

QUARTERLY REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2009

29 January 2010

ASX Code: **AGS**

No. of pages: 18

QUARTERLY REPORT - FOR THE PERIOD ENDED 31 DECEMBER 2010

DETAILS OF ANNOUNCEMENT

- Quarterly Activity Report for the period ending 31 December 2009 (12 pages)
- Appendix 5B for the period ending 31 December 2009 (5 pages)



Ian Pamensky
Company Secretary

Further information relating to the Company and its various exploration projects can be found on the Company's website at www.allianceresources.com.au

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HIGHLIGHTS

URANIUM (FOUR MILE JOINT VENTURE, Alliance 25%)

Mineral Resources

- Mineral resource estimate for Four Mile Uranium Project in South Australia increases by 16% to 32,000 tonnes (71 Mlb) uranium oxide (U_3O_8) at average grade of 0.33%
- Increase due to updated mineral resource estimate at Four Mile West (FMW) deposit, to 19,000 tonnes (42 Mlb) U_3O_8 at average grade of 0.33%
 - Increase excludes additional U_3O_8 mineralisation above or within about 20m of the water table over 0.73 km² in the western area at FMW. This could potentially add up to 30% to FMW resources on a contained U_3O_8 basis if this mineralisation is proved recoverable by ISR or mineable by other means
 - Includes upgrade of 14,000 tonnes (32 Mlb) U_3O_8 at average grade of 0.34% from “inferred” to “indicated” classification in accordance with the JORC Code, with balance classified as “inferred”
- Significant potential for expansion of the mineral resource base with further evaluation and estimation of a mineral resource for the western area mineralisation at FMW and with additional drilling, at:
 - FMW where mineralization remains open to west with several hundred metres of untested ground to a sub vertical faulted contact with outcropping crystalline basement
 - FME where mineralisation remains open to the west and northeast, and
 - Approximately 30 kilometres of largely untested range front where the younger cover sequences contact the crystalline basement

Legal Proceedings

- Recording JV Meetings. On 13 October 2009, Alliance Craton Explorer Pty Ltd (ACE), a subsidiary of Alliance Resources Limited (Alliance), issued proceedings in the Supreme Court of South Australia against Quasar Resources Pty Ltd (Quasar) in order to test its right to record proceedings of JV management committee meetings. A directions hearing has been scheduled for 5 March 2010
- Native Title Registration. On 12 November 2009, ACE issued proceedings in the Supreme Court of South Australia against Quasar and Heathgate Resources Pty Ltd (Heathgate) seeking:
 - a declaration that Quasar exceeded and breached its authority, acted in breach of its fiduciary obligations and acted in breach of its contractual

obligation of good faith in signing a native title mining agreement (NTMA) for the Four Mile Project in the form negotiated by Quasar;

- a declaration that Heathgate knowingly participated in the breaches referred to above;
- an order requiring Quasar and Heathgate to execute a deed, in a form previously submitted to Quasar, which places Alliance in substantially the position it would have been in had the NTMA related only to the Four Mile Project or, in the alternative a mandatory injunction requiring Quasar to commence negotiating a new native title agreement which relates only to Four Mile; and
- damages and costs

At a directions hearing on 27 January 2010 a timetable was set for additional pleadings and discovery and a further directions hearing is scheduled for 8 April 2010

- **Pre-action Discovery.** On 16 November 2009, ACE issued proceedings in the Federal Court of Australia against Quasar and Heathgate for an order, by way of pre-action discovery, giving ACE access to books, records and agreements pertaining to the Four Mile Joint Venture. A hearing date has been scheduled for 22 February 2010
- **Alan Oshlack v Minister for Environment Heritage and the Arts.** On 11 December 2009, Alliance announced that it had been advised by Quasar that proceedings had been commenced in the Federal Court of Australia (Sydney Registry) by Alan Oshlack of the Indigenous Justice Advocacy Network seeking a review of Federal Minister Peter Garrett's decision in July 2009 to grant environmental approval for the Four Mile Project. Neither Alliance nor Quasar were parties to those proceedings. On 23 December 2009 Quasar was, by consent, joined as a respondent to those proceedings. The matter has been set down for hearing on 17 March 2010

Four Mile Development

- **Four Mile East (First Stage Mining Area):**
 - Nine wells were screened during the reporting period for a total of 129 second stage completions on a project-to-date basis
- **Four Mile West¹:**
 - Seven wells were screened during the reporting period for a total of seven second stage completions to-date, for use in a possible Field leach Trial as proposed by Quasar

¹ Alliance has objected to the change of scope in the budget and has disputed various other proposed changes to the budget. Alliance has not been provided with a copy of the engineering study and estimated project development and operating costs prepared by GRD Minproc and presumably used as the basis for the revised budget and the revised budget (which has not yet been presented to the joint venture Management Committee for its consideration or approval).

