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30 October, 2014

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Quarterly Report

For period ended 30 September, 2014

Highlights

- JOGMEC to provide \$3 million of exploration funding over 3 years in exchange for a 40% interest in Allegiance Coal's 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.
- Part repayment and renegotiation of loans
- Further relinquishments of tenements
- Maintaining focus on cost control and cash preservation.

JOGMEC Joint Exploration Agreement

Allegiance Coal Limited ("Allegiance Coal") and JOGMEC, a Japanese government owned corporation, signed on 14th July 2014 a Joint Exploration Agreement to undertake an extensive exploration program in the Company's Kilmain tenements.

Under the terms of the Joint Exploration Agreement ("JEA"), 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 was approved by FIRB on 29 August 2014.

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.

Repayment and repayment of loans

Mineral and Coal Investments Pty Limited (MCI) is a fully owned subsidiary of Allegiance Coal Limited. MCI had loans to a value of \$3,086,164 (as at 30 June, 2014) owing to Gullewa Limited and C. Randall & Associates Pty Ltd, which were due for repayment on 30 June 2014, either in full or in part depending on certain circumstances.

On 22 July it was announced that the company had negotiated the partial repayment of those loans by the repayment to Gullewa Limited of \$1,000,000 and the repayment to C. Randall & Associates Pty Ltd of \$200,000.

The company had also negotiated an extension of the balance of the loans to 30 September 2015, subject to certain conditions.

These conditions include if MCI does not have sufficient cash to cover its 12 month operating budget at the repayment date, then the repayment date will be extended by a further 90 days. The repayment date can continue to be extended by 90 day periods in this manner if that condition cannot be met, until a sunset repayment date of 30 June, 2017, at which time all of the debts must be repaid in full. Interest is charged on the loans calculated on the 90 day bank bill swap rate plus 4%.

Relinquishment of tenements

The potential for each tenement has been critically assessed and a decision has been taken to relinquish the following additional tenements:

Townsville Extended –	This greenfield exploration project did not have any indication of coal.
Mt Marrow –	This project while well located in the west Moreton coalfield near Ipswich was thermal coal only and required washing to achieve a marketable product.
Connemarra –	Drilling within the tenement did not reveal any coal at open cut or underground depths.

The tenements already being relinquished are Pinetree, Normanby, Mobs Creek, Cedar Creek, Lochaber and Mintovale tenements.

Cost Control Initiatives

Allegiance Coal Limited has continued to maintain focus on cost control and critically examine its cash position. The relinquishments of tenements and concentration on tenements where there are JV partners or potential for JV partners will reduce expenditure.

The budget continues to be under review and when the detailed JOGMEC budget is signed off a revised budget incorporating further reductions in salaries and staffing will be prepared for approval in the next quarter.

PROJECT STATUS

Kilmain Project

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 open cut/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 the first activities were seismic surveying and ground magnetometer surveys which took place during September 2014. The initial seismic surveying took place in the southern part of the Project area. Previous drilling by Allegiance Coal identified coal seams at depth and a working seam section of 3.1 m within the Castor/Pollux Seams.

Drilling is planned to commence the second week in October subject to suitable weather conditions.

Aurizon's (ASX:AJZ) electrification of the Rolleston rail line continued during the Quarter.

The electrification of the Rolleston rail line to meet the planned increase in production from Glencore's Rolleston Mine to the south will enhance the Kilmain project since there is the potential for lower cost rail transportation in the future. ⁽²⁾

