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ALLEGIANCE COAL
LIMITED

30 October 2020

ACTIVITIES REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2020

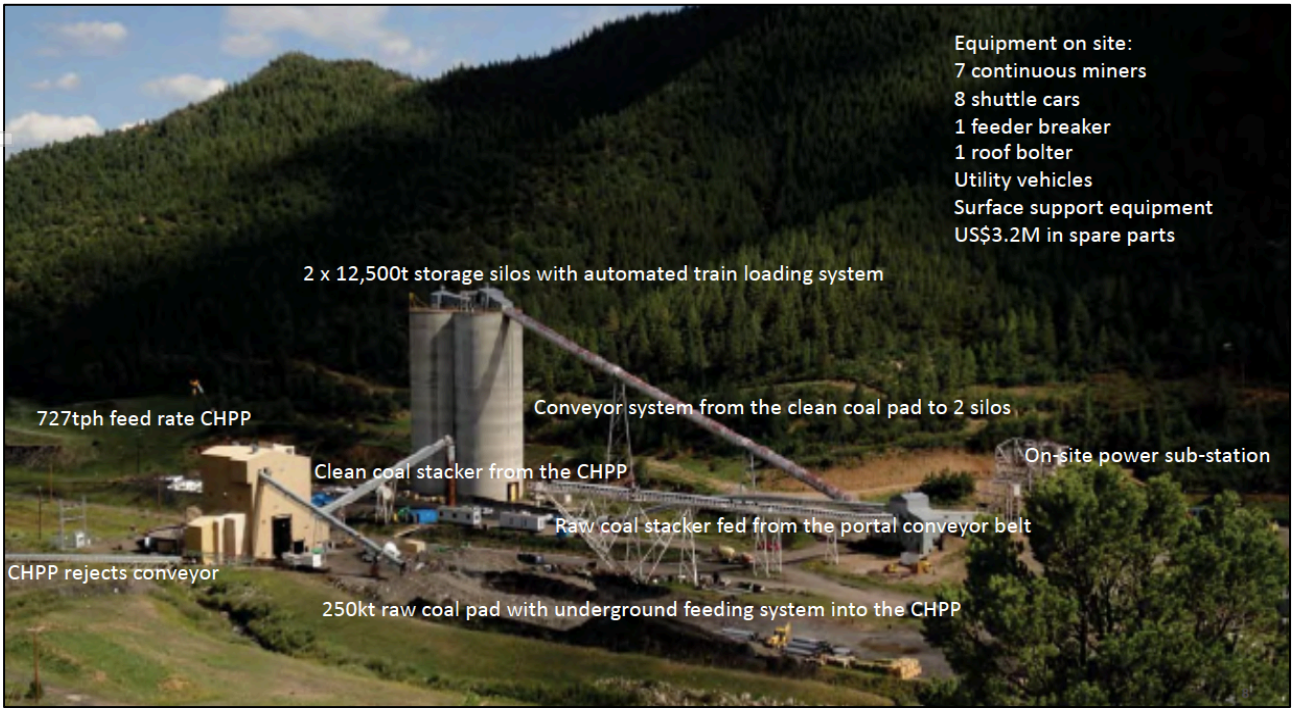
HIGHLIGHTS

- Allegiance completes the acquisition of the New Elk hard coking coal mine located in southeast Colorado, US (**New Elk Mine**).
- Allegiance commences drafting its application for an environmental assessment certificate in relation to its Tenas Metallurgical Coal Project (**Tenas Project**) for lodgement with the BC Environmental Assessment Office later this year.
- While benchmark hard coking coal dips to US$107.50/t, US high vol A hard coking coal trades at a premium to benchmark at US$117.50/t.

Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 30 September 2020.

Completion of the acquisition of the New Elk Mine

As was announced on 27 October 2020, Allegiance completed the acquisition of 100% of the issued capital of New Elk Coal Company, LLC (**NECC**). NECC holds 100% of the New Elk Mine which comprises both a high vol A and high vol B hard coking coal. The consideration paid for the transfer of ownership was US$1.00.



