



5 June 2020

ALLEGIANCE TO CLOSE THE ACQUISITION OF THE NEW ELK HARD COKING COAL MINE

HIGHLIGHTS

- Allegiance and Cline have agreed amendments to the New Elk Acquisition Agreement with the effect that Allegiance will acquire the New Elk Coking Coal Project with a US\$5M reduction in upfront cash payments (from US\$8M to US\$3M), in exchange for an acceleration of US\$1M of Cline Debt repayment upon the commencement of commercial production.
 - Cline has waived the condition precedent to Completion of the acquisition requiring Allegiance to raise the start-up capital for the New Elk Coking Coal Project.
 - Upon Completion, Allegiance will hold all of the issued capital of NECC, which owns the New Elk Coal Project and assume the remaining Cline Debt of approximately US\$31.6M.
 - Completion is estimated to take place before the end of July 2020.
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Allegiance Coal Limited (**Allegiance**) is pleased to announce it has agreed with Cline Mining Corporation (**Cline**) to accelerate Completion of the acquisition of the New Elk hard coking coal project located in Colorado, USA (**New Elk Coking Coal Project**), including the New Elk mine (**Mine**)(**Completion**). As part of this amendment agreement, the cash payment required to be made by Allegiance on Completion will be reduced from US\$8M to US\$3M, and Cline has waived the condition precedent requiring Allegiance to raise the Mine start-up capital.

Chairman and Managing Director, Mark Gray commented:

“The pathway to Completion is now clear allowing us to focus on raising the start-up capital in the comfort and knowledge that we own the Mine. While the date to return the Mine to production has slipped due mainly to Covid-19, our target production commencement date of Q1 next year, a time when research analysts tell us the demand for hard coking coal will exceed supply, resulting in stronger prices, is less than a year away.”

Acquisition Agreement

Allegiance announced on 15 July 2019 that it had signed an agreement with Cline to acquire 100% of the issued capital of New Elk Coal Company, LLC (**NECC**) (**Acquisition Agreement**). NECC holds 100% of the New Elk Coking Coal Project, including the Mine. Cline is the sole shareholder of NECC.

The Acquisition Agreement relevantly provided the following material terms.

- **Capital raising:** 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 Coking Coal Project 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.

- **Consideration:** At Completion, Allegiance will pay US\$1.00 in cash to Cline.
- **Settlement of Cline Debt:** The debt due and payable by NECC to Cline is to be settled as follows:
 - The payment by Allegiance of Mine care and maintenance costs (comprised of monthly payments of US\$150,000 from 1 August 2019 until Completion).
 - Allegiance, on behalf of NECC, will make the following payments to Cline at Completion:
 - Approximately US\$5M cash to replace reclamation bond in place for for NECC with the State of Colorado (**Reclamation Bond Payment**); and
 - US\$3M cash.
 - Allegiance will issue US\$3M worth of fully paid ordinary shares (**Debt Repayment Shares**) at Completion, at a deemed issue price equal to the higher of A\$0.08 per share or the 20-day VWAP and the Debt Repayment Shares will be subject to 12 months' voluntary escrow;
 - The remaining debt is to be repaid to Cline on a quarterly basis from net cash flow of NECC after making prudent provision for working and sustaining capital and scheduled repayments of preferred debt (being any debt raised prior to the commencement of production up to a maximum of US\$40M), but prior to any cash distributions to the shareholders of NECC (**Quarterly Debt Repayments**). Repayment of the debt shall be limited in recourse to the assets of NECC and shall be subordinated to any preferred debt up to US\$40M.

Refer to Allegiance's notice of general meeting dated 30 October 2019 for a comprehensive summary of the Acquisition Agreement.

Amendments to Acquisition Agreement

Allegiance and Cline have agreed to vary the Acquisition Agreement to ensure that Allegiance can proceed to Completion as soon as practicable. The relevant amendments are summarised below.

- **Capital raising:** 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.
- **Settlement of Cline Debt:**
 - Instead of making the Reclamation Bond Payment, Allegiance will replace the reclamation bonds with an insurance reclamation bond. Placement of the insurance reclamation bond is well advanced. The cash payment to be made by Allegiance on Completion as part of the settlement of the Cline Debt will therefore be reduced by approximately US\$5M and will be funded through the release of funds presently held as security for the Reclamation Bond.
 - As consideration for Cline waiving the US\$5M cash settlement of the reclamation bonds, Allegiance must make a US\$6M cash payment towards the settlement of the Cline Debt by no

later than 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) and 1 September 2021; whichever occurs first.

This means that US\$5M of cash previously payable on Completion has been delayed until the commencement of mining (or 1 September 2021) and increased to US\$6M, whilst continuing to be applied to reduce the Cline Debt. The balance of the Cline Debt will be settled by the Quarterly Debt Repayments as described above.

- 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\$1M (whether paid in cash or shares) will be applied towards the balance of the Cline Debt.

The material terms of the Acquisition Agreement otherwise remain unchanged.

Completion

Completion is estimated to take place by the end of July 2020, by which time it is anticipated that the State of Colorado should have released the cash reclamation bond.

On Completion, Allegiance will pay US\$3M cash and issue the Debt Repayment Shares to Cline, pursuant to the shareholder approval obtained at the annual general meeting held on 28 November 2019 and the ASX waiver of Listing Rule 7.3.2 to permit the Debt Repayment Shares to be issued later than the 3-month period following the annual general meeting.

The number of Debt Repayment Shares approved for issue by shareholders is capped at 55,833,607. If additional Debt Repayment Shares are required to be issued as a result of exchange rate fluctuations, such shares will be issued pursuant to Allegiance's Listing Rule 15% placement capacity under Listing Rule 7.1.

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.
