



30 April 2020

## ACTIVITIES REPORT FOR THE QUARTER ENDING 31 MARCH 2020

### HIGHLIGHTS

- Allegiance completes optimisation studies on the New Elk hard coking coal mine located in southeast Colorado, US (**New Elk Mine**) reducing the start-up capital requirement.
- Allegiance finalises the rail contract with Union Pacific Railroad in relation to the New Elk Mine.
- Allegiance finalises the sales and marketing contract in relation to the New Elk Mine.
- Allegiance acquires coal leases to the Lorencito property neighbouring the New Elk Mine.
- Allegiance secures US\$2.5M bridging loan and US\$25M conditional project loan terms sheet.
- Allegiance continues to advance the permitting process in relation to the Tenas Metallurgical Coal Project (**Tenas Project**).

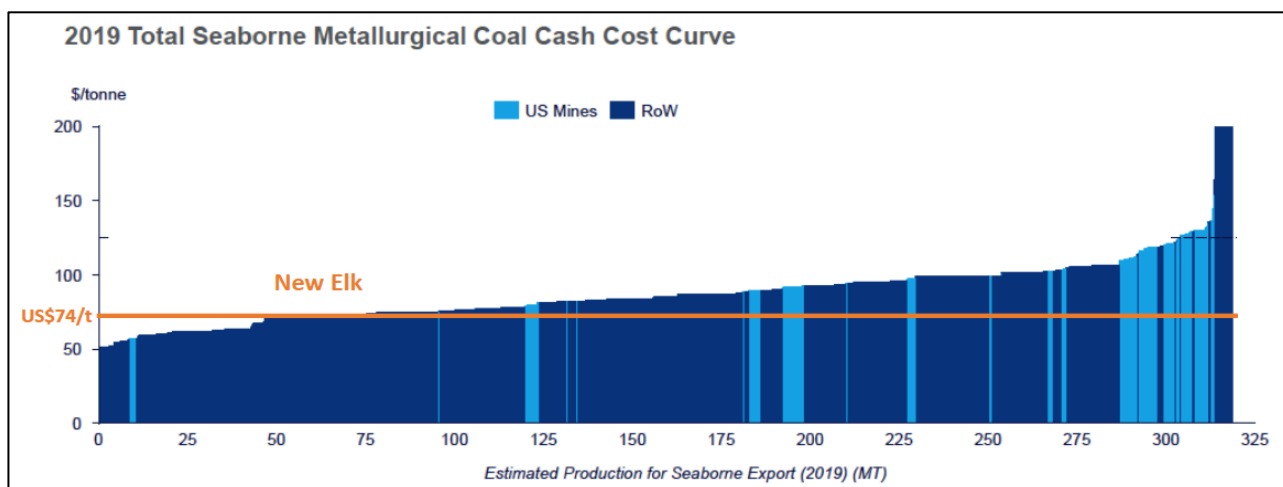
Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 31 March 2020.

### New Elk Start-up Capital Reduced from US\$56M to US\$24M

In its 28 November 2019 ASX announcement, Allegiance released the results of a maiden feasibility study of the New Elk Mine, which was updated with a revised start-up mine plan released in its 31 January 2020 ASX announcement. The results of those two studies are summarised in the table below highlighting the start-up capital requirement.

	Feasibility Study	Revised Start-up Mine Plan
	28 November 2019	31 January 2020
Saleable coal reserves	45Mt	23Mt
Saleable coal per annum production years 1 to 4	2.0Mt	1.4Mt
Mine-life (production years)	23 years	15 years
Yield mine-life average (all metallurgical coal product)	72%	76%
FOB cash cost (ex-port) before royalties interest & tax	US\$74/t	US\$78/t
Revenue mine-life annual average	A\$370M	A\$290M
EBITDA mine-life annual average	A\$153M	A\$107M
EBITDA ratio to revenue mine-life annual average	41%	37%
Start-up capital including working capital in 2020	US\$56M	US\$40M
NPV8% pre-tax	A\$1.24B	A\$560M
IRR pre-tax	130%	121%
Life of mine average high-vol hard coking coal price	US\$132/t	US\$131/t

The results of the two studies delivered excellent project economics and placed the New Elk Mine in the lowest cost quartile on the seaborne metallurgical coal cost curve, and one of the lowest producers of hard coking coal in the United States, highlighted in the graph below.

