



# ALLEGIANCE COAL LIMITED

**ACN 149 490 353**

## **Notice of General Meeting**

**The General Meeting of the Company will be held at the offices of the Company, at Suite 107, 109 Pitt Street Sydney, NSW on Monday, 21 September 2020 at 10.30 am (AEST) via teleconference.**

**DUE TO THE ONGOING COVID-19 PANDEMIC, SHAREHOLDERS WILL NOT BE ABLE TO ATTEND THE MEETING IN PERSON.**

The Notice of General Meeting should be read in its entirety. If Shareholders are in doubt as to how to vote, they should seek advice from their accountant, solicitor or other professional advisor prior to voting.

**Should you wish to discuss any matter, please do not hesitate to contact the Company Secretary by email on [info@allegiancecoal.com.au](mailto:info@allegiancecoal.com.au).**

**Shareholders are urged to vote by lodging the proxy form attached to the Notice**

**Allegiance Coal Limited**  
**ACN 149 490 353**  
**(Company)**

## **Notice of General Meeting**

Notice is hereby given that the general meeting of Shareholders of Allegiance Coal Limited will be held at the offices of the Company, at Suite 107, 109 Pitt Street Sydney NSW on Monday, 21 September 2020 at 10.30 am (AEST) via teleconference (**Meeting**).

**Due to the ongoing COVID-19 pandemic, Shareholders will only be able to attend and participate in the Meeting via teleconference. Please refer to the Explanatory Memorandum attached to the Notice for further details.**

The Explanatory Memorandum provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and the Proxy Form form part of the Notice.

The Directors have determined pursuant to regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders on Sunday, 20 September 2020 at 5.00 pm (AEST).

Terms and abbreviations used in the Notice are defined in Schedule 1.

### **Agenda**

#### **1 Resolution 1 - Related Party Participation in the Placement**

To consider and, if thought fit, to pass with or without amendment, each as a **separate** ordinary resolution the following:

*'That, pursuant to and in accordance Listing Rule 10.11, and for all other purposes, Shareholders approve the issue of Shares to Directors (or their respective nominees) as follows:*

- (a) *up to 1,166,666 Shares to Mark Gray; and*
- (b) *up to 183,000 Shares to Jonathan Reynolds,*

*on the terms and conditions in the Explanatory Memorandum.'*

#### **2 Resolution 2 - Ratification of prior issue of Placement Shares**

To consider and, if thought fit, to pass with or without amendment, as an ordinary resolution the following:

*'That, pursuant to and in accordance with Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 32,034,376 Shares at \$0.06 per Share to raise approximately \$1.92 million on the terms and conditions in the Explanatory Memorandum.'*

**3 Resolution 3 - Ratification of prior issue of Loan Shares to Gullewa Limited**

To consider and, if thought fit, to pass with or without amendment, as an ordinary resolution the following:

*'That, pursuant to and in accordance with Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 6,800,000 Shares to Gullewa Limited (or its nominees) on the terms and conditions in the Explanatory Memorandum.'*

**4 Resolution 4 - Ratification of prior issue of Tranche 1 Convertible Notes**

To consider and, if thought fit, to pass with or without amendment, as an ordinary resolution the following:

*"That, pursuant to and in accordance with Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 772,105 Tranche 1 Convertible Notes to Mercer Street Global Opportunity Fund, LLC (or its nominees) on the terms and conditions in the Explanatory Memorandum."*

**5 Resolution 5 - Ratification of prior issue of Tranche 1 Establishment Fee Shares**

To consider and, if thought fit, to pass with or without amendment, as an ordinary resolution the following:

*"That, pursuant to and in accordance with Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 738,770 Tranche 1 Establishment Fee Shares to Mercer Street Global Opportunity Fund, LLC (or its nominees) on the terms and conditions in the Explanatory Memorandum."*

**6 Resolution 6 - Approval to issue Tranche 2 Convertible Notes**

To consider and, if thought fit, to pass with or without amendment, as an ordinary resolution the following:

*"That, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of 1,561,228 Tranche 2 Convertible Notes to Mercer Street Global Opportunity Fund, LLC (or its nominees) on the terms and conditions set out in the Explanatory Memorandum."*

**7 Resolution 7 - Approval to issue Tranche 2 Establishment Fee Shares**

To consider and, if thought fit, to pass with or without amendment, as an ordinary resolution the following:

*"That, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of 2,216,313 Tranche 2 Establishment Fee Shares to Mercer Street Global Opportunity Fund, LLC (or its nominees) on the terms and conditions set out in the Explanatory Memorandum."*

## 8 **Resolution 8 - Approval to issue Tranche 3 Convertible Notes**

To consider and, if thought fit, to pass with or without amendment, as an ordinary resolution the following:

*'That, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of up to 6,900,000 Tranche 3 Convertible Notes to Mercer Street Global Opportunity Fund, LLC (or its nominees) on the terms and conditions in the Explanatory Memorandum.'*

## 9 **Resolution 9 - Approval to issue Consultant Shares**

To consider and, if thought fit, to pass with or without amendment, as an ordinary resolution the following:

*'That, pursuant to and in accordance Listing Rule 10.11, and for all other purposes, Shareholders approve the issue of Shares to Larry Cook (or his nominees) in lieu of US\$20,000 accrued consulting fees on the terms and conditions in the Explanatory Memorandum.'*

## 10 **Resolution 10– Approval to issue Debt Repayment Shares**

To consider and, if thought fit, to pass with or without amendment, as an ordinary resolution the following:

*"That, pursuant to and in accordance with Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of that number of Shares which, when multiplied by the deemed issue price, is equal to US\$3,000,000 (subject to a maximum of 55,833,607 Shares) to Cline Mining Corporation (or its nominees) on the terms and conditions in the Explanatory Memorandum."*

## **Voting exclusions**

Pursuant to the Listing Rules, the Company will disregard any votes cast in favour of:

- (a) Resolution 1(a) by or on behalf of Mark Gray (and his nominees), and any other person who will obtain a material benefit as a result of the issue of the securities (except a benefit solely by reason of being a holder or ordinary securities in the entity), or any of their respective associates;
- (b) Resolution 1(b) by or on behalf of Jonathan Reynolds (and his nominees), and any other person who will obtain a material benefit as a result of the issue of the securities (except a benefit solely by reason of being a holder or ordinary securities in the entity), or any of their respective associates;
- (c) Resolution 2 by or on behalf of any person who participated in the issue of the Shares, or any of their respective associates;
- (d) Resolution 3 by or on behalf of Gullewa Limited (and its nominees), or any of their respective associate;

- (e) Resolution 4 and 5 by or on behalf of Mercer Street Global Opportunity Fund, LLC (or its nominees) and any person who participated in the issue or is a counterparty to the agreement being approved, or an associate of those persons;
- (f) Resolution 6, 7 and 8 by or on behalf of Mercer Street Global Opportunity Fund, LLC (or its nominees) and any person who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a Shareholder) or any of their respective associates;
- (g) Resolution 9 by or on behalf of Larry Cook (and his nominees), and any other person who will obtain a material benefit as a result of the issue of the securities (except a benefit solely by reason of being a holder or ordinary securities in the entity), or any of their respective associates; and
- (h) Resolution 10 by or on behalf of Cline Mining Corporation (and its nominees), and any other person who will obtain a material benefit as a result of the issue of the securities (except a benefit solely by reason of being a holder or ordinary securities in the entity), or any of their respective associates.

The above voting exclusions do not apply does not apply to a vote cast in favour of a Resolution by:

- (a) a person as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with directions given to the proxy or attorney to vote on the Resolution in that way;
- (b) the Chair as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with the direction given to the Chair to vote on the Resolution as the Chair decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
  - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and
  - (ii) the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Shares held by or for an employee incentive scheme must only be voted on a Resolution under the Listing Rules if and to the extent that they are held for the benefit of a nominated participant in the scheme; the nominated participant is not excluded from voting on the Resolution under the Listing Rules; and the nominated participant has directed how the Shares are to be voted.

## Voting prohibitions

Resolution 9: In accordance with section 250BD of the Corporations Act, a person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either a member of the Key Management Personnel or a Closely Related Party of such member; and

(b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

(a) the proxy is the Chair; and

(b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

**BY ORDER OF THE BOARD**

Jonathan Reynolds  
Company Secretary  
**Allegiance Coal Limited**

Dated: 21 August 2020

**Allegiance Coal Limited**  
**ACN 149 490 353**  
**(Company)**

## **Explanatory Memorandum**

### **1. Introduction**

The Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the Meeting to be held at the offices of the Company, at Suite 107, 109 Pitt Street Sydney NSW, on Monday, 21 September 2020 at 10.30 am via teleconference (AEST).

The Explanatory Memorandum forms part of the Notice which should be read in its entirety. The Explanatory Memorandum contains the terms and conditions on which the Resolutions will be voted.

The Explanatory Memorandum includes the following information to assist Shareholders in deciding how to vote on the Resolutions:

Section 2	Action to be taken by Shareholders
Section 3	Resolution 1 - Related Party Participation in the Placement
Section 4	Resolution 2 - Ratification of prior issue of Placement Shares
Section 5	Resolution 3 - Ratification of prior issue of Loan Shares to Gullewa Limited
Section 6	Resolution 4 - Ratification of prior issue of Tranche 1 Convertible Notes
Section 7	Resolution 5 - Ratification of prior issue of Tranche 1 Establishment Fee Shares
Section 8	Resolution 6 and 7 - Approval to issue Tranche 2 Convertible Notes and Tranche 2 Establishment Fee Shares
Section 9	Resolution 8 - Approval to issue Tranche 3 Convertible Notes
Section 10	Resolution 9 - Approval to issue Consultant Shares
Section 11	Resolution 10– Approval to issue Debt Repayment Shares
Schedule 1	Definitions
Schedule 2	Terms and Conditions of Convertible Notes

A Proxy Form is located at the end of the Explanatory Memorandum.

## **2. Action to be taken by Shareholders**

Shareholders should read the Notice including the Explanatory Memorandum carefully before deciding how to vote on the Resolutions.

### **2.1 No voting in person**

Given the current COVID-19 circumstances and in the interests of public health and safety of our Shareholders, the Company is not able to allow Shareholders to physically attend the Meeting. Please refer to the information below on how Shareholders can participate in the Meeting.

### **2.2 Voting by proxy**

Shareholders are encouraged to complete a Proxy Form to provide specific instructions to the Chair on how the Shareholder's vote is to be exercised on each item of business. The Chair must follow your instructions. Shareholders will not be permitted to appoint any other person as their proxy for the purposes of the Meeting.

