26 June 2018

CLARIFICATION REGARDING ANNOUNCEMENT DATED 18 JUNE 2018

Allegiance Coal Limited (**Allegiance** or the **Company**) refers to its announcement to the Australian Securities Exchange dated 18 June 2018 (**18 June Announcement**) relating to an updated resource statement and to pit models for the Tenas Metallurgical Coal Project and would like to clarify the following matters.

Updated Coal Resource Statement for the Tenas Deposit

The Company wishes to supplement the 18 June Announcement with the following information, some of which was included in Appendix Table 1 of the 18 June Announcement:

- **Geology and geological interpretation**

  The Tenas coal deposit is a medium to high volatile bituminous coal deposit, part of the Red Rose formation of the Skeena Group. The Skeena Group sediments of the larger Telkwa coalfield are an erosional remnant of Lower Cretaceous sedimentary rock which were initially deposited within a large deltaic complex along the southern flanks of the Bowser Basin. Throughout late Jurassic and early Cretaceous time the Bowser Basin was the focus of rapid sedimentation, subsidence and increased tectonic activity, which resulted in thick accumulations of coal-bearing sedimentary rock. The geology type classification is "complex" (As per GSC Paper 88-21). Minimum open pit mineable thickness for complex coal deposits is 0.8m.

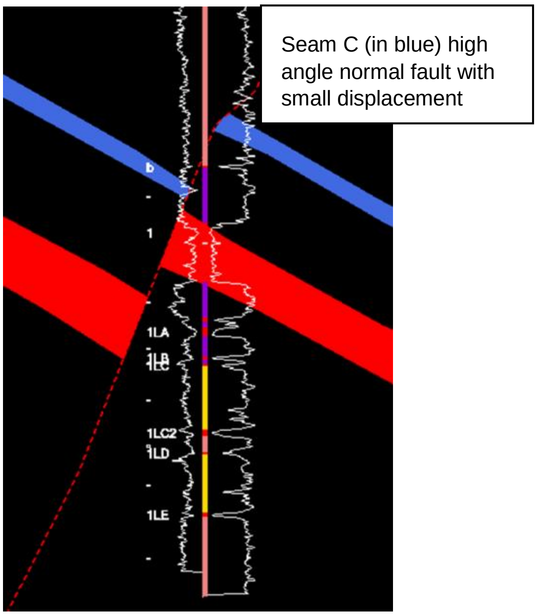
  The main economic seams range from a minimum mineable thickness of 0.8m to 9m in thickness. There is a high level of confidence in the geological interpretation, especially in areas of the resource that have been included in the measured category. The stratigraphic sequence is well understood although the current interpretation has updated the seam nomenclature for seam 1 to better reflect the actual distribution of the seam plies.

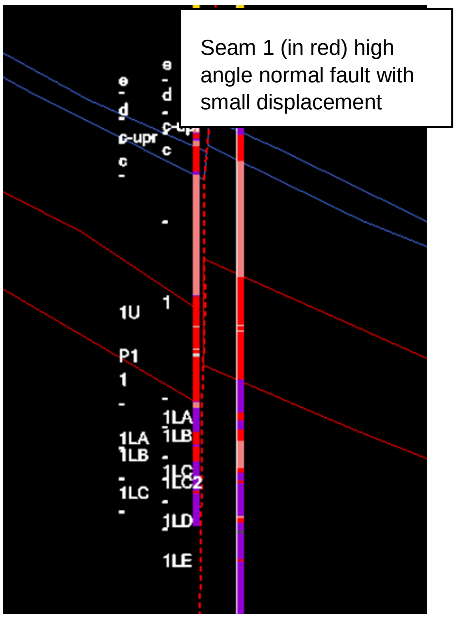
  Specifically the previous geological models have interpreted the stratigraphic relations of seam 1 and 1U (upper) as distinct individual seams, where in reality seam 1U is an upper ply of seam 1. The new model has broken seam 1 into an upper (1U) and a lower (1L) ply where the rock parting between the two plies is greater than 0.3m in thickness.

