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Japan Oil, Gas and Metals National Corporation (JOGMEC) Joint Venture with Allegiance Coal Limited

Highlights

- JOGMEC to provide $3 million of exploration funding over 3 years in exchange for a 40% interest in the Kilmain Coal project, located in Queensland's Bowen Basin.
- The funding package will allow substantial exploration of the coal within the Project area.
- Exploration Joint Venture with a key Japanese Government owned corporation will progress the evaluation of the open cut and underground potential within the Kilmain tenements.

Allegiance Coal Limited ("Allegiance Coal") and JOGMEC, a Japanese government owned corporation, will jointly undertake an extensive exploration program in Queensland's Bowen Basin.

Under the terms of a Joint Exploration Agreement ("JEA") announced today, JOGMEC will provide up to $3 million of exploration expenditure to Allegiance Coal over a 3 year period for the Kilmain Coal Project in three stages.

The JEA is subject to final execution of the documents and approval by the FIRB.

JOGMEC will earn up to a 40% economic interest in the Kilmain Project and has the right to assign that interest to a Japanese nominee company in the future, in order to progress the project to development.

Allegiance Coal is to benefit from the recent Japanese national interest in Queensland resources as demonstrated by the signing on 30 September 2013 by JOGMEC and the Queensland State government of a comprehensive Memorandum of Understanding ("MOU"). The MOU sets out a framework for strong bilateral cooperation on natural resources exploration and development in Queensland including coal, gas and other mineral resources, as Japan considers Queensland one of the most strategically important partners for its resources trade.

The Kilmain Project (EPC 1298 and EPC 1917) is a 56 square km area within the Bowen Basin. The project area is located 85 km southeast of Emerald and 12km west of the Rolleston rail line. The project area on its eastern boundary adjoins the BMA Togara South Project while on the western boundary adjoins the Bandanna Energy's Arcturus Project and to the north the Bandanna Energy Springsure Creek Project.

The Kilmain Project has potential for an opencut/underground deposit of coking/PCI/thermal coal within the Rangal Coal Measures and has an exploration target of 100 to 200 Mt of coal. ***See NOTE A***.

The JEA provides Allegiance Coal with funding for all of the planned exploration expenditure over three years including seismic exploration, drilling and associated coal quality analysis within the Kilmain Project area. Funding provided under the JEA will also allow Allegiance to build a comprehensive geological model of the area utilising the new data along with previous company drilling and historical data within and adjacent to the tenements.

Under the JEA first activities are expected to be seismic surveying which is expected to take place during September 2014. The initial seismic surveying is to take place in the southern part of the Project area where the seams are shallowest. Previous drilling by Allegiance Coal identified coal seams at depth and a working seam section of 3.1 m within the Castor/Pollux Seams.

Allegiance Coal's Managing Director Mr Colin Randall said, "My first involvement with Japanese investment in Australian coal projects was back in 1975. Since that time Japan investors and consumers have demonstrated their continuing strong relations with the Australian coal industry and now with JOGMEC's participation there is a continued interest in the development of coal projects in Queensland. The Kilmain project has now four distinct advantages over other coal projects :1) It is in Queensland 2) Contains possible high quality coal component 3) Close to an existing rail line; and 4) Japanese participation.

Mr Randall said "We are very pleased to announce today this partnership with JOGMEC and look forward to advancing the Kilmain project with the assistance of JOGMEC over the next three years."

Colin Randall
Managing Director
Allegiance Coal Limited

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NOTE A :

The Exploration Target was announced on 12th October 2011 by Gullewa Limited prior to the listing of Allegiance Coal Limited.

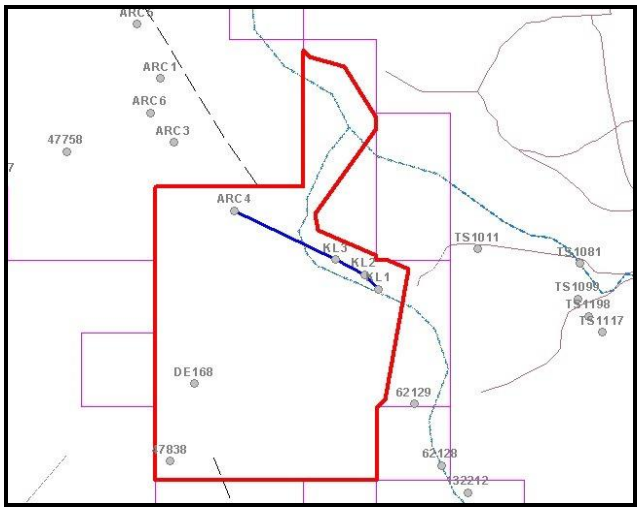
The Exploration Target was estimated by Competent Person Colin Randall, utilising the results of drilling of KL001 as well as existing drill holes (ARC4 and DE168) within the tenement from earlier exploration.