Engineering

- Engineering for Four Mile project was completed during the quarter. Equipment and materials continued to be delivered to Beverley for on-site storage.

Impact of Delay in Registering the NTMA

- As a result of the delay in registering the NTMA, the Mining Lease cannot be issued to the joint venture by the SA Government and on-site construction at Four Mile cannot begin. Consequently, Quasar has directed that work on the project be scaled down during the period of regulatory delay, and has informed Alliance the project has been delayed significantly beyond April 2010.

Contributions to Development

- Alliance paid an amount of \$2.4 million towards the cost of development of the Four Mile project during the quarter (\$13.1 million project-to-date)².

Independent Scoping Study

- The independent scoping study for the Four Mile Uranium Project commissioned by Alliance has been completed and is being reviewed by the Company. Highlights of the results of the study will be announced shortly.

CORPORATE

- Cash reserves of \$42.4 million (unaudited) at 31 December 2009
- Alliance has 341,172,309 ordinary shares and 8,300,000 unlisted options on issue
- Effective 1 March 2010 Patrick Mutz will be relinquishing his position as Managing Director but will remain with the company as a non-executive director and Steve Johnston will be appointed interim CEO
- Alliance and Drummond Gold Limited (Drummond) signed a share sale agreement under which Drummond may acquire Maldon Resources Pty Ltd from Alliance (previously reported)
 - On 18 January 2010, Drummond and Alliance announced they had agreed to further extended the date by which the conditions precedent must be fulfilled from 15 January to 19 March 2010.

GOLD (MALDON GOLD PROJECT, Alliance 100%)

The Union Hill decline and the processing plant have both remained on care and maintenance during the quarter.

² Alliance disputes the validity of the cash calls made by Quasar and, in making these payments, has reserved all of its rights. The payments are made to preserve Alliance's participatory rights in the Four Mile project.

FOUR MILE URANIUM PROJECT JOINT VENTURE (Alliance 25%)

Background

The Four Mile Uranium Project Joint Venture area is located 550 kilometres north of Adelaide in South Australia. Alliance Resources Limited (Alliance) holds a 25% participating interest in the joint venture through its 100% owned subsidiary, **Alliance Craton Explorer Pty Ltd (ACE)**. Alliance's joint venture partner and manager of the project is **Quasar Resources Pty Ltd (Quasar)** which holds 75% participating interest in the joint venture.

Alliance has been contributing to the development of Four Mile since October 2008 following Quasar's issuance of its "decision to mine" and a feasibility study compiled by URS, but generated internally by Quasar and its affiliate **Heathgate Resources Pty Ltd (Heathgate)**. The objective of the feasibility study was to establish the basis on which Quasar rendered its decision to mine.

While the feasibility study met Quasar's obligations under the joint venture agreement, it did not provide a sufficient quantity of independently verified information for Alliance as a publicly listed company. As such, Alliance commissioned an independent scoping study to determine/verify whether the proposed mine development programme and budget proposed by Quasar is fair and equitable and in the best interest of Alliance Shareholders.

The feasibility study recommended initial development of the Four Mile Project at the Four Mile East (FME) deposit using in-situ recovery (ISR) methods, involving the construction of a satellite pre-processing plant close to Four Mile East to recover the uranium using ion exchange resin and then transferring loaded resin by truck to the existing Beverley uranium processing facility for further processing, drying and packaging of uranium concentrate. Use of the Beverley plant is subject to an appropriate agreement on commercial terms with Heathgate, the owner/operator of the Beverley plant, and the Quasar-Alliance joint venture.

Uranium concentrate production at Four Mile was then anticipated to commence in early 2010 and ramp up to a targeted rate of 3 Mlb U₃O₈ (uranium oxide) per annum within 3 months.

The initial approved project development budget³ was A\$90 million (Alliance's share A\$22.5 million) and forecast production costs, including royalties, are A\$38.80 per pound U₃O₈ (US\$31 per pound U₃O₈⁴).