Lodgement instructions (which include the ability to lodge proxies electronically) are set out in the Proxy Form attached to the Notice of Meeting.

### **2.3 Remote attendance and voting via poll form**

The Meeting will be accessible to all Shareholders via teleconference, which will allow Shareholders to listen to and observe the Meeting. Details of the teleconference are in Section 2.5 below.

Shareholders who do not wish to vote using a Proxy Form and who intend to vote on a poll at the Meeting must contact the Company at [info@allegiancecoal.com.au](mailto:info@allegiancecoal.com.au) by 18 September 2020 to notify the Company of their intentions and to request a personalised poll form.

The Company will send personalised poll forms following the cut-off time for the return of Proxy Forms (i.e. after 10.30 am AEST on 18 September 2020) to Shareholders who request them prior to this time. Personalised poll forms must be completed and returned to the Company after the poll has been called and prior to the close of polling. During the Meeting, the Chair will notify you how and when you are able to complete and return the personalised poll form.

You may still attend the Meeting via the teleconference facility if you have completed a Proxy Form (but have not notified the Company that you intend to vote using a poll form), but the person you have appointed as proxy will cast your vote on your behalf.

### **2.4 Submitting questions**

Shareholders may submit questions in advance of the Meeting to the Company. Questions must be submitted by emailing the Company Secretary at [info@allegiancecoal.com.au](mailto:info@allegiancecoal.com.au) by 18 September 2020.

Shareholders will also have the opportunity to submit questions during the Meeting in respect to the formal items of business. In order to ask a question during the Meeting, please follow the instructions from the Chair.



The Chair will attempt to respond to the questions during the Meeting. Shareholders are limited to a maximum of two questions each (including any submitted in advance of the Meeting). The Chair will request prior to a Shareholder asking a question that they identify themselves (including the entity name of their shareholding and the number of Shares they hold).

## 2.5 **Remote attendance via teleconference**

The Meeting will be accessible to all Shareholders via a teleconference, which will allow Shareholders to listen and observe the Meeting.

Shareholders who wish to participate in the Meeting can do so remotely by joining via teleconference using the following details:

Australia dial-in number: 1300 254 410

International dial-in number: please contact [info@allegiancecoal.com.au](mailto:info@allegiancecoal.com.au) for details

Meeting ID: 5083271622

Shareholders should note that the teleconference will not provide for a voting mechanism during the Meeting.

## 2.6 **Chair's voting intentions**

The Chair intends to exercise all available proxies in favour of all Resolutions, unless the Shareholder has expressly indicated a different voting intention.

If the Chair is appointed as your proxy and you have not specified the way the Chair is to vote on Resolution 9 by signing and returning the Proxy Form, you are considered to have provided the Chair with an express authorisation for the Chair to vote the proxy in accordance with the Chair's intention, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel of the Company.

### 3. **Resolution 1 - Related Party Participation in the Placement**

#### 3.1 **General**

Directors Mark Gray and Jonathan Reynolds (together, the **Related Party Participants**) each wish to participate in the Placement, subject to Shareholder approval being obtained.

The resolutions which form part of Resolution 1 seek the approval of Shareholders pursuant to Listing Rule 10.11 for the issue of up to 1,349,666 Shares to the Related Party Participants (or their nominees) arising from their participation in the Placement (**Participation**).

Each of the resolutions which forms part of Resolution 1 is an ordinary resolution.

The Board (other than Messrs Gray and Reynolds who have a material personal interest in the outcome of the Resolutions) recommends that Shareholders vote in favour of each of the resolutions which forms part of Resolution 1.

#### 3.2 **Listing Rule 10.11**

Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained, unless an exception in Listing Rule 10.12 applies.

The Related Party Participants are related parties of the Company by virtue of being Directors. As the Participation involves the issue of Shares to related parties of the Company, Shareholder approval pursuant to Listing Rule 10.11 is required unless an exception applies. It is the view of the Directors that the exceptions set out in Listing Rule 10.12 do not apply in the current circumstances.

Approval pursuant to Listing Rule 7.1 is not required for the Participation as approval is being obtained under Listing Rule 10.11. Accordingly, the issue of Shares to the Related Party Participants (or their nominees) will not be included in the use of the Company's 15% annual placement capacity pursuant to Listing Rule 7.1.

If Resolutions 1(a) and 1(b) are passed, the Company will be able to proceed with the issue of the Placement Shares to Mark Gray and Jonathan Reynolds.

If Resolutions 1(a) and 1(b) are not passed, the Company will not be able to proceed with the issue and Mark Gray and Jonathan Reynolds will not be issued Placement Shares.

#### 3.3 **Specific information required by Listing Rule 10.13**

Pursuant to and in accordance with Listing Rule 10.13, the following information is provided in relation to the proposed Participation:

- (a) the Shares will be issued to Directors Mark Gray and Jonathan Reynolds (or their respective nominees);
- (b) pursuant to Listing Rule 10.11.1, Mr Gray and Mr Reynolds are related parties by virtue of being Directors;

- (c) the maximum number of Placement Shares to be issued to the Related Party Participants is 1,349,666 in the following proportions:
  - (i) up to 1,166,666 Placement Shares to Mark Gray (or his nominee); and
  - (ii) up to 183,000 Placement Shares to Jonathan Reynolds (or his nominee);
- (d) the Shares will be issued no later than one month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules);
- (e) the issue price will be \$0.06 per Share, being the same as all other Shares issued under the Placement;
- (f) the Placement Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (g) the funds raised will be used to further develop the Telkwa metallurgical coal project and continue activities associated with the acquisition of the New Elk coking coal mine;
- (h) a voting exclusion statement is included in the Notice.

### 3.4 Chapter 2E of the Corporations Act

In accordance with Chapter 2E of the Corporations Act, in order to give a financial benefit to a related party, the Company must:

- (a) obtain Shareholder approval in the manner set out in section 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The Participation will result in the issue of Shares which constitutes giving a financial benefit and the Related Party Participants are related parties of the Company by virtue of being Directors.

The Board considers that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of the Participation because the Shares will be issued to Related Party Participants on the same terms as Shares issued to non-related party participants in the Placement and as such the giving of the financial benefit is on arm's length terms.

## 4. Resolution 2 - Ratification of prior issue of Placement Shares

### 4.1 General

On 9 April 2020, the Company announced that it had received binding commitments for a placement to raise approximately \$1.98 million before costs (**Placement**) by the issue of Shares at \$0.06 each (**Placement Shares**) to a private placement to sophisticated and professional investors (**Placement Participants**).

On 16 April 2020, the Company issued 32,034,376 Placement Shares to Placement Participants using the Company's placement capacity under Listing Rule 7.1 to raise approximately \$1.92 million (before costs).

Resolution 2 seeks the approval of Shareholders pursuant to Listing Rule 7.4 to ratify the issue of the Placement Shares.

Resolution 21 is an ordinary resolution.

The Board recommends that Shareholders vote in favour of Resolution 2.

#### 4.2 **Listing Rules 7.1 and 7.4**

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more Equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The issue of Placement Shares does not fit within any of the exceptions to Listing Rule 7.1 and, as it has not yet been approved by Shareholders, effectively uses up part of the Company's 15% placement capacity under Listing Rule 7.1. This reduces the Company's capacity to issue further Equity Securities without Shareholder approval under that Listing Rule for the 12 month period following the issue of the Placement Shares.

Listing Rule 7.4 provides an exception to Listing Rule 7.1. It provides that where a company in general meeting ratifies the previous issue of securities made pursuant to Listing Rule 7.1 (and provided that the previous issue did not breach Listing Rule 7.1), those securities will be deemed to have been made with shareholder approval for the purpose of Listing Rule 7.1.

The effect of Shareholders passing Resolution 2 will be to restore the Company's ability to issue further Equity Securities, to the extent of 32,034,376 Equity Securities, during the next 12 months without the requirement to obtain prior Shareholder approval.

If Resolution 2 is passed, the issue will be excluded in calculating the Company's 15% limit in Listing Rule 7.1, effectively increasing the number of equity securities it can issue without Shareholder approval over the 12 month period following the issue date.

If Resolution 2 is not passed, the issue will be included in calculating the Company's 15% limit in Listing Rule 7.1, effectively decreasing the number of equity securities it can issue without Shareholder approval over the 12 month period following the issue date

#### 4.3 **Specific information required by Listing Rule 7.5**

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the ratification of the issue of the Placement Shares:

- (a) a total of 32,034,376 Placement Shares were issued on 16 April 2020;
- (b) the Placement Shares were issued at \$0.06 per Share;
- (c) the Placement Shares issued were fully paid ordinary shares in the capital of the Company and rank equally in all respects with the Company's existing Shares on issue;

- (d) the Placement Shares were issued to Placement Participants, none of whom is a related party of the Company. The Placement Participants were introduced by Bell Potter Securities or were prospective investors already known to the Board. Of the Placement Participants who acquired 1% of more of the Shares, the Latimore Family Trust, associated with Mr Matthew Latimore, the Managing Director and founding shareholder of M Resources Trading Pty Ltd, which was granted the sales and marketing contract to the New Elk coking coal mine earlier in the week, subscribed for 25% of the Placement. The remaining Placement Participants are not considered to be "material investors" for the purposes of ASX Guidance Note 21, paragraph 7.2 and the Placement was lead managed by Bell Potter Securities;
- (e) the proceeds from the issue of the Placement Shares are intended to be applied to working capital to:
  - (i) continue activities associated with the acquisition of the permitted and constructed New Elk coking coal mine located in southeast Colorado, US; and
  - (ii) continue the environmental assessment and permitting process of the Texas Metallurgical Coal Project, located in northwest British Columbia, Canada; and
- (f) a voting exclusion statement is included in the Notice.

## 5. **Resolution 3 - Ratification of prior issue of Loan Shares to Gullewa Limited**

### 5.1 **General**

In 2011, the consolidated entity entered into loan facility agreements (**2011 Agreements**) with Gullewa Ltd (**Gullewa**). On the 30 June 2016 Mineral & Coal Investments Pty Ltd (**MCI**), a subsidiary of the Company owed \$1,767,561 to Gullewa pursuant to loan facilities (**Loan**) made available by Gullewa to MCI and in respect of which the Company acted as guarantor.

