis, and has sufficient experience which is relevant to the style of mineralisation and the type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in Canadian National Instrument 43-101 (**43-101**) and the JORC Code (2012 Edition of the “Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”) (**JORC Code**). Mr Farmer, as competent person for this announcement, has consented to the inclusion of the information in the form and context in which it appears herein.