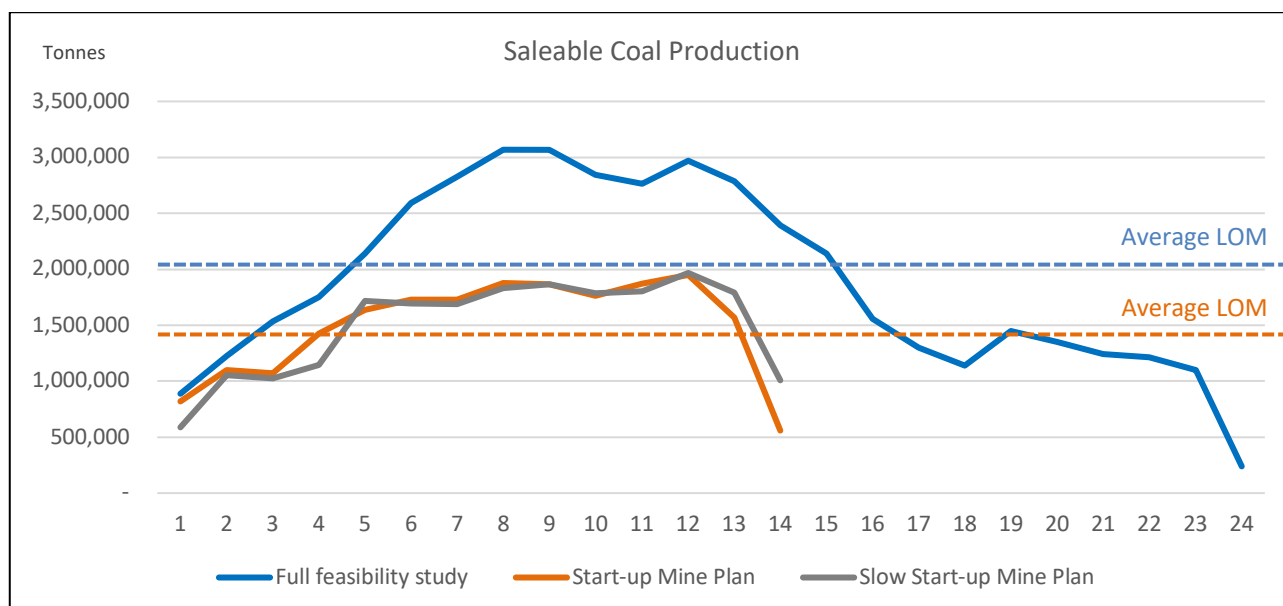


Source: Wood Mackenzie November 2019

Yesterday, 29 April 2020, in an ASX announcement, Allegiance advised a further reduction in start-up capital from US\$40M highlighted above, to US\$24M (**Slow Start-up Mine Plan**). This was achieved by re-scheduling the timing of the commencement of the New Elk Mine's production equipment, summarised in the table below.

	Revised Start-up Mine Plan	Slow Start-up Mine Plan
Production unit 1	Day 1	Day 1
Production unit 2	Month 2	Month 7
Production unit 3	Month 4	Month 10
Production unit 4	Year 4	Year 4

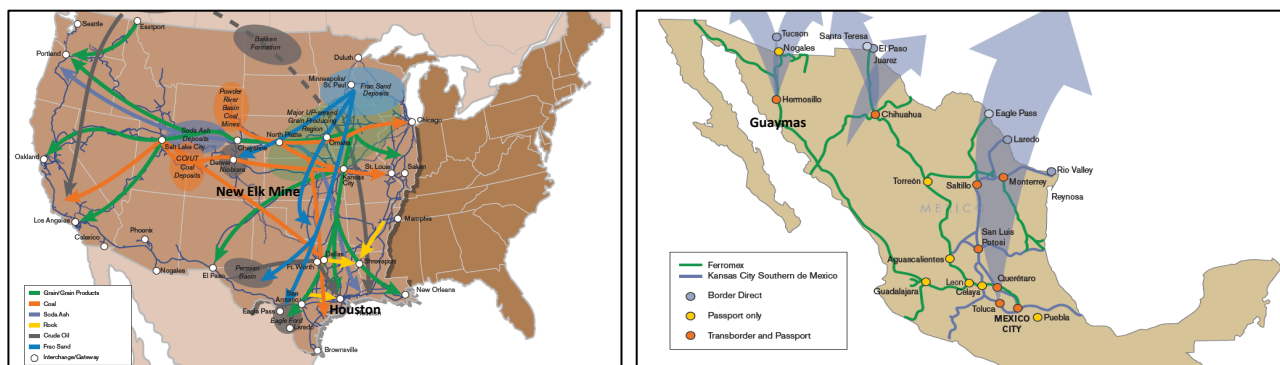
The delay in capital expenditure does not materially change the total capital and cash operating costs nor in any way the saleable coal tonnes. The graph below illustrates the three mine plans derived from the Feasibility Study, the Revised Start-up and the Slow Start-up Mine Plans.