During 2Q 2009, Quasar provided Alliance with a proposed increase in the project development budget⁵ to A\$112 million (Alliance share A\$28 million) resulting in large part from inclusion of a new line item of a field leach trial at Four Mile West (FMW), plus a local resin loading plant or using trunklines to transport FLT lixiviant (solutions) to the originally proposed satellite plant to be constructed near the Four Mile East deposit for First Stage Mining Area processing.

³ Disclaimer: Alliance was not involved with the generation of Four Mile Project development and operating costs and does not endorse or accept Quasar's estimated costs as correct and accurate as those costs were generated internally by Quasar and affiliate Heathgate Resources Pty Ltd and lack independent verification by Alliance or its consultants. Alliance has commissioned an independent scoping study to review Quasar's estimated costs and project assumptions. Alliance reserves all its rights with regards to Quasar's proposed costs.

⁴ Based on 0.80 USD = 1AUD

⁵ Alliance has objected to the change of scope in this revised budget and has disputed various other proposed changes to the budget. Alliance has not been provided a copy of the engineering study and estimated project development and operating costs prepared by GRD Minproc and presumably used as part basis for the revised budget and the budget (which has not yet been presented to the joint venture Management Committee for its consideration or approval).

Mineral Resources

On 27 January 2010, (post reporting), Alliance announced that the total mineral resource estimate for the **Four Mile Uranium Project** had increased by more than 16% to 9.7 million tonnes @ 0.33% uranium oxide (U₃O₈) containing 71 million lb of U₃O₈, classified in accordance with the JORC Code.

This 16% increase in the total resource base is due to an updated mineral resource estimate the **Four Mile West** (FMW) deposit of 5.7 million tonnes @ 0.33% uranium oxide (U₃O₈) containing 42 million lb of U₃O₈. Refer Table 1 and Figure 1.

In addition to the increase, 14,000 tonnes (32 Mlb) U₃O₈ at average grade of 0.34% at FMW has been upgraded from a classification of “inferred” to “indicated”, with the balance classified as “inferred”.

***Background:** An initial Inferred mineral resource of 3.9 million tonnes @ 0.37% uranium oxide (U₃O₈) containing 32 million lb of U₃O₈ was announced for FMW on 8 May 2007, when drill spacing was approximately 100 m square. Subsequently, an initial Inferred mineral resource of 4.1 million tonnes @ 0.31% U₃O₈ containing 29 million lb of U₃O₈ was announced for **Four Mile East** (FME) on 25 June 2009, when drill spacing for that deposit was in the range 50-100 m square. With approximate doubling of defining drill holes at FMW from 200 to 400, including both expansion to the west and significant infill, it was considered appropriate to update the FMW deposit estimate.*

Table 1 - Four Mile Uranium Project - Mineral Resource Estimate*

Deposit	GT Cut-off %	Ore Mass tonnes	U ₃ O ₈ %	U ₃ O ₈ Tonnes	U ₃ O ₈ Mlb	JORC Classification
Four Mile West	0.10	4,100,000	0.34	14,000	32	Indicated
Four Mile West	0.10	1,500,000	0.31	4,700	9	Inferred
Four Mile West	0.10	5,700,000	0.34	19,000	42	
Four Mile East	0.10	4,100,000	0.31	13,000	29	Inferred
TOTAL	0.10	9,800,000	0.33	32,000	71	

*These estimates are classified in accordance with the Joint Ore Reserves Committee Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition) (JORC Code). Minor apparent multiplication mismatches are due to post-computational rounding of all entries to 2 significant figures.

Resource estimates were made at a number of grade x thickness (GT) cut-offs, applied to drill intercepts of 0.5 m minimum thickness and 0.05% minimum U₃O₈ grade, with up to 1 m of internal dilution allowed. The intercept parameters are the same as those used for prior resource estimates at FMW/FME and similar to those used at Beverley, but varied slightly to match the individual geometry of these deposits.

For 0.10 m%U₃O₈ GT cut-off, the total updated *Inferred and Indicated Mineral Resource* at FMW is:

5.7 million tonnes @ 0.34% U₃O₈ containing 19,000 t (42 million lb) of U₃O₈ at 1.9 m average thickness and 0.65 m%U₃O₈ GT in each of two superposed layers. A dry bulk density of 1.85t/m³ was used for the conversion of volume to tonnes.

