



27 July 2022

Stephanie Patchell
ASX Limited
Level 40 Central Park
152 - 158 St George's Terrace
PERTH WA 6000
By Email: Stephanie.Patchell@asx.com.au and ListingsCompliancePerth@asx.com.au

Dear Ms Patchell

RESPONSE TO ASX AWARE QUERY

We refer to your letter dated 21 July 2022 to Allegiance Coal Limited (**Allegiance** or **the Company**).

Capitalised terms which have not otherwise been defined have the meaning given in your letter.

The Company's response to each of your queries is as follows:

- 1. Does AHQ consider:**
 - 1.1 the Tranche 2 Funding Delay;**
 - 1.2 the requirement for alternative funding to fulfil AHQ's Liquidity Needs;**
 - 1.3 the Mine Performance Information, including the New Elk June Quarter Production and the Black Warrior June Quarter Production;**
 - 1.4 the Commencement of Strategic Review Information;**
 - 1.5 all or any parts of the above information considered together;**

to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

 - (a) The Company does not consider:
 - (i) the Tranche 2 Funding Delay;
 - (ii) the requirement for alternative funding to fulfil AHQ's Liquidity Needs;



- (iii) the Mine Performance Information, including the New Elk June Quarter Production and the Black Warrior June Quarter Production; or
- (iv) all or any parts of the above information considered together;

to be information that a reasonable person would expect to have a material effect on the price or value of its securities.

- (b) The Company does consider the Commencement of Strategic Review Information to be information that a reasonable person would expect to have a material effect on the price or value of its securities.

2. If the answer to any of questions 1.1 to 1.5 is “no”, please advise the basis for that view, commenting specifically on the fact that both the Equity Facility and Strategic Review Announcement and the June Quarter Activities Report were marked as price sensitive and the decrease in AHQ’s share price following the release of the Equity Facility and Strategic Review Announcement and the June Quarter Activities Report.

- (a) With respect to the Tranche 2 Funding Delay, the Company advises as follows:
 - (i) The Company announced the execution of the agreement for the issue of the convertible note on 24 May 2022 (**Convertible Note Announcement**).
 - (ii) It was made clear in the Convertible Note Announcement that while the first tranche under the convertible note (\$30.7 million) was unconditional, the second tranche (\$12.2 million) was subject to:

“...the Fund completing its full due diligence of the Black Warrior and New Elk mines including a valuation of those assets...”
 - (iii) It was further stated in the Convertible Note Announcement that “if approved”, the second tranche funds would be applied towards the payment of interest and working capital.
 - (iv) The Convertible Note Announcement did not disclose the date by which the second tranche of the funding would be provided. This was because the conditions precedent are largely outside of the Company’s control and are at the Fund’s discretion. The parties continue to work actively together to close the transaction in as short a time as practicable.
 - (v) Internally, the Company’s management believed the second tranche of funding would complete by 30 June 2022 and it was in that context that the word “delay” was used in the June Quarter Activities Report.
 - (vi) The Company is not reliant solely on the convertible note raising. The Company has access to supply chain financing arrangements as advised to the market. Subject to moving coal inventory from mine to port, the Company can access these sources of liquidity.

- (b) With respect to the requirement for alternative funding to fulfil AHQ's Liquidity Needs, the Company advises as follows:
- (i) "AHQ's Liquidity Needs" relates only to the equity facility providing the Company with a \$5 million facility it may draw down upon to manage its liquidity needs as required. It is common for entities such as the Company to have such a facility available for its working capital requirements. The Company has a track record of successfully executing financing transactions to maintain its liquidity position.
 - (ii) The \$5 million equity facility with Regal Funds Management was not, of itself, considered by Allegiance to be price sensitive. It was considered appropriate and necessary to announce the entry into this facility in light of the need to issue shares under the facility.
 - (iii) Accordingly, with respect to the marking of the Equity Facility and Strategic Review Announcement being marked as price sensitive, the Company notes that the Commencement of Strategic Review Information was considered to be price sensitive. The requirement for alternative funding through the equity facility with Regal Funds Management was not considered to be price sensitive.
 - (iv) The market has been informed over a long period of time of the liquidity issues facing the Company, including for the following reasons:
 - (A) Its status of a mining exploration entity, and in common with other such entities listed on the Australian Securities Exchange;
 - (B) The inclusion in Note 1 of the Company's annual report for the year ended 30 June 2021 of a Going Concern disclosure;
 - (C) The inclusion in Note 1 of the Company's interim report for the half-year ended 31 December 2021 of a Going Concern disclosure; and the net cash used in operations shown in the Statement of Cash Flows;
 - (D) The disclosures in the Appendix 5B for the quarter ended 31 March 2022, including the cash used in operations at item 1.9 and the disclosures at item 8.8.
- (c) With respect to the Mine Performance Information, including the New Elk June Quarter Production and the Black Warrior June Quarter Production, the Company advises as follows:
- (i) The Mine Performance Information, as defined in your letter, is comprised of two elements:
 - (A) AHQ has been "*unable to successfully ramp up production to previous expectations at its two operating mines*" and "*unable to secure*

medium term equipment financing at both Black Warrior and New Elk, which has driven lower than expected performance; and

