



30 April 2021

## ACTIVITIES REPORT FOR THE QUARTER ENDING 31 MARCH 2021

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### HIGHLIGHTS

- Allegiance raises \$40M through placements with sophisticated and professional investors and \$3M from a shareholders' share purchase plan.
  - Allegiance secures in principle agreement for US\$27M of funding to reconstruct the 27 mile rail spur from BNSF's main line to the New Elk mine.
  - New Elk is fully funded to commence production and, subject to agreeing terms and securing the rail spur debt, fully funded to commence New Elk's growth plans.
  - Refurbishment of New Elk equipment, coal wash-plant and mine infrastructure, is complete.
  - The wash-plant has been successfully recommissioned.
  - Equipment has been mobilised underground and is completing reclamation and pre-production mining work while New Elk awaits final approval on its roof management and ventilation plans, expected next week.
  - Production at New Elk is expected to commence next week.
  - A US domestic user has agreed to purchase a trial coal sample for delivery the week of 17 May, which, if successful, will likely result in either a one-off large tonnage order, or a low tonnage monthly fixed price term contract, or both.
  - Discussions are underway with global steel mills for spot cargo sales in July and August, and expressions of interest have been received from more than 25 global steel mills for drum samples, which will be supplied from production tonnes.
  - Benchmark premium low-vol hard coking coal from Australia continues to trade at around US\$115/tonne FOB Queensland, while Canadian and US coking coals continue to enjoy strong prices into China above US\$200/tonne CFR.
  - The Tenas EA Application due to be lodged in March 2021 with the BC Environmental Office has been delayed further into the middle of the year, due to a delay in finalising the water quantity flow and quality model.
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Allegiance Coal Limited (**Allegiance** or the **Company**) is pleased to provide its Quarterly Activities Report for the period ending 31 March 2021.

**The Mine is production ready**

The New Elk Mine is ready to produce with equipment at the coal face and production crew hired. The Company is waiting for the roof management plan and the ventilation plan to be approved by the Colorado Department of Mine Safety and Health Administration (**MSHA**) following several reviews by MSHA. The Company understands these two remaining plans will be approved next week.

During the quarter, the underground portal entrances to the Blue Seam mine were opened, the underground workings inspected by a Colorado State Mine Safety Rescue Team, and then mine staff were permitted to enter to commence mine rehabilitation and move equipment underground to the coal mine face.



Mine staff tramming equipment underground into the Blue seam mine

The equipment required for the first production unit, including two continuous miners, three shuttle cars and one of two roof-bolters, have been refurbished and relocated underground.



Joy Feeder Breaker side and front view

Refurbishment of the wash-plant and rail loadout is complete, and the wash-plant has been recommissioned.



Coal processing and preparation plant



Rail loadout

### Fully funded to commence production

During the quarter, the Company raised \$43M through placements with sophisticated and professional investors and through a share purchase plan, providing the Company with the start-up and ramp-up capital for New Elk. The capital also enabled the Company to repay the Nebari short term loan and provide ongoing working capital for the Tenas Project.

The Company's original plan to fund the start-up capital for New Elk involved a US\$15M project debt facility with Nebari Natural Resources Fund, supported by an equity raise of around \$15M. The level of support received from the equity capital markets enabled the Company to secure the start-up capital without the need for any project debt.

In March 2021, the Company completed a \$15M private placement pursuant to the directors' placing capacity under ASX Listing Rules 7.1 and 7.1A, with sophisticated and professional investors including a number of highly credentialed institutional funds.

A week later the Company completed a \$10M placement to several European institutional investors, including Deutsche Balaton AG, subject to shareholder approval, which was received in April 2021. The placement was driven by significant European institutional investor demand.