All mineral resource estimates to-date at Four Mile have been addressed as amenable to In Situ Recovery (ISR) as the only mining method. However, at FMW, additional mineralization has been identified above or within about 20m of the water table in the western area, which has the potential to add up to 30% to the FMW resources on a contained U_3O_8 basis, if this mineralisation is proved recoverable by ISR or mineable by other means.

Significant potential exists for expansion of the mineral resource base with further evaluation and estimation of a mineral resource for the western area mineralisation at FMW and with additional drilling, at:

- FMW where mineralization remains open to west with several hundred metres of untested ground to a sub vertical faulted contact with outcropping crystalline basement
- FME where mineralisation remains open to the west and northeast, and
- Approximately 30 kilometres of largely untested range-front within joint venture tenement where the younger cover sequences contact the crystalline basement

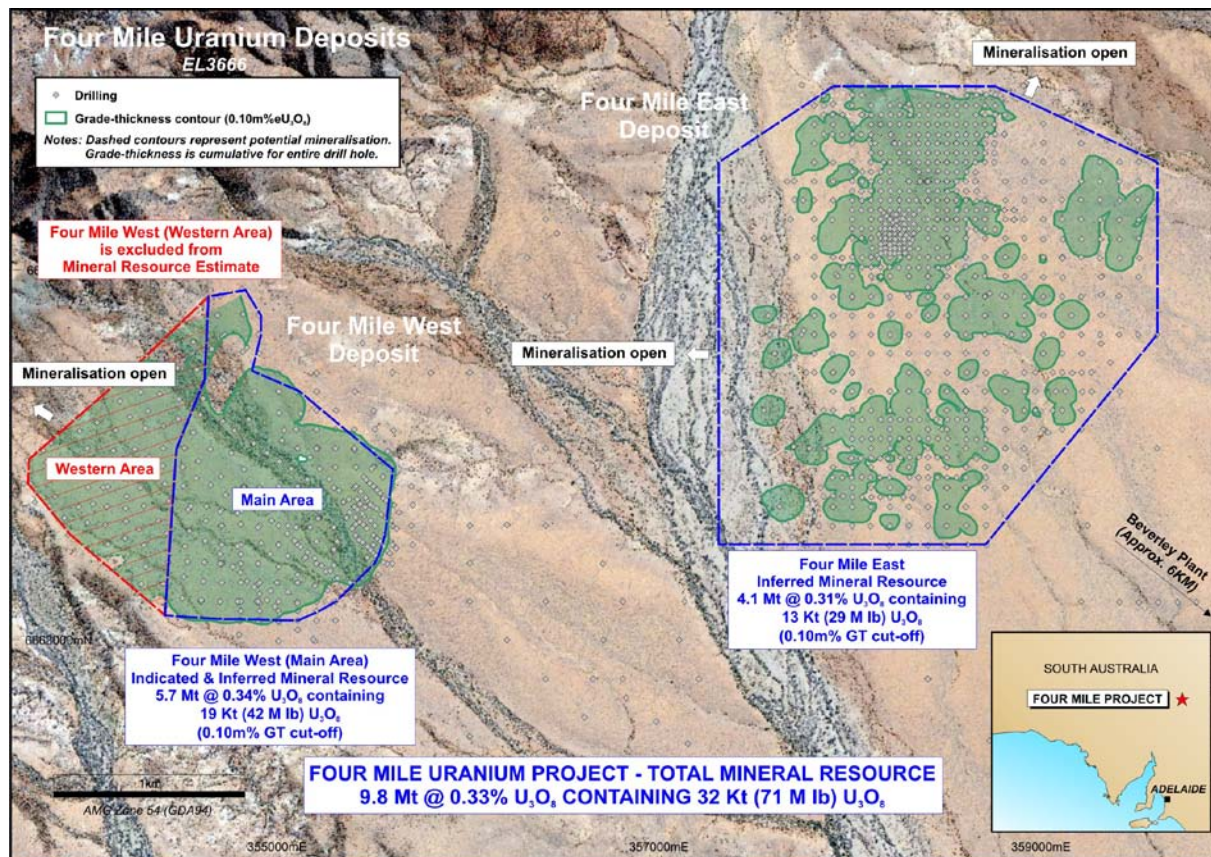


Figure 1: Four Mile East and Four Mile West uranium deposits

Project Development Progress

As reported in July 2009, the Four Mile uranium mine received Australian Government approval (in accordance with Part 9 of the Environment Protection and Biodiversity Act 1999 (EPBC Act)). This approval was a major milestone achievement for the joint venture and provides significant de-risking of the project. The decision of the Minister to grant approval is the subject of proceedings in the Federal Court of Australia issued by Alan Oshlack in December 2009. The matter has been set down for hearing on 17 March 2010.

