



29 January 2020

## ACTIVITIES REPORT FOR THE QUARTER ENDING 31 DECEMBER 2019

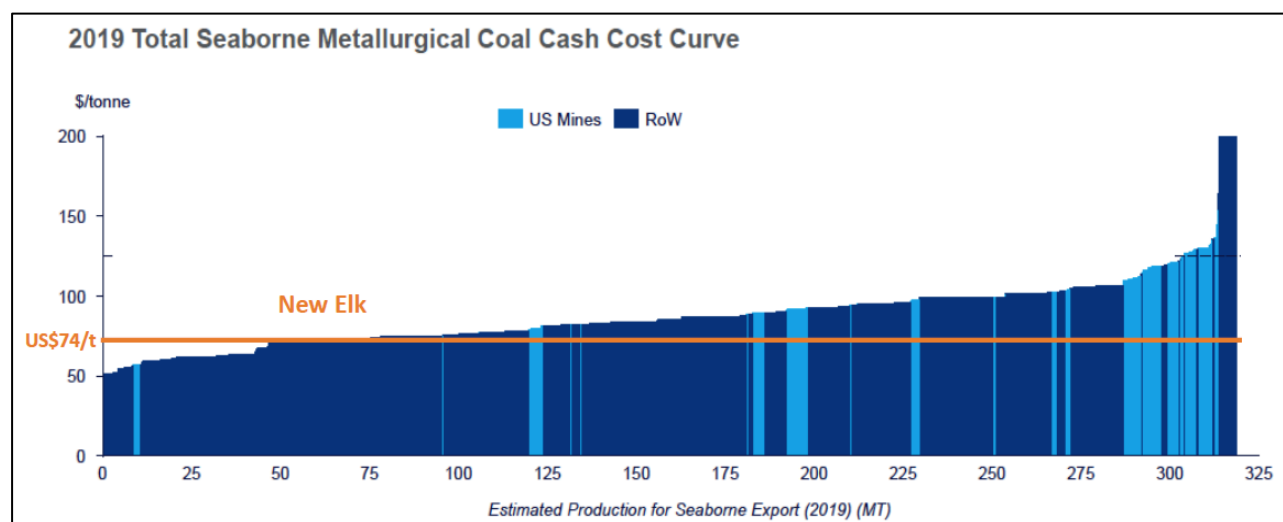
### HIGHLIGHTS

- Allegiance completes a feasibility study of the permitted, and constructed, New Elk hard coking coal mine located in southeast Colorado, US (**New Elk Mine**).
- Following the outstanding results of the feasibility study, Allegiance enters into a binding agreement to acquire the New Elk Mine.
- Allegiance enters into a non-binding MOU to acquire the Lorencito property adjacent to the New Elk Mine.
- Allegiance continues to advance the permitting process in relation to the Tenas Metallurgical Coal Project (**Tenas Project**).

Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 31 December 2019.

### New Elk Feasibility Study Delivers Outstanding Results

The results of the New Elk coking coal project feasibility (**Study**) are outstanding, exceeding the Company's expectations based on its initial internal review of the project. The Study positions the project uniquely for a US coal producer, in the lowest cost quartile of the seaborne metallurgical coal cost curve sitting amongst the lowest cost producers of hard coking coal in the US. The Company is now focussed on completing the acquisition of New Elk Mine and returning it to production in calendar Q3 2020.



## Study Highlights

A summary of the Study highlights follows:

- High productivity room and pillar ‘walk through super-section’ underground mining operation;
- 268Mt of coal resources at 3.0 foot seam height cut-off from just 3 of 8 coal seams;
- 62Mt of ROM coal reserves converting to 45Mt of saleable coal reserves at a yield of 72% and at a minimum coal seam mining height of 4.0 foot from mostly 2 of the 8 coal seams;
- 2.7Mt per annum average ROM production delivering 2.0Mt per annum average saleable coal;
- 23 year mine life from 2 of the 8 seams with a small amount of production from a 3<sup>rd</sup> seam;
- US\$74 per tonne average all-in FOB cash cost (ex-port) before royalties, interest and tax;
- Landowner royalties are linked to the FOB sales price, commencing at US\$1/t on FOB sales price up to US\$100/t, and for every US\$10/t of additional FOB price, the royalty steps up US\$1/t;
- US\$132/t average sales price for US high vol hard coking coal;
- A\$370M annual average revenue delivering A\$153M of annual average EBITDA;
- US\$28.4M start-up capital expenditure (excluding working capital);
- A\$1.2B NPV8% pre interest and tax; and
- 130% IRR pre interest and tax.

