



31 July 2020

## ACTIVITIES REPORT FOR THE QUARTER ENDING 30 JUNE 2020

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### HIGHLIGHTS

- Allegiance negotiates the removal of all conditions to close the acquisition of the New Elk hard coking coal mine located in southeast Colorado, US (**New Elk Mine**).
  - Allegiance negotiates a reduction in cash payments on completion of the acquisition of the New Elk Mine from US\$8M to US\$3M.
  - The US\$3M will be funded from the replacement and release to Allegiance of the US\$5M cash reclamation bond (**Cash Bond**) held by the State of Colorado in relation to the New Elk Mine with an insurance bond which Allegiance has secured, up to US\$10M of reclamation coverage (**Insurance Bond**).
  - Allegiance raises up to A\$8M by way of a convertible note which will enable Allegiance to:
    - Commence refurbishment of mining equipment and rehabilitation of the New Elk mine itself, to prepare the mine for a return to production in 2021; and
    - Complete environmental assessment studies to enable Telkwa Coal Limited to lodge its application for an environmental certificate in relation to its Tenas Project.
  - Allegiance nears completion of the pre-application phase of the environmental assessment of its Tenas Metallurgical Coal Project (**Tenas Project**) enabling it to target lodgement of its application for an environmental assessment certificate before the end of this calendar year.
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Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 30 June 2020.

### Removal of outstanding conditions to complete the acquisition of the New Elk Mine

As was announced on 5 June 2020, Allegiance negotiated the removal of the remaining condition precedent to complete the acquisition of the New Elk Mine.

Allegiance announced on 22 January 2020 that it had signed a binding agreement with Cline Mining Corporation (**Cline**) to acquire 100% of the issued capital of New Elk Coal Company, LLC (**NECC**) (**Acquisition Agreement**). NECC holds 100% of the New Elk Mine. Cline is the sole shareholder of NECC.

It was a condition precedent to completion that Allegiance raise sufficient capital to complete the acquisition and provide start-up capital for the New Elk Mine as provided in the mine feasibility study, the results of which Allegiance announced on 28 November 2019 (**Capital Raising Condition**). Allegiance further announced on 29 April 2020 that the necessary start-up capital had been reduced to approximately US\$24M.

Cline has agreed to waive the Capital Raising Condition. This will enable Allegiance to proceed to completion and commence the works required to return the Mine to production using existing funding, and seek to undertake appropriate capital raisings as and when required and when conditions are favourable.

### **Reduction in cash payments on completion of the acquisition of the New Elk Mine**

As was announced on 5 June 2020, Allegiance negotiated a reduction in the cash payments to Cline on completion from US\$8M to US\$3M, clearing the pathway to complete the acquisition of NECC. As noted above, the US\$3M will be funded from the release to Allegiance of the Cash Bond.

The arrangement agreed between Allegiance and Cline under the Acquisition Agreement, is that Allegiance will pay US\$1.00 to acquire 100% ownership of NECC, and thereafter, procure NECC to make payments to Cline to repay the money that NECC owes Cline totalling C\$55M (**Cline Debt**). The important point being that other than the US\$1.00, all payments made to Cline are applied to repay the Cline Debt.

Therefore, under the Acquisition Agreement, Allegiance agreed to:

- Pay US\$1.00 in cash to Cline in consideration for 100% ownership of NECC, and
- In repayment of the Cline Debt (which is interest free), procure NECC to pay to Cline:
  - On completion US\$3M in cash;
  - On completion US\$5M in cash whereupon Allegiance will have the benefit of the US\$5M cash bond held by the State of Colorado;
  - On completion US\$3M in Allegiance ordinary shares at a deemed issue price equal to the higher of A\$0.08 per share or the 20-day VWAP and these shares will be subject to 12 months' voluntary escrow; and
  - Post completion, 60% of NECC's retained earnings after NECC makes provision for any preferred debt payments (NECC is entitled to secure US\$40M of preferred debt over the Cline Debt), and provision for sustaining and working capital requirements.

Cline has agreed to waive the US\$5M cash payment on completion in consideration for a cash payment of US\$6M on or prior to the commencement of the commercial production of coal (defined as the operation of one production unit on at least a five day and night schedule), no later than 1 September 2021. If commercial production of coal does not occur by 31 March 2021, Allegiance must pay US\$1M to Cline. Allegiance may, at its option, make this payment in cash, or shares in Allegiance. The US\$6M cash payment and the US\$1M (whether paid in cash or shares) will be applied towards the repayment of the Cline Debt.

### **Allegiance secures up to A\$8M of funding**

As was announced on 31 July 2020, Allegiance secured up to A\$8M of funding by way of a convertible note issued to Mercer Street Global Opportunity Fund LLC (**Note**), a New York based investment fund (**Fund**).

Key terms of the Note are summarised in the 31 July 2020 announcement.

The Note enables Allegiance, in advance of the full start-up capital being raised, to prepare the New Elk Mine for a return to production and in particular to commence refurbishment of mining equipment and rehabilitation of the New Elk mine itself.

The Note also enables Allegiance to complete environmental assessment studies to enable Telkwa Coal Limited to lodge its application for an environmental certificate in relation to its Tenas Project.

Allegiance is in discussions with several potential investors to provide the balance of the New Elk Mine start-up working capital requirement, including as previously announced on 30 March 2020, with Nebari Natural Resources Credit Fund 1 LP in relation to a US\$25M project financing proposal.

The Note provides Allegiance with time to properly assess all project related financing options.

### **Tenas environmental assessment certificate application**

During the quarter the Company held two on-line virtual open house sessions allowing the public to comment on the draft Application Information Requirements document which forms the table of contents to the application for an Environmental Assessment Certificate.

Public comment on that document has now completed, and subject to Allegiance replying to public comment to the satisfaction of the BC Environmental Assessment Office, Allegiance will then be able to prepare, and file its application for an Environmental Assessment Certificate; which it is targeting to do before the end of this calendar year.

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 Environmental Assessment Application.

### **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.

### **Corporate**

The Company completed a \$1.9 million capital raising 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.

The Company allotted 6.8 million shares to Gullewa Ltd in connection with the settlement of the loan due to that company.

The Company repaid \$994,000 of promissory notes in accordance with their terms.

Payments to related parties amounted to \$98,000 in the quarter, all in respect of directors' remuneration.

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 2021.

## 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