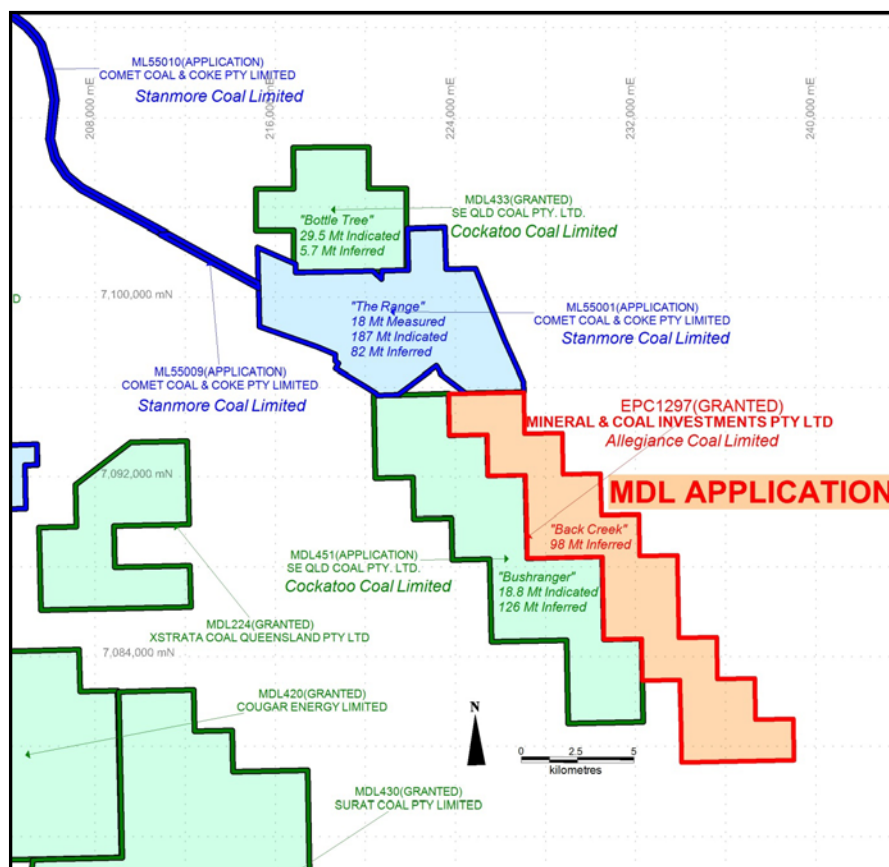
Back Creek Project

The posting of the maiden 98 Mt JORC Inferred Resource in November, 2012 ⁽¹⁾ enabled the Company to progress the Project to the stage of lodging a Mineral Development Licence Application (MDLA) in March, 2013. Following discussions with DNRM it has been decided to resubmit the MDLA utilising data and geological concepts that were either not available or considered in making the original MDLA. The resubmittal planned for this Quarter has been delayed to enable staff to focus on planning for exploration on the Kilmain project. *See Plan 1*

The Project is well suited to gain benefit from further development of Surat Basin infrastructure.

(1) Allegiance Coal Limited ASX Announcement 26/11/2012

(2) Aurizon Holdings Limited ASX Announcement 13/04/2013



Plan 1 - Back Creek Project – MDL Application

Sources of information in Plan 1:

- "Bottle Tree" and "Bushranger" resources are from www.cockatoocoal.com.au.
- "The Range" resource is from www.stanmorecoal.com.au.
- "Back Creek" resource is from www.allegiancecoal.com.au.
- Mt = Million tonnes.
- Measured, Indicated and Inferred are resource categories defined by the Joint Ore Reserve Committee (JORC) of the Australasian Institute of Mining and Metallurgy (AusIMM).
- Map projection is Map Grid of Australia Datum 1994, Zone 56.

Calen Project

Detailed planning for exploration on a limited number of drill sites within the Calen tenements was undertaken by Square Holdings with whom the Company has a farm-out and joint venture agreement. A shareholder in Square Holdings is Japanese coal trader Mitsui Matsushima.

The Calen Joint Venture meeting agreed the drilling program for 2014 calendar year. Drilling is expected to commence in the next Quarter. With drilling of 3000m, Square Resources will earn a 51% share in the joint venture.

The Calen Project, EPC 1631 and EPC 1820, has potential for underground and open cut PCI coal deposits.

Townsville

With the data from field mapping of coal seam outcrop, combined with drill hole information and a data swap with an adjacent tenement holder, the Company has accumulated sufficient data in preparation for an application for a Mineral Development Licence.

The company has had discussions during the period with potential JV partners.

During the period there were no field activities within the tenements.

The work to date within the Townsville project area has proven the Company's low cost exploration approach of making extensive archival searches and research before spending exploration dollars in the field.