- (B) *“It is currently unclear if Black Warrior or New Elk have the capability to meet, within a material margin, previously advised target production rates”.*
- (ii) The New Elk June Quarter Production, as defined in your letter, relates to *“ROM Coal production for the June quarter of 135,163kt”.*
- (iii) The Black Warrior June Quarter Production, as defined in your letter, relates to *“The benefit of our four 150t dump trucks which arrived in March to replace our 50t dump trucks in waste rock removal, is clearly visible in ROM coal production increasing from 56kt to 85kt in the quarter. However, this is still well below our previous target of 150kt of quarterly ROM coal production.”*
- (iv) In relation to the New Elk June Quarter Production and Black Warrior June Quarter Production, these production volumes data taken on their own are not considered to be information that a reasonable person would expect to have a material effect on the price or value of its securities for the following reasons:
- (v) The table below sets out the operating performance over the 2022 financial year as reported in the Quarterly Reports:

	Q1 FY 22	Q2 FY 22	Q3 FY 22	Q4 FY 22
Tonnes ('000)				
New Elk ROM	97	77	92	135
New Elk Clean	45	31	40	62
Black Warrior ROM	32	51	56	85
Black Warrior Clean	24	32	48	53

- (vi) Taken at face value, and as a mining exploration entity transitioning, subject to the ASX’s discretion, over time to be a mining producing entity, the Company has demonstrated growing and satisfactory operating performance from a start-up situation.
- (vii) As disclosed in the Quarterly Reports, the Company has faced various operating challenges. The challenges have been, and are being, addressed in a business-like manner. It is noted that these challenges are consistent with those a reasonable person would expect to find at a mining venture involved

in (i) restarting a mine previously on care and maintenance, and (ii) pivoting and ramping production at a mine from domestic supply to the export market. Furthermore, many of the challenges being encountered are of a type widely reported in the press as being faced across the industry, eg Covid, staffing and supply chain.

- (viii) Although challenges have been encountered, no fundamental or fatal flaws had been identified or exposed in the operating environment.
 - (ix) There were no events in the June 2022 quarter that, taken in isolation, were considered to be information that a reasonable person would expect to have a material effect on the price or value of its securities.
 - (x) It would have been premature and potentially misleading to disclose the New Elk June Quarter Production and Black Warrior June Quarter Production before the Company was in a position to assess the overall quarterly performance and future outlook which process was conducted during the course of preparing the June 2022 Quarterly Activities Report.
 - (xi) As part of the review of the draft June Quarterly Activities Report, on the morning of Monday 18 July 2022, the conclusions set out in the Mine Performance Information were considered by the Board but were only crystallised into a firm conclusion following close of the market on Monday 18 July 2022, leading to the disclosure of the Mine Performance Information and Commencement of Strategic Review Information, prior to the market opening on 19 July 2022.
- (d) The Company considers each Quarterly Activities/Appendix 5B Cash Flow Report (“Report”) as a whole to be sensitive, but not necessarily each element and statement within the Report. In accordance with the Company’s continuous disclosure obligations, the Company makes separate announcements of sensitive items rather than including them in the Report, and indeed this was the case here where the announcement entitled “Equity Facility and Strategic Review” was released in advance of the June Quarter Activities Report.
- (e) In relation to “all or any parts of the above information considered together”, for the reasons set out above.
- (f) With respect to the decrease in AHQ’s share price following the release of the Equity Facility and Strategic Review Announcement and the June Quarter Activities Report, the Company considers the principal reason for the decline was attributable to the decision by the board to commence the strategic review. The prospective pricing nature of the equity facility was also a factor for the share price decline and it is recognised the market was disappointed with the Company’s overall operating performance to date. The Company is working to complete the strategic review as quickly as possible.

3. When did AHQ first become aware of the:

3.1 the Tranche 2 Funding Delay; and

3.2 the requirement for alternative funding to fulfil AHQ's Liquidity Needs?

Allegiance first became aware of the Tranche 2 Funding Delay and the requirement for alternative funding to fulfil AHQ's Liquidity Needs as follows:

- (a) At the board meeting held on 6 July 2022, the Board was advised that the completion of Tranche 2 had been delayed by the Fund requiring an additional independent valuation of the Group's plant and equipment assets, as well as third party lessees not providing timely agreement to security provisions / recognition requested by the Fund. Neither of these factors were envisaged at the time the Company entered the Convertible Note Raising and both emerged in the latter half of June 2022. Such delays are however not unusual with agreements of this nature and Allegiance did not consider that further action was required at this time.
- (b) Consultations between management and the Company's broker commenced at the end of June 2022 directed at securing alternative funding in the event that Tranche 2 was not completed in the near term. The result of these consultations was the execution of the equity facility with Regal Funds Management, which was announced immediately.

4. If AHQ first became aware of:

4.1 the Tranche 2 Funding Delay; and/or

4.2 the requirement to seek alternative funding to fulfil AHQ's Liquidity Needs;

before the release of the Equity Facility and Strategic Review Announcement and the June Quarter Activities Report, did AHQ make any announcement prior to the relevant date which disclosed that information?