The potential quantity and quality of the Exploration Target is conceptual in nature and there has been in sufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

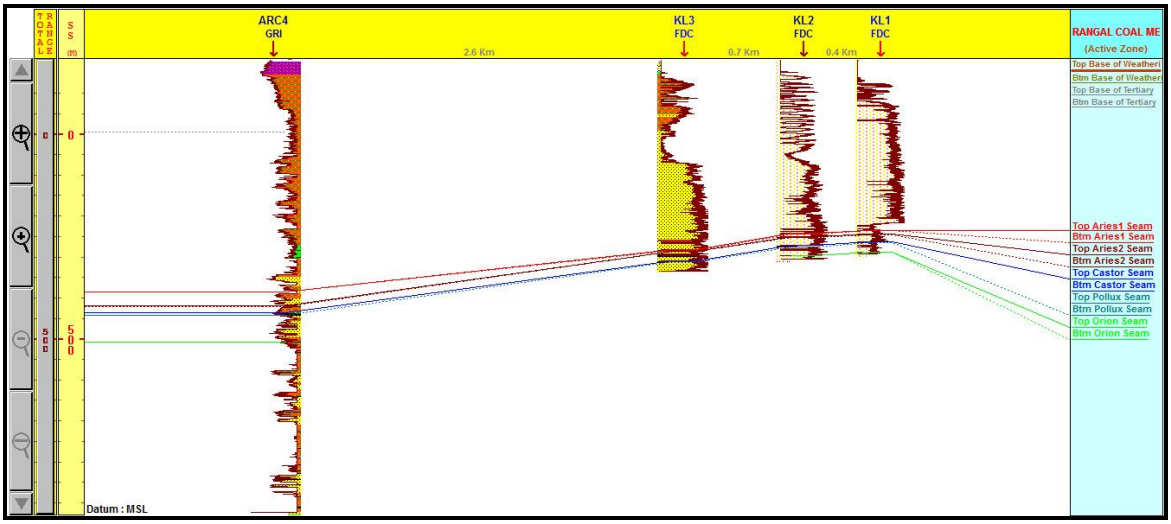
Further technical details supporting the Exploration Target as per clause 17 of the JORC Code 2012 are AS FOLLOWS:

a) Current Process and Data Supporting The Exploration Target

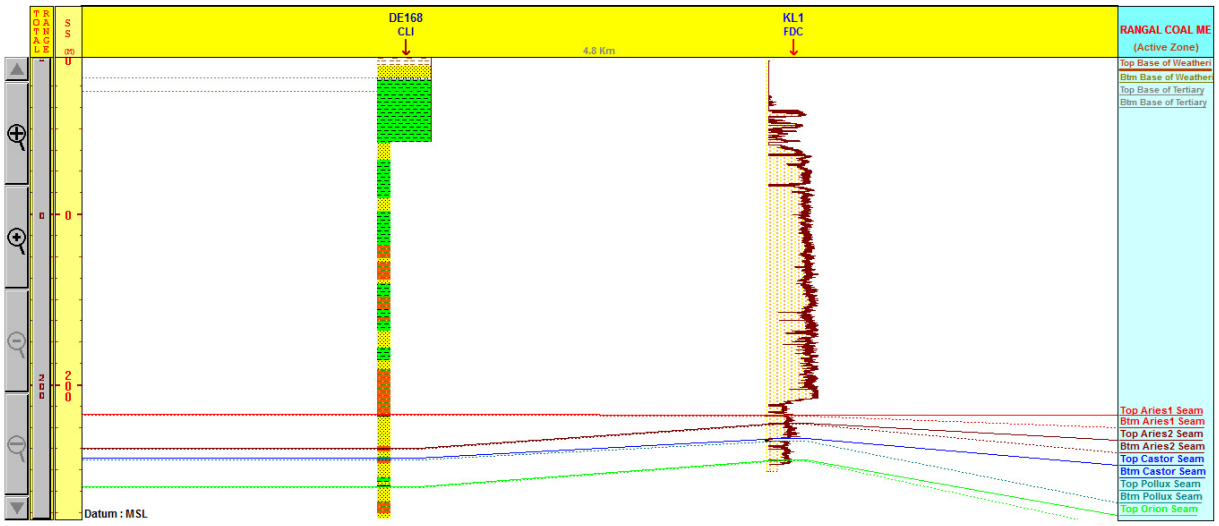
As stated above the Exploration Target was estimated using MCI drill hole KL001 as well as existing holes ARC4 and DE168. Figures showing the location of these holes and drill sections containing these holes showing the respective seam correlations are shown below in Plans 2-5. The inter-hole distance (km) is clearly shown in the headers of the two drill sections. The Albinia Fault is not shown on these sections as the average known displacement (based on the adjacent Arcturus deposit of some tens of metres) would not be visible at the vertical scale used in these drill sections. The location of the N-S aligned Albinia Fault is however, clearly shown in Plan 6 as is its displacement effect on the depth contours for the base of the target Castor-Pollux Seam. An internal drift is a typical standard underground mining engineering method for maintaining access to coal seams which have been moved due to the effects of such geological structures.



