

A
S
X

R
e
l
e
a
s
e

31 October, 2013

ASX Code : AHQ

ACN 149 490 535
Level 8
49-51 York Street
Sydney NSW 2000
Australia

Tele : +61 2 9299 5007
Fax : +61 2 9299 5006

www.allegiancecoal.com
info@allegiancecoal.com

Quarterly Report

For period ended 30 September, 2013

Highlights

- Company maintains focus on cost control and cash preservation.
- MDLA 501 for the Back Creek Project under grant process.
- Joint venture discussions on tenements, in particular on Kilmain.
- Continuing to work on additional value-creating opportunities where free carried interest is created by initiating work on external near term coal projects.

Cost Control Initiatives

Allegiance Coal Limited has continued to maintain close cost control on its exploration activities and corporate overheads.

As the downturn in the Australian coal industry has continued your Company has continued to critically examine its cash position and portfolio of tenements.

The new two year budget (1 July 2013 to 30 June 2015), which included 60% reduction in Directors' salaries, substantially reduces the Company's overheads (to about \$450,000 per annum) while focussing its attention on only those tenements with short to medium term development potential. Greenfield tenements, Mobs Creek, Cedar Creek and Lochaber, which have very long lead times to bring to production, are being considered for outright sale or relinquishment.

The company has continued to maintain focus on its two lead projects, Back Creek (thermal) in the Surat Basin and Kilmain (coking/PC/thermal) in the Bowen Basin while bringing new focus on the near term producing potential of the Mt Marrow project. At the same time significant activity is taking place to source joint venture partners for all tenements, especially Kilmain.

Additional Value Creating Opportunities

The company has identified a number of opportunities to utilise the company's expertise in the development of coal projects.

The accessing of archived geological data that is not in the general public domain, has enabled the Company to have insights in the geology of areas in the West Moreton Coalfield and now the Bowen Basin.

The Company, using this new information, is investigating external near term production coal projects that are viable under current coal pricing and have a low capital profile. The company would earn a free carried interest.

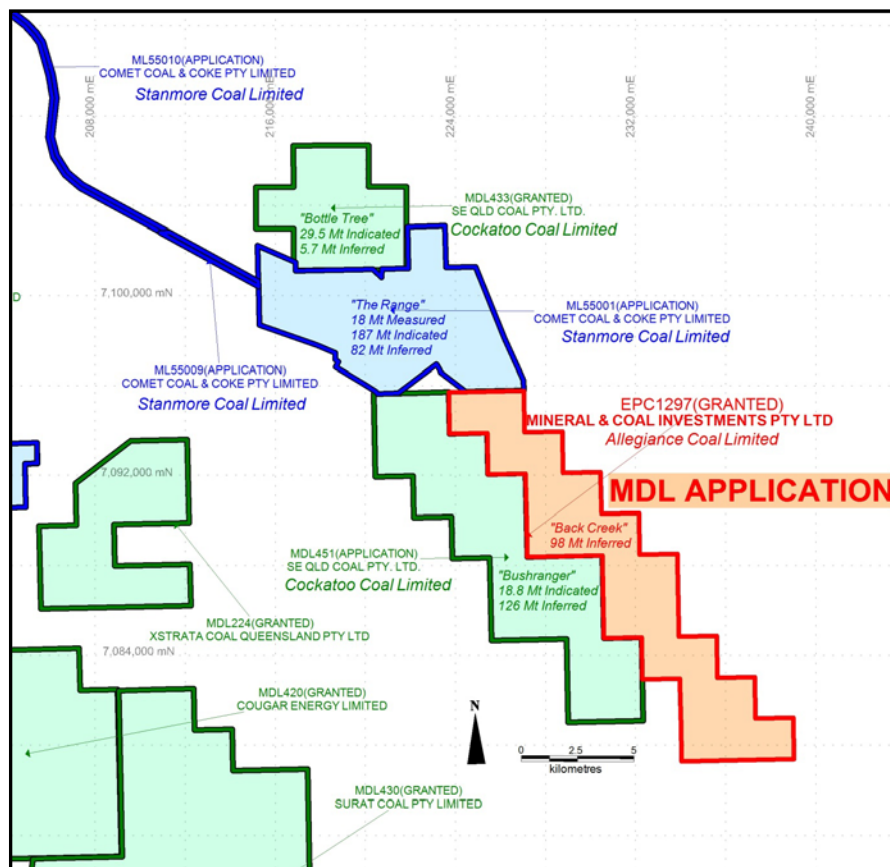
Project Status

Back Creek Project

The posting of the maiden 98 Mt JORC Inferred Resource in November 2012 ⁽¹⁾ enabled the Company to progress the Project by lodging a Mineral Development Licence Application in March 2013. The application for the MDL has been accepted and an Environmental Authority issued. *See Plan 1*

No date has been given for the granting of MDLA 501

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



Plan 1 - Back Creek Project – MDL Application

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

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.*

Kilmain Project

Prospective JV partners have held discussions on potential involvement in the Kilmain Project. While none of these have come to fruition at this time, discussions are continuing. The presence of low ash coking coal and proximity to existing rail infrastructure are two of the features that interest prospective JV partners.