  The figure below illustrates the difference between the PFS interpretation of 1u and 1 seams and the new interpretation of 1u and 1 seams that will be used in the subsequent feasibility study.

The bedding is commonly shallow dipping with occasional steepening near faults. Faults are steeply dipping and can be reverse or normal in displacement, with displacement ranging from a few meters up to 100m in places. Limits of the deposit need to be better defined since some of the sub-crop or structurally controlled boundaries have not been fully defined.

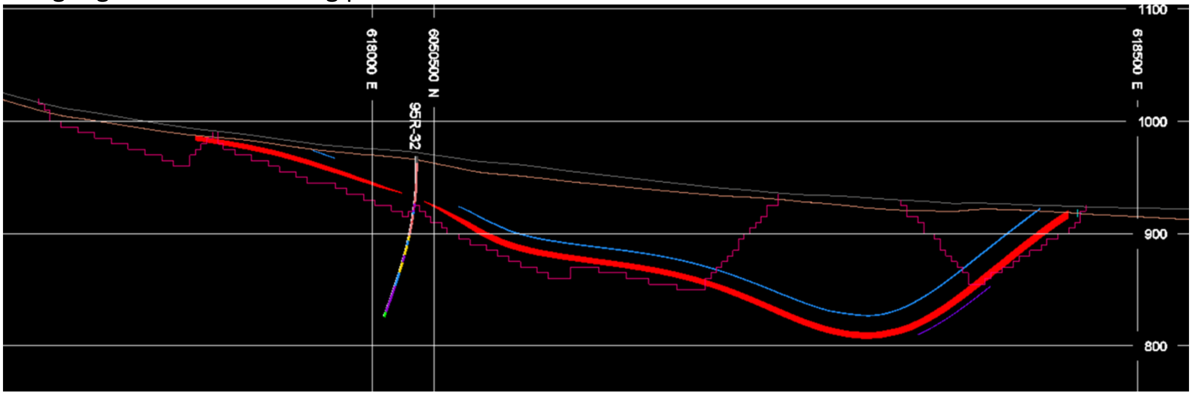
In the previous Tenas model the control on intercepted seam thicknesses from drilling were interpreted, for the most part, as pinch outs where a seam was missing from the expected drilled sequence. This made for quite large (and not realistic) changes in the seam thicknesses over relatively short distances. In order to understand and explain these differences, data archives were interrogated and provided additional, previously un-digitized, and in some cases computer ASCII files from geophysical logging programs conducted between 1992 and 1998. Several drillholes had dipmeter information digitized from paper records and the information was added to the database for review and use in the current geologic model. Wherever there was actual physical core logs completed for a hole the dipmeter information was checked versus that actual core log strata dip angles to ensure that the dipmeter information was accurate. Several additional historical drill holes were not included in the PFS geologic model and were digitized from historical paper copies and geologic assessment reports that were filed with Ministry of Mines for British Columbia. Detailed review of these exploration drill holes, historical drill holes and logs, in particular the dipmeter logs supplemented by a thorough review of core logs in areas where faulting was suspected led to a more defensible model and a higher confidence in the resources. The following figures illustrate some geophysical examples of faulting observed in the Tenas deposit.