On 12 June 2009, Quasar, as manager of the joint venture, submitted a Native Title Mining Agreement (NTMA) titled "Beverley Four Mile Agreement" to Primary Industries and Resources South Australia (PIRSA) for registration in accordance with Part 9B of the Mining Act 1971. Registration of the NTMA is the final statutory requirement before the South Australian Government can offer the joint venture a mining lease.

Neither ACE nor Alliance was consulted nor involved in the negotiations with the native title holders and neither were a signatory to the agreement. Quasar, as manager of the joint venture, purported to represent both joint venture parties in the negotiations and purported to sign on behalf of ACE. It is Alliance's contention that Quasar was not duly authorised to execute the NTMA on behalf of ACE and, in doing so, exceeded its authority.

In a letter dated 26 June 2009, PIRSA informed Alliance that the NTMA could not be registered in its current form as it did not include ACE as a signatory to the NTMA.

Subsequent to the letter from PIRSA, Quasar provided a copy of the executed NTMA to Alliance for its review. The NTMA for Four Mile was negotiated by Quasar, Heathgate and native title holders' representative and subsumes Heathgate's former native title agreement for the Beverley mine. As a result, Alliance must ensure ACE is adequately protected from potential cross liability from Heathgate and the Beverley Mine, and that decisions made by Heathgate under the NTMA which affect the Four Mile Project are made in accordance with the Four Mile Management Committee's decisions before ACE agrees to become bound by the NTMA.

Thus far, Alliance and Quasar have been unable to agree on language and documentation to satisfy Alliance's concerns and which also satisfy PIRSA's requirements to effect registration of the NTMA.

As a result of the delay in registering the NTMA, the Mining Lease cannot be issued to the joint venture and on site construction at Four Mile cannot begin. Consequently, Quasar has directed that work on the project be scaled down during the period of regulatory delay, and on 21 September 2009, Alliance announced it had been informed by Quasar that the schedule for commissioning of the Four Mile Uranium Project has been delayed to April 2010 or beyond. Subsequently, Quasar informed Alliance the project has been delayed significantly beyond April 2010.

Alliance believes the Four Mile project hosts one of the most significant uranium deposits in Australia, with large, high-grade resources, in a State with very favourable and stable political support, and that the project carries a high intrinsic value to the company and its shareholders, to Quasar and to the government and economy of South Australia. The Board of Alliance is committed to the timely development of the project for all stakeholders.

Legal Proceedings

Recording JV Meetings

On 13 October 2009, Alliance Craton Explorer Pty Ltd (**ACE**), a subsidiary of Alliance Resources Limited (**Alliance**) issued proceedings in the Supreme Court of South Australia against Quasar Resources Pty Ltd (**Quasar**) in order to test its right to record proceedings of JV management committee meetings.

Alliance has sought to record the proceedings of joint venture meetings because it considers that:

1. the written records of meetings prepared by Quasar have not been completed and have not accurately reflected the matters, concerns and views expressed by Alliance at joint venture meetings; and
2. proper minutes are necessary to protect ACE's legal and commercial interests.

A directions hearing has been scheduled for 5 March 2010.

Native Title Registration

On 12 November 2009 ACE issued proceedings in the Supreme Court of South Australia against Quasar and Heathgate Resources Pty Ltd (**Heathgate**) seeking:

1. a declaration that Quasar exceeded and breached its authority, acted in breach of its fiduciary obligations and acted in breach of its contractual obligation of good faith in signing a native title mining agreement (**NTMA**) for the Four Mile Project in the form negotiated by Quasar;
2. a declaration that Heathgate knowingly participated in the breaches referred to above;
3. an order requiring Quasar and Heathgate to execute a deed, in a form previously submitted to Quasar, which places Alliance in substantially the position it would have been in had the NTMA related only to the Four Mile Project or, in the alternative a mandatory injunction requiring Quasar to commence negotiating a new native title agreement which relates only to Four Mile; and
4. damages and costs.