The decision by Aurizon (ASX:AJZ) to electrify the Rolleston rail line to meet the planned increase in production from Xtrata’s Rolleston Mine to the south enhances the Kilmain project. ⁽²⁾

The Kilmain Project has potential for an underground deposit of coking/PCI/thermal coal within the Rangal Coal Measures and has an exploration target of 200 Mt of coal. ⁽³⁾

Mt Marrow

The Company was granted EPC 2374, Mt Marrow, on 14 January 2013.

This tenement is located within the West Moreton coalfield west of Ipswich and hosts sequences from the Walloon Coal Measures and the Company believes that the project is very significant because :

- *It is close to existing rail infrastructure (only 90km from Port of Brisbane);*
- *Walloon coal is export quality thermal coal with low sulphur and low nitrogen;*
- *It has potential to become a near term producer;*
- *It has the potential to be a low capital cost project.*

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

(3) Exploration Target Clarification

All statements pertaining to the Company’s exploration target and statements as to the potential quantity and grade made in this Statement were conceptual in nature. There was insufficient exploration undertaken at that date to define a coal resource in accordance with the JORC Code, and it was uncertain if further exploration would result in the definition of a coal resource in accordance with the JORC Code.

Indicative Specifications for Washed West Moreton Coal and a selectively mined coal have been developed for the Mt Marrow Project.

The Mt Marrow Project EPC 2374 has potential to be a near term open pit thermal coal mine.

Connemarra Project

The Project has potential for coal at depth suitable for underground mining. Before deciding on drilling the area additional geological data is required. A data swap with the adjacent tenement holders Yancoal/Sojitz remains under negotiation. Yancoal/Sojitz have the Athena Project to the northeast of Connemarra and had reported an intersection of 5m of coal at underground mining depths.

Discussions on a Farm-Out agreement are ongoing.

The Company considers that the Connemarra Project EPC1296 remains a speculative exploration area.

Mintovale Project

Discussions with Australian Rail Track Corporation ("ARTC") on the potential rail siding on the main north-south standard gauge rail line near Beaudesert and the potential for reinstallation of a turn-out from the siding to the main line has continued. The potential for transport of coal in containers remains under study.

Meanwhile the Queensland Government is yet to advise of a mooted ban on future mining within the Scenic Rim Shire.

Potential exists for Mintovale to be a small open cut direct shipping thermal coal project with transport in containers by road and rail to the Port of Brisbane.

Calen Project

During the Quarter, detailed planning, including review of environmental factors for exploration was undertaken by Square Holdings with whom the Company completed negotiations for a farm-out and joint venture. A shareholder in Square Holdings is Japanese coal trader Mitsui Matsushima.

Drilling is expected to commence after the cane harvest is complete in the new year.

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

Townsville

Following previous mapping that detailed the exposures of the seam in outcrop and in an adjacent quarry, combined with all of the drill hole information, the Company has sufficient data to prepare an application for a Mineral Development Licence.

The company plans to obtain bulk samples for testing purposes.

The work 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.

Page 5

Pinetree

Discussions have been held with a number of potential JV partners and are ongoing.

The Pinetree Project EPC 1875 has potential for an underground coking coal deposit.

Normanby

The potential for delineating a small deposit of anthracite suitable for use as a water filtration medium is the basis of continuing work on the Normanby area.

Planning for a drilling programme for the area has been completed.

The Normanby Project has potential for a small open pit anthracite coal deposit.

Areas for Sale/Relinquishment

Three tenements have been confirmed as suitable for sale or relinquishment i.e. Cedar Creek, Mobs Creek and Lochaber.

New South Wales Potential Exploration Area

The Company has identified a potential exploration area within the Greta Coal Measures in New South Wales. The process for seeking approval to lodge an application over the area was commenced in September.

Corporate

Cash : At 30 September, 2013 the company held \$3.1m in cash.

Current Competing EPC Applications – Allegiance is not the primary Applicant

The following competing applications are yet to be determined:

- EPCA 2154 Parapi - lodged 1 July, 2010;
- EPCA 2182 Lilyvale - lodged 2 August, 2010;
- EPCA 2251 Sandy Creek - lodged 1 November, 2010;
- EPCA 2281 Dingo - lodged 1 December, 2010;
- EPCA 2592 Corsia - lodged 1 June, 2011;
- EPCA 2634 Galium - lodged 1 July, 2011;
- EPCA 2644 Mayaca - lodged 1 July, 2011.

Secondary EPC Applications

The following secondary applications are yet to be determined:

- EPCA 2698 Fleetwood South - lodged 29 July, 2011;
- EPCA 2699 Fleetwood East - lodged 29 July, 2011.

Contacts

For further information please contact :

Mr Colin Randall*
Managing Director
0408 969 424

Mr Mendel Deitz
Tenement and Corporate Relations Manager
02 9299 5007

*** Competent Persons Statement**

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 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.