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The New Elk Mine is permitted, constructed, and with an extensive fleet of production equipment. It has coking coal resources of 656Mt with an additional 88Mt from the neighbouring Lorencito Property (which Allegiance acquired in April 2020) for a total coking coal resource at its disposal, of 744Mt.

Cautionary statement: Investors should note that the mineral resource estimates for New Elk Mine and the Lorencito Property 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 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.

Stantec completed a feasibility study for Allegiance in relation to the New Elk Mine in November 2019 as well as two optimisations studies in January and April 2020 focused on the start-up mine plan summarised as follows:

- 45Mt of saleable coal reserves from just 2 of the 8 coal seams in the New Elk Mine coal resources (not yet including any of the Lorencito Property);
- Production commences at around 35,000 tonnes of saleable coking coal per month in the first 6 months ramping to 70,000 tonnes per month by month 7, and ramping again to 105,000 tonnes per month by month 12, for a total annualised production of around 1.25Mt of saleable coking coal;
- Average cash cost FOB the Port of Houston in the Gulf of Mexico before taxes and royalties of US$74/t;
- Start-up capital requirement including working capital of US$24M.

During the course of the year, and in anticipation of the acquisition completing, Allegiance secured:

- A 10 year rail contract with Union Pacific Rail from the New Elk Mine to Allegiance's selected point of departure;
- Port availability in Houston, New Orleans and Guaymas in northern Mexico; and
- A 5 year sales and marketing contract with M Resources based in Brisbane.

It now remains for Allegiance to raise the start-up capital requirement of US$24M.

To that end, in addition to other debt fund interest, Allegiance holds a terms sheet from Nebari Natural Resources Credit Fund I LP for US$25M subject to the completion of due diligence, which Allegiance paused until it completed the acquisition of the New Elk Mine. Allegiance will now continue with Nebari on the due diligence process.

The Company's main activity over the quarter was undertaking steps to finalise the transaction and achieve closing. Upon completion of the transaction, the Company acquired an interest in the following mineral tenements, all located in Colorado, USA: 607075 and 635047.

Tenas environmental assessment certificate application

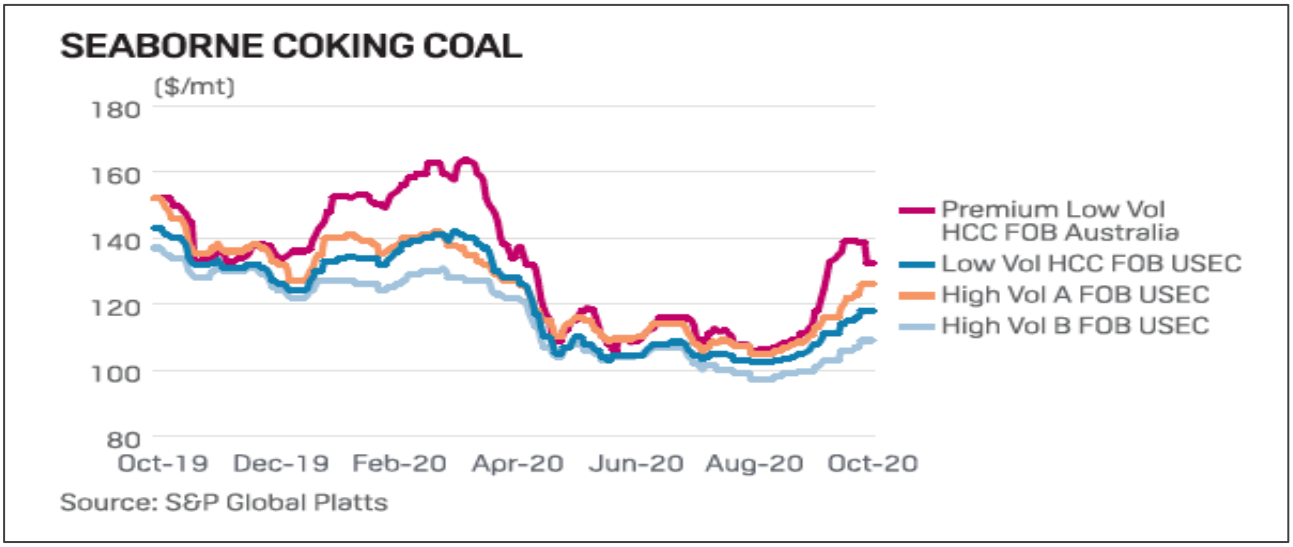
During the quarter the Company neared completion of the Application Information Requirements document which forms the table of contents to the application for an Environmental Assessment Certificate.