Plan 2 - Kilmain Project – Drill holes (in sections) used for Exploration Target



Plan 3 - Kilmain Project – Section looking NE showing seam extension to NW corner of tenement (ARC4)



Plan 4 - Kilmain Project – Section looking NW showing seam extension to SW corner of tenement (DE168)

The following table (Table 1) summarises coal quality data obtained from MCI drill hole KL001 used to define the Exploration Target. Subsequent drilling of holes KL002 and KL003 confirmed these coal quality data. As seen in the table below the range of raw ash content varies from 9 to 15% on an air dried basis. The tonnage calculation for the Exploration Target was based on the average thickness of the coalesced Castor-Pollux Seams at approximately 3 metres thickness as well as thickness of the Aries Seam plies above 1.5 metres over the area of the tenement which is approximately 50 square kilometres. A density factor of 1.5 grams per cubic centimetre was used in the calculation as was a mining dilution factor of 50%. A detailed seam section of drill hole KL001 is shown below in Plan 5 with the respective seam names clearly indicated. Numerous unnamed thin coal seam plies are also seen in this seam section, which have not been used in the target tonnage calculation.

Table 1: Kilmain Project – Raw Coal Quality Summary Data for Drill Hole KL001

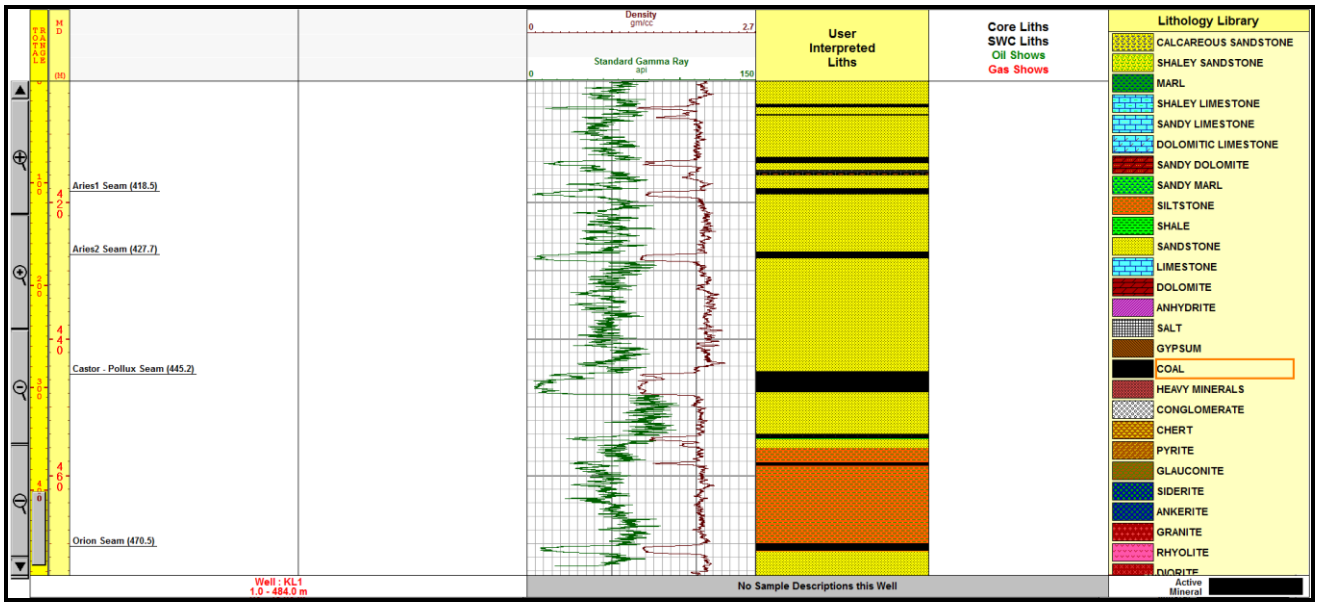
SEAM NAME	From	To (m)	Length (m)	#	RD	A	FC	VM	IM	S	SE	CSN
ARIES 1	414.66	419.25	0.86	2	1.42	11.0	52.2	30.10	6.7	0.52	5404	NA
ARIES 2	427.69	428.72	1.03	3	1.45	15.1	49.4	30.4	5.1	0.27	6738	1.0
CASTOR-POLLUX	445.22	448.35	3.13	8	1.45	14.4	51.5	27.8	6.3	0.34	6460	3.0
ORION	470.48	471.54	1.06	2	1.41	11.8	52.1	28.9	7.1	0.36	6130	1.0