## New Elk Coal Resources & Reserves

The New Elk Mine resource is large, and the mine plan only covered a fraction of the entire resource

In July 2012, US Mining Engineers Agapito Associates, Inc., prepared a resource report for New Elk (**Report**) in accordance with National Instrument NI 43-101 ‘Standards of Disclosure for Mineral Projects’ (**NI 43-101**).

The Report declared a mineral resource estimate of 656Mt of coal resources at a minimum seam height of three foot. The mineral resource estimate is shared across 8 coal seams summarised in the table below.

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

**Cautionary statement:** Investors should note that the Agapito mineral resource estimates for the Project 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).

Except as is stated in this announcement in relation to the Green, Blue and Allen seams, a competent person has not done sufficient work to classify the foreign estimates as a mineral resource under the JORC Code in relation to the other coal seams, and it is uncertain that following further exploration or evaluation work that this foreign estimate in relation to those other seams, will be able to be reported as a mineral resource in accordance with the JORC Code.

Pursuant to the Study, Stantec prepared a statement of resources and reserves in accordance with the JORC Code and NI 43-101 in relation to the Green, Blue and Allen seams only, as is set out in tables below.

Resources	Seam height	Measured Mt	Indicated Mt	Inferred Mt	Total Mt
Green seam	3.0 foot	19.1	17.7	5.6	42.4
Blue seam	3.0 foot	89.6	31.4	9.1	130.2
Allen seam	3.0 foot	68.9	25.4	0.7	95.1
<b>Total</b>	<b>3.0 foot</b>	<b>177.6</b>	<b>74.4</b>	<b>15.6</b>	<b>267.6</b>

Reserves			Proven Mt	Probable Mt	Saleable Mt
Green seam	4.0 foot		0.8	-	0.8
Blue seam	4.0 foot		17.7	4.5	22.2
Allen seam	4.0 foot		16.7	5.5	22.1
<b>Total</b>	<b>4.0 foot</b>		<b>35.2</b>	<b>9.9</b>	<b>45.1</b>

### New Elk Acquisition

In January 2020, the Company concluded a binding agreement with Cline Mining Corporation (**Cline**) to acquire 100% of the ownership interests in New Elk Coal Company LLC, which company owns the New Elk hard coking coal mine (**Acquisition**). The Acquisition is conditional only on Allegiance raising the mine start-up capital which must occur prior to 15 July 2020.

This followed shareholder approval received at the 2019 annual general meeting for:

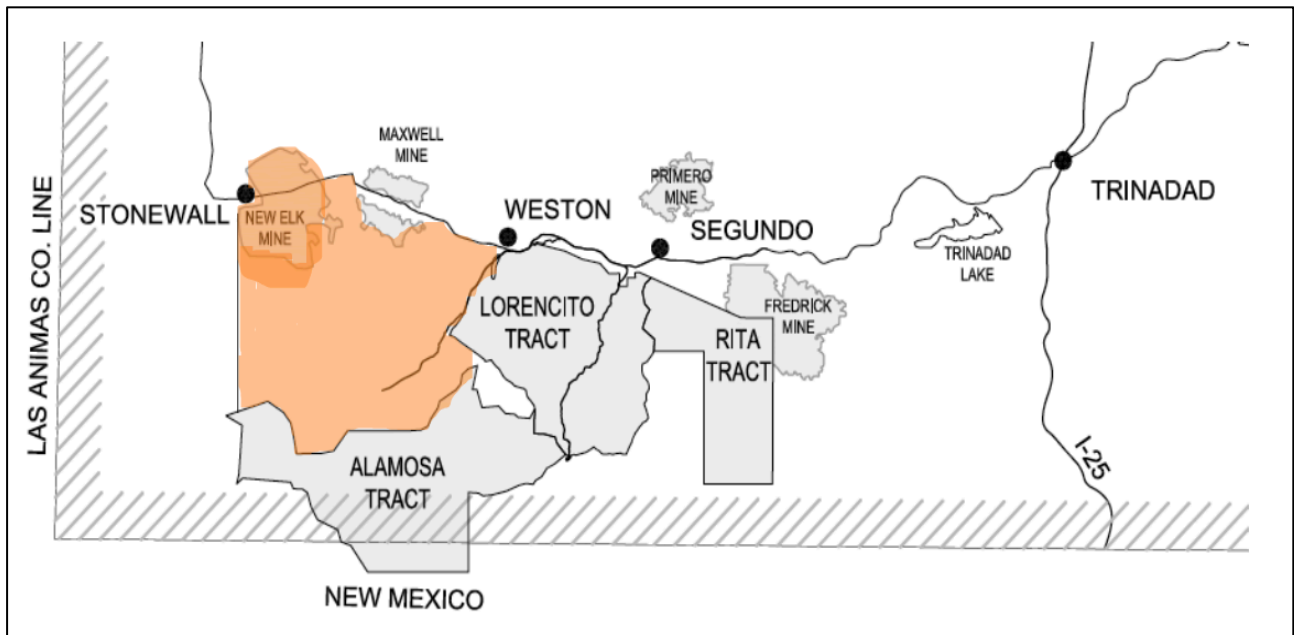
- The change in the scale of the Company’s activities which will occur following the Acquisition;
- The raising of up to \$13 million by way equity; and
- The issue of US\$3 million worth of Debt Shares (subject to a maximum of 55,833,607 Shares) to be issued to Cline on completion of the Acquisition.