4.3 If the answer to question 4.1 and/or 4.2 is "yes", please provide details.

4.4 If the answer to question 4.1 and/or 4.2 is "no" please explain why the information was not released to the market at an earlier time, commenting specifically on when you believe AHQ was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps AHQ took to ensure that the information was released promptly and without delay.

The answer to questions 4.1 and 4.2 is yes.

As detailed further in the responses to questions 2 and 3:

- (a) The Tranche 2 Funding Delay and the execution of the equity facility with Regal Funds Management, in and of itself, were not considered by Allegiance to be information

that a reasonable person would expect to have a material effect on the price or value of its securities. In effect the Company established a new facility to make up for the delay in funding from the previously agreed arrangement.

- (b) Consultations between management and the Company's broker commenced at the end of June 2022 directed at securing alternative funding in the event that Tranche 2 was not completed in the near term. The result of these consultations was the execution of the equity facility with Regal Funds Management, which was announced immediately.

5. What is the expected timeframe for the completion of Tranche 2 of the Convertible Note Raising?

The Company does not presently have a reasonable basis to forecast when, or indeed whether, Tranche 2 of the Convertible Note Raising will close. This is because the remaining conditions precedent (as set out in question 3 above) are in the control of third parties and ultimately at the discretion of the Fund. As of the date of this letter, the parties continue to work actively together to close the transaction in as short a time as practicable.

6. Does AHQ consider that its financial condition is sufficient to warrant the continued quotation of AHQ's securities on ASX as required under Listing Rule 12.2? In answering this question, please explain the basis for this conclusion, taking into account the New Elk June Quarter Production, the Black Warrior June Quarter Production, the Mine Performance Information, the Tranche 2 Funding Delay and AHQ's Liquidity Needs.

For the reasons set out in answer to question 2 above, the Company does consider that its financial condition is sufficient to warrant the continued quotation of AHQ's securities on ASX as required under Listing Rule 12.2.

In addition, the Company notes the following:

- (a) The Company has made the following coal sales, the cash proceeds of which have not yet been receipted:
 - (i) 9,244 tonne sale from New Elk enroute on a train at the time of writing to be delivered to McDuffie port at Mobile, Alabama;
 - (ii) 25,000 tonne sale from Black Warrior mine of high ash, high energy thermal coal delivered to McDuffie port at Mobile, Alabama – in the process of being unloaded at the port from barges at the time of writing;
 - (iii) 80,000 tonne sale FOB to an Asian customer of blended New Elk and Black Warrior coal covered by a Letter of Credit (noting that proceeds from this sale also repay the supply chain financing component) – coal loaded and the ship sailed from the McDuffie port at 0630 hours on 26 July 2022; and
 - (iv) 7-8,000 tonnes of high ash high sulphur coal to a domestic customer.

- (b) Other than the liquidity requirement for the Company to maintain an agreed minimum cash balance included in the Collins St Convertible Note, as advised to the market, the Company is not subject to any other covenants. For example, there is no market capitalisation covenant which the Company is subject to.
- (c) The company is actively negotiating further sales agreements with potential customers demonstrating an active demand for our coal sales products.

7. If the answer to question 6 is “No”, please explain what steps AHQ has taken, or proposes to take to warrant the continued quotation of its securities on ASX under the requirements of Listing Rule 12.2.

Not applicable.

8. As AHQ only achieved ROM coal production of 135kt at New Elk during the June 2022 quarter, compared with the New Elk June Quarter Production Target of “more than 200kt of ROM production in the June Quarter”, when did AHQ first become aware of issues impacting production at New Elk, including those specifically detailed in the June Quarter Activities Report:

- 8.1 labour sourcing issues;**
 - 8.2 equipment performance and availability falling in the quarter losing around 20% of available production time;**
 - 8.3 the unavailability of asset financing facilities the Company had budgeted to enhance production; and**
 - 8.4 a 7 day outage for production unit 1 in June due to roof falls and a coal rib sloughing,**
- such that production at New Elk was unlikely to meet the New Elk June Quarter Production Target?**

Allegiance first became aware of the above factors as follows:

- (a) At each of the board meetings held in May, June and July 2022, the Board considered the production performance and operational challenges of each New Elk and Black Warrior. Given the timing of monthly board meetings (generally first week of the month), and the requirement for month end reconciliations, the performance indicators reviewed by the Board covered the period to the end of May 2022 at the time of the 6 July meeting.
- (b) At each of the board meetings held in May, June and July 2022, the Board considered that:
 - (i) The Company has demonstrated growing and satisfactory operating performance from a start-up situation.