On 4 August 2016 the parties entered a deed of loan variation, whereby Gullewa was paid \$1,104,000 in partial satisfaction of the amount owed to it under the 2011 Agreements. The parties agreed that the balance outstanding under the Loan was \$659,000 which may be satisfied by the issue and allotment of Shares in the Company at a price of \$0.025 per share (subject to a share reconstruction) or by a repayment in cash, subject to Gullewa's agreement.

On 2 March 2020, the Company announced that the Company and Gullewa agreed that the Company would repay the Loan in full and issue to Gullewa 6,800,000 fully paid ordinary shares (**Loan Shares**). The parties have agreed that 3,400,000 Loan Shares will be subject to voluntary escrow for a period of 6 months.

The Company agreed to issue the Loan Shares to Gullewa (or its nominee) on 9 March 2020 within the 15% annual limit permitted under Listing Rule 7.1, without the need for Shareholder approval.

Resolution 3 seeks the approval of Shareholders pursuant to Listing Rule 7.4 to ratify the issue of the Loan Shares.

Resolution 3 is an ordinary resolution.

The Board recommends that Shareholders vote in favour of Resolution 3.

## 5.2 Listing Rules 7.1 and 7.4

Summaries of Listing Rules 7.1 and 7.4 are in Section 4.2 above.

The effect of Shareholders passing Resolution 3 will be to restore the Company's ability to issue further Equity Securities, to the extent of 6,800,000 Equity Securities, during the next 12 months without the requirement to obtain prior Shareholder approval.

If Resolution 3 is passed, the issue will be excluded in calculating the Company's 15% limit in Listing Rule 7.1, effectively increasing the number of equity securities it can issue without Shareholder approval over the 12 month period following the issue date.

If Resolution 3 is not passed, the issue will be included in calculating the Company's 15% limit in Listing Rule 7.1, effectively decreasing the number of equity securities it can issue without Shareholder approval over the 12 month period following the issue date.

## 5.3 Specific information required by Listing Rule 7.5

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the ratification of the issue of the Loan Shares:

- (a) the Loan Shares were issued to Gullewa (or its nominee), whom is not a related party of the Company;
- (b) a total of 6,800,000 Loan Shares were issued on 12 June 2020;
- (c) the Loan Shares issued were fully paid ordinary shares in the capital of the Company and rank equally in all respects with the Company's existing Shares on issue;
- (d) the Loan Shares were issued at a deemed price of \$0.07 per Share;
- (e) no funds were raised from the issue of the Loan Shares as the Loan Shares were issued as a form of repayment to the Loan. Gullewa is not considered to be a "material investor" for the purposes of ASX Guidance Note 21, paragraph 7.2;
- (f) a summary of the agreements pursuant to which the Loan Shares were issued is in Section 5.1 above; and
- (g) a voting exclusion statement is included in the Notice.

## 6. Resolution 4 - Ratification of prior issue of Tranche 1 Convertible Notes

### 6.1 General

On 31 July 2020, the Company announced that it had entered into a convertible subscription agreement (**Agreement**) with Mercer Street Global Opportunity Fund, LLC (**Mercer**) for a placement of convertible notes (**Convertible Notes**) to raise up to \$8 million (before costs) (**Convertible Note Placement**) to be undertaken in three tranches as detailed below:

- (a) an initial issue of 772,105 Convertible Notes issued under the Company's Listing Rule 7.1. placement capacity (**Tranche 1 Convertible Notes**) for a total face value of \$772,105, upon the receipt of \$661,804 from Mercer (**First Investment Amount**);

- (b) subsequent issue of 1,561,228 Convertible Notes subject to Shareholder approval (the subject of Resolution 6) (**Tranche 2 Convertible Notes**) for a total face value of \$1,561,228, upon the receipt of \$1,338,195 from Mercer (**Second Investment Amount**); and
- (c) subsequent issue of up to 6,900,000 Convertible Notes, which is equal to 115% of the relevant Subsequent Investment Amount so advanced, for a total face value of up to \$6,900,000 to be issued subject to Shareholder approval (the subject of Resolution 8) (**Tranche 3 Convertible Notes**), upon the receipt of up to \$6,000,000 from Mercer (**Third Investment Amount**).

In consideration for entry into the Agreement, the Company has agreed to issue Mercer up to \$200,000 worth of Shares at a deemed issue price of \$0.06768 per Share as follows:

- (a) up to \$50,000 worth of Establishment Fee Shares upon completion of the issue of the Tranche 1 Convertible Notes (738,770 Shares) (**Tranche 1 Establishment Fee Shares**) (the subject of Resolution 5); and
- (b) up to \$150,000 worth of Establishment Fee Shares upon completion of the issue of the Tranche 2 Convertible Notes (2,216,313 Shares) (**Tranche 2 Establishment Fee Shares**) subject to Shareholder approval (the subject of Resolution 7).

## 6.2 Listing Rule 6.1

Listing Rule 6.1 requires that any convertible securities issued by a company are issued on terms that are considered appropriate and equitable. In determining whether the convertible securities are appropriate and equitable, the terms and conditions of the convertible securities must be fair to both new and existing shareholders of the company. If the convertible securities appear to be favourable to the holder of the convertible securities, the company is required to explain the circumstances underpinning the issue of the convertible securities.

The Company provides the following information for the purposes of section 4 of ASX Compliance Update No 05/20:

- (a) The Company entered into an Agreement with Mercer to raise funds to return the New Elk mine to production in 2021 and complete the environmental assessment work necessary to enable the Telkwa Coal Limited to lodge its application for an environmental assessment certificate.
- (b) Over the last few 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. However, given the current COVID-19 pandemic and the 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 Mercer were the least dilutionary to shareholders, whilst also offering the highest level of funding certainty to the Company.
- (c) The Company considers that the issue of the Convertible Notes is an appropriate and commercial solution to provide working capital to enable the Company 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.

- (d) The Company confirms that the Agreement is not a deed of charge or a form of security arrangement to issue 'collateral shares'.

### 6.3 Conversion of Convertible Notes

Pursuant to the Agreement, the number of Shares issued upon a conversion of the Convertible Notes will be determined by the following formula:

$$\text{Number of Shares} = \text{FV} / \text{Conversion Price}$$

Where:

'FV' means the Face Value of the Convertible Note, being \$1.00 each, multiplied by the number of Convertible Notes to be converted.

'Conversion Price' means the following:

- (a) in respect of the Tranche 1 Convertible Notes and Tranche 2 Convertible Notes, \$0.10 for the first 2 months following issue of the Convertible Note and thereafter the lower of:
- (i) \$0.10; or
  - (ii) 92% of the lowest daily VWAP of the Shares during the preceding 10 trading days immediately before the holder giving a conversion notice; and
- (b) in respect of the Tranche 3 Convertible Notes, the lower of:
- (i) \$0.15; or
  - (ii) 90% of the lowest daily VWAP of the Shares during the preceding 10 trading days immediately before the holder giving a conversion notice,
- subject to the Conversion Price being not less than \$0.03 (**Floor Price**).

The Tranche 1 Convertible Notes, Tranche 2 Convertible Notes and Tranche 3 Convertible Notes are convertible into a maximum of 25,736,800 Shares, 52,040,933 Shares and 230,000,000 Shares respectively based on the Floor Price.

Refer to Schedule 2 for a summary of the circumstances where the Floor Price may be adjusted. In the event the Floor Price is adjusted, the maximums referred to in the preceding paragraph may not apply.

### 6.4 Dilution and effect on capital structure

The formula for calculating the Conversion Price of the Tranche 1 Convertible Notes is dependent on the circumstances of the conversion.

For illustrative purposes, a number of examples are contained below, which show the potential effect of the conversion of the Tranche 1 Convertible Notes into Shares at a range of Conversion Prices. These examples are based on the following additional assumptions:



- (a) the Tranche 1 Convertible Notes are all converted in full; and
- (b) no other Shares are issued.

Conversion Price	Number of Shares issued on conversion	Dilution to Shareholders
\$0.100 <sup>1</sup>	7,721,050	1.21%
\$0.070 <sup>2</sup>	11,042,692	1.73%
\$0.105 <sup>3</sup>	7,361,794	1.15%
\$0.035 <sup>4</sup>	22,085,383	3.45%
\$0.030 <sup>5</sup>	25,736,800	4.02%

**Notes:**

1. Conversion price for the first 2 months (\$0.100).
2. Based on 92% of the current market price (\$0.076, being the closing price of the Shares on ASX on 7 August 2020, being the latest practicable date before the finalisation of this Notice (**Current Market Price**)).
3. Based on 92% of a 50% increase of the Current Market Price.
4. Based on 92% of a 50% decrease of the Current Market Price.
5. Based on the Floor Price.

The table below illustrates the maximum effect of the Convertible Notes on the Company's capital structure assuming that:

- (a) the Tranche 2 Convertible Notes and Tranche 3 Convertible Notes are issued in full;
- (b) the Convertible Notes are converted in full at the Floor Price;
- (c) the Tranche 2 Establishment Fee Shares are issued; and
- (d) no other Shares are issued.

	Shares	Dilution to Shareholders
Existing Shares (includes the 738,770 Tranche 1 Establishment Shares issued 5 August 2020)	614,999,631	-
Tranche 2 Establishment Fee Shares	2,216,313	0.24%
Conversion of Tranche 1 Convertible Notes	25,736,800	2.78%
Conversion of Tranche 2 Convertible Notes	52,040,933	5.63%
Conversion of Tranche 3 Convertible Notes	230,000,000	24.87%

	Shares	Dilution to Shareholders
<b>Total</b>	<b>924,993,677</b>	<b>33.51%</b>

Resolution 4 seeks the approval of Shareholders pursuant to Listing Rule 7.4 to ratify the issue of the Tranche 1 Convertible Notes.

Resolution 4 is an ordinary resolution.

The Board recommends that Shareholders vote in favour of Resolution 4.

## 6.5 Listing Rules 7.1 and 7.4

Summaries of Listing Rules 7.1 and 7.4 are in Section 4.2 above.

The Convertible Note Placement does not fit within any of the exceptions to Listing Rules 7.1 and, as the issue of the Tranche 1 Convertible Notes has not yet been ratified by Shareholders, it effectively uses up the Company's placement capacity under Listing Rule 7.1, reducing the Company's capacity to issue further Equity Securities without Shareholder approval under Listing Rule 7.1 for the 12 month period following the issue date.

In addition, Shareholder approval will not be required under Listing Rule 7.1 for the issue of the Shares to Mercer on conversion of the Tranche 1 Convertible Notes pursuant to exception 9 of Listing Rule 7.2 and the issue of those Shares will be excluded from the calculation of the number of equity securities that the Company can issue without Shareholder approval under Listing Rule 7.1.