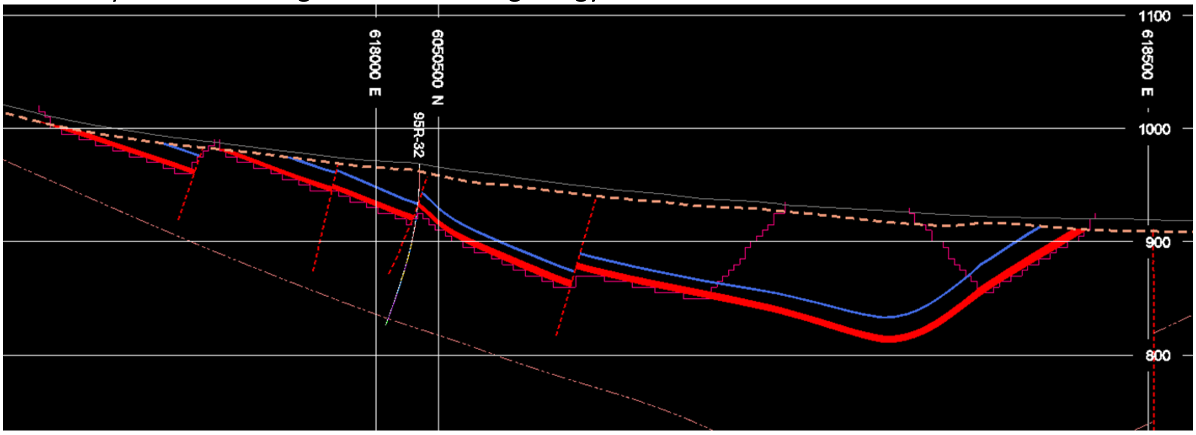


Furthermore, the original geological interpretation, it would appear, did not rely on much of the geophysical dipmeter logs measurements collected for the current and historical drill holes as some of this data was not digitally available in previous models as mentioned above. The 2018 exploration program also intersected two faults which provided further confirmation that the seam continuity are structurally controlled by faults in the Tenas deposit rather than seams having localised pinch outs and thickening. The following two figures illustrate the difference between the PFS geological model and current feasibility geologic model where red is 1 seam or 1L seam, green is 1U seam and blue is C seam.

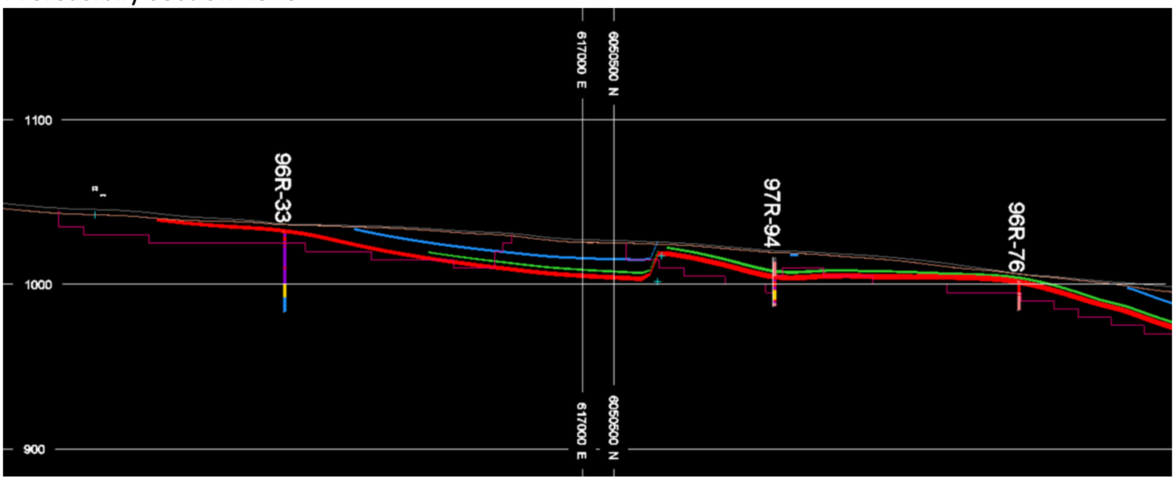
PFS geogloic model showing pinch outs on Section 3625