- (ii) The Company's operating challenges were being addressed in a business-like manner.
- (iii) No fundamental or fatal flaws had been identified or exposed in the operating environment.
- (c) No events had occurred that, taken in isolation, were considered to be information that a reasonable person would expect to have a material effect on the price or value of its securities.
- (d) As part of the review of the draft June Quarterly Activities Report, at the Board meeting of 18 July 2022, the Board reviewed the operating performance for the full quarter ended 30 June. As set out in the answer to question 2 above, the conclusions set out in the Mine Performance Information were considered by the Board but were only crystallised into a firm conclusion following close of the market on Monday 18 July 2022, leading to the disclosure of the Mine Performance Information and Commencement of Strategic Review Information, prior to the market opening on 19 July 2022.
- (e) Allegiance considers that it had a reasonable basis to make the New Elk June Quarter Production Target of "more than 200kt of ROM production in the June Quarter" when made in April 2022. The impact of the various individual factors limiting this production became known to the Company during the review process undertaken at the time of preparing and reviewing the draft June Quarterly Activities Report.

9. If AHQ first became aware of issues impacting its ability to meet the New Elk June Quarter Production Target before the release of the Equity Facility and Strategic Review Announcement and the June Quarter Activities Report, did AHQ make any announcement prior to the relevant date which disclosed that information?

9.1 If the answer to question 9 is "yes", please provide details.

9.2 If the answer to question 9 is "no" please explain why the information was not released to the market at an earlier time, commenting specifically on when you believe AHQ was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps AHQ took to ensure that the information was released promptly and without delay.

Please ensure all matters listed in paragraphs 8.1 to 8.4 are addressed in AHQ's response to either question.

No, for the reasons described above, and the Company further advises:

The Company formulated the statements in the Mach Quarterly Report based on the fact that production growth had been achieved, which formed a solid foundation that could be built upon. The information presented was honestly made based on input of planned and expected production outcomes provided by mine management.

With respect to labour sourcing issues:

- (a) The Company's Quarterly Reports have contained regular references to the challenges faced at New Elk in terms of securing and retaining suitably qualified staff.
- (b) The Company has been conducting staff recruitment drives including employing contract labour through labour hire firms and retaining recruitment firms to lead recruitment drives. The processes have been successful in recruiting new staff.
- (c) The general press has contained numerous reports on the tight labour market. In addition to the difficulty in recruiting staff, this has led to ongoing difficulty with staff retention, as numerous other operators attempt to attract this limited supply pool.
- (d) The Company engaged underground and washplant managers through a specialist mining services supplier, commencing late March 2022. An immediate improvement in productivity was observable.

With respect to performance and availability falling in the quarter losing around 20% of available production time:

- (a) The Company's plan has involved the gradual upgrade of the mining equipment inherited with the mine acquisition. These upgrades were budgeted to be financed in the June quarter by way of a lease finance arrangement; which the Company had executed and for which the requisite deposit was made. Despite indications from the broker that the funding would close, they have not been successful. Conclusion on this process was only achieved late in June 2022 and was not considered of itself to be a matter requiring disclosure.

With respect to unavailability of asset financing facilities the Company had budgeted to enhance production:

- (a) Refer to the answer above.

With respect to a 7 day outage for production unit 1 in June due to roof falls and a coal rib sloughing:

- (a) Although disruptive, events of this nature can reasonably be considered to be a usual part of underground mining and factored into the overall plan. The production unit was successfully relocated and set up to run in an acceptable time for this type of disruption. The event was not considered of itself to be a matter requiring disclosure.

10. Please provide details regarding the date and time that AHQ first became aware of:

- 10.1 the impact on production at New Elk of each of the factors set out above at questions 8.1 to 8.4 (inclusive), and any other issues impacting production at New Elk identified by AHQ in its response to question 8; and**
- 10.2 that AHQ was unlikely to meet the New Elk June Quarter Production Target.**

In answering the above questions 10.1 and 10.2, please specifically reference any written or unwritten information that AHQ was in receipt of which caused it to become aware.

As set out in the answer to question 8 and 9.

In terms of written and unwritten information, the Company advises:

- (a) Written reports regarding production volumes achieved are provided to the board monthly together with management accounts, within four weeks of month end, to tie into board meetings generally held during the first week of the month.
- (b) Management provide verbal reports to the board at each board meeting.
- (c) Written reports regarding production volumes achieved as well as staffing and equipment availability are provided to senior management on a daily/weekly basis.
- (d) Operating management provide verbal reports to senior operating executives at each weekly management meeting. The purpose of these meetings is to address and put in place processes to overcome operating challenges.
- (e) Operating management remained in verbal contact with the lease finance broker throughout the quarter.

11. As AHQ only achieved ROM coal production of 84kt at Black Warrior during the June 2022 quarter, compared with the Black Warrior June Quarter Production Target of “exceed 150kt for the June quarter”, when did AHQ first become aware of issues impacting production at Black Warrior, including those specifically detailed in the June Quarter Activities Report:

11.1 the unavailability of asset financing facilities the Company had budgeted to enhance production; and

11.2 the requirement to source additional dump trucks, drill rigs, dozers and labour,

such that production at Black Warrior was unlikely to meet the Black Warrior June Quarter Production Target?