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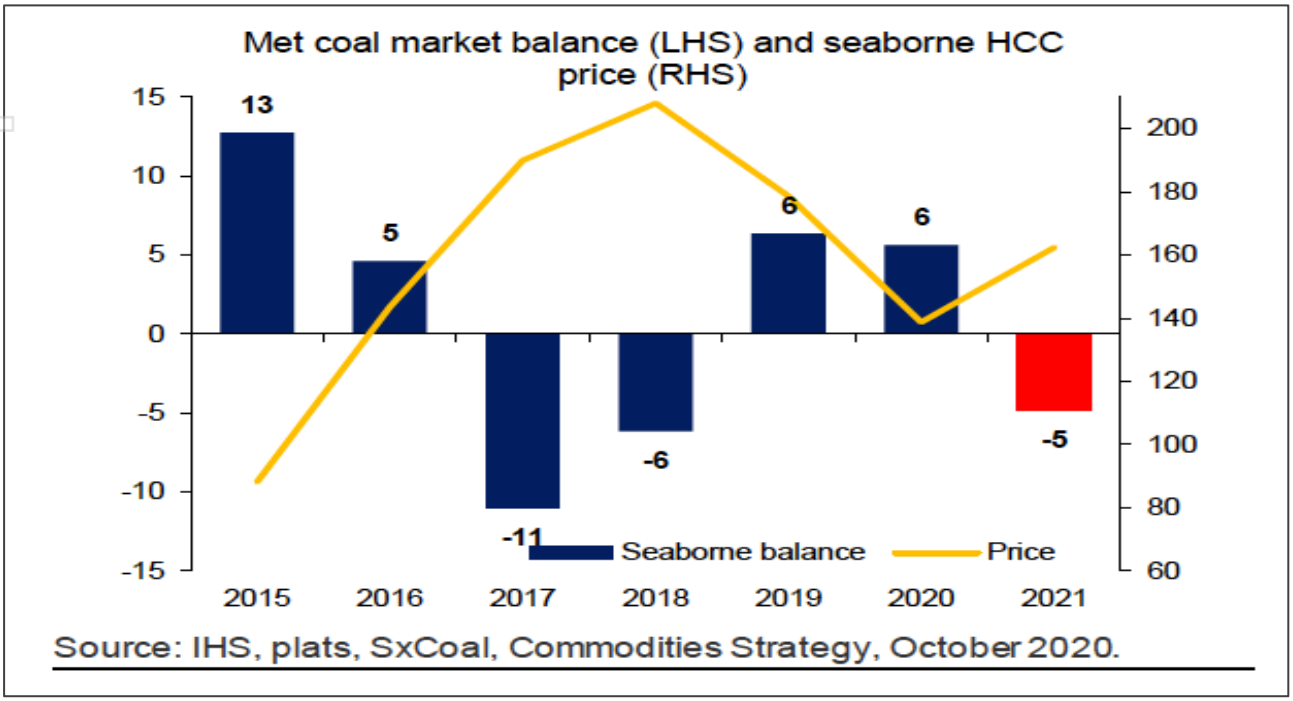
In addition, the Company commenced drafting the application for an Environmental Assessment Certificate and remains on target to complete and file the application by the end of the year.

Coking coal market update

After more than six months of subdued coking coal prices a recovery emerged in August as China and India quickly absorbed the excess supply of coking coal that arose as a result of steel mills globally cutting production in response to a major reduction in demand following the initial impact of COVID. The recovery trend was, however, halted by China banning the import of Australian coal, both thermal and coking, for the rest of the year.



Platts recently reported benchmark hard coking coal (Peakdowns) at US$107.50/t. Less impacted by the ban and as an immediate alternative source of supply to China (notwithstanding the more expensive shipping costs), US high vol A hard coking coal was recorded by Platts at US$117.5/t (East Coast US) trading at a premium to benchmark; and high vol B was recorded to be trading at parity with benchmark at US$107/t.