The effect of Resolution 4 will be to allow the Company to retain the flexibility to issue Equity Securities in the future up to the 15% annual placement capacity set out in Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

In the event Resolution 4 is passed, the issue of the Tranche 1 Convertible Notes will be excluded in calculating the Company's 15% limit under Listing Rule 7.1, effectively increasing the number of Equity Securities the Company can issue or agree to issue without obtaining prior Shareholder approval over the 12 month period following the issue date.

In the event Resolution 4 is not passed, the issue of the Tranche 1 Convertible Notes will continue to be included in the Company's 15% limit under Listing Rule 7.1, effectively decreasing the number of Equity Securities the Company can issue or agree to issue without obtaining prior Shareholder approval over the 12 month period following the issue date.

## 6.6 Specific information required by Listing Rule 7.5

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the ratification of the issue of the Tranche 1 Convertible Notes:

- (a) the Tranche 1 Convertible Notes were issued to Mercer, whom is not a related party of the Company and is not considered to be a 'material investor' for the purposes of section 7.4 of ASX Guidance Note 21;

- (b) a total of 772,105 Tranche 1 Convertible Notes were issued on 5 August 2020;
- (c) the material terms and conditions of the Tranche 1 Convertible Notes are in Schedule 2. Shares issued on the conversion of the Tranche 1 Convertible Notes will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the Company's existing Shares on issue;
- (d) the Tranche 1 Convertible Notes were issued with a face value of \$1.00 each. The deemed conversion price of the Tranche 1 Convertible Notes will be determined in accordance with the terms outlined in Section 6.1 and Schedule 2;
- (e) the proceeds from the issue of the Tranche 1 Convertible Notes are intended to be used primarily towards general corporate expenses, as well as for costs of the Convertible Note Placement and general working capital;
- (f) the Tranche 1 Convertible Notes were issued under a subscription agreement pursuant to which Mercer provided binding commitments to subscribe for the Tranche 1 Convertible Notes on the material terms summarised in this Notice (see Schedule 2) and otherwise on terms considered standard for agreements of this nature; and
- (g) a voting exclusion statement is included in the Notice.

## **7. Resolution 5 - Ratification of prior issue of Tranche 1 Establishment Fee Shares**

### **7.1 General**

Refer to Section 6.1 for details of the Convertible Note Placement.

In consideration for the entry into the Agreement, the Company issued Mercer 738,770 Tranche 1 Establishment Fee Shares on 5 August 2020, pursuant to the Company's placement capacity under Listing Rule 7.1.

Resolution 5 seeks the approval of Shareholders pursuant to Listing Rule 7.4 to ratify the issue of the Tranche 1 Establishment Fee Shares.

Resolution 5 is an ordinary resolution.

The Board recommends that Shareholders vote in favour of Resolution 5.

### **7.2 Listing Rules 7.1 and 7.4**

Summaries of Listing Rules 7.1 and 7.4 are in Section 4.2 above.

The issue of the Tranche 1 Establishment Fee Shares has not yet been ratified by Shareholders, and effectively uses up the Company's placement capacity under Listing Rule 7.1, reducing the Company's capacity to issue further Equity Securities without Shareholder approval under Listing Rule 7.1 for the 12 month period following the issue date.

The effect of Resolution 5 will be to allow the Company to retain the flexibility to issue Equity Securities in the future up to the 15% annual placement capacity set out in Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

In the event Resolution 5 is passed, the issue of the Tranche 1 Establishment Fee Shares will be excluded in calculating the Company's 15% limit under Listing Rule 7.1, effectively increasing the number of Equity Securities the Company can issue or agree to issue without obtaining prior Shareholder approval over the 12 month period following the issue date.

In the event Resolution 5 is not passed, the issue of the Tranche 1 Establishment Fee Shares will continue to be included in the Company's 15% limit under Listing Rule 7.1, effectively decreasing the number of Equity Securities the Company can issue or agree to issue without obtaining prior Shareholder approval over the 12 month period following the issue date.

### 7.3 **Specific information required by Listing Rule 7.5**

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the ratification of the issue of the Tranche 1 Establishment Fee Shares:

- (a) the Tranche 1 Establishment Fee Shares were issued to Mercer, whom is not a related party of the Company and is not considered to be a 'material investor' for the purposes of section 7.4 of ASX Guidance Note 21;
- (b) a total of 738,770 Tranche 1 Establishment Fee Shares were issued on 5 August 2020;
- (c) the Tranche 1 Establishment Fee Shares issued were fully paid ordinary shares in the capital of the Company and rank equally in all respects with the Company's existing Shares on issue;
- (d) the Tranche 1 Establishment Fee Shares were issued for nil cash consideration, as consideration for the entry of Mercer into the Agreement, at a deemed issue price of \$0.06768 each. Accordingly, no funds were raised from the issue;
- (e) the Tranche 1 Establishment Fee Shares were issued in accordance with the Agreement, a summary of the material terms of which are outlined in Section 6.1 and Schedule 2; and
- (f) a voting exclusion statement is included in the Notice.

## 8. **Resolution 6 and 7 - Approval to issue Tranche 2 Convertible Notes and Tranche 2 Establishment Fee Shares**

### 8.1 **General**

Refer to Section 6.1 for details of the Convertible Note Placement.

The formula for calculating the Conversion Price of the Tranche 2 Convertible Notes is dependent on the circumstances of the conversion.

For illustrative purposes, a number of examples are contained below, which show the potential effect of the conversion of the Tranche 2 Convertible Notes into Shares at a range of Conversion Prices. These examples are based on the following additional assumptions:

- (a) the Tranche 2 Convertible Notes are all converted in full; and
- (b) no other Shares are issued.

Conversion Price	Number of Shares issued on conversion	Dilution to Shareholders
\$0.100 <sup>1</sup>	15,612,280	2.34%
\$0.070 <sup>2</sup>	22,328,776	3.35%
\$0.105 <sup>3</sup>	14,885,850	2.23%
\$0.035 <sup>4</sup>	44,657,551	6.70%
\$0.030 <sup>5</sup>	52,040,933	7.81%

**Notes:**

1. Conversion price for the first 2 months (\$0.100).
2. Based on 92% of the current market price (\$0.076, being the closing price of the Shares on ASX on 7 August 2020, being the latest practicable date before the finalisation of this Notice (**Current Market Price**)).
3. Based on 92% of a 50% increase of the Current Market Price.
4. Based on 92% of a 50% decrease of the Current Market Price.
5. Based on the Floor Price.

Resolutions 6 and 7 seeks Shareholder approval pursuant to Listing Rule 7.1 for the issue of the Tranche 2 Convertible Notes and Tranche 2 Establishment Fee Shares respectively.

Both Resolutions 6 and 7 are ordinary resolutions.

The Board recommends that Shareholders vote in favour of Resolutions 6 and 7.

## 8.2 Listing Rule 7.1

A summary of Listing Rule 7.1 is in Section 4.2 above.

The proposed issue of the Tranche 2 Convertible Notes and Tranche 2 Establishment Fee Shares does not fit within any of the exceptions to Listing Rule 7.1 and exceeds the 15% limit in Listing Rule 7.1. It therefore requires the approval of Shareholders under Listing Rule 7.1.

The effect of Shareholders passing Resolution 6 will be to allow the Company to issue the Tranche 2 Convertible Notes during the period of three months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity under Listing Rule 7.1.

In addition, Shareholder approval will not be required under Listing Rule 7.1 for the issue of the Shares to Mercer on conversion of the Tranche 2 Convertible Notes pursuant to exception 9 of Listing Rule 7.2 and the issue of those Shares will be excluded from the calculation of the number of equity securities that the Company can issue without Shareholder approval under Listing Rule 7.1.

The effect of Shareholders passing Resolution 7 will be to allow the Company to issue the Tranche 2 Establishment Fee Shares during the period of three months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity under Listing Rule 7.1.

If Resolution 6 is not passed, the Company will not be able to proceed to issue the Tranche 2 Convertible Notes and Mercer shall have no obligation to advance the Second Investment Amount to the Company and the Company shall have no obligation to issue the Tranche 2 Convertible Notes or Tranche 2 Establishment Fee Shares.

If Resolution 7 is not passed, the Company will not be able to proceed to issue the Tranche 2 Establishment Fee Shares.

### 8.3 **Specific information required by Listing Rule 7.3**

Pursuant to and in accordance with Listing Rule 7.3, the following information is provided in relation to the proposed issue of the Tranche 2 Convertible Notes (Resolution 6) and Tranche 2 Establishment Fee Shares (Resolution 7):

#### Resolution 6

- (a) the Tranche 2 Convertible Notes will be issued to Mercer (or its nominee), whom is not a related party of the Company and is not considered to be a 'material investor' for the purposes of section 7.4 of ASX Guidance Note 21;
- (b) a maximum of 1,561,228 Convertible Notes are to be issued as Tranche 2 Convertible Notes;
- (c) the material terms and conditions of the Tranche 2 Convertible Notes are in Schedule 2. The Shares issued on conversion of the Tranche 2 Convertible Notes will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the Company's existing Shares on issue;
- (d) the Tranche 2 Convertible Notes is intended to be issued no later than three months after the date of the Meeting;
- (e) the Tranche 2 Convertible Notes will be issued with a face value of \$1.00 each. Proceeds from the issue of the Tranche 2 Convertible Notes are intended to be used for the same purposes as all other funds raised under the Convertible Note Placement (as set out in Section 6.6(e));
- (f) the Tranche 2 Convertible Notes will be issued under a subscription agreement pursuant to which Mercer provided binding commitments to subscribe for the Tranche 2 Convertible Notes on the material terms summarised in this Notice (see Schedule 2) and otherwise on terms considered standard for agreements of this nature; and
- (g) a voting exclusion statement is included in the Notice.

#### Resolution 7

- (a) the Tranche 2 Establishment Fee Shares will be issued to Mercer (or its nominee), whom is not a related party of the Company and is not considered to be a 'material investor' for the purposes of section 7.4 of ASX Guidance Note 21;
- (b) a maximum of 2,216,313 Shares are to be issued as Tranche 2 Establishment Fee Shares;
- (c) the Tranche 2 Establishment Fee Shares will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the Company's existing Shares on issue;

- (d) the Tranche 2 Establishment Fee Shares is intended to be issued no later than three months after the date of the Meeting;
- (e) the Tranche 2 Establishment Fee Shares will be issued for nil cash consideration, at a deemed issue price of \$0.06768 each. Accordingly, no funds were raised from the issue;
- (f) the Tranche 2 Establishment Fee Shares will be issued under a subscription agreement pursuant to which Mercer provided binding commitments to subscribe for the Tranche 2 Convertible Notes on the material terms summarised in this Notice (see Schedule 2) and otherwise on terms considered standard for agreements of this nature; and
- (g) a voting exclusion statement is included in the Notice.