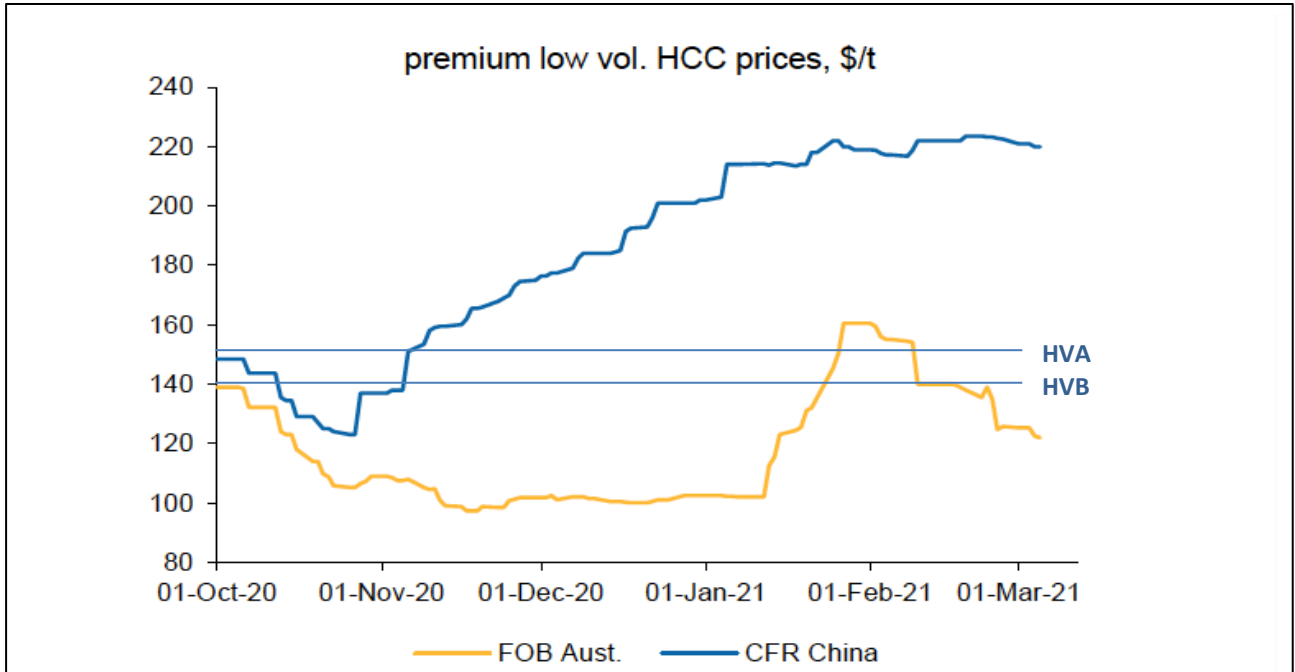
This was followed by a Share Purchase Plan raising \$3M.

In April 2021, the Company agreed a further placement of \$15M with Golden Energy and Resources Limited (**GEAR**). In addition, GEAR has agreed, in principle, to provide funding of US\$27M to New Elk for the reconstruction of the 27 mile rail spur from BNSF's main rail line to the New Elk Mine. These investments underwrite the Company's growth plans for the New Elk Mine which had been budgeted to be funded from retained earnings generated from the first production unit.

### Sales and Marketing

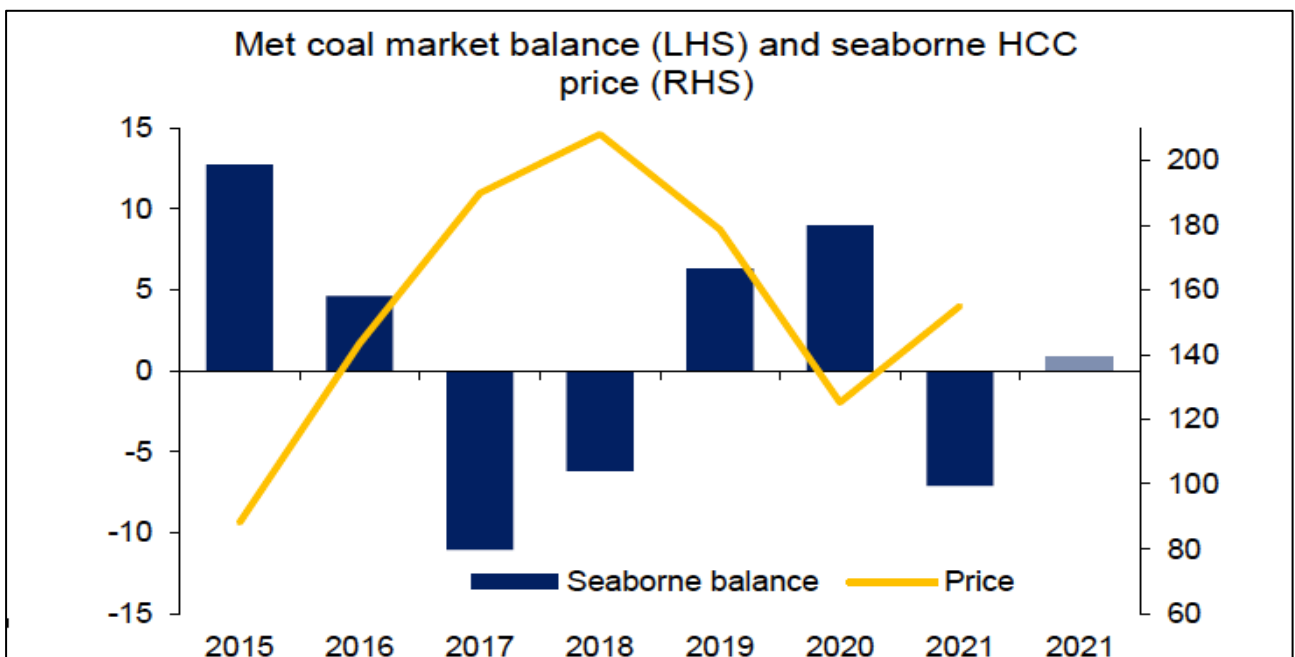
The recovery in benchmark premium low-vol hard coking coal along with all other Australian met coal brands played out early in the quarter in line with analysts' forecasts but prices slipped again in the middle of the quarter surprising most analysts, including Macquarie Research, who were surprised by China's ability to maintain the restrictions on Australian coal through winter relying on domestic production.