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While there is conjecture as to the real impact of the ban on Australian coal, the analysts forecasts supported by the futures contracts for benchmark hard coking coal sits at US$144/t in Q1 2021. Key to the short term view is a forecast supply deficit of coking coal in 2021, followed by a similar picture in the medium term.

The forecast price environment as far as the start-up of the New Elk Mine is concerned, looks very positive.

Kilmain and Back Creek Projects

The Kilmain and Back Creek projects remain under review.

COVID-19

The Company has not suffered any direct impact from the COVID-19 pandemic as most work is desk based and staff have been able to work from home and communicate electronically and through virtual meetings.

However, the Company has been indirectly affected by the volatility to capital markets; through not being able to hold face to face meetings with stakeholders and potential investors and lenders; and due to the impact on the price for metallurgical coal which has been negatively impacted by concerns relating to the global outlook for economic recovery. These factors have delayed the Company's fund raising initiatives.

Expenditure on mining exploration activities

In accordance with ASX Listing Rule 5.3.1, the Company advises its exploration and evaluation expenditure during the September 2020 quarter totalled $307k for operating activities (included at Item 1.2(a) of the Appendix 5B) and $408k for investing activities (included at Item 2.1(d) of the Appendix 5B).

Operating activities payments relates to costs associated with the New Elk Project and include $210k in care and maintenance payments, $70k initial lease payments in respect of the Lorencito Property and $27k for various engineering and consulting services. Investing activities payments relates to costs associated with the Tenas Project and include $54k for marketing services provided by Itochu with the balance relating principally to various environmental and engineering consulting services related to progressing the Application for Information Requirements document and preparing for submission of the Environmental Assessment Certificate documentation.

Activities conducted during the quarter are described in further detail in sections above.

Payments to Related Parties and their Associates

In accordance with ASX Listing Rule 5.3.5, payments to related parties of the Company and their associates during the quarter totalled $187k and related to remuneration to executive and non-executive directors. Refer to the Remuneration Report in the Annual Report for further details on director remuneration. These amounts are included at Item 6.1 of the Appendix 5B.

Corporate

During the quarter the the Company secured up to $8 million of funding by way of a secured convertible note issued to Mercer Street Global Opportunity Fund LLC, a New York based investment fund (**Fund**);

- $662,000 of which was drawn in August 2020; and

- $1,338,000 of which was drawn in September 2020 following shareholder approval; and with further amounts to be drawn at the discretion of the parties subject to any required shareholder approval.

In August 2020, following receipt of the first tranche of funds from the Fund, secured notes with a face value of $772,105 maturing 5 August 2021 were issued; and simultaneously 738,770 ordinary shares were issued to the Fund in settlement of a $50,000 fee attaching to the notes.

In September 2020, following receipt of the second tranche of funds from the Fund, secured notes with a face value of $1,561,228 maturing 24 September 2021 were issued; and simultaneously 2,216,313 ordinary shares were issued to the Fund in settlement of a $150,000 fee attaching to the notes.

The notes are convertible at the Fund's election into ordinary shares on the following terms:

The conversion price is the lesser of A$0.10, or 92% of the lowest daily VWAP of Allegiance shares selected by the Fund for the 10 trading days on which Allegiance shares are traded in the ordinary course of business on the ASX ending on the date immediately prior to a conversion notice. If the note is not converted, it will be repaid on maturity at its issued face value.

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. In October 2020, the Company completed the acquisition 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 2021.

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Tenement Summary

Tenure Number	Owner	Project	Tenure Type	Area (ha)
British Columbia Canada				
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
Queensland Australia				
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
Colorado United States				
607075	New Elk Coal Company LLC	Lorencito	Coal Lease	7228
635047	New Elk Coal Company LLC	New Elk	Coal Lease	12,116
635047	New Elk Coal Company LLC	New Elk	Coal Lease	729
635047	New Elk Coal Company LLC	New Elk	Freehold	477
635047	New Elk Coal Company LLC	New Elk	Freehold	101