## 9. Resolution 8 - Approval to issue Tranche 3 Convertible Notes

### 9.1 General

Refer to Section 6.1 for details of the Convertible Note Placement.

The formula for calculating the Conversion Price of the Tranche 3 Convertible Notes is dependent on the circumstances of the conversion.

For illustrative purposes, a number of examples are contained below, which show the potential effect of the conversion of the Tranche 3 Convertible Notes into Shares at a range of Conversion Prices. These examples are based on the following additional assumptions:

- (a) the Tranche 3 Convertible Notes are all converted in full; and
- (b) no other Shares are issued.

Conversion Price	Number of Shares issued on conversion	Dilution to Shareholders
\$0.100 <sup>1</sup>	69,000,000	8.17%
\$0.070 <sup>2</sup>	98,684,211	11.69%
\$0.105 <sup>3</sup>	65,789,474	7.79%
\$0.035 <sup>4</sup>	197,368,421	23.38%
\$0.030 <sup>5</sup>	230,000,000	27.24%

**Notes:**

1. Conversion price for the first 2 months (\$0.100).
2. Based on 92% of the current market price (\$0.076, being the closing price of the Shares on ASX on 7 August 2020, being the latest practicable date before the finalisation of this Notice (**Current Market Price**)).
3. Based on 92% of a 50% increase of the Current Market Price.
4. Based on 92% of a 50% decrease of the Current Market Price.
5. Based on the Floor Price.

Resolution 8 seeks Shareholder approval pursuant to Listing Rule 7.1 for the issue of the Tranche 3 Convertible Notes.

Resolution 8 is an ordinary resolution.

The Board recommends that Shareholders vote in favour of Resolution 8.

## 9.2 **Listing Rule 7.1**

A summary of Listing Rule 7.1 is in Section 4.2 above.

The proposed issue of the Tranche 3 Convertible Notes does not fit within any of the exceptions to Listing Rule 7.1 and exceeds the 15% limit in Listing Rule 7.1. It therefore requires the approval of Shareholders under Listing Rule 7.1.

In addition, Shareholder approval will not be required under Listing Rule 7.1 for the issue of the Shares to Mercer on conversion of the Tranche 3 Convertible Notes pursuant to exception 9 of Listing Rule 7.2 and the issue of those Shares will be excluded from the calculation of the number of equity securities that the Company can issue without Shareholder approval under Listing Rule 7.1.

The effect of Shareholders passing Resolution 8 will be to allow the Company to issue the Tranche 3 Convertible Notes during the period of three months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity under Listing Rule 7.1.

If Resolution 8 is not passed, the Company will not be able to proceed to issue the Tranche 3 Convertible Notes and Mercer shall have no obligation to advance the Third Investment Amount to the Company and the Company shall have no obligation to issue the Tranche 3 Convertible Notes.

## 9.3 **Specific information required by Listing Rule 7.3**

Pursuant to and in accordance with Listing Rule 7.3, the following information is provided in relation to the proposed issue of the Tranche 3 Convertible Notes:

- (a) the Tranche 3 Convertible Notes will be issued to Mercer (or its nominee), whom is not a related party of the Company and is not considered to be a 'material investor' for the purposes of section 7.4 of ASX Guidance Note 21;
- (b) a maximum of 6,900,000 Convertible Notes are to be issued as Tranche 3 Convertible Notes;
- (c) the material terms and conditions of the Tranche 3 Convertible Notes are in Schedule 2. The shares issued on conversion of the Tranche 3 Convertible Notes will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the Company's existing Shares on issue;
- (d) the Tranche 3 Convertible Notes are intended to be issued no later than three months after the date of the Meeting;
- (e) the Tranche 3 Convertible Notes will be issued with a face value of \$1.00 each;



- (f) proceeds from the issue of the Tranche 3 Convertible Notes are intended to be used for the same purposes as all other funds raised under the Convertible Note Placement (as set out in Section 6.6(e));
- (g) the Tranche 3 Convertible Notes will be issued under a subscription agreement pursuant to which Mercer provided binding commitments to subscribe for the Tranche 3 Convertible Notes on the material terms summarised in this Notice (see Schedule 2) and otherwise on terms considered standard for agreements of this nature; and
- (h) a voting exclusion statement is included in the Notice.

## 10. Resolution 9 - Approval to issue Consultant Shares

### 10.1 General

The Company proposes to issue up to US\$20,000 worth of Shares at \$0.06 each to Larry Cook in consideration for the accrued fees for services (**Consultant Shares**).

Resolution 9 seeks the approval of Shareholders pursuant to Listing Rule 10.11 for the issue of the Consultant Shares to Larry Cook or his nominees.

Resolution 9 is an ordinary resolution.

The Board (excluding Mr Cook) recommends that Shareholders vote in favour of Resolution 9.

### 10.2 Listing Rule 10.11

A summary of Listing Rule 10.11 is in Section 3.2 above.

Larry Cook is a related party of the Company by virtue of his position as Director. As the proposed issue of Consultant Shares will be issued to Mr Cook, Shareholder approval pursuant to Listing Rule 10.11 is required unless an exception applies. It is the view of the Directors that the exceptions set out in Listing Rule 10.12 do not apply in the current circumstances.

Approval pursuant to Listing Rule 7.1 is not required for the proposed issue of Consultant Shares as approval is being obtained under Listing Rule 10.11. Accordingly, the issue of Consultant Shares to Mr Cook (or his nominees) will not be included in the use of the Company's 15% annual placement capacity pursuant to Listing Rule 7.1.

If Resolution 9 is passed, the Company will be able to proceed with the issue of the Consultant Shares to Mr Cook.

If Resolution 9 is not passed, the Company will not be able to proceed with the issue and Mr Cook will not be issued Consultant Shares and Mr Cook will be paid in cash.

### 10.3 Specific information required by Listing Rule 10.13

Pursuant to and in accordance with Listing Rule 10.13, the following information is provided in relation to the proposed issue of Consultant Shares:

- (a) the Shares will be issued to Larry Cook (or his nominees), a Director of the Company;

- (b) pursuant to Listing Rule 10.11.1, Mr Cook is a related party by virtue of his position as Director;
- (c) the number of Consultant Shares to be issued to Mr Cook (or his nominees) is to be based on the following formula:

$$N = \frac{\text{US\$20,000}}{\text{A\$0.06} \times \text{FX}}$$

Where:

*N* is the number of Consultant Shares to be issued; and

*FX* is the USD/AUD exchange rate quoted by the Reserve Bank of Australia on the date immediately prior to the issue date;

- (d) the Consultant Shares will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the Company's existing Shares on issue;
- (e) the Consultant Shares will be issued no later than one month after the date of the Meeting;
- (f) the deemed issue price will be \$0.06 per Share, being the same as the Shares issued under the Placement, as adjusted for the exchange rate;
- (g) no funds will be raised from the issue as the Consultant Shares are being issued in lieu of accrued consultancy fees;
- (h) Mr Cook's current remuneration package consists of a gross base salary of US\$120,000 per annum (inclusive of statutory superannuation); and
- (i) a voting exclusion statement is included in the Notice.

#### 10.4 Chapter 2E of the Corporations Act

In accordance with Chapter 2E of the Corporations Act, in order to give a financial benefit to a related party, the Company must:

- (a) obtain Shareholder approval in the manner set out in section 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The issue of the Consultant Shares to Mr Cook constitutes giving a financial benefit and Mr Cook is a related party of the Company by virtue of his position as Director.

The Board considers that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of Mr Cook's participation because the Consultant Shares will be issued to Mr Cook on the same terms as Shares issued to non-related party participants in the Placement and as such, the giving of the financial benefit is on arm's length terms.

## 11. Resolution 10– Approval to issue Debt Repayment Shares

### 11.1 General

The Company obtained Shareholder approval at its annual general meeting held on 28 November 2019 (**2019 AGM**) for the acquisition of New Elk Coal Company, LLC (**NECC**). NECC owns 100% of the New Elk hard coking coal mine. Cline Mining Corporation (**Cline**) is the sole shareholder of NECC.

As part of the transaction, the Company was required to, amongst other things, issue US\$3 million worth of fully paid ordinary shares (**Debt Repayment Shares**) at completion of the acquisition, at a deemed issue price equal to the higher of A\$0.08 per share or the 20-day VWAP. The Debt Repayment Shares will be subject to 12 months' voluntary escrow.

Refer to the Company's notice of 2019 AGM dated 30 October 2019 for a comprehensive summary of the transaction.

At the 2019 AGM, the Company obtained Shareholder approval for the issue of the Debt Repayment Shares. The Company was also granted a waiver from Listing Rule 7.3.2 by ASX to permit the Company to issue the Debt Repayment Shares later than 3-months following the date of the 2019 AGM. The ASX waiver expired on 14 July 2020.

Accordingly, Resolution 10 seeks Shareholder approval for the issue of the Debt Repayment Shares to Cline (or its nominees) at completion of the acquisition of NECC.

Resolution 10 is an ordinary resolution.

The Board recommends that Shareholders vote in favour of Resolution 10.

### 11.2 Listing Rule 7.1

A summary of Listing Rule 7.1 is are in Section 4.2 above.

If Resolution 10 is passed, the Company will be able to proceed with the issue of the Debt Repayment Shares during the period of 3 months after the Meeting, without using the Company's 15% annual placement capacity under Listing Rule 7.1.

If Resolution 10 is not passed, the Company will not be able to proceed with the issue and will be required to renegotiate the payment of settlement of the debt with Cline, which may require payment in cash.

### 11.3 Specific information required by Listing Rule 7.3

Pursuant to and in accordance with Listing Rule 7.3, the following information is provided in relation to the proposed issue of Debt Repayment Shares:

- (a) The Debt Repayment Shares will be issued to Cline or its nominees, none of whom are or will be related parties of the Company.
- (b) The number of Debt Repayment Shares to be issued is that number of Shares which, when multiplied by the deemed issue price, equals US\$3,000,000. The USD/AUD exchange rate for the issue of the Debt Repayment Shares will be the rate quoted by or in the Australian Financial Review as the purchasing power of AUD1 in USD as last published (but no more than two Business Days prior to completion of the acquisition of NECC).