The Company advises that no Debt Shares have been issued to date. Debt Shares are to be allotted at a deemed issue price equal to the higher of A\$0.08 per Share or the 20-Day VWAP and a minimum exchange rate of 0.67 USD/AUD.

### Planned Acquisition of the Lorencito Property

On 5 December 2019, the Company announced it had entered into a non-binding memorandum of understanding (**MOU**) in relation to a 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.



The Lorencito Property, referred to in the map above 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.

**Cautionary Statement.** Investors should note that the mineral resource estimates for 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**). 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 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.

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;
  - 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;
  - Obtain Allegiance shareholder approval to the transaction, if required.

The Company is currently negotiating binding coal lease and surface agreements with the owners and intends to finalise formal agreements in the March 2020 quarter.

#### **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.

#### **The coal quality is likely to meet 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 also 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 are in excess of 1.0%.

The Primero coal appears to be of better quality to the New Elk Blue and Allen seams, although there may be an opportunity to optimise all coals by blending.

### **Tenas Project EA process and permitting**

During the quarter the Company continued to work with the Environmental Assessment Office on finalising the draft Application Information Requirements (**AIR Document**). It is hoped the AIR Document will be finalised in Q2 2020 (calendar) for public comment in that quarter leading to the lodgement of an Application for an Environmental Assessment Certificate and permits to mine, in Q3 2020.

In addition to the above, post DFS optimisation work has been ongoing focussing on reducing sustaining capital as well as mitigating potential environmental impacts with engineering solutions to enhance the EA Application.

### **Kilmain and Back Creek Projects**

The Kilmain and Back Creek projects remain under review.

### **Corporate**

During the quarter, the Company completed a share purchase plan which raised \$619,600 at \$0.14 per share.

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### **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.

### **New Elk Coal Resources & Reserves**

The New Elk coal resources and reserves referred to in this announcement relating to the Blue, Allen and Green seams (unless otherwise stated in this announcement) were first reported in the Company's release of its New Elk feasibility study on 28 November 2019, (the **Feasibility Study Announcement**). The Company confirms that it is not aware of any new information or data that materially affects the information included in the Feasibility Study Announcement, and that all material assumptions and technical parameters underpinning the estimates in the Feasibility Study Announcement continue to apply and have not materially changed.

**New Elk Foreign Coal Resource & Cautionary Statement**

Investors should note that the mineral resource estimates for New Elk in this announcement, excluding those in the Feasibility Study 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. Other than the information contained in the Feasibility Study Announcement, 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.

**Lorencito Coal Resource & Cautionary Statement**

Investors should note that the mineral resource estimates for 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). Investors are referred to the Company’s announcement of 5 December 2019 (December 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 December 2019 Announcement continue to apply and have not materially changed.



## Tenement Summary

Tenure Number	Owner	Project	Tenure Type	Area (ha)
<b>British Columbia</b>				
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
<b>Australia</b>				
1279	Mineral & Coal Investments PL	Back Creek	Exploration Permit	6200
1298	Mineral & Coal Investments PL	Kilmain	Exploration Permit	2800
1917	Mineral & Coal Investments PL	Kilmain	Exploration Permit	2800