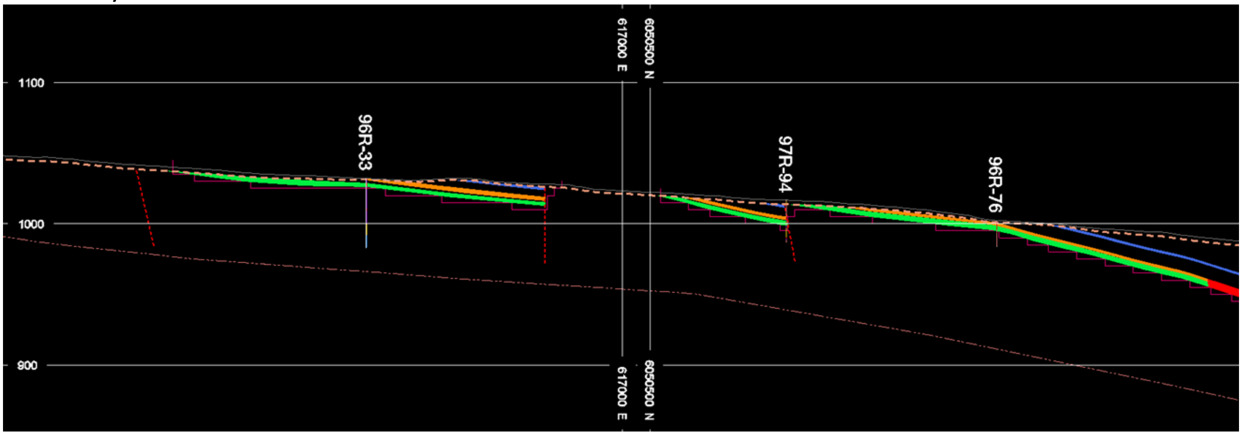
Feasibility model showing fault controlled geology on section 3625