- (c) The Debt Repayment Shares will be fully paid ordinary shares in the capital of the Company and will rank equally in all respects with the Company's existing Shares on issue.
- (d) The Debt Repayment Shares will be issued on the date of completion of the acquisition of NECC, and within 3 months of the date of the Meeting.
- (e) The Debt Repayment Shares will be issued in part consideration for the acquisition of NECC and therefore will be issued for nil cash consideration. The deemed issue price of the Debt Repayment Shares will be the higher of:
  - (i) A\$0.08 per Share; or
  - (ii) the 20-day volume weighted average market price of Shares trading on ASX prior to the date of Completion (**20-Day VWAP**).
- (f) No funds will be raised from the Debt Repayment Shares as they will be issued for nil cash consideration as part consideration for the acquisition of Cline.
- (g) Refer to Sections 11.1 and 11.4, and the comprehensive summary of the terms of the acquisition of NECC in the notice of the 2019 AGM dated 30 October 2019 for a comprehensive summary of the transaction.
- (h) A voting exclusion statement is included in the Notice.

#### 11.4 **Summary of the Acquisition Agreement**

On 5 June 2020, the Company announced that it had agreed with Cline to accelerate completion of the acquisition of the New Elk hard coking coal project and amend the binding and conditional terms sheet (**Acquisition Agreement**). A comprehensive summary of the terms of the acquisition of NECC in the notice of the 2019 AGM dated 30 October 2019 and a summary of the amended terms is set out below:

(a) **Capital raising**

Pursuant to the Acquisition Agreement, the Company was required to raise sufficient capital to complete the acquisition and provide start-up working capital for the New Elk hard coking coal project.

Cline has agreed to waive this condition to 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.

(b) **Settlement of Cline Debt**

Instead of making a payment of US\$5,060,258 to replace reclamation bonds in place for NECC with the State of Colorado, the Company will replace the reclamation bonds with an insurance reclamation bond. The cash payment to be made by the Company on completion as part of the settlement of the C\$55 million debt due and payable by NECC to Cline (**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, the Company 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 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.

If commercial production of coal does not occur by 31 March 2021, the Company must pay US\$1M to Cline. The Company may, at its option, make this payment in cash, or shares in the Company. 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.

## Schedule 1 Definitions

In the Notice, words importing the singular include the plural and vice versa.

<b>\$ or A\$</b>	means Australian Dollars.
<b>AEST</b>	means Australian Eastern Standard Time being the time in Sydney NSW.
<b>Acquisition Agreement</b>	means the binding and conditional terms sheet between the Company and Cline Mining Corporation to acquire 100% of the issued capital of New Elk Coal Company, LLC.
<b>Agreement</b>	has the meaning given in Section 6.1.
<b>ASX</b>	means the ASX Limited (ABN 98 008 624 691) and, where the context permits, the Australian Securities Exchange operated by ASX Limited.
<b>Board</b>	means the board of Directors.
<b>Chair</b>	means the person appointed to chair the Meeting of the Company convened by the Notice.
<b>Closely Related Party</b>	means: <ul style="list-style-type: none"><li>(a) a spouse or child of the member; or</li><li>(b) has the meaning given in section 9 of the Corporations Act.</li></ul>
<b>Company</b>	means Allegiance Coal Limited ACN 149 490 353.
<b>Constitution</b>	means the constitution of the Company as at the date of the Meeting.
<b>Consultant Shares</b>	means the issue of Shares in lieu of US\$20,000 accrued consulting fees to Larry Cook (the subject of Resolution 9).
<b>Conversion Price</b>	means the following: <ul style="list-style-type: none"><li>(a) in respect of the Tranche 1 Convertible Notes and Tranche 2 Convertible Notes, \$0.10 for the first 2 months following issue of the Convertible Note and thereafter the lower of:<ul style="list-style-type: none"><li>(i) \$0.10; or</li><li>(ii) 92% of the lowest daily VWAP of the Shares during the preceding 10 trading days immediately before the holder giving a conversion notice; and</li></ul></li><li>(b) in respect of the Tranche 3 Convertible Notes, the lower of:<ul style="list-style-type: none"><li>(i) \$0.15; or</li><li>(ii) 90% of the lowest daily VWAP of the Shares during the preceding 10 trading days immediately before the holder giving a conversion notice,</li></ul></li></ul>

subject to the Conversion Price being not less than \$0.03.

<b>Convertible Note</b>	has the meaning given in Section 6.1.
<b>Convertible Note Placement</b>	has the meaning given in Section 6.1.
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cth).
<b>Director</b>	means a director of the Company.
<b>Equity Security</b>	has the same meaning as in the Listing Rules.
<b>Explanatory Memorandum</b>	means the explanatory memorandum which forms part of the Notice.
<b>First Investment Amount</b>	means \$661,804.19.
<b>Floor Price</b>	means \$0.03.
<b>Gullewa</b>	means Gullewa Limited (ACN 007 547 480).
<b>Key Management Personnel</b>	has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any Director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.
<b>Listing Rules</b>	means the listing rules of ASX.
<b>Loan</b>	has the meaning given in Section 5.1.
<b>Loan Shares</b>	means the 6,800,000 Shares issued on 12 June 2020 to Gullewa, which are the subject of Resolution 3.
<b>Meeting</b>	has the meaning given in the introductory paragraph of the Notice.
<b>Mercer</b>	means Mercer Street Global Opportunity Fund, LLC.
<b>Notice</b>	means this notice of annual general meeting.
<b>Option</b>	means an option to acquire a Share.
<b>Participation</b>	means the proposed participation of the Related Party Participants in the Placement and the issue of Placement Shares to such parties, which is the subject of Resolution 1.
<b>Placement</b>	has the meaning given in Section 4.1.

<b>Placement Participants</b>	means the sophisticated and professional investors, introduced to the Company by Bell Potter Securities, acting as lead manager, or otherwise known to the Company, who participated in the Placement.
<b>Placement Shares</b>	means the 32,034,376 Shares issued on 16 April 2020 to the Placement Participants under the Placement, which are the subject of Resolution 2.
<b>Proxy Form</b>	means the proxy form attached to the Notice.
<b>Related Party Participants</b>	means Messrs Gray and Reynolds for the purposes of Resolution 1.
<b>Resolution</b>	means a resolution referred to in the Notice.
<b>Schedule</b>	means a schedule to the Notice.
<b>Second Investment Amount</b>	means \$1,338,195.81.
<b>Section</b>	means a section of the Explanatory Memorandum.
<b>Securities</b>	means any Equity Securities of the Company (including Shares, Options and/or Performance Rights).
<b>Share</b>	means a fully paid ordinary share in the capital of the Company.
<b>Shareholder</b>	means the holder of a Share.
<b>Subsequent Investment Amount</b>	means, the amounts to be agreed in writing by the Company and Mercer (including the proposed use of the additional funds) of between \$500,000 and not more than \$6,000,000 in total across all Subsequent Investment Amounts.
<b>Third Investment Amount</b>	is equal to 115% of the relevant Subsequent Investment Amount so advanced (up to \$6,000,000).
<b>Trading Day</b>	has the meaning given in the Listing Rules.
<b>Tranche 1 Convertible Notes</b>	has the meaning given in Section 6.1.
<b>Tranche 2 Convertible Notes</b>	has the meaning given in Section 6.1.
<b>Tranche 3 Convertible Notes</b>	has the meaning given in Section 6.1.
<b>Tranche 1 Establishment Fee Shares</b>	means up to \$50,000 worth of Establishment Fee Shares upon completion of the issue of the Tranche 1 Convertible Notes (738,770 Shares).
<b>Tranche 2 Establishment Fee Shares</b>	means up to \$150,000 worth of Establishment Fee Shares upon completion of the issue of the Tranche 2 Convertible Notes (2,216,313 Shares).



**VWAP**

means volume weighted average market price.

## Schedule 2 Terms and Conditions of Convertible Notes

### 1. Interpretation and definitions

Unless the context otherwise requires, in these conditions (**Note Conditions**):

<b>Business Day</b>	has the meaning given to that term in the Listing Rules.
<b>Cleansing Notice</b>	means a written notice by the Company to ASX pursuant to section 708A(12)(C) of the Corporations Act, in a form and containing the information required by ASIC Corporations ( <i>Sale Offers: Securities Issued on Conversion of Convertible Notes</i> ) Instrument 2016/82, that is sufficient to permit secondary trading on the ASX of the Shares to which it relates on Conversion of the Convertible Notes or any of them.
<b>Cleansing Statement</b>	means a written notice by the Company to ASX pursuant to section 708A(5) of the Corporations Act meeting the requirements of section 708A(6) of the Corporations Act, in a form, and containing the information, that is sufficient to permit secondary trading on the ASX of the Shares to which it relates.
<b>Closing</b>	means: <ul style="list-style-type: none"><li>(a) Mercer undertaking its obligations pursuant to the Agreement to advance funds in respect of each Convertible Note (including payment of the relevant investment amount subject to deductions as provided for in this Agreement); or</li><li>(b) the Company undertaking its obligations pursuant to the Agreement to issue each Convertible Note.</li></ul>
<b>Conversion</b>	means the conversion of the Convertible Notes into Shares pursuant to the Note Conditions.
<b>Conversion Date</b>	means the Convertible Notes the subject of a Conversion Notice will Convert within 5 Business Days of receipt of a Conversion Notice by the Company.
<b>Conversion Price</b>	means: <ul style="list-style-type: none"><li>(a) in respect of the Tranche 1 Convertible Notes and Tranche 2 Convertible Notes, \$0.10 for the first 2 months following issue of the Convertible Note and thereafter the lower of:<ul style="list-style-type: none"><li>(i) \$0.10; or</li><li>(ii) 92% of the lowest daily VWAP of the Shares during the preceding 10 trading days immediately before the holder giving a conversion notice; and</li></ul></li></ul>

- (b) in respect of the Tranche 3 Convertible Notes, the lower of:
  - (i) \$0.15; or
  - (ii) 90% of the lowest daily VWAP of the Shares during the preceding 10 trading days immediately before the holder giving a conversion notice,

subject to the Conversion Price being not less than \$0.03.

**Conversion Shares** means the Shares issued pursuant to a Conversion.

**Convertible Notes** means the Tranche 1 Convertible Notes, Tranche 2 Convertible Notes and Tranche 3 Convertible Notes.