Allegiance first became aware of these factors as follows:

- (a) At each of the board meetings held in May, June and July 2022, the Board considered the production performance and operational challenges of each New Elk and Black Warrior. Given the timing of monthly board meetings (generally first week of the month), and the requirement for month end reconciliations, the performance indicators reviewed by the Board covered the period to the end of May 2022 at the 6 July Board meeting.
- (b) At each of the board meetings held in May, June and July 2022, the Board considered that:

- (i) The Company has demonstrated growing and satisfactory operating performance pivoting from supplying the domestic market to supplying the export market, together with ramping up production.
 - (ii) The Company's operating challenges were being addressed in a business-like manner, even though sourcing of additional equipment was delayed due to the unavailability of equipment financing solutions.
 - (iii) No fundamental or fatal flaws had been identified or exposed in the operating environment. Progress had been made in setting up a well laid out mine pit with sequential and planned extraction.
 - (iv) No events had occurred that, taken in isolation, were considered to be information that a reasonable person would expect to have a material effect on the price or value of its securities.
- (c) In relation to asset financing facilities, the Company advises that in March 2022, it entered the master lease finance arrangement and paid the requisite deposit to the finance broker on the basis that the finance would close in short order. Despite indications from the broker that the funding would close, to date they have not been successful. The broker continues to present financing options to the Company. The Company has also been able to arrange alternative options for acquiring operating equipment. The major equipment items yet to be acquired are the dozers and drills, which items were part of the March 2022 master finance lease arrangement.
- (d) In relation to labour, the Company advises that the labour market in Alabama is quite different to that in Colorado given the established nature of the Alabama coal mining industry. Securing the additional required labour is therefore not envisaged to be a material challenge.
- (e) As part of the review of the draft June Quarterly Activities Report, at the Board meeting of 18 July 2022, the Board reviewed the operating performance for the full quarter ended 30 June. As set out in the answer to question 2 above, the conclusions set out in the Mine Performance Information were considered by the Board but were only crystallised into a firm conclusion following close of the market on Monday 18 July 2022, leading to the disclosure of the Mine Performance Information and Commencement of Strategic Review Information, prior to the market opening on 19 July 2022.

12. If AHQ first became aware of issues impacting its Black Warrior June Quarter Production Target before the release of the Equity Facility and Strategic Review Announcement and the June Quarter Activities Report, did AHQ make any announcement prior to the relevant date which disclosed that information?

12.1 If the answer to question 12 is "yes", please provide details.

12.2 If the answer to question 12 is "no" please explain why the information was not released to the market at an earlier time, commenting specifically on when you

believe AHQ was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps AHQ took to ensure that the information was released promptly and without delay.

Please ensure all matters listed in paragraphs 11.1 and 11.2 are addressed in AHQ's response to either question.

No, for the reasons described above.

13. Please provide details regarding the date and time that AHQ first became aware of:

13.1 the impact on production at Black Warrior of each of the factors set out above at questions 11.1 and 11.2 (inclusive), and any other issues impacting production at Black Warrior identified by AHQ in its response to question 11; and

13.2 that AHQ was unlikely to meet the Black Warrior June Quarter Production Target.

In answering the above questions 13.1 and 13.2, please specifically reference any written or unwritten information that AHQ was in receipt of which caused it to become aware.

As set out in the answer to question 11.

In terms of written and unwritten information, the Company advises:

- (a) Written reports regarding production volumes achieved are provided to the board monthly together with management accounts, within four weeks of month end, to tie into board meetings generally held during the first week of the month.
- (b) Management provide verbal reports to the board at each board meeting.
- (c) Written reports regarding production volumes achieved are provided to senior management on a weekly basis.
- (d) Operating management provide verbal reports to senior operating executives at each weekly management meeting. The purpose of these meetings is to address and put in place processes to overcome operating challenges.
- (e) Operating management remained in verbal contact with the lease finance broker throughout the quarter.

14. Having regard to AHQ's responses to questions 8 to 13 above, when does AHQ consider that it first became aware of the Mine Performance Information?

As set out in the answer to question 2, as part of the review of the draft June Quarterly Activities Report, on the morning of 18 July 2022, the conclusions set out in the Mine Performance Information were considered by the Board but were only crystallised into a firm conclusion following close of the market on 18 July 2022, leading to the disclosure of the Mine Performance Information and Commencement of Strategic Review Information, prior to the market opening on 19 July 2022.

- 15. When did AHQ first become aware of the Commencement of Strategic Review Information? In answering this question, please include details regarding the date and time that AHQ determined to commence the Strategic Review.**

As set out in the answer to question 2, as part of the review of the draft June Quarterly Activities Report, on the morning of 18 July 2022, the conclusions set out in the Mine Performance Information were considered by the Board but were only crystallised into a firm conclusion following close of the market on 18 July 2022, leading to the disclosure of the Mine Performance Information and Commencement of Strategic Review Information, prior to the market opening on 19 July 2022.

The Company appointed Mr Jonathan Romcke as its new Chief Executive Officer with effect from 3 May 2022. Mr Romcke has undertaken an appraisal of company operations generally over the first two months following his appointment. As a result of this appraisal, it was determined that Allegiance needed to, and would, undertake a strategic review generally to position the operations and the Company for future success.

- 16. If AHQ first became aware of the:**

16.1 Mine Performance Information; or

16.2 the Commencement of Strategic Review Information,

before the release of the Equity Facility and Strategic Review Announcement, did AHQ make any announcement prior to the relevant date which disclosed that information?