The Townsville Project, EPC 1492 and EPC 1617, has potential for open pit coking/ thermal coal deposits.

Corporate

Cash : At 30 September , 2014 the company held \$1.751 million in cash.

Contacts :

For further information please contact:

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0408 969 424

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Investor Relations Manager
02 9299 5007

* **Competent Persons Statements**

Mr Colin Randall is the Managing Director of Allegiance Coal Limited and is a Fellow of the Australasian Institute of Mining and Metallurgy. He has a minimum of 15 years' experience in the field of activity being reported on and is a Competent Person as defined in the 2012 JORC Code. This announcement accurately summarises and fairly reports his assessment and where required, has consented to the report in the form and context in which it appears.

The information in this report as it relates to Exploration Targets for the Kilmain Project is based on information compiled by Colin Randall who is the Managing Director of Allegiance Coal Limited and is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Randall has sufficient expertise in mineral resources estimation, which is relevant to the style of mineralisation and type of deposit under consideration and is qualified as a Competent Person as defined in the 2012 edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Randall consent to the inclusion in the report of the information in the form and context in which it appears.

The information in this report as it relates to the coal resources for the Back Creek Project is based on information compiled by Colin Randall who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Randall has sufficient expertise in mineral resources estimation, which is relevant to the style of mineralisation and type of deposit under consideration and is qualified as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves. Mr Randall consents to the inclusion in the report of the information in the form and context in which it appears.

Tenements and Location

Holder	Project Name	Location	Tenement Number	Number of Sub Blocks	Status
Mineral & Coal Investments Pty Ltd	Back Creek	Surat Basin	EPC 1297	20	Granted
Mineral & Coal Investments Pty Ltd	Kilmain	Bowen	EPC 1298	16	Granted
Mineral & Coal Investments Pty Ltd			EPC 1917	2	Granted
Mineral & Coal Investments Pty Ltd	Connemarra	Bowen	EPC 1296	32	Being Relinquished
Mineral & Coal Investments Pty Ltd	Calen	Calen	EPC 1631	27	Granted
Mineral & Coal Investments Pty Ltd			EPC 1820	17	Relinquished 19/08/2014
Mineral & Coal Investments Pty Ltd	Mt Marrow	Moreton	EPC 2374	30	Being Relinquished
Mineral & Coal Investments Pty Ltd	Townsville	Northern Bowen	EPC 1492	120	Granted
Mineral & Coal Investments Pty Ltd			EPC 1617	18	Being Relinquished
Mineral & Coal Investments Pty Ltd	Lochaber	Mulgildie	EPC 1672	30	Being Relinquished
Mineral & Coal Investments Pty Ltd	Normanby	Hodgkinson	EPC 1874	86	Being Relinquished
Mineral & Coal Investments Pty Ltd	Pinetree	Laura	EPC 1875	217	Being Relinquished
Mineral & Coal Investments Pty Ltd	Cedar Creek	Surat	EPC 2278	12	Being Relinquished
Mineral & Coal Investments Pty Ltd	Mobs Creek	Surat	EPC 2309	23	Relinquished 20/08/2014
Moreton Coal Pty Ltd	Mintovale	Moreton	MDL 138	n/a	Being Relinquished

NOTE A :

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

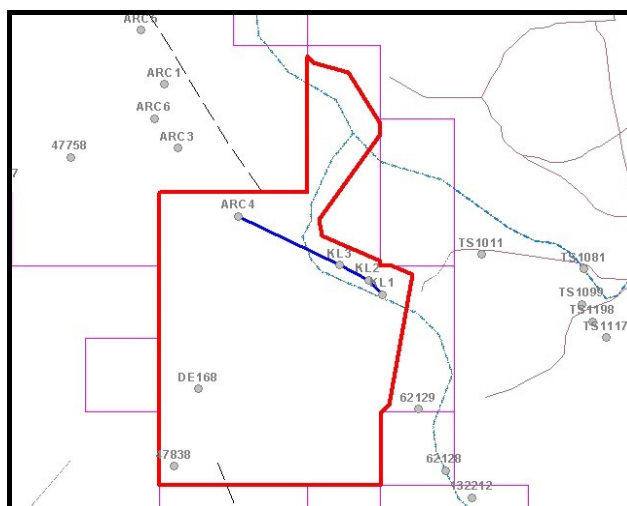
The Exploration Target was estimated by Competent Person Colin Randall, utilising the results of drilling of KL001 as well as existing drill holes (ARC4 and DE168) within the tenement from earlier exploration.