Prefeasibily section 4325

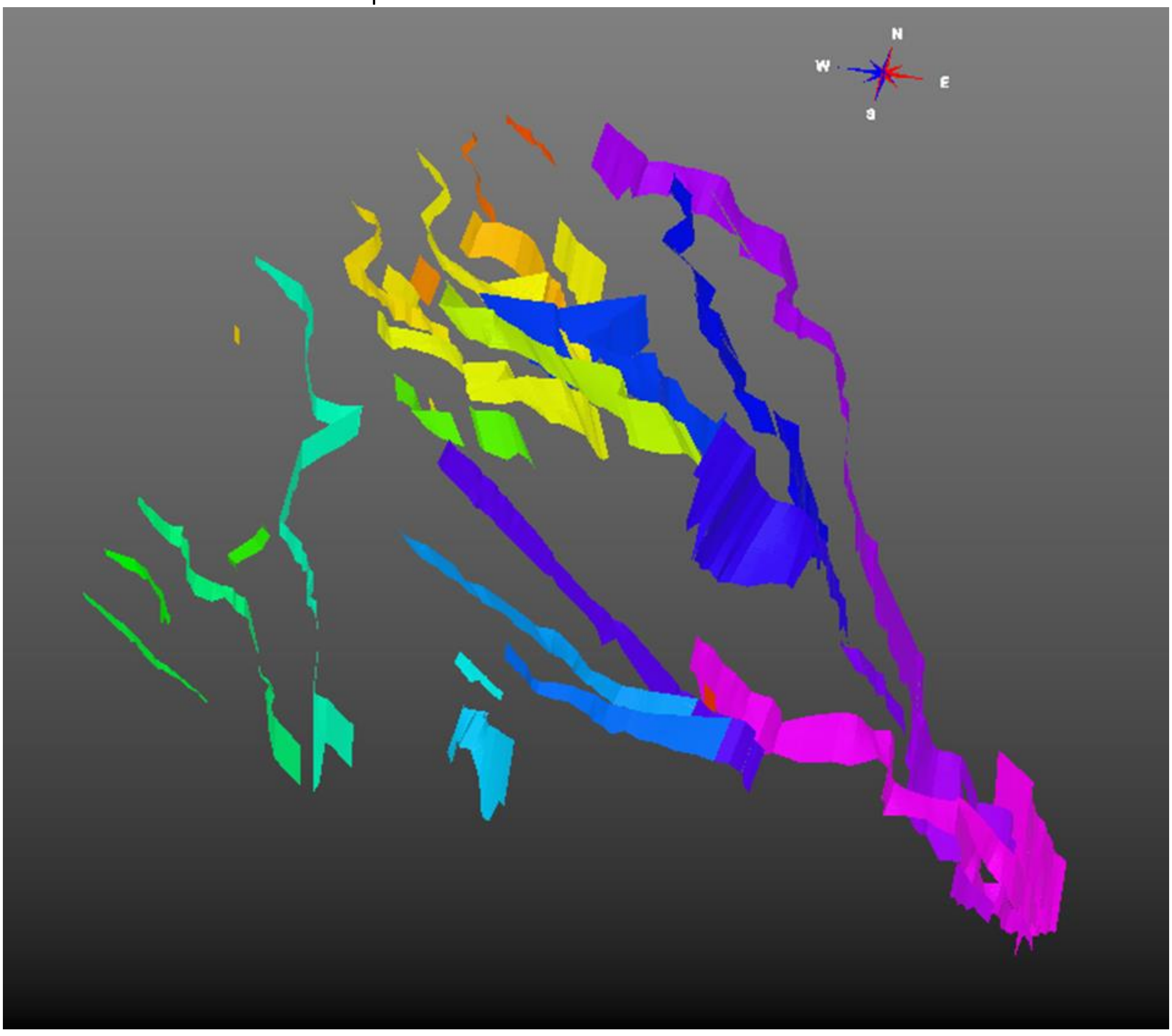


Feasibility Section 4325



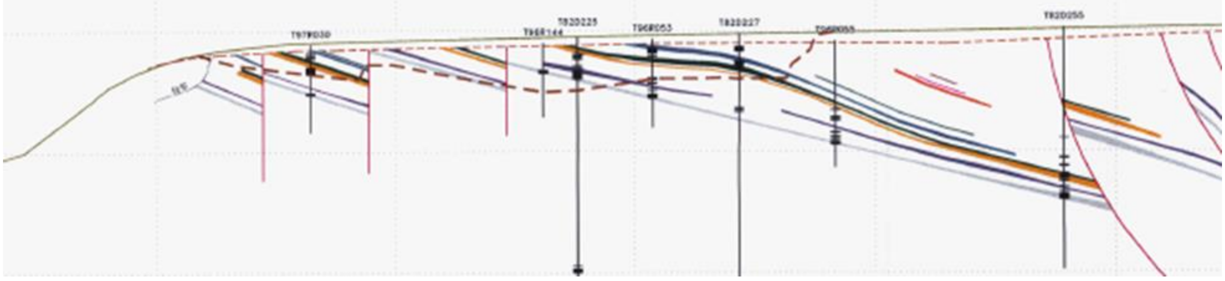
A total of 38 discrete fault zones were interpreted based on an intensive review of all available geophysical data and plan map of the faults are illustrated below.

Fault blocks within the Tenas Deposit.

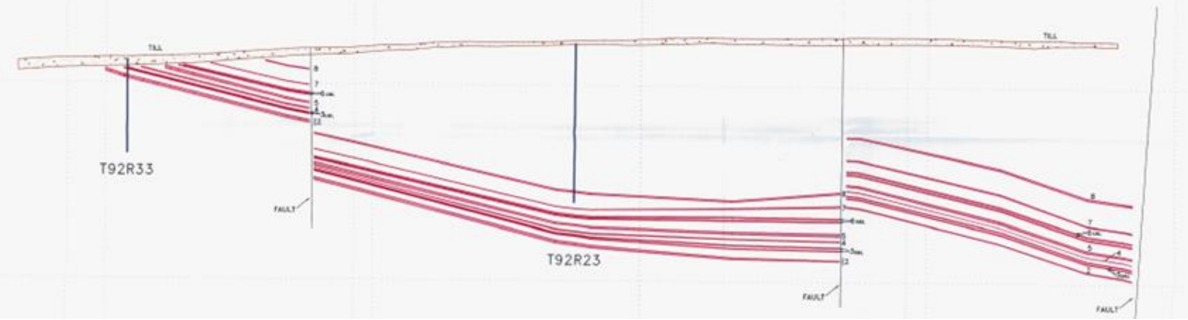


It is important to note that the initial geological interpretation for the Tenas deposit was developed by a different company and personnel to those who developed the Goathorn and Telkwa North geological interpretation. Typical cross sections from the Telkwa North and Goathorn deposit areas are provided below and show a vastly different structural interpretation (mainly fault controlled, shallowly dipping blocks of coal bearing strata) that more accurately fit in with what one would expect, considering the tectonic setting of the deposits and this provides further support for the revised Tenas geologic interpretation.