Canadian and US coking coals however continue to take advantage of Chinese demand with CFR prices in excess of US\$200/t, and with high-vol A trading above US\$150/t and high-vol B trading around US\$140/t, both FOB East Coast US.



Platts 25 March 2021

Macquarie’s view hasn’t changed forecasting a supply deficit in 2021, and pricing between US\$155/t to US\$180/t for PLV FOB Australia out to 2025.



High CFR prices in China have enabled US coking coals to supply China at strong prices FOB East Coast US, notwithstanding the higher shipping costs, and European steel mills are enjoying a rare opportunity to buy high CSR coking coals from Australia at relatively low prices.

New Elk's immediate sales and marketing strategy is to take advantage of this dynamic to achieve spot sales whilst undertaking coking coal tests with steel mills globally aimed at securing supply contracts linked to index pricing.

Expressions of interest have been received from more than 25 steel mills for drum samples and the Company anticipates more requests to come in as sales and marketing efforts continue. Large samples will be supplied from production tonnes achieved whilst supplying spot cargoes and some domestic demand.

The mine is undertaking a trial sample with a domestic user during the week of 17 May 2021, which, if successful, will potentially lead to both a one off upfront delivery and a long term, fixed price contract.

### **Tenas Project environmental assessment certificate application**

The Company has almost completed drafting of the application for an Environmental Assessment Certificate. Completion of the remainder of the document continues to be delayed by the delay in completing the water quantity flow and quality model. That model is now complete, and other environmental disciplines that rely on that model in part to complete their environmental impact studies, can proceed to complete their respective sections of the application document.

Current progress indicates the EA application will be lodged mid 2021 which in turn means that Telkwa Coal could potentially receive its Environmental Assessment Certificate in Q1 2022, with permits to mine to follow.

### **Expenditure on mining exploration activities**

In accordance with ASX Listing Rule 5.3.1, the Company advises its exploration and evaluation expenditure during the March 2021 quarter totalled \$1,011k for operating activities (included at Item 1.2(a) of the Appendix 5B) and \$1,651k for investing activities (included at Item 2.1(d) of the Appendix 5B).

Operating activities payments relates to costs associated with the New Elk Project and include \$503k for working capital items, \$283k of pre-production operating costs, \$125k in relation to drilling work and \$100k for various engineering and consulting services. \$421k of the investing activities payments relates to geotechnical drilling at Tenas with the balance of payments relating principally to various environmental and engineering consulting services related to progressing the Application for Information Requirements document and preparing for submission of the Environmental Assessment Certificate documentation for the Tenas project.

Activities conducted during the quarter are described in further detail in sections above.

### **Payments to Related Parties and their Associates**

In accordance with ASX Listing Rule 5.3.5, payments to related parties of the Company and their associates during the quarter totalled \$436k and related to remuneration to executive and non-executive directors. Refer to the Remuneration Report in the Annual Report for further details on director remuneration. These amounts are included at Item 6.1 of the Appendix 5B.

### **Corporate**

In July 2020, the Company secured up to \$8M of funding by way of a secured convertible note issued to Mercer Street Global Opportunity Fund LLC, a New York based investment fund (Fund):

- A\$2M of which was drawn in the September 2020 quarter (tranche 1 and 2);
- \$1M in October 2020 (first tranche 3 instalment);
- \$2M in January 2021 (second tranche 3 instalment); and
- With further amounts to be drawn at the discretion of the parties' subject to any required shareholder approval.

In January 2021, following receipt of the second tranche 3 funds from the Fund, secured notes with a face value of \$2.3M maturing 20 January 2022 were issued to the Fund, bringing the total face value of notes issued to \$5.8M.

