

MINING FLASHNOTE

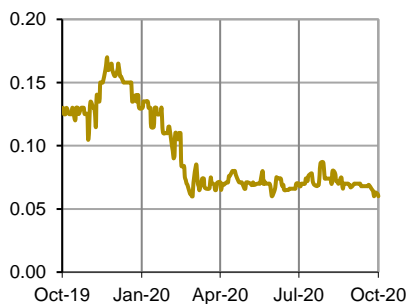
Allegiance Coal Ltd (AHQ ASX)

27 October 2020

Stock Data

| | |
|-----------------|----------|
| Share Price: | A\$0.06 |
| Market Cap (m): | A\$38.38 |
| EV (m): | A\$39.16 |

Price Chart A\$



52 Week Range

| | |
|----------|---------|
| A\$0.172 | A\$0.06 |
| A\$0.057 | |

Company Summary

Allegiance Coal Limited is focused on developing and mining metallurgical coal projects in North America. The Company is developing the Tenas project in Canada as well as restarting the past producing New Elk hard coking coal project in Colorado.

| MAIN SHAREHOLDERS | HOLDING |
|--------------------|---------|
| Citcorp Nominees | 10% |
| HSBC Nominees | 5% |
| Mark Gray | 4% |
| JA Ashton Nominees | 4% |
| GET Nominees | 4% |

Source: Allegiance Coal Ltd

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Allegiance Coal completes acquisition of New Elk Coal Company LLC

Event

Allegiance Coal Limited ("Allegiance") has announced that the acquisition of all the shares in New Elk Coal Company LLC which owns 100% of the New Elk Coking Coal Mine ("NECC"), located in southeast Colorado, was completed on 26 October 2020.

Highlights

Acquisition of New Elk Coal Company

- Allegiance has completed the sale and purchase of the New Elk Hard Coking Coal Mine
- Completion was originally delayed at the direction of the Colorado Division of Reclamation, Mining and Safety ("DRMS") to review the current reclamation bond which resulted in DRMS marginally increasing the bond from US\$5.2m to US\$5.5m. Allegiance has secured up to US\$10m of insurance mine reclamation bonding
- Terms of acquisition remain the same as those dated 5 June 2020 except:
 - Debt repayment shares: Previously US\$3m of Debt Repayment Shares would be issued on completion and US\$1m in cash or Allegiance shares would be issued if production did not commence before 31 March 2021. The production condition has now been waived and the Company will issue US\$4m of Debt Repayment Shares instead.
 - Cash Payment: In addition of the US\$1 in cash paid for the 100% of the equity in NECC to Cline Mining Corporation, Allegiance was to have paid US\$3m in cash as part of the debt reduction of Cline. This payment has now been waived by Cline and will be paid once the US\$5.2m cash reclamation bond held by DRMS is released to NECC after Allegiance posts the insurance reclamation bond.

Comment

The New Elk mine has 673Mt of resources and 45Mt of reserves with mining, water and discharge permits already in place. We expect New Elk will be a low-cost producer given that it is a past-producing mine rather than a greenfield project. Management now expects to re-start production in late Q1 2021.

Completion of the New Elk acquisition comes at an opportune time given the current strengthening of metallurgical coal prices. The slight delay in completion has allowed Allegiance to refine its sales strategy resulting in a possible sale of New Elk hard coal out of New Orleans rather than Houston as originally planned. Management is hoping to achieve a premium price by blending low sulphur New Elk coal with high-sulphur high-volatile A hard coking coal from Alabama, which is currently being sold as for domestic thermal coal due to the unacceptable sulphur levels for steel mills. As such, we look forward to further updates as Allegiance finalises its sales strategy in the coming months.

Research Disclosures

Sheldon Modeland, P.GEO

Sheldon is a registered professional geoscientist with over 18 years' experience in the mining industry. Having started his career as an exploration geologist in Canada with Falconbridge (now Glencore) and BHP Billiton, he then spent several years as a research geoscientist with the Saskatchewan Geological Survey. Followed by eight years as a project geologist with AREVA Resources (now Orano). More recently, Sheldon has spent the past nine years on the sell-side as a mining analyst in London covering a range of production, development and exploration companies from FTSE 100 to micro-cap.

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Research Disclaimers

Research disclosure as of 27 October 2020

| Company Name | Disclosure |
|---------------------------|---------------|
| Allegiance Coal (AHQ.ASX) | 1, 2, 7, 8, 9 |

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