Goathorn Typical Geological section



Telkwa North Typical Geological section



The alternative of pinch out and thickened was considered as it was the PFS geologic model however the current fault controlled model fits the available data and the drilling program completed in 2018 provided further verification by intersecting two clear fault zones. Therefore the fault controlled geologic model is considered the most appropriate interpretation and is well supported by available data that consists mainly of drillhole seam intersections interpreted from the geophysical logs and supplemented by dipmeter, acoustic televiewer, core photos and core logs.

- **Drilling techniques**

A variety of drilling techniques have been utilised on this project including mainly core, air rotary or a combination of both. From 1979 to 1989 the drilling was done using top-head drive Ingersoll Rand (IR) rotary rigs and Longyear 38 diamond core rigs. Core diameter was 1 7/8" NQ core plus some 6" diameter cores. From 1992 to 1998 the drilling was done using top-head drive Failing 1250 and IR rotary rigs and an Acker diamond core rig. Core diameter was 1 7/8" NQ core. Sampling of coal was done by the diamond core rig. Rotary coring to obtain 10 cm (4") diameter core was also used.

The recent February 2018 drill programme consisted of eight PQ diamond core holes and fourteent 6 inch rotary drill holes for pilot wash tests and coal quality analysis. These were geophysically, geologically and geotechnically logged and acoustic televiewer were used to provide logs for these holes plus a bulk sample was obtained from 6 inch air rotary holes. In addition to the PQ and 6 inch core holes completed several sonic holes were completed to analyse soil and near surface ground water conditions.

- **Sampling and sub-sampling techniques and analysis**

All boreholes, where conditions permitted, were geophysically logged with some or all of the following tools: deviation, gamma, density, caliper, neutron, dip. Geophysical logging operators routinely calibrated their tools between programs. Core holes were sampled, where core recovery permitted, as whole core collected for coal quality analysis and rock geochemistry.

The results from the geophysical logging were used to determine the lithology of the strata in the hole. The cored intervals were compared to the geophysical log in order to determine sample intervals and core loss. The results from the acoustic televiewer logs and dip meter logs were used to determine the presence and orientation of any faulting that might be present in the drill hole. These techniques provided details on two fault planes that were incorporated into the subsequenent model. Only holes with a coal core recovery greater than 80% was used for subsequent coal quality and washability analysis.

The coal obtained from the 2018 PQ holes was tested at the Birtley Laboratory in Calgary, Alberta, Canada while that from the 6 inch holes was tested by the SGS Laboratory in Delta, British Columbia, Canada both of which are ISO 90001 certified.

- **Sample analysis methodology**

The analysis completed on the core samples produced used ASTM standards as a guideline for all tests completed at the two laboratories mentioned above. A flowsheet for samples was developed with input from the individual laboratories and generally accepted industry practices. A full suite of coal sizing and washability work followed by coal quality testing was performed on all samples obtained in the 2018 program. All samples analysis completed were reported by the laboratories. In summary the current coal quality data gathered from the program confimed the historical information and provided improvements in the calorific values and petrographic RoMax values.

- **The criteria used for classification, including drill and data spacing and distribution**

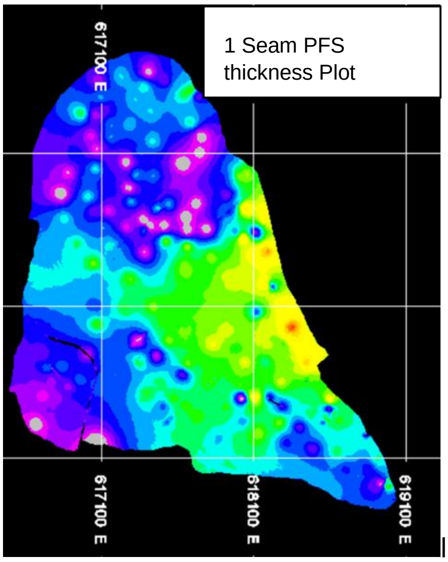
The resource classification is based on an assessment of the geological (seam thickness) and coal seam continuity. This has then been summarised using the distance from nearest acceptable data point (drillhole) for coal seam thickness identification and an assessment of the confidence in coal seam continuity and correlation.