Notes:

1. Aries 1 seam comprises 2 samples (414.66-414.74, 418.47-419.25). Sample No.s 129361,129364.
2. Aries 2 seam comprises 3 samples (427.69-427.80, 427.80- 428.95, 427.95-428.72). Sample No.s 129367-129369.
3. Castor –Pollux seam comprises 9 samples (Sample Numbers 129372 to 129380).
4. Orion seam comprises 2 samples (470.48 – 471.01, 471.01 – 471.54). Sample No.s 129392,129393.
5. Core recovery across all seams averaged > 95%
6. #N means number of samples on which the simple average was based. Sample variance was low which precluded the need for a weighted average calculation.
7. Due to sample mass restrictions 6 samples for HGI determination were obtained out of the 9 samples from the Castor-Pollux seam. The average HGI value is based on these 6 samples. HGI means Hardgrove Grindability Index and is a test of the coal's hardness which is important when transporting the coal.
8. RD means relative density measured in grams per cubic centimetre.
9. A means % ash content from proximate analysis on an air dried basis.
10. FC means % fixed carbon from proximate analysis on an air dried basis.
11. VM means % volatile matter from proximate analysis on an air dried basis.
12. IM means inherent moisture from proximate analysis on an air dried basis.
13. S means % total sulphur.
14. SE means specific energy (a.k.a. calorific value) measured in kilocalories per kilogram on and air dried basis. Daf values were also assayed but are not included in Table 1.
15. CSN means raw crucible swelling number which is used for coking coal property assessment. The best result is tabulated above rather than the average.
16. NA means not assayed.
17. One assay from a thin (0.10m) carbonaceous shale band at the base of the Castor-Pollux seam was omitted from the average calculation for this seam.
18. Aries 1 seam contained a thin internal stone band which was not assayed.

Notes on washability analyses :

1. Coal quality test work from the three holes tested to date has determined that the combined Castor-Pollux seam is capable of producing three products comprising a semi hard coking coal, PCI and a high energy thermal coal.
2. Float sink analyses were conducted on a ply-by-ply basis on KL001 and KL002.
3. From analyses of the float sink data and with testing for crucible swell index (CSN) a low ash coking coal fraction was identified. The washed CSN values on average show a 1 to 2 point lift compared to raw CSN values. The best value of washed CSN from the Castor-Pollux seam was 5.
4. The coking coal fraction was recovered as F1.30 and had ash less than 5% with CSN 5 and composed of vitrinite. A yield of 38% was estimated.
5. With recovery of further fraction at F1.40 A PCI coal with an ash of 9% with estimated yield of 28%.
6. With recovery of a further fraction at F 1.50 a thermal coal with ash of 15% with estimated yield of 20%.
7. Overall yield of 86% is expected.
8. Indicative specifications for all 3 coal products have been prepared.



Plan 5 - Kilmain Project – Seam Section for Drill hole KL001