As announced in the Quarterly Report for September, Quasar, acting as manager of the joint venture, submitted the NTMA, titled "Beverley Four Mile Agreement", to Primary Industries and Resources South Australia (**PIRSA**) for registration in accordance with Part 9B of the *Mining Act 1971 (SA)* on 12 June 2009. Registration of the NTMA is the final statutory requirement before the South Australian Government can offer the joint venture a mining lease.

The NTMA subsumes the existing native title agreement for Heathgate's Beverley mine (giving rise to potential liability to Alliance for matters pertaining to Beverley) and gives Heathgate the right to make decisions for the mining proponents, including those relating to Four Mile.

Neither ACE nor Alliance were consulted or invited to participate in or were involved in the negotiations with the native title holders and neither were a signatory to the NTMA. Quasar, as manager of the joint venture, purported to sign the NTMA on behalf of ACE. Alliance contends that Quasar was not duly authorised to execute the NTMA on behalf of ACE and, in doing so, exceeded its authority.

As the NTMA has not been registered, a mining lease cannot be offered to the joint venture at this time and, therefore, on-site construction at Four Mile cannot commence.

In spite of repeated attempts by Alliance to achieve a mutually satisfactory resolution that would facilitate the timely registration of the NTMA, Quasar has refused to agree on documentation that satisfies both Alliance's concerns and PIRSA's requirements for registration of the NTMA.

Alliance has informed the Government of South Australia of its position regarding NTMA registration. Alliance has also reiterated to the Government of South Australia its commitment to see the Four Mile Project come on stream at the earliest possible opportunity.

At a directions hearing on 27 January 2010, a timetable was set for further pleadings and discovery and a further directions hearing has been set down for 8 April 2010.

Pre-action Discovery

On 16 November 2009, ACE issued proceedings in the Federal Court of Australia in South Australia against Quasar and Heathgate for an order, by way of pre-action discovery, giving ACE access to books, records and agreements pertaining to the Four Mile Joint Venture.

On 9 October 2009 ACE formally requested Quasar and Heathgate to provide ACE with access to joint venture documentation. While Quasar agreed to provide copies of some records, Quasar's response was inadequate as Alliance believes that it should be permitted to have access to all joint venture documentation. Heathgate, which Alliance believes holds joint venture documents in its capacity as "proposed mine manager", elected not to respond to the request altogether.

Alliance has consistently reserved its rights with respect to cash calls issued by Quasar. It is anticipated that access to the joint venture books, records and agreements will enable Alliance and ACE to understand the original and revised programmes and budgets for the Joint Venture – something that has to-date been denied by Quasar.

A hearing date of 22 February 2010 has been set.

Alan Oshlack v Minister for Environment Heritage and the Arts

On 11 December 2009, Alliance announced that it had been advised by Quasar that proceedings have been commenced in the Federal Court of Australia (Sydney Registry) by Alan Oshlack of the Indigenous Justice Advocacy Network seeking a review of Federal Minister Peter Garrett's decision in July 2009 to grant environmental approval for the Four Mile Project. Neither Alliance nor Quasar was party to these proceedings. On 23 December 2009 Quasar was, by consent, joined as a respondent to those proceedings. The matter has been set down for hearing on 17 March 2010.

Four Mile Development

Quasar reported the following progress at Four Mile East in its Manager's monthly joint venture reports for October and November 2009:

Four Mile East – First Stage Mining Area

- No delineation holes, wells or monitoring wells were drilled.
- Nine wells were screened for a total of 129 second stage completions on a project-to-date basis.

Four Mile West⁶

- Seven wells were drilled (1,278 metres) and installed to first stage completion.

⁶ Alliance has objected to the change of scope in the budget and has disputed various other proposed changes to the budget. Alliance has not been provided a copy of the engineering study and estimated project development and operating costs by GRD Minproc presumably used as part basis for the revised budget and the budget has not yet been presented to the joint venture Management Committee for its consideration or approval.

- Seven wells were screened for a total of seven second stage completions to-date for use in a possible Field Leach Trial as proposed by Quasar.

The Manager's monthly joint venture report for December 2009 had not been received at the time of compiling this report.

Engineering

Engineering at Four Mile was completed during the quarter. Equipment and materials continued to be delivered to Beverley for on-site storage.

Impact of Delay in Registering the NTMA

As described in the Project Development Progress section, above, as a result of the delay in registering the NTMA, the Mining Lease cannot be offered to the joint venture by the SA Government and on-site construction at Four Mile cannot begin. Consequently, Quasar has directed that work on the project be scaled down during the period of regulatory delay, and has informed Alliance the project has been delayed significantly beyond April 2010.