**Event of Default** includes the following key events:

- (a) a representation or warranty of the Company being untrue or misleading in any material respect;
- (b) the Company fails to perform or comply with any obligation under the Agreement and the default is not capable of remedy or the default is capable of remedy and the default remains un-remedied within a certain time period;
- (c) the Company fails to pay an amount when due and payable under the Agreement and that failure is not remedied within a certain time period;
- (d) the Company fails to issue Conversion Shares within 3 Business Days of Conversion or are not quoted on the ASX within 3 Business Days immediately following the date of their issue;
- (e) the Company suffers an Insolvency Event or a takeover bid or scheme of arrangement occurs;
- (f) the Company ceases, or suspends the conduct of all its business or dispose of, or threaten to dispose of, a substantial part of its assets;
- (g) the Company does not comply with the requirement to issue a Cleansing Notice or Cleansing Statement;
- (h) a stop order, suspension of trading, cessation of quotation, or removal of the Company or the Shares from the ASX Official List has been requested by the Company or imposed by ASIC, the ASX, or any other government body with respect to public trading in the Shares on the ASX or a fact of circumstances causes the Company to request or the ASX or any other governmental authority or regulatory body to impose a stop order;
- (i) trading in securities generally in Australia or the United States has been suspended or limited;

- (j) the conditions in the Agreement has not been met;
- (k) the Company challenges or denies the right of Mercer to receive any Securities or otherwise dishonours or rejects any action taken or document delivered;
- (l) the Agreement becomes partly void, voidable or unenforceable;
- (m) a change in an interpretation or administration of the law or proposed law introduced into the Parliament of Australia or any State or Territory of Australia is more likely than not to have a direct or indirect effect on the duties and obligations of the Company and Mercer;
- (n) any person has commenced an action, claim, proceeding or investigation against any other person which seeks to restrain, challenge, deny, limit or delay the right of Mercer or the Company to enter into the Agreement and any associated documents;
- (o) the transactions to be undertaken as a consequence of the Agreement, including the issue of Securities, would result in the Company breaching Listing Rule 7.1 or Listing Rule 7.1A;
- (p) Mercer has not received all items required to be delivered to it in connection with a Closing or Conversion;
- (q) any litigation or proceedings of which the Company is a party to has commenced and may result in a Material Adverse Effect;
- (r) any present or future liabilities of the Company for an amount totalling more than \$500,000 have not been satisfied on time;
- (s) a judgement of an amount of \$500,000 or greater is entered against the Company; and
- (t) an event occurs which in the opinion of the Holder has or is reasonably likely to have a Material Adverse Effect.

The Agreement also contains additional events of defaults, which are considered standard for agreements of this nature.

**Floor Price** means \$0.03 per Share.

**Insolvency Event** means:

- (a) in relation to any corporation:
  - (i) winding up or liquidation (whether voluntary or involuntary), provisional liquidation, dissolution, bankruptcy or other analogous proceeding;
  - (ii) an external administrator is appointed in respect of the corporation or any of its property;

- (iii) the corporation ceases or threatens to cease to carry on its business;
  - (iv) the corporation being deemed to be, or stating that it is, unable to pay its debts when they fall due;
  - (v) any other ground for liquidation or the appointment of an external administrator occurs in relation to the corporation;
  - (vi) the corporation resolves to enter into liquidation; or
  - (vii) an application being made which is not dismissed or withdrawn within ten Business Days for an order, resolution being passed or proposed, a meeting being convened or any other action being taken to cause or consider anything described above;
- (b) in relation to an individual, that person becoming an insolvent under administration as defined in section 9 of the Corporations Act; and
  - (c) in relation to any person, anything analogous to or having a similar effect to anything described above in this definition under the law of any relevant jurisdiction.

**Material Adverse Effect**

means, one or more occurrences or matters individually or in aggregate that:

- (a) have or could reasonably be expected to have a material adverse effect on the business, assets, condition (financial or otherwise), prospects or results of operations of the Company taken as a whole;
- (a) prevent or could reasonably be expected to prevent the Company from performing its obligations under the Agreement; or
- (b) have or could reasonably be expected to have a material adverse effect on the validity or enforceability of all or a material part of the Agreement.

**Maturity Date**

means in respect of the Convertible Notes, 12 months from the relevant issue date.

**Mercer**

means Mercer Street Global Opportunity Fund, LLC.

**Repayment**

means the repayment of a Convertible Note (other than in connection with its Conversion) by payment of the Repayment Amount in accordance with the Agreement.

**Repayment Amount**

equals the Face Value of the Convertible Notes or any of them (as the context requires).

## 2. Face Value

Each Convertible Note has a face value of \$1.00 (**Face Value**).

## 3. Terms of issue

- (a) Each Convertible Note:
  - (i) is non-interest bearing unless an Event of Default occurs;
  - (ii) is issued as a secured debt security evidencing the Company's indebtedness to Mercer on the terms set out in the Agreement;
  - (iii) is not proposed to be quoted on any securities exchange;
  - (iv) may be Converted at Mercer's election at any time prior to the Maturity Date in accordance with Note Condition 7;
  - (v) may be satisfied by being repaid by the Company in accordance with Note Condition 8;
  - (vi) may be satisfied by being repurchased by the Company in accordance with Note Condition 9; and
  - (vii) are non-transferrable except to other sophisticated investors or professional investors (as defined in the Corporations Act).
- (b) If a Convertible Note is Converted then such Convertible Note will be automatically cancelled and may not be re-issued.
- (c) On the Conversion of a Convertible Note, the outstanding Face Value of the Convertible Notes which has been Converted will be deemed satisfied.

## 4. Investments

Subject to the satisfaction or waiver of the relevant closing conditions, Mercer will subscribe for the Notes as follows:

- (a) on the date that is 5 business days after satisfaction or waiver of the closing conditions in respect of the Tranche 1 Convertible Notes, Mercer advance the sum of approximately \$661,804.19 to the Company (**First Investment Amount**). In consideration, the Company will issue Mercer 772,104 Tranche 1 Convertible Notes;
- (b) on the date that is 5 business days after satisfaction or waiver of the closing conditions in respect of the Tranche 2 Convertible Notes, Mercer advance the sum of approximately \$1.34 million to the Company (**Second Investment Amount**). In consideration, the Company will issue Mercer 1,561,228 Tranche 2 Convertible Notes; and
- (c) on the date that is 5 business days after satisfaction or waiver of the conditions in respect of the Tranche 3 Convertible Notes, Mercer will advance a sum to be agreed between the parties ranging between \$500,000 and \$6,000,000 (**Subsequent Investment Amount**) to the Company. In consideration, the Company will issue Mercer such number of certificated Convertible Notes with an aggregate face value

equal to 115% of the relevant Subsequent Investment Amount so advanced (i.e. up to 6,900,000 Tranche 3 Convertible Notes).

## 5. Exclusivity

- (a) During the term of the Agreement, the Company must not enter into any agreement with a third party:
  - (i) for the issue or sale of any debt or equity securities that are convertible into Shares; or
  - (ii) any securities in a capital or debt raising transaction or series of related transactions which grant to an investor the right to receive additional securities based upon future transactions of the Company.
- (b) However the Company is not restricted from undertaking a rights issue, share purchase plan, raising money through placements of Shares or security issues at a fixed price per Share not in the nature of an on-going equity line arrangement.
- (c) In addition, the Company must not undertake any capital raising (including rights issue, share purchase plan or placement), at a fixed price per Share which is lower than the lowest Conversion Price that could be selected by Mercer at that time (assuming the date of announcing the capital raising is deemed to be the date of issue of the relevant Conversion Notice for the purpose of calculating the Conversion Price), without the prior written approval of Mercer.

## 6. Closing conditions

- (a) In summary, the payment of the investments are subject to the satisfaction of the following conditions:
  - (i) the Company to ensure the issue of the Notes would not cause the voting power in the Company of Mercer and its associates (**Relevant Interest**) to exceed 4.99%, unless Mercer gives its written consent to the Company that Mercer's Relevant Interest may exceed 4.99% but will not exceed 9.99%;
  - (ii) Mercer will not acquire a relevant interest in Shares which causes the voting power to exceed 19.99%;
  - (iii) the Company to obtain Shareholder approval to issue the Tranche 2 Convertible Notes and Tranche 2 Establishment Fee Shares;
  - (iv) the Company to deliver a general security deed executed by the Company and a priority deed in relation to the Tranche 1 Convertible Notes;
  - (v) the payment of the Second Investment Amount and issue of the Tranche 2 Convertible Notes is conditional on the completion of the payment of the First Investment Amount and the issue of the Tranche 1 Convertible Notes and Tranche 1 Establishment Fee Shares;
  - (vi) the Company's representation and warranties made in the Agreement is true and correct;
  - (vii) the Company to obtain all authorisations, consents, permits and approvals as necessary;

- (viii) the Company to deliver a copy of the resolutions duly adopted by the board of directors of the Company and all relevant and additional documents, certificates and payments to Mercer;
  - (ix) no Event of Default has occurred and any offer for sale by Mercer does not and will not need disclosure under Part 6D.2 of the Corporations Act, and will not result in a breach of the Listing Rules or other relevant and applicable law;
  - (x) the Company has performed and complied in all respects with all the agreements and covenants required by the Agreement;
  - (xi) ASX has not indicated that quotation of the Shares on ASX will not be granted; and
  - (xii) the Company lodges a Cleansing Notice and Cleansing Statement in relation to the Tranche 1 and Tranche 2 Convertible Notes and Tranche 1 and Tranche 2 Establishment Fee Shares.
- (b) The closing conditions are for the benefit of Mercer and may be waived by Mercer in its absolute and sole discretion by providing written notice to the Company.
  - (c) If, in respect of the completion of the payment of the First Investment Amount and issue of the Tranche 1 Convertible Notes, a closing condition is not satisfied or becomes incapable of being satisfied, Mercer may terminate the Agreement by giving notice to the Company. In addition, the Company is not permitted to issue any securities to Mercer if any of the closing conditions have not been fulfilled (unless the Company has obtained written consent from Mercer).

