ALLEGIANCE COAL
LIMITED

20 January 2021

# ALLEGIANCE WORKING TO BRING FORWARD PRODUCTION AT NEW ELK AND RAISES A$2 MILLION THROUGH THE ISSUE OF CONVERTIBLE NOTES

## HIGHLIGHTS

- Allegiance is working to bring forward production at New Elk to take advantage of the immediate strong demand for US coking coals on the seaborne market. At this time, the planned production commencement date remains June 2021, but this date is under review and Allegiance will advise the market should it be feasible to bring this date forward.

- To assist in immediate mine and equipment refurbishment costs until Allegiance secures its project debt finance, Allegiance has raised a further A$2M through the issue of convertible notes under the A$8M Convertible Note (**Note**) arrangement with Mercer Street Global Opportunity Fund LLC, a New York based investment fund (**Fund**), bringing the total value of funds raised to date through the Notes to A$5M.

- The funds drawn under the Note together with funds Allegiance raised in its recent equity capital raise announced on 13 November 2020, will be applied to the immediate capital requirements of the New Elk mine and to working capital.

Allegiance Coal Limited (**Allegiance**) refers to its prior announcements lodged with ASX:

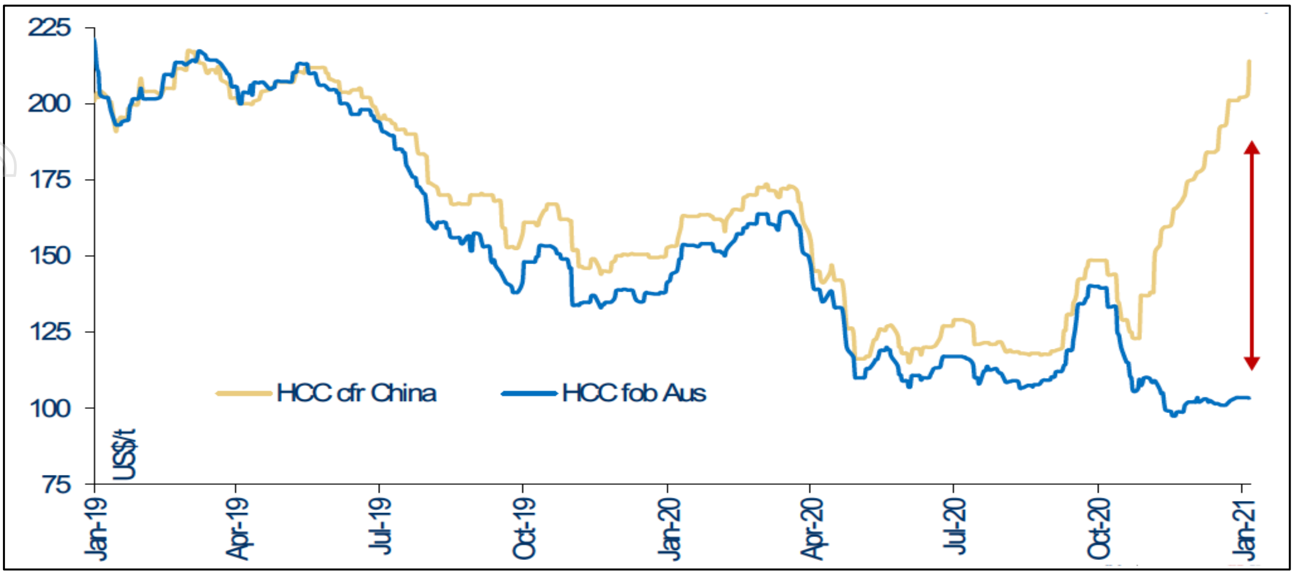
- On 30 December 2020 (supplemented by the Clarification Statement dated 31 December 2020) relating to the completed New Elk start-up mine plan and production commencement date of June 2021, Allegiance advises it is working to commence production earlier in Q2'21 rather than June 2021 and will advise the market once it has determined whether this is feasible; and

- On 31 July 2020 (together with its Notice of Annual General Meeting dated 27 October 2020) relating to the Note arrangement with the Fund, Allegiance advises that it has procured a fourth investment amount of $2 million under the Note agreement entered with the Fund.

## Price distortion creates immediate opportunity for non-Australian coking coals

Morgan Stanley research released 7 January 2021 noted that the trade friction between Australia and China and the subsequent import ban on Australian coal has created significant distortions to met-coal trade and went on to highlight the price differential between China delivered, and Australia loaded, coking coal prices.

From a pre-ban historical average of US$8/t, the price spread has recently risen to a record high of US$110/t, creating opportunities for non-Australian coking coals such as Canada and the United States, to supply coking coal to China at significant premiums to Australian benchmark coking coals.