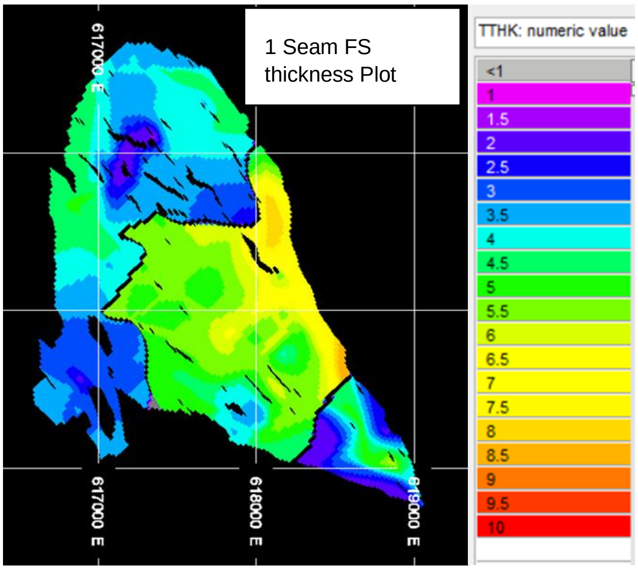
The drillhole spacing and continuities are considered appropriate to define Measured, Indicated and Inferred Resources for a complex coal resource on the following basis for subsequent resource definition: Measured: within 75m of drillhole utilized in the model (that is holes identified as appropriate for use in the current resource estimate); Indicated: 75m to 150m of drillhole; Inferred: 150m to 300m of drillhole.

- **Estimation methodology**

Coal quality and seam thickness parameters were estimated using inverse distance squared within the seam wireframes which control the distribution of interpolated values in 3D. The model is of the coal seams only and the interburden has been modelled by default but to sufficient detail to assist with waste rock characterisation and waste rock management. Current work is being completed to develop a detailed waste rock model, including the distribution of acid base ratios for ARD determinations.

The current resource estimate is comparable with previous resource estimates completed in 1989, 1997, 2015 and 2017. However, as mentioned above, the change in geological interpretation from a pinch out model to a fault controlled model has resulted in greater tonnages primarily due to the assumption that seam thicknesses are relatively consistent from one area to another at the Tenas deposit like other deposits in the region, as opposed to previous estimates, which had a wide range of seam thickness over relatively small areas. The figure below shows the difference between the PFS and FS models for 1 seam thickness and as illustrated the FS figure has a more consistent and explainable thickness profile versus the PFS plot.





- **Cut-off grade(s), including the basis for the selected cut-off grade(s)**

As per CIM paper 88-21 a 20 to 1 (bcm to in place tonne) cut-off strip ratio “pit” was used to determine the extent and tonnage of surface resources to report, the entire seam package lies within these limits. During the 2017 pre-feasibility studies, all of the coal seams in the Tenas deposit greater than 0.3m were included in the resource. It was decided during this exercise that seams 1, 1U and C were the only ones of significant thickness, continuity and inplace ash to be considered potentially economically recoverable by surface mining. Consequently, these were the only seams that met the definition of resources.

- **Mining and metallurgical methods and parameters, and other material modifying factors considered to date**

  A minimum coal ply (seam) thickness of 0.8m and a maximum included parting thickness of 0.3m was applied for Tenas. Therefore any coal seams less than 0.8m were excluded from the resource while any partings that were less than 0.3m were included in the resource. The minimum coal to rock ratio was 2:1.