As is evident, other than a reduction in saleable coal production in the first year, 590kt (Slow Start-up) v 820kt (Start-up), which is recovered in year 14, the production profile is very similar. Allegiance will now focus analysis on the potential to increase production in year two onwards with coal mined from the Primero seam in the neighbouring Lorencito property, subject to completing a feasibility study in H2 2020, and extending the life of mine with Primero coal and the other six coal seams from the New Elk Mine.

### Completion of New Elk Mine Rail Contract with Union Pacific Rail

In the quarter, Allegiance finalised commercial terms with Union Pacific Railroad for the hauling of coal from the New Elk Mine to either the Pasadena Deepwater Coal Terminal, Houston, in the Gulf of Mexico to access the European and South American steel markets, or to the Coal Port Guaymas in northern Mexico to access the Asian steel markets.



Maps: Union Pacific rail network highlighting New Elk to Houston, and to Guaymas

As part of the contract with Union Pacific, Allegiance secured agreement from Union Pacific to participate in the cost of constructing around 21 miles of rail spur on an existing railbed from the New Elk Mine washplant connecting to the main railway line.

### Completion of New Elk Mine Sales and Marketing Contract with M Resources

In the quarter, Allegiance finalised an exclusive sales and marketing agreement with M Resources Trading Pty Ltd (**M Resources**) in relation to coal produced from the New Elk Mine.

M Resources was established in 2011 by Mr Matthew Latimore and to date has managed close to 400 shipments globally of mostly metallurgical coal and since then has built up a strong global customer base in Asia, India, South America and Europe, including the natural targets for New Elk coking coals such as Brazil, Europe as well as Japan, Korea and Taiwan.

As part of the agreement, M Resources will provide up to US\$15M of off-take financing mitigating overseas customer credit risk and bridging the cashflow gap for Allegiance between coal loaded on a vessel at port, and delivered to the customer.

### Completion of the Acquisition of Coal Leases covering the neighbouring Lorencito Property

In the quarter, Allegiance entered into coal lease agreements to mine and sell all the coal comprised in the Lorencito property (**Lorencito Property**) which neighbours the New Elk Mine. The Lorencito Property contains the same coal bearing units that exist in the New Elk Mine including many of the same coal seams, but of particular interest to Allegiance is the Primero seam with quality parameters that align with high-vol 'A' hard coking coal specifications.

The Lorencito Property is permitted for coal production but the permit will require an extension to enable the Primero seam to be mined. The Primero seam outcrops at surface providing low cost access to coal.



Image: the thick Primero hard coking coal seam outcropping at surface under a thick cover of sandstone

As discussed, Allegiance intends to fast-track analysis of the Primero seam as the New Elk Mine's production ramp-up target.

#### Timing for Completion of New Elk Acquisition

During the quarter, the Company and Cline Mining Corporation, the owner of the New Elk Mine, agreed to extend the timing for closing the acquisition agreement for the New Elk Mine from 15 July 2020 to 15 December 2020 on the same terms and conditions, being that Allegiance will continue to pay US\$150,000 per month to fund the New Elk Mine care and maintenance costs.

#### 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**). The AIR Document is now finalised and will be available for public comment this 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 Update

In the quarter, Allegiance secured a US\$2.5M bridging loan from the Nebari Natural Resources Credit Fund 1 LP (**Nebari**) which has been drawn down and applied to working capital, along with a terms sheet for a proposed US\$25M loan facility (**Loan**).

The Loan is subject to formal documentation and several conditions precedent, including Nebari completing technical, legal and business due diligence of the project as summarised in Allegiance's updated mine plan announced on 31 January 2020. The Loan will contribute to the start-up capital requirement of the New Elk Mine.

Allegiance continues to work with other debt and equity providers in relation to securing the financing of the start-up capital requirement of the New Elk Mine.

In the quarter, Allegiance raised \$2 million through the issue of 32,034,376 shares at \$0.06 per share, pursuant to a placement with both institutional investors pursuant to section 708(11) of the Corporations Act 2001 (**Act**), and sophisticated investors pursuant to section 708(8) of the Act. Subject to shareholder approval, Company directors Mark Gray and Jonathan Reynolds have also subscribed for 1,166,666 and 183,000 of the shares, respectively.

Authorised for release by Chairman and Managing Director, Mark Gray.

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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 22 January 2020, the Company announced the acquisition, subject to conditions, of the New Elk hard coking coal mine, a fully permitted and constructed mine located in southeast Colorado, US. The Company is targeting to return the New Elk mine to production in 2020.

**New Elk Coal Resources & Reserves**

The New Elk coal reserves referred to 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.

## 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