16.3 If the answer to question 16.1 and/or 16.2 is “yes”, please provide details.

16.4 If the answer to question 16.1 and/or 16.2 is “no” please explain why the information was not released to the market at an earlier time, commenting specifically on when you believe AHQ was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps AHQ took to ensure that the information was released promptly and without delay.

No, as set out in the answer to question 2, as part of the review of the draft June Quarterly Activities Report, on the morning of Monday 18 July 2022, the conclusions set out in the Mine Performance Information were considered by the Board but were only crystallised into a firm conclusion following close of the market on Monday 18 July 2022, leading to the disclosure of the Mine Performance Information and Commencement of Strategic Review Information, prior to the market opening on 19 July 2022.

- 17. Please confirm that AHQ is complying with the Listing Rules and, in particular, Listing Rule 3.1.**

We confirm that the Company is complying with the Listing Rules and, in particular, ASX Listing Rule 3.1.



- 18. Please confirm that AHQ's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of AHQ with delegated authority from the board to respond to ASX on disclosure matters.**

We confirm that the Company's response to the questions has been authorised in accordance with its published continuous disclosure policy by Mr Jonathan Romcke, the Company's Chief Executive Officer.

Yours sincerely

Allegiance Coal Limited

A handwritten signature in black ink, appearing to read "J Reynolds", is written in a cursive style.

Jonathan Reynolds
Company Secretary
For and on behalf of the Board of Directors of Allegiance Coal Limited



21 July 2022

Reference: 55290

Mr Jonathan Reynolds
Company Secretary
Allegiance Coal Limited

By email: jreynolds@allegiancecoal.com.au

Dear Mr Reynolds

Allegiance Coal Limited ('AHQ'): Aware Query

ASX refers to the following:

- A. AHQ's quarterly activities report for the quarter ended 31 March 2022, marked as 'price sensitive' and released on the ASX Market Announcements Platform ('MAP') on 29 April 2022 ('March Quarter Activities Report'), which disclosed, amongst other things:
- (a) in respect of New Elk:
 - (i) *"New Elk production in March was its best, and April is tracking to step up again by 25%. Overall, operations are starting to perform as anticipated"*; and
 - (ii) *"In the March quarter we mined 92.5kt of ROM coal against 76.7kt in the prior quarter. Half of that production was in the month of March, while April is already on track to exceed that and reach more than 200kt of ROM production in the June quarter."*,
(*'New Elk June Quarter Production Target'*); and
 - (b) in respect of Black Warrior: *"We currently expect ROM production to exceed 150kt for the June quarter yielding around 110kt of saleable Black Warrior coal"* (*'Black Warrior June Quarter Production Target'*).
- B. AHQ's announcement entitled "Allegiance Secures Convertible Note raising A\$42.9M", marked as 'price sensitive' and released on MAP on 24 May 2022 which disclosed, amongst other things:
- (i) that AHQ had agreed to issue a secured convertible note to the Collins Street Convertible Note Fund ('Fund') for a total amount of A\$42,857,143 (*'Convertible Note Raising'*), the use of funds for which included a total of A\$16.8M across tranches 1 and 2 allocated towards working capital; and
 - (ii) in relation to the convertible note, that *'the note was selected due to its certainty and efficiency of completion'*.
- C. AHQ's announcement entitled "Equity Facility and Strategic Review" marked as 'price sensitive' and released on MAP on 19 July 2022 (*'Equity Facility and Strategic Review Announcement'*), which disclosed, amongst other things:
- (a) *"AHQ has entered into a A\$5 million equity facility with Regal Funds Management"* and that *"the Facility will provide the Company with necessary liquidity for the Board to complete a strategic review of its portfolio and establish a path to manage Allegiance's ongoing liquidity needs"* (*'AHQ's Liquidity Needs'*);
 - (b) that:

-
- (i) AHQ has been “unable to successfully ramp up production to previous expectations at its two operating mines” and “unable to secure medium term equipment financing at both Black Warrior and New Elk, which has driven lower than expected performance”; and
- (ii) “It is currently unclear if Black Warrior or New Elk have the capability to meet, within a material margin, previously advised target production rates”,
- (‘Mine Performance Information’); and
- (c) “In light of performance at the Company’s operating mines, New Elk and Black Warrior, the Board has also commenced a strategic review to consider the management of its portfolio and ongoing liquidity requirements” (‘Commencement of Strategic Review Information’).
- D. AHQ’s quarterly activities report for the quarter ended 30 June 2022, marked as ‘price sensitive’ and released on MAP on 19 July 2022 (‘June Quarter Activities Report’) which disclosed, amongst other things:
- (a) in respect of New Elk:
- (i) ROM Coal production for the June quarter of 135,163kt (‘New Elk June Quarter Production’); and
- (ii) “ROM coal production at New Elk continued to improve in June quarter, but like Black Warrior, still below our target of 250kt per quarter for this mine”.
- (b) in respect of Black Warrior, “The benefit of our four 150t dump trucks which arrived in March to replace our 50t dump trucks in waste rock removal, is clearly visible in ROM coal production increasing from 56kt to 85kt in the quarter. However, this is still well below our previous target of 150kt of quarterly ROM coal production.” (‘Black Warrior June Quarter Production’); and
- (c) in respect of the Convertible Note Raising, “AHQ and the Fund are presently working on the legal security documentation required to close Tranche 2, which has a face value of A\$12.2 million. Tranche 2 was to provide additional working capital but has been delayed by the Fund requiring an additional independent valuation of the Group’s plant and equipment assets, as well as third party leasees not providing timely agreement to security provisions / recognition requested by the Fund.” (‘Tranche 2 Funding Delay’).
- E. The decrease in trading price of AHQ’s securities from \$0.56 at the close of trading on 18 July 2022 to a low of \$0.115 at the time of writing today, 21 July 2022, and the significant increase in volume of securities traded over that period.
- F. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity’s securities.
- G. The definition of “aware” in Chapter 19 of the Listing Rules, which states that:
- “an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity” and section 4.4 in Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B “When does an entity become aware of information.”*
- H. Section 7.8 of Guidance Note 8 which provides:
- “Other financial forecasts (such as forecast sales or forecast operational or capital expenditure) published by entities, and exploration and production targets published by mining or oil and gas entities, can raise similar considerations to earnings guidance. As forward-looking statements, these must be based on reasonable grounds or else they will be deemed to be misleading, with all the significant legal consequences that entails.*

For this reason, appropriate due diligence needs to be applied to their preparation and the underlying figures and assumptions should be carefully vetted and signed off at a suitably senior level before they are released.

If an entity becomes aware that its financial results will differ materially (downwards or upwards) from any financial forecast it has published, or that its exploration or production results for a period will differ materially (downwards or upwards) from any target it has published, it may have a legal obligation to notify the market of that fact. This obligation may arise under Listing Rule 3.1 and section 674 if the difference is of such a magnitude that a reasonable person would expect it to have a material effect on the price or value of the entity's securities. It may also arise under section 1041H, because failing to inform the market that its published forecast or target is no longer accurate could constitute misleading conduct on its part."

I. Listing Rule 12.2 which states:

12.2 *"An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing."*

J. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

"3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:

3.1A.1 *One or more of the following applies:*

- *It would be a breach of a law to disclose the information;*
- *The information concerns an incomplete proposal or negotiation;*
- *The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- *The information is generated for the internal management purposes of the entity; or*
- *The information is a trade secret; and*

3.1A.2 *The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and*

3.1A.3 *A reasonable person would not expect the information to be disclosed."*

K. ASX's policy position on the concept of "confidentiality", which is detailed in section 5.8 of Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. In particular, the Guidance Note states that:

"Whether information has the quality of being confidential is a question of fact, not one of the intention or desire of the listed entity. Accordingly, even though an entity may consider information to be confidential and its disclosure to be a breach of confidence, if it is in fact disclosed by those who know it, then it ceases to be confidential information for the purposes of this rule."

Request for information

Having regard to the above, ASX asks AHQ to respond separately to each of the following questions and requests for information:

1. Does AHQ consider:

1.1 the Tranche 2 Funding Delay;

1.2 the requirement for alternative funding to fulfil AHQ's Liquidity Needs;

-
- 1.3 the Mine Performance Information, including the New Elk June Quarter Production and the Black Warrior June Quarter Production;
 - 1.4 the Commencement of Strategic Review Information;
 - 1.5 all or any parts of the above information considered together;

to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

2. If the answer to any of questions 1.1 to 1.5 is “no”, please advise the basis for that view, commenting specifically on the fact that both the Equity Facility and Strategic Review Announcement and the June Quarter Activities Report were marked as price sensitive and the decrease in AHQ’s share price following the release of the Equity Facility and Strategic Review Announcement and the June Quarter Activities Report.

Funding requirements

3. What date did AHQ first become aware of:
 - 3.1 the Tranche 2 Funding Delay; and
 - 3.2 the requirement for alternative funding to fulfil AHQ’s Liquidity Needs?
4. If AHQ first became aware of:
 - 4.1 the Tranche 2 Funding Delay; and/or
 - 4.2 the requirement to seek alternative funding to fulfil AHQ’s Liquidity Needs,before the release of the Equity Facility and Strategic Review Announcement and the June Quarter Activities Report, did AHQ make any announcement prior to the relevant date which disclosed that information?
 - 4.3 If the answer to question 4.1 and/or 4.2 is “yes”, please provide details.
 - 4.4 If the answer to question 4.1 and/or 4.2 is “no” please explain why the information was not released to the market at an earlier time, commenting specifically on when you believe AHQ was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps AHQ took to ensure that the information was released promptly and without delay.
5. What is the expected timeframe for the completion of Tranche 2 of the Convertible Note Raising?
6. Does AHQ consider that its financial condition is sufficient to warrant the continued quotation of AHQ’s securities on ASX as required under Listing Rule 12.2? In answering this question, please explain the basis for this conclusion, taking into account the New Elk June Quarter Production, the Black Warrior June Quarter Production, the Mine Performance Information, the Tranche 2 Funding Delay and AHQ’s Liquidity Needs.
7. If the answer to question 6 is “No”, please explain what steps AHQ has taken, or proposes to take to warrant the continued quotation of its securities on ASX under the requirements of Listing Rule 12.2.