Contributions to Development

Alliance Resources Limited, on behalf of its subsidiary Alliance Craton Explorer Pty Ltd, (collectively Alliance) paid an amount of \$2.4 million towards the cost of development of the Four Mile project during the quarter (\$13.1 million project-to-date)⁷.

Independent Scoping Study

Alliance commissioned an independent scoping study for the Four Mile Uranium Project to determine capital and operating cost estimates for comparison with costs presented to Alliance by Quasar in its feasibility study. This study has taken much longer than originally anticipated due to the very limited availability of pertinent ISR mining data in the public domain. As a result, the engineering team of Adelaide Control Engineering of Adelaide and COMO Engineers of Perth reverted to first principals to construct its engineering and cost models.

The scoping study has now been completed and is being reviewed by Alliance. Highlights of the results of the study will be announced shortly.

Exploration

There was no exploration activity reported during the quarter.

CORPORATE

Cash on Hand

Alliance has cash reserves of \$42.4 million (unaudited) at 31 December 2009.

Share Capital

⁷ Alliance disputes the validity of the cash calls made by Quasar and in making these payments, has reserved all of its rights. The payments are made to preserve Alliance's participatory rights in the Four Mile project.

The Company now has 341,172,309 ordinary shares and 8,300,000 unlisted options on issue.

Management Changes

As announced by Alliance on 28 January 2010, Patrick Mutz will be relinquishing his executive position as Managing Director but will remain with the company as a non-executive director. This change will take effect on 1 March 2010. Mr Steve Johnston will be appointed interim CEO. A permanent appointment to the position of Managing Director will be decided upon following an executive search.

Sale Agreement with Drummond Gold Limited

During October 2009, Alliance announced that it had entered into an agreement with Drummond Gold Limited (Drummond) for Drummond to acquire Maldon Resources Pty Ltd (Maldon) from Alliance (previously reported). Maldon is the owner of the Maldon Gold Project, 30km southwest of Bendigo in Victoria.

Under the agreement Alliance will receive 88.4 million ordinary shares in Drummond for the sale of Maldon. Consideration for the transaction was based on a share price of 6.1 cents.

The agreement is subject to certain conditions precedent, including the approval of shareholders of Drummond, all necessary consents and approvals as required under the Corporations Act and the ASX Listing Rules, and the raising of at least \$3,000,000 by Drummond on or before a specified cut-off date (initially 30 November 2010), with Completion anticipated during the following week.

On 21 October 2009, Alliance and Drummond agreed to extend the cut-off date from 30 November 2009 to 15 January 2010.

If there is a material adverse change to the value of Maldon or the Drummond shares to be issued to Alliance prior to completion, the parties must negotiate in good faith a revised purchase price so as to place the parties in substantially the same position as was the case prior to the change in value. An independent accountant may be appointed to determine the revised purchase price if the parties fail to agree.

On 13 January 2010 (post reporting), Drummond shareholders voted strongly in favour of issuing shares in Drummond to Alliance as consideration for the acquisition.

On 18 January 2010 (post reporting), Drummond and Alliance announced that they had agreed to further extend the conditions precedent cut-off date from 15 January to 19 March 2010.

This extension of time will enable Drummond to meet a condition requiring the completion of a minimum \$3 million capital raising which has been delayed due to the recent Christmas-New Year holiday period.

MALDON GOLD PROJECT (Alliance Resources 100%)

The Maldon Gold Project is located 30 km southwest of Bendigo in central Victoria.

During the quarter, Alliance announced that it had entered into an agreement with Drummond Gold Limited (Drummond) for Drummond to acquire Maldon Resources Pty Ltd (Maldon) from Alliance. Refer Corporate section, above, for details of this agreement.

The Union Hill decline and the processing plant have both remained on care and maintenance during the quarter.

WARRINA COPPER-GOLD PROJECT (Alliance Resources 100%)

The Warrina Project is located 60 km northeast of Coober Pedy in the Gawler province of South Australia. The project is prospective for Olympic Dam style breccia-hosted iron-oxide copper-gold mineralisation.

No fieldwork was undertaken during the quarter.

EAST FROME COPPER-BASE METALS PROJECT (Alliance Resources 100%)

The East Frome Project is located approximately 30 km to the northwest of Broken Hill, New South Wales. The project is prospective for copper-gold mineralisation and Broken Hill style lead-zinc-silver mineralisation.