The notes are convertible at the Fund's election into ordinary shares on the following terms:

- For the tranche 1 and 2 notes, the conversion price is the lesser of \$0.10, or 92% of the lowest daily VWAP of Allegiance shares selected by the Fund for the 10 trading days on which Allegiance shares are traded in the ordinary course of business on the ASX ending on the date immediately prior to a conversion notice; and
- For the tranche 3 notes, the conversion price is the lesser of \$0.15, or 90% of the lowest daily VWAP of Allegiance shares selected by the Fund for the 10 trading days on which Allegiance shares are traded in the ordinary course of business on the ASX ending on the date immediately prior to a conversion notice.

Any notes not converted, will be repaid on maturity at their issued face value. By 31 March 2021, the Fund had converted \$1,075k of the notes to ordinary shares, with a further \$400k converted in April 2021.

In December 2020, the Company and Nebari agreed to extend the time for repaying the Nebari secured bridge loan as follows:

- US\$1.25M on 31 December 2020;
- US\$1.25M on 14 February 2021; and
- US\$1.5M on 31 March 2021.

These instalments were paid by due date and accordingly, as at 31 March the Nebari secured bridge loan has been extinguished.

In October 2020, in connection with the acquisition of New Elk, the Group has assumed a note (the liability of which is confined to New Elk), maturing 1 July 2030, in favour of Cline Mining Corporation. The note is interest free and secured against the assets of New Elk, but will subordinate up to US\$40M of New Elk senior debt, if and when New Elk decides to borrow. The face value of the note, net of US\$4M of Allegiance shares issued on closing, is US\$35.12M.

US\$3M of the note was repaid in January 2021 from funds held by the Colorado government as security for rehabilitation bonds, which was released upon replacement with an insurance surety bond. A further initial debt repayment of US\$6 million is payable on the earlier of the date New Elk commences commercial production and 1 December 2021. The balance of the note is repayable in quarterly instalments from 60% of New Elk's net cash flow after providing for preferred debt payments and for sustaining and working capital requirements.

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

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**About Allegiance Coal**

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

## Tenement Summary

Tenure Number	Owner	Project	Tenure Type	Area (ha)
<b>British Columbia Canada</b>				
DL 230; PID - 014-958-724	Telkwa Coal Ltd	Telkwa	Freehold	259
DL 237; PID - 014-958-732	Telkwa Coal Ltd	Telkwa	Freehold	259
DL 389; PID - 014-965-666	Telkwa Coal Ltd	Telkwa	Freehold	262
DL 391; PID - 014-965-674	Telkwa Coal Ltd	Telkwa	Freehold	262
DL 401; PID - 014-965-682	Telkwa Coal Ltd	Telkwa	Freehold	259
353440	Telkwa Coal Ltd	Telkwa	Coal License	259
334059	Telkwa Coal Ltd	Telkwa	Coal License	269
327972	Telkwa Coal Ltd	Telkwa	Coal License	259
327836	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327837	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327838	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327839	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327845	Buckley Valley Coal Ltd	Telkwa	Coal License	259
328672	Buckley Valley Coal Ltd	Telkwa	Coal License	259
327834	Telkwa Coal Ltd	Telkwa	Coal License	130
327840	Telkwa Coal Ltd	Telkwa	Coal License	259
327865	Telkwa Coal Ltd	Telkwa	Coal License	259
327866	Telkwa Coal Ltd	Telkwa	Coal License	259
327936	Telkwa Coal Ltd	Telkwa	Coal License	259
327944	Telkwa Coal Ltd	Telkwa	Coal License	259
327951	Telkwa Coal Ltd	Telkwa	Coal License	259
327952	Telkwa Coal Ltd	Telkwa	Coal License	259
327953	Telkwa Coal Ltd	Telkwa	Coal License	259
327954	Telkwa Coal Ltd	Telkwa	Coal License	259
327964	Telkwa Coal Ltd	Telkwa	Coal License	259
327965	Telkwa Coal Ltd	Telkwa	Coal License	259
<b>Queensland Australia</b>				
1298	Mineral & Coal Investments PL	Kilmain	Exploration Permit	2800
1917	Mineral & Coal Investments PL	Kilmain	Exploration Permit	2800
<b>Colorado United States</b>				
607075	New Elk Coal Company LLC	Lorencito	Coal Lease	7228
635047	New Elk Coal Company LLC	New Elk	Coal Lease	12,116
635047	New Elk Coal Company LLC	New Elk	Coal Lease	729
635047	New Elk Coal Company LLC	New Elk	Freehold	477
635047	New Elk Coal Company LLC	New Elk	Freehold	101