New Elk Mine

8. As AHQ only achieved ROM coal production of 135kt at New Elk during the June 2022 quarter, compared with the New Elk June Quarter Production Target of “*more than 200kt of ROM production in the June Quarter*”, when did AHQ first become aware of issues impacting production at New Elk, including those specifically detailed in the June Quarter Activities Report:
 - 8.1 labour sourcing issues;
 - 8.2 equipment performance and availability falling in the quarter losing around 20% of available production time;

8.3 the unavailability of asset financing facilities the Company had budgeted to enhance production; and

8.4 a 7 day outage for production unit 1 in June due to roof falls and a coal rib sloughing,

such that production at New Elk was unlikely to meet the New Elk June Quarter Production Target?

9. If AHQ first became aware of issues impacting its ability to meet the New Elk June Quarter Production Target before the release of the Equity Facility and Strategic Review Announcement and the June Quarter Activities Report, did AHQ make any announcement prior to the relevant date which disclosed that information?

9.1 If the answer to question 9 is “yes”, please provide details.

9.2 If the answer to question 9 is “no” please explain why the information was not released to the market at an earlier time, commenting specifically on when you believe AHQ was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps AHQ took to ensure that the information was released promptly and without delay.

Please ensure all matters listed in paragraphs 8.1 to 8.4 are addressed in AHQ’s response to either question.

10. Please provide details regarding the date and time that AHQ first became aware of:

10.1 the impact on production at New Elk of each of the factors set out above at questions 8.1 to 8.4 (inclusive), and any other issues impacting production at New Elk identified by AHQ in its response to question 8; and

10.2 that AHQ was unlikely to meet the New Elk June Quarter Production Target.

In answering the above questions 10.1 and 10.2, please specifically reference any written or unwritten information that AHQ was in receipt of which caused it to become aware.

Black Warrior Mine

11. As AHQ only achieved ROM coal production of 84kt at Black Warrior during the June 2022 quarter, compared with the Black Warrior June Quarter Production Target of “*exceed 150kt for the June quarter*”, when did AHQ first become aware of issues impacting production at Black Warrior, including those specifically detailed in the June Quarter Activities Report:

11.1 the unavailability of asset financing facilities the Company had budgeted to enhance production; and

11.2 the requirement to source additional dump trucks, drill rigs, dozers and labour,

such that production at Black Warrior was unlikely to meet the Black Warrior June Quarter Production Target?

12. If AHQ first became aware of issues impacting its Black Warrior June Quarter Production Target before the release of the Equity Facility and Strategic Review Announcement and the June Quarter Activities Report, did AHQ make any announcement prior to the relevant date which disclosed that information?

12.1 If the answer to question 12 is “yes”, please provide details.

12.2 If the answer to question 12 is “no” please explain why the information was not released to the market at an earlier time, commenting specifically on when you believe AHQ was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps AHQ took to ensure that the information was released promptly and without delay.

Please ensure all matters listed in paragraphs 11.1 and 11.2 are addressed in AHQ’s response to either question.

13. Please provide details regarding the date and time that AHQ first became aware of:

13.1 the impact on production at Black Warrior of each of the factors set out above at questions 11.1 and 11.2 (inclusive), and any other issues impacting production at Black Warrior identified by AHQ in its response to question 11; and

13.2 that AHQ was unlikely to meet the Black Warrior June Quarter Production Target.

In answering the above questions 13.1 and 13.2, please specifically reference any written or unwritten information that AHQ was in receipt of which caused it to become aware.

Mine Performance Information and Strategic Review

14. Having regard to AHQ's responses to questions 8 to 13 above, when does AHQ consider that it first became aware of the Mine Performance Information?

15. When did AHQ first become aware of the Commencement of Strategic Review Information? In answering this question, please include details regarding the date and time that AHQ determined to commence the Strategic Review.

16. If AHQ first became aware of the:

16.1 Mine Performance Information; or

16.2 the Commencement of Strategic Review Information,

before the release of the Equity Facility and Strategic Review Announcement, did AHQ make any announcement prior to the relevant date which disclosed that information?

16.3 If the answer to question 16.1 and/or 16.2 is "yes", please provide details.

16.4 If the answer to question 16.1 and/or 16.2 is "no" please explain why the information was not released to the market at an earlier time, commenting specifically on when you believe AHQ was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps AHQ took to ensure that the information was released promptly and without delay.

17. Please confirm that AHQ is complying with the Listing Rules and, in particular, Listing Rule 3.1.

18. Please confirm that AHQ's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of AHQ with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **3.00pm WST on Wednesday, 27 July 2022**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, AHQ's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require AHQ to request a trading halt immediately.

Your response should be sent to me by e-mail at **ListingsCompliancePerth@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in AHQ's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in AHQ's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to AHQ's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that AHQ's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under listing rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours sincerely

Stephanie Patchell
Senior Adviser, Listings Compliance (Perth)