



22 January 2020

ALLEGIANCE CONCLUDES BINDING AGREEMENT TO ACQUIRE THE NEW ELK HARD COKING COAL MINE

HIGHLIGHTS

- Allegiance has entered into a binding agreement with Cline Mining Corporation (**Cline**) to acquire 100% of the ownership interests in New Elk Coal Company LLC (**NECC**), which company owns the New Elk hard coking coal mine (**Mine**) located in southeast Colorado, US (**Acquisition**).
- The Mine is fully built, is permitted, and subject to refurbishment of mining equipment and minor mine-site rehabilitation, is production ready.
- In consideration, Allegiance will pay Cline a purchase price of US\$1 and arrange an Initial Debt Repayment to Cline on closing the Acquisition comprising:
 - US\$5M in cash to replace the State of Colorado reclamation bonds relating to the Mine;
 - US\$3M in cash; and
 - US\$3M in Allegiance shares.
- Following the Initial Debt Repayment, there will remain in NECC approximately US\$30M of debt owing to Cline (**Cline Loan**), which will be repaid by Cline receiving 60% of NECC's retained earnings after NECC makes prudent provision for any preferred debt payments and obligations, and sustaining and working capital, until the Cline Loan is paid in full.
- The Cline Loan is interest free, has a term of 10 years, and is secured against the assets of NECC.
- The Cline Loan will subordinate to a maximum of US\$40M of preferred debt.
- The Acquisition is conditional only on Allegiance raising the Mine start-up capital which must occur prior to 15 July 2020, during which period Allegiance will continue to pay US\$150,000 per month toward Mine care and maintenance.

Allegiance Coal Limited (**Allegiance** or the **Company**) refers to its prior announcement of 15 July 2019 relating to the planned acquisition of the Mine, and most recently, the release by the Company of the feasibility study results in relation to the Mine on 28 November 2019. Allegiance is pleased to announce the conclusion of a binding agreement to acquire NECC and the Mine following the outstanding results of the Mine feasibility study undertaken by Allegiance and set out in the 28 November Announcement (**Feasibility Study**).



Subject to raising the start-up capital and completing the Acquisition, the planned date for commencement of production is early calendar Q3 2020.

The start-up capital in the Feasibility Study was US\$55M representing both capital investment in equipment, mine rehabilitation and working capital. Allegiance is reviewing the mine plan in the Feasibility Study with a view to reducing the start-up capital. Allegiance expects to announce an updated mine plan in the near future outlining this change.

The main lead-in item to return to the Mine to production is the refurbishment of the mining equipment located at the Mine, and the acquisition of additional items of equipment so that the Mine will have three super-section production units, ready for the commencement of production.

Chairman and Managing Director, Mark Gray, commented:

“The Mine operated from 1951 to 1970 producing around 30Mt of hard coking coal supplied to the steel industry of southern Colorado. Following a drop in global steel prices in the 1970s steel mills in Colorado closed along with many coking coal mines including this mine. A failed attempt to bring the Mine back into production in 2011 saw the Mine return to care and maintenance in 2013. The Mine is permitted, and it is built. To construct the Mine today would require at least US\$250M in capital. The Acquisition terms represent a wonderful opportunity for Allegiance. However, prior to committing to acquire the Mine, we undertook a feasibility study in relation to a high productivity room and pillar underground mining operation. The results of that study were outstanding convincing the Directors to commit to acquire the Mine. I am now pleased to report a binding agreement has been concluded subject only to Allegiance raising the start-up capital in respect of which discussions are advanced with a broad range of equity and debt investors”.

Permitted, Built and Production Ready

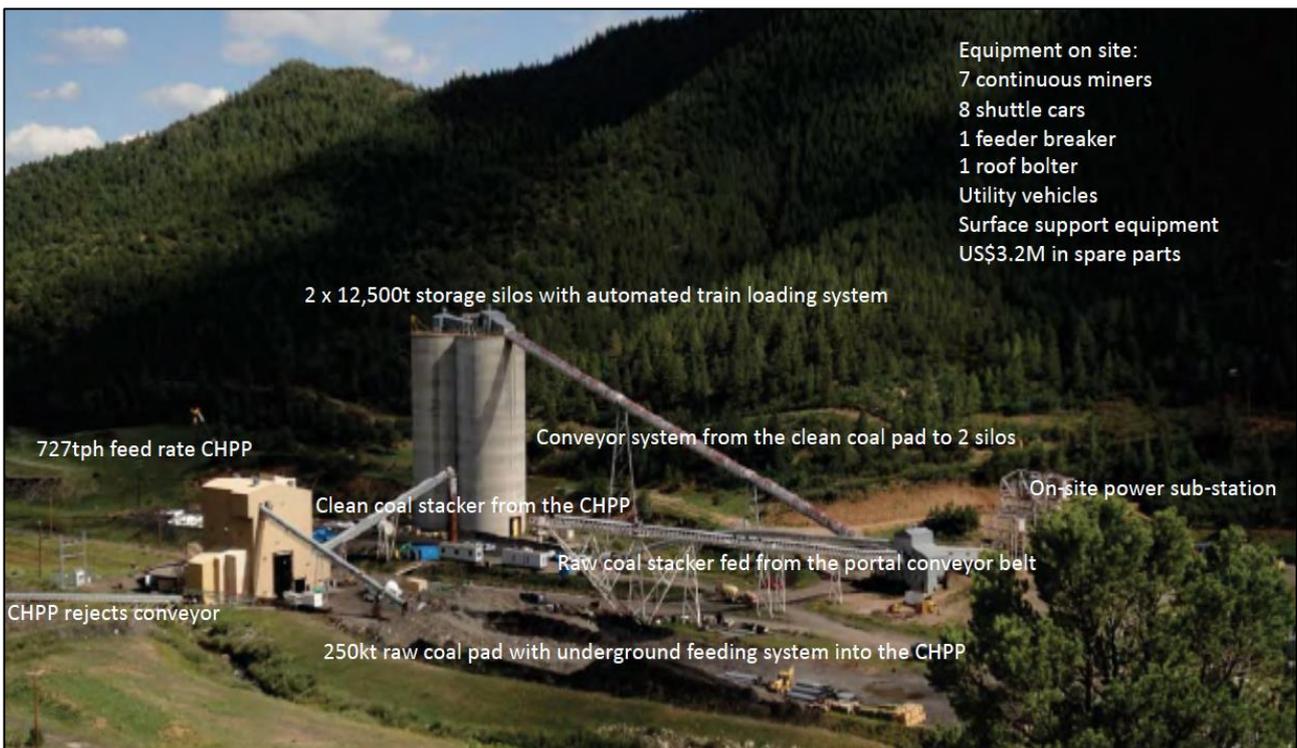


Image: the New Elk Mine



Authorised for issue by Mark Gray, Chairman and Managing Director

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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.
