



31 July 2020

## ALLEGIANCE SECURES UP TO A\$8M OF FUNDING

---

### HIGHLIGHTS

- Allegiance has 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**).
  - The Note enables 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 Coal Limited (**Allegiance** or **the Company**) is pleased to announce it has secured the first leg of funding to return the New Elk mine to production, complete the environmental assessment work necessary to enable Telkwa Coal Limited to lodge its application for an environmental assessment certificate and to provide general working capital.

Chairman and Managing Director, Mark Gray commented:

*“This investment shows confidence in Allegiance moving closer to securing the full start-up capital requirement to return the New Elk mine to production in 2021, by which time resource analysts are suggesting hard coking coal prices will return to pre-COVID 19 levels. In addition, we are well advanced to filing for the environmental assessment certificate for the Tenas project. These are both significant milestones for Allegiance and this convertible note allows us to progress these activities”.*

Key terms of the Note are as follows.

- The Note is in two drawdowns of A\$2M (**First Drawdown**) and up to A\$6M (**Second Drawdown**).
- The Note is for a term of 12 months commencing on each drawdown.
- The Note drawdowns are interest free but will be issued at an original issue discount of 16.67% in the case of the First Drawdown and of 15% in the case of the Second Drawdown. Accordingly, the note value of the First Drawdown is A\$2.3 million and the Second Drawdown is up to A\$6.9 million.
- The First Drawdown is in two parts:
  - A\$661,804.19 drawn down immediately pursuant to the placement capacity under ASX listing rule 7.1 for which a notes with a face value of A\$772,104.78 will be issued; and

- A\$1,338,195.81 drawn down subject to shareholder approval for which notes with a face value of A\$1,561,228.22 will be issued.
- The Notes are convertible at the Fund's election into Allegiance ordinary shares on the terms summarised below. If the Note is not converted, it will be repaid on maturity at its issued face value.
- The First Drawdown 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; subject to a floor of A\$0.10 for the first two months following Note execution.
- The Second Drawdown of A\$6M, or any part thereof, is at the discretion of Allegiance and the Fund (and is subject to Allegiance having sufficient capacity under Chapter 7 of the Listing Rules to issue such notes or shareholder approval being obtained), and if called on the conversion price will be the lesser of A\$0.15, or 90% of the lowest daily VWAP of Allegiance shares selected by the Fund for the 10 trading days on which Shares traded in the ordinary course of business on the ASX ending on the date immediately prior to a conversion notice.
- For both the First Drawdown and the Second Drawdown, the conversion price will not be less than A\$0.03 (subject to limited adjustment events including in the event of bonus issues).
- The Company may repurchase the Notes at any time prior to maturity by repaying the Note at face value together with a premium of 3% of face value; subject to the Fund having the right to convert 30% of the amount sought to be re-purchased into Allegiance ordinary shares on the terms summarised above.
- As consideration for the Note, Allegiance is required to pay a fee of A\$200,000 to the Fund payable in Allegiance shares at an issue price of A\$0.06768 per share as follows:
  - A\$50,000 (738,770 shares) immediately pursuant to the placement capacity under ASX listing rule 7.1; and
  - A\$150,000 (2,216,313 shares) following shareholder approval.
- Restrictions apply in respect of the Company's ability to undertake capital raisings involving an issue of securities convertible into shares or otherwise at a price per share less than the lowest conversion price which may apply at that time, without the Fund's prior consent.
- The Note will be secured by a general security interest over Allegiance, subordinated to the bridging loan in place with Nebari Natural Resources Credit Fund 1 LP.
- Additional provisions such as Company covenants, representations, warranties and event of default provisions apply, which are considered customary.

The directors will convene a shareholders meeting to seek authority to the elements of the transaction which are subject to shareholder approval. Additional details regarding the terms and conditions of the Notes will be included in the notice of meeting.

Over the past several months the Company has engaged with several investors who are proceeding with due diligence for funding the New Elk re-start. There remain a number of active engagements and the Company anticipates receiving terms sheets in the near future. Nonetheless, given COVID-19 and the consequent

decline in the price for metallurgical coal, these processes are taking longer than initially anticipated. Accordingly, the Company has been concurrently negotiating terms sheets with numerous investors to provide interim funding. Of all the terms sheets secured, the terms offered by the Fund were the least dilutionary to shareholders, whilst also offering the highest level of funding certainty to the Company.

Confronted with limited funding options in the current COVID-19 climate, the Board felt that a convertible note on the terms agreed, is the most prudent way to provide working capital to enable Allegiance to advance the New Elk mine towards a recommencement of production, in anticipation of securing the full start-up capital requirement of the New Elk mine, and to get Telkwa Coal Limited to the point where it can lodge its application for an environmental assessment certificate.

---

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

For more information, please contact:

**Mr Mark Gray**

Chairman & Managing Director

Mobile : +61 412 899979

Email : [mgray@allegiancecoal.com.au](mailto:mgray@allegiancecoal.com.au)

**Mr Jonathan Reynolds**

Finance Director

Mobile : +61 408 229 953

Email: [jreynolds@allegiancecoal.com.au](mailto:jreynolds@allegiancecoal.com.au)

**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.

---