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.

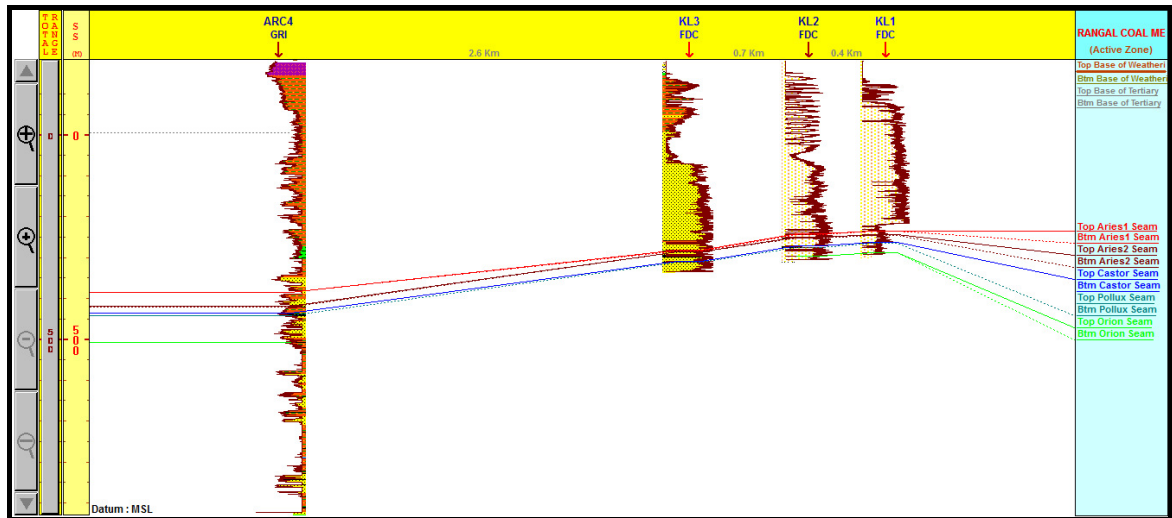
Further technical details supporting the Exploration Target as per clause 17 of the JORC Code 2012 are AS FOLLOWS:

a) Current Process and Data Supporting The Exploration Target

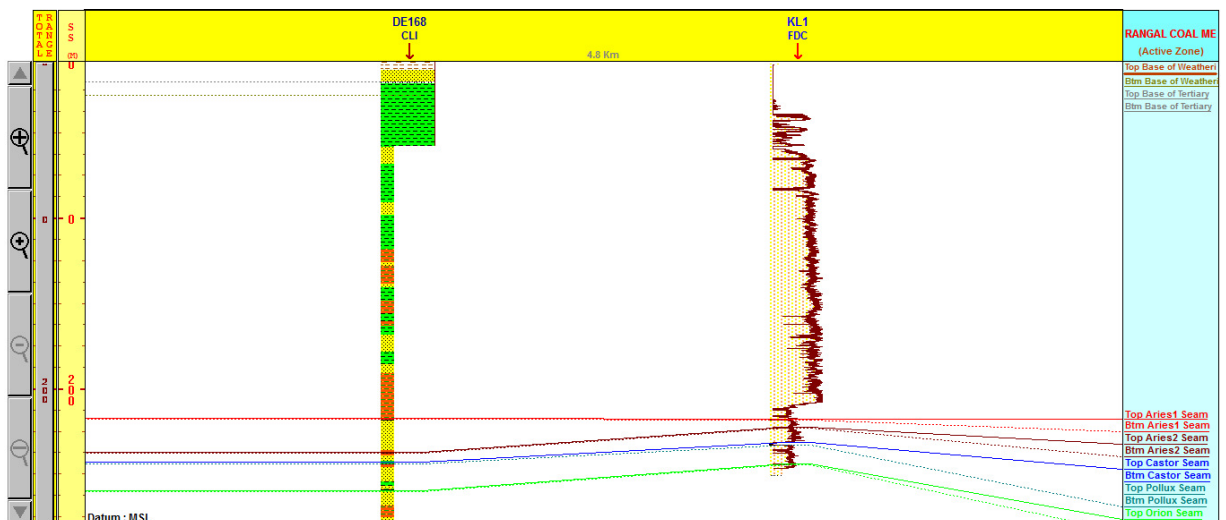
As stated above the Exploration Target was estimated using MCI drill hole KL001 as well as existing holes ARC4 and DE168. Figures showing the location of these holes and drill sections containing these holes showing the respective seam correlations are shown below in Plans 2-5. The inter-hole distance (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