  The resources are all considered potentially surface mineable, noting that the entire Tenas resource is recoverable at a strip ratio of 5:1 BCM/in place coal tonne, well below the Canadian coal resource standard of 20:1 BCM/in place coal tonne. Despite there being previous underground mining on the property, no underground resources are considered at this time.

  Metallurgical amenability was simulated from testwork using industry standard models for coal beneficiation.

In addition, the 18 June Announcement draws heavily on information previously reported in the announcements dated 3 July 2017 (Telkwa Metallurgical Coal Project Pre-Feasibility Study Results) and 11 September 2017 (Telkwa Metallurgical Coal Project Stage 1 Pre-Feasibility Study Results).

Strip Ratio Analysis of the Tenas Deposit

The Company notes that the announcement of 11 September 2017 included a production target of 250,000 tonnes per annum of saleable coal with a mine life of 19 years at an average strip ratio of 1.9:1 BCM/ROMt. It was stated that there was an expectation that the coal is sold as a PCI coal.

That announcement, together with the 3 July 2017 announcement, provided information on the basis of the predicted yield to achieve Marketable Coal Reserves. In particular, it advised that the ROM coal will be washed at an SG of 1.6 with an expected clean coal (saleable coal) yield of 74 percent. That announcement provides further detail of, inter alia, the coal quality parameters and expected mining and processing to be adopted.

The Company wishes to clarify that there has been no modification to the Coal Reserves as previously reported, or to the volume of Saleable Coal as previously reported. (The Company reiterates that Saleable Coal is a term used under CIM Definition Standards which has the same meaning as Marketable Coal under JORC).

The 18 June Annnouncement includes the following paragraphs (**Information**):
For example, based on the new Pit Models, if Allegiance were to mine to the same strip ratio of 1.9:1 BCM/ROMt applied in the Small Mine PFS, Allegiance would recover 9.3Mt of saleable coal, more than double the amount of coal recoverable in the Small Mine PFS.

In addition, the two tables that follow compare selected pit shells used in assessing the production plans for the 2017 PF Studies, and selected pit shells of similar coal volumes, derived from the new Pit Models.

The new Pit Models highlight the material decrease in waste rock to recover approximately the same amount of coal, and in turn, the significant reduction in strip ratios at the comparable levels of production. Comparing previous pit shell 24 to new pit shell 19, the strip ratio is almost halved.

Pre-feasibility Study: selected comparative pit shells			
Pit shell number	Waste Rock per BCM	Raw Coal per tonne	Strip ratio BCM/ROMt
17	26,954,722	8,658,000	3.11:1
21	51,459,512	12,620,575	4.08:1
24	110,115,444	20,297,735	5.43:1
33	174,288,371	27,770,460	6.28:1
64	221,520,121	31,584,336	7.01:1

Feasibility Study: selected comparative pit shells			
Pit shell number	Waste Rock per BCM	Raw Coal per tonne	Strip ratio BCM/ROMt
2	11,372,213	8,651,206	1.31:1
9	20,496,234	11,736,387	1.75:1
19	56,676,843	20,055,707	2.83:1
29	102,084,965	27,678,534	3.69:1
37	142,595,896	33,028,879	4.32:1

Removal of waste rock material is typically the largest cost, by a significant margin, of open pit mining.

It follows therefore, the potential improvement that this may have on reducing operating costs in the Tenas Project feasibility study, compared to the already very low operating costs achieved in the 2017 PF Studies, is significant.

This gives the Board great encouragement and confidence in its ability to improve the project economics of the Tenas Project in the current feasibility study.

The Company has been advised that the Information above may be considered to be production targets in accordance with ASX Listing Rule 19.12. The Company does not consider, at this stage, that it has a reasonable basis to disclose production targets as interpreted under ASX listing rule 19.12 and accordingly, retracts the Information above.

As a consequence of the retraction of the Information the Company advises that the Information should be disregarded and that accordingly investors should not rely on the retracted Information for their investment decisions.

Competent Person Statement

The information in this ASX Announcement that relates to Mineral Resources and Reserves is based on information reviewed and compiled 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 the JORC Code (2012 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves"). 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.

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