## **7. Conversion at Holder's election**

- (a) Subject to the other provisions of this Note Condition 7, Mercer may elect to Convert all or some of the Convertible Notes by delivering a conversion notice to the Company at any time prior to the Maturity Date.
- (b) Subject to the other provisions of this Note Condition 7, if Mercer delivers a conversion notice to the Company in accordance with Note Condition 7(a), the Convertible Notes will be Converted into such number of Shares as is determined by dividing the sum of the total of the Face Value of those Convertible Notes by the Conversion Price (provided that if the resultant number contains a fraction, such number shall be rounded to the nearest whole number).
- (c) Each conversion notice must specify how many Convertible Notes Mercer elects to Convert and must be at least for a Face Value in an amount equal to or greater than \$25,000 (unless the remaining Face Value of the Convertible Notes on issue is less than \$25,000).
- (d) For the avoidance of doubt, the Company has no right to require Mercer to Convert any Convertible Notes at any time.
- (e) Note Condition 10 will apply in respect to any issue of Shares pursuant to a Conversion in accordance with this Note Condition 7.



## 8. Repayment

If:

- (a) Mercer has not notified the Company in writing by 5.00pm on the day that is 10 Business Days prior to the relevant Maturity Date that it will be Converting the relevant Convertible Notes (in whole or in part), to the extent not already Converted or repurchased (in accordance with Note Condition 7) prior to the relevant Maturity Date, the Company is to pay the Face Value of the Convertible Notes, within 20 Business Days of the Maturity Date;
- (b) an Event of Default occurs after the Company has received 10 Business Days written notice (**Notice of Default**) from Mercer setting out the details of the Event of Default and requiring repayment of the Convertible Notes, the Company must repay the outstanding Convertible Notes held by Mercer together with any accrued by unpaid interest at the date of such Repayment as from the date of service of the Notice of Default, within 10 Business Days after the Notice of Default; or
- (c) a takeover bid or scheme of arrangement occurs, or the Company's Shares are no longer quoted on ASX or are suspended for a period of 20 consecutive business days, the Company must immediately give Mercer written notice of the occurrence of that event. In such circumstances, Mercer may require repayment by the Company of some or all of the Convertible Notes by giving written notice to the Company (**Holder Repayment Notice**) no later than 20 Business Days after the date of the notice issued by the Company. Repayment of the outstanding Convertible Notes must occur 5 Business Days after the date of the Holder Repayment Notice is given by Mercer to the Company.

## 9. Repurchase

- (a) The Company may elect to repurchase all of the outstanding Convertible Notes on issue at any time by delivering a repurchase notice to Mercer (**Repurchase Notice**) provided that:
  - (i) the Company is at all times in compliance with its obligations under the Agreement;
  - (ii) there is no existing Event of Default; and
  - (iii) Mercer has not issued a Conversion Notice in respect of the Convertible Notes.
- (b) If the Company delivers a Repurchase Notice to Mercer in accordance with Note Condition 9(a), the Repurchase Notice must specify how many Convertible Notes the Company has elected to repurchase (**Repurchased Securities**) and the repurchase price as determined by multiplying the Face Value of the repurchased Convertible Notes by 1.03.
- (c) Upon receipt of a Repurchase Notice, Mercer has the ability to elect to convert up to 30% of the Repurchased Securities set out in the Repurchase Notice by delivering a Conversion Notice to the Company setting out the number of Repurchased Securities its wishes to Convert (**Noteholder Further Conversion Securities**), within 4 Business Days of receipt by Mercer of the Repurchase Notice.

- (d) If Mercer elects to convert the Repurchased Securities in accordance with Note Condition 9(c), the Repurchase Notice issued by the Company is automatically amended to reduce the Repurchased Securities by the number of Noteholder Further Conversion Securities.
- (e) Note Condition 10 will apply in respect to any issue of Shares pursuant to a Conversion in accordance with this Note Condition 7.

**10. Issue of Conversion Shares**

- (a) Subject to Note Conditions 10(b) and 10(f), within 5 Business Days after the receipt of a conversion notice which satisfies the requirements of Note Condition 7, the Company must:
  - (i) allot and issue the Shares required to be issued to Mercer pursuant to the Conversion;
  - (ii) cause the Convertible Notes the subject of the Conversion Notice to be cancelled; and
  - (iii) record Mercer as the holder of the Conversion Shares in the Register.
- (b) If the Company is not able to comply with the requirements of ASIC Corporations (Sale Offers: Securities Issued On Conversion Of Convertible Notes) Instrument 2016/82, the Company must either:
  - (i) within 5 Business Days of the Conversion Date, provide ASX with a Cleansing Statement; or
  - (ii) where unable to issue a Cleansing Statement, as soon as is reasonably practicable and in any event within 10 Business Days of issue of the resultant shares of the Company, issue a prospectus or other form of disclosure document to enable the Shares issued upon Conversion to be freely on-sold.
- (c) The Company must, no later than 5 Business Days after the issue of the Conversion Shares to Mercer:
  - (i) apply for official quotation on ASX of such Conversion Shares issued pursuant to the Conversion; and
  - (ii) deliver or cause to be delivered to Mercer a holding statement in respect of the Conversion Shares.
- (d) Upon the issue of the Conversion Shares, Mercer agrees to be bound by the constitution of the Company.
- (e) The Conversion Shares must rank equally with all other fully paid Shares other than in respect of any dividend or other entitlement for which the applicable record date falls prior to the Conversion Date.

- (f) Notwithstanding any other provision of these Note Conditions:
- (i) Mercer shall not acquire a relevant interest in the Shares which causes the voting power in the Company of Mercer and its associates (as defined in the Corporations Act) to exceed 19.99%;
  - (ii) Mercer shall not be required by the Company to:
    - (A) accept or be issued any Convertible Notes pursuant to this Agreement; or
    - (B) otherwise acquire a relevant interest in the Shares,
 which causes the voting power in the Company of Mercer and its associates (as defined in the Corporations Act) (**Relevant Interest**) to exceed 4.99%, unless Mercer gives its written consent to the Company from time to time in respect of a Closing or Conversion that Mercer's Relevant Interest may exceed 4.99% but will not exceed 9.99%;
  - (iii) Mercer shall, confirm verbally and in writing to the Company its Relevant Interest as of the date of the request within one Business Day; and
  - (iv) in the event that the issue of Mercer's Shares in respect of a Closing would result in a breach of this Note Condition 10, the Investment Amount the subject of the relevant Closing will, on notice by Mercer to the Company, be deemed to be decreased to the extent necessary.

#### 11. Bonus issues or rights issue

- (a) If there is a pro rata issue (except a bonus issue), the Conversion Price of a Convertible Note may be reduced according to the following formula:

$$C_n = \frac{C_o - E [P - (S + D)]}{N + 1}$$

Where:

- C<sub>n</sub> = the new conversion price of the Convertible Note;
- C<sub>o</sub> = the old conversion price of the Convertible Note;
- E = the number of underlying securities into which one Convertible Note is exercisable;
- P = the average market price per security (weighted by reference to volume) of the underlying securities during the 5 trading days ending on the day before the ex right date or the ex entitlements date;
- S = the subscription price for a security under the pro rata issue;
- D = dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue);

N= the number of securities with rights or entitlements that must be held to receive a right to one new security.

However this does not apply to Shares issued as part of a bonus share plan, share top up plan, share purchase plan, dividend reinvestment plan, an employee or executive share plan or executive option plan, or any Shares issued as part of the co-equity investment.

- (b) If there is a bonus issue to the holders of Shares in the Company, the number of Shares over which the Convertible Note is exercisable may be increased by the number of Shares which Mercer would have received if the Convertible Note had been exercised before the record date for the bonus issue.
- (c) For the purpose of this Note Condition, an issue will be regarded as a pro rata issue notwithstanding that the Company does not make offers to some or all holders of Shares with registered addresses outside Australia.



ABN 47 149 490 353

## Lodge your vote:

### By Mail:

GPO Box 2703  
Sydney NSW 2001 Australia

Alternatively you can fax your form to:  
+61 2 9233 1349

### For all enquiries email:

info@allegiancecoal.com.au

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# Proxy Form

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**For your vote to be effective it must be received by 10.30 am (AEST) on Friday, 18 September 2020.**

## How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

**You may vote online or by proxy only.**

### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

To vote by proxy, please complete and sign the Proxy Form and send:

- (a) By post to the Company at GPO Box 2703, Sydney NSW 2001 Australia; or
- (b) By facsimile to the Company on +61 2 9233 1349; or
- (c) By email to the Company at info@allegiancecoal.com.au.

**A proxy need not be a securityholder of the Company.**

## Signing Instructions

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

## Attending the Meeting

**Due to the ongoing COVID-19 pandemic, Shareholders will only be able to attend the Meeting via teleconference.**

**All voting will be conducted by poll using the proxy instructions on this form. Shareholders who do not wish to vote by proxy using this form must contact the Company at info@allegiancecoal.com.au by 18 September 2020 to notify the Company of their intentions and to request a personalised poll form. The Company will send personalised poll forms following the cut-off time for the return of Proxy Forms (i.e. after 10.30 am on 18 September 2020) to Shareholders who request them prior to this time. Personalised poll forms must be completed and returned to the Company after the poll has been called and prior to the close of polling. During the Meeting, the Chair will notify you how and when you are able to complete and return the personalised poll form.**

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**Turn over to complete the form**



ALLEGIANCE COAL  
LIMITED

ABN 47 149 490 353

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## Proxy Form

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I/We \_\_\_\_\_

of \_\_\_\_\_

being the holder of \_\_\_\_\_ ordinary shares of Allegiance Coal Limited hereby appoint

the Chairman OR

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Allegiance Coal Limited to be held at Suite 107, 109 Pitt Street Sydney NSW via teleconference on Monday, 21 September 2020 at 10.30 am (AEST) and at any adjournment of that meeting.

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### Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

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### Ordinary Resolutions

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
1(a). Approval of issue of Placement Shares to Mark Gray	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1(b). Approval of issue of Placement Shares to Jonathan Reynolds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Ratification of prior issue of Placement Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Ratification of prior issue of Loan Shares issued to Gullewa Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Ratification of prior issue of Tranche 1 Convertible Notes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Ratification of prior issue of Tranche 1 Establishment Fee Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
6. Approval to issue Tranche 2 Convertible Notes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Approval to issue Tranche 2 Establishment Fee Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Approval to issue Tranche 3 Convertible Notes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Approval to issue Consultant Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Approval to issue Debt Repayment Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

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**Signature of Securityholder(s)** *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Contact Name \_\_\_\_\_

SRN/HIN \_\_\_\_\_

Securityholder 2

Director

Contact Daytime Telephone \_\_\_\_\_

Securityholder 3

Director/Company Secretary

Date \_\_\_\_/\_\_\_\_/\_\_\_\_