Source: Platts

Morgan Stanley went on to note that even if there was a relaxing of hostilities that could see an improvement in the price of Australian coking coal, the diversion of non-Australian coking coals to China could lift demand elsewhere and went on to forecast a gradual price increase in Australian coking coal to US$145/t by Q2'21. In fact, this was evident last week with a BHP sale tender concluded at US$124/t, up US$7.50/t.

Currently however, US coking coals are trading at significant premiums to premium low-vol coking coal FOB Australia and the demand for them is strong, although supply is tight. With most US coking coal production already committed to forward supply contracts, there is limited supply on the spot market which creates an opportunity for New Elk production entering the market in April this year.

| Atlantic coking coal ($/mt) | | | | | | |
|---|---|---|---|---|---|---|
| | Symbol | FOB US East Coast | Change | VM | Ash | S |
| Low Vol HCC | AAWWR00 | 156.00 | -2.00 | 19.25% | 8.25% | 0.95% |
| High Vol A | AAWWS00 | 150.00 | -2.00 | 32.25% | 7.5% | 0.95% |
| High Vol B | AAWWT00 | 127.00 | -3.00 | 36% | 8% | 1% |
| | | CFR NW Europe | Change | VM | Ash | S |
| PLV NetForward | PLVHE00 | 138.40 | +7.40 | 21.5% | 9.3% | 0.50% |
| **Asia-Pacific coking coal ($/mt)** | | | | | | |
| | | FOB Australia | Change | VM | Ash | S |
| Premium Low Vol | PLVHA00 | 123.00 | +7.50 | 21.50% | 9.3% | 0.5% |
| HCC 64 Mid Vol | HCCAU00 | 104.50 | +4.00 | 25.50% | 9.0% | 0.6% |

Source: Platts 15 January 2021

## New Elk mine and equipment refurbishment

As was noted in the 30 December 2020 announcement, New Elk has a start-up capital expenditure requirement of US$13.5M which Allegiance intends to fund with project debt. As was also noted in the 30 December 2020 announcement, Allegiance has a debt terms sheet with Nebari Natural Resources Credit Fund 1 LP from which Allegiance is targeting to raise US$15M. While the terms sheet remains subject to due diligence by Nebari, Allegiance is working to advance the terms sheet to documentation as soon as possible. Until then, Allegiance is using its own cash and funds from the Note to immediately proceed with the mine and equipment refurbishment programme.

## Terms relating to the Note

In return for this funding, Allegiance will issue convertible notes to the Fund (Tranche 3 Notes). The Tranche 3 Notes are for a term of 12 months, with a maturity date of 20 January 2022. The Tranche 3 Notes are interest free but will be issued at an original issue discount of 15%. Accordingly, the Company will issue 2,300,000 Tranche 3 Notes to the Fund.

The Tranche 3 Notes are issued on the same terms as the Tranche 3 Notes previously issued, summarised as follows. The Tranche 3 Notes are convertible at the Fund's election into Allegiance ordinary shares at 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 (subject to limited adjustment events including in the event of bonus issues).

Allegiance may repurchase the Tranche 3 Notes at any time prior to maturity by repaying the Note at face value together with a premium of 3% of face value; subject to the Fund having the right to convert 30% of the amount sought to be re-purchased into Allegiance ordinary shares on the terms summarised above.

Restrictions apply in respect of Allegiance's ability to undertake capital raisings involving an issue of securities convertible into shares or otherwise at a price per share less than the lowest conversion price which may apply at that time, without the Fund's prior consent.

The Tranche 3 Notes (as with convertible notes that have been issued previously to the Fund under the Notes arrangement) will be secured by a general security interest over Allegiance, subordinated to the bridging loan in place with Nebari Natural Resources Credit Fund 1 LP. Additional provisions such as company covenants, representations, warranties and event of default provisions apply, which are considered customary. Please refer to the Notice of Annual General Meeting dated 27 October 2020 for a detailed summary of the terms and conditions of the Notes and the Note agreement.

The Tranche 3 Notes are issued pursuant to the shareholder approval obtained at the Annual General Meeting held on 30 November 2020.

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

---


For more information, please contact:

**Mr Mark Gray**
Chairman & Managing Director
Mobile : +61 412 899979
Email : mgray@allegiancecoal.com.au

**Mr Jonathan Reynolds**
Finance Director
Mobile : +61 408 229 953
Email: jreynolds@allegiancecoal.com.au


**About Allegiance Coal**

Allegiance Coal is a publicly listed (ASX:AHQ) Australian company based in Vancouver, BC Canada, and is focussed on developing and mining metallurgical coal projects in North America and Western Canada. The Company is developing the Tenas metallurgical coal project, located in northwest British Columbia, in partnership with Itochu Corporation. The Tenas Project has a completed definitive feasibility study and is now in the permitting process targeting H2 2022 for the commencement of production. In October 2020, the Company completed the acquisition of the New Elk hard coking coal mine, a fully permitted and constructed mine located in southeast Colorado, US. The Company is targeting to return the New Elk mine to production in 2021.

---