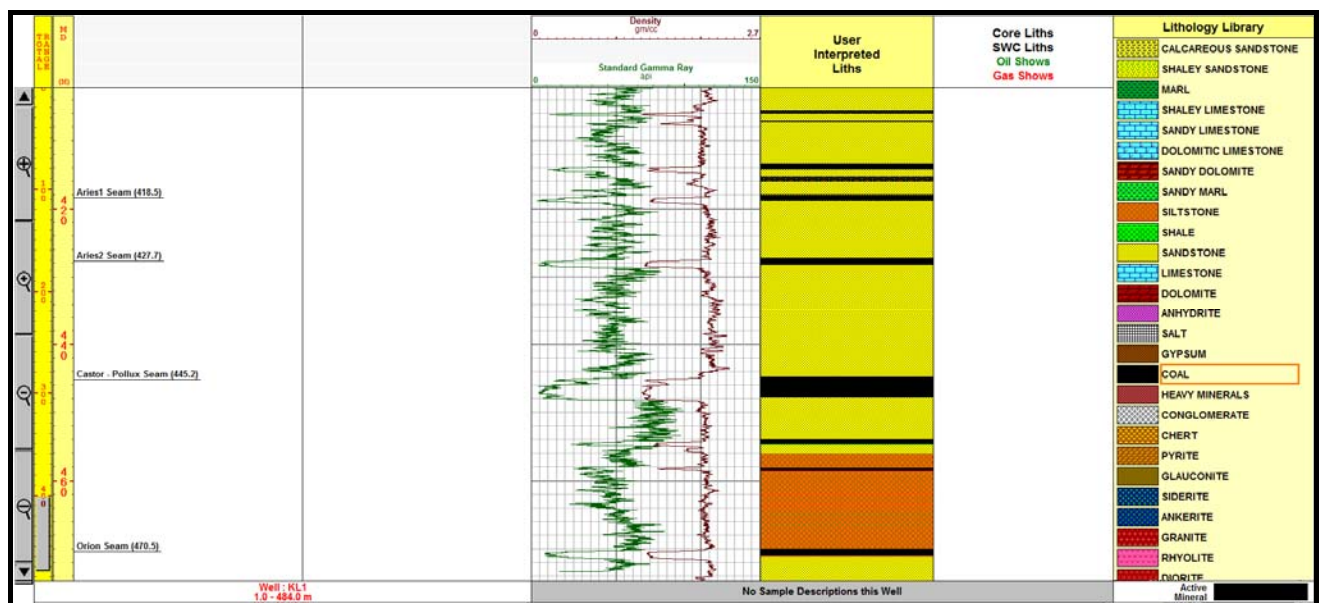
SEAM NAME	From	To (m)	Length (m)	#	RD	A	FC	VM	IM	S	SE	CSN
ARIES 1	414.66	419.25	0.86	2	1.42	11.0	52.2	30.10	6.7	0.52	5404	NA
ARIES 2	427.69	428.72	1.03	3	1.45	15.1	49.4	30.4	5.1	0.27	6738	1.0
CASTOR-POLLUX	445.22	448.35	3.13	8	1.45	14.4	51.5	27.8	6.3	0.34	6460	3.0
ORION	470.48	471.54	1.06	2	1.41	11.8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