No fieldwork was undertaken during the quarter.

For further information regarding this announcement, contact:

Patrick Mutz
Managing Director

About Alliance Resources

Further information relating to the Company and its various exploration projects can be found on the Company's website at www.allianceresources.com.au

Reference to Joint Ore Reserves Committee (JORC) Code

The information in this report that relates to Exploration Results and Mineral Resources for the Four Mile Uranium project is based on information compiled by Mr Ken Bampton who is a Corporate member of both the Australasian Institute of Geoscientists and The Australasian Institute of Mining & Metallurgy. Mr Bampton trades as Ore Reserve Evaluation Services. Mr Bampton has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity to which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Bampton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Exploration Results for copper, gold and base metals is based on information compiled by Mr Stephen Johnston who is a Corporate Member of the Australasian Institute of Mining & Metallurgy. Mr Johnston is a full-time employee of the Company and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Johnston consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

ALLIANCE RESOURCES LIMITED

ABN

38 063 293 336

Quarter ended ("current quarter")

31 December 2009

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 Months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(74)	(291)
(b) development	(2,508)	(7,117)
(c) production	(356)	(594)
(d) administration	(1,140)	(2,065)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	790	942
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (GST paid/recouped)	2	201
Net Operating Cash Flows	(3,286)	(8,924)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(6)	(34)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (Transfer to deposit)	-	-
Net investing cash flows	(6)	(34)
1.13 Total operating and investing cash flows (carried forward)	(3,292)	(8,958)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(3,292)	(8,958)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	8,463
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (Cost of Capital Raising/Prospectus)	-	(404)
	Net financing cash flows	-	8,059
	Net (decrease) increase in cash held	(3,292)	(899)
1.20	Cash at beginning of quarter/year to date	45,642	43,249
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	42,350	42,350

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter
		\$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	305
1.24	Aggregate amount of loans to the parties included in item 1.10	NIL

1.25 Explanation necessary for an understanding of the transactions

All transactions involving Directors and associates were on normal commercial terms. These payments represent Director fees, Director consulting fees, re-imbursments of expenses and payments in terms of a management service agreement with a Director related entity.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

NIL

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

NIL

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	NIL	NIL
3.2 Credit standby arrangements	NIL	NIL

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	250
4.2 Development ⁽¹⁾⁽²⁾	4,430
Total	4,680

Notes:

- (1) Includes cash calls for the Four Mile Project based on an updated programme and budget received from the Joint Venture Manager, Quasar Resources Pty Ltd, in May 2009 (which has not been presented to or approved by the joint venture management committee). In the period from 1 October 2009 to 31 December 2009 Alliance made payments in order to preserve its participatory rights in the Four Mile project. Alliance disputes the validity of the Programme and Budget and the cash calls made by Quasar based on that Programme and Budget and in making the payments has reserved all of its rights. Alliance proposes to similarly reserve its rights with respect to payments made during this quarter.
- (2) Maldon Payments represent payments to contractors for maintaining the underground decline while on care and maintenance.

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	331	198
5.2 Deposits at call	13,959	17,384
5.3 Bank overdraft	-	-
5.4 Other (provide details) – Term Deposit	28,060	28,060
Total: cash at end of quarter (item 1.22)	42,350	45,642

Changes in interests in mining tenements

	Tenement reference	Nature of interest (Note 2 - Below)	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference +securities (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	+Ordinary securities	341,172,309	341,172,309		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				

Note:

7.5	+Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options (description and conversion factor)	(Unlisted Options)		Exercise price A\$	Expiry date
		3,200,000	Unlisted	\$1.60	31 Oct 2010
		3,000,000	Unlisted	\$1.60	31 Oct 2010
		1,000,000	Unlisted	\$1.00	31 Oct 2011
		1,000,000	Unlisted	\$1.20	31 Oct 2011
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter	250,000 ⁽³⁾	Unlisted	\$0.80	31 Oct 2009
7.11	Debentures (totals only)				

+ See chapter 19 for defined terms.

7.12	Unsecured notes (<i>totals only</i>)				
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Note:
(3)– Expired.

Compliance statement

- 1 This statement has been prepared under accounting policies, which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~does not~~* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: 
Company Secretary

Date: 29 January 2010

Print name: **IAN PAMENSKY**

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedents, which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** the issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.