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29 April, 2014

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Quarterly Report

For period ended 31 March, 2014

Highlights

- Company maintains focus on cost control and cash preservation with the decision to relinquish additional tenements i.e. Pinetree and Normanby
- Joint Venture discussions continue on Kilmain project.
- 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 critically examine its cash position and portfolio of tenements.

As a result, the Company has decided to relinquish a further two tenements, i.e. Pinetree and Normanby in Far North Queensland, both of which are green field and have very long lead times to bring to production. The company has already commenced the process of relinquishing Mobs Creek, Cedar Creek, Lochaber and Mintovale tenements.

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.

The Company also undertook an in depth analysis of an off shore potential near term coal project. However its efforts were unsuccessful with another party taking a more advanced position at this time. The company will monitor progress of the other party and may re engage if the situation changes.

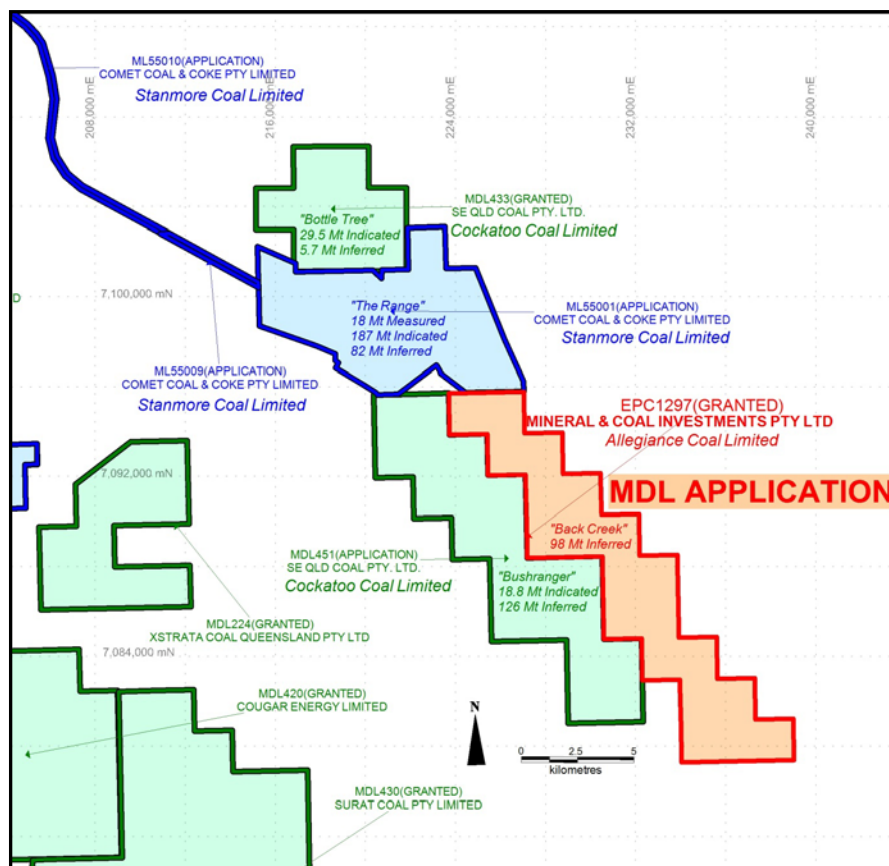
Project Status

Back Creek Project

The posting of the maiden 98 Mt JORC Inferred Resource in November, 2012 ⁽¹⁾ enabled the Company to progress the Project 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 is planned for next Quarter. See *Plan 1*

The company was successful in its application to the DNRM in reducing its Year 4 expenditure requirement to \$100,000 from the previous \$400,000.

The Project is 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 with a specific interest in the Kilmain coal project have approached and held discussions with your company during the Quarter. The discussions were based on a detailed two year drilling program to bring the Kilmain project to JORC Indicated Resources status. While none of these discussions have come to fruition at this time, discussions are continuing. The presence of low ash thermal/coking coal and proximity to existing rail infrastructure are two of the features that interest prospective JV partners.

The Managing Director and contract Field Manager undertook an inspection of drill sites across the Comet River in company with the land owner. An Access Agreement for the next 12 months was completed with the landowner during the visit.

Aurizon’s (ASX:AJZ) electrification of the Rolleston rail line continued during the Quarter with the erection of poles and overhead wires above the rail track. Construction of major substations and line clearing for connection to the main power supply also took place during the period.

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⁾

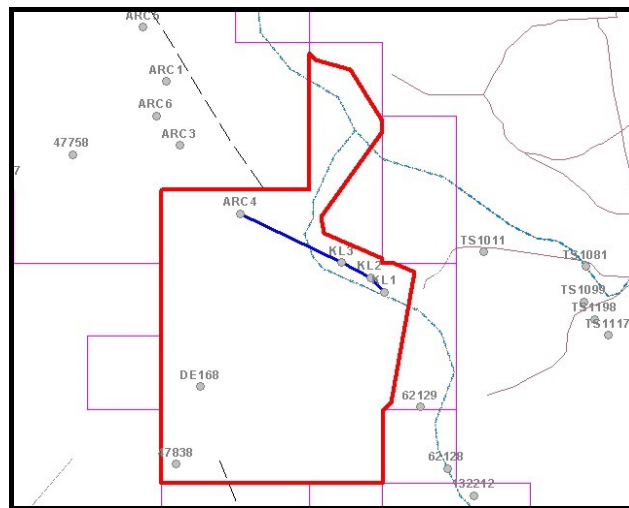
The Kilmain Project has potential for an underground deposit of coking/PCI/thermal coal within the Rangal Coal Measures and has an exploration target of 100 to 200 Mt of coal. The Exploration Target was announced on 12th October 2011 by Gullewa Limited prior to the listing of Allegiance Coal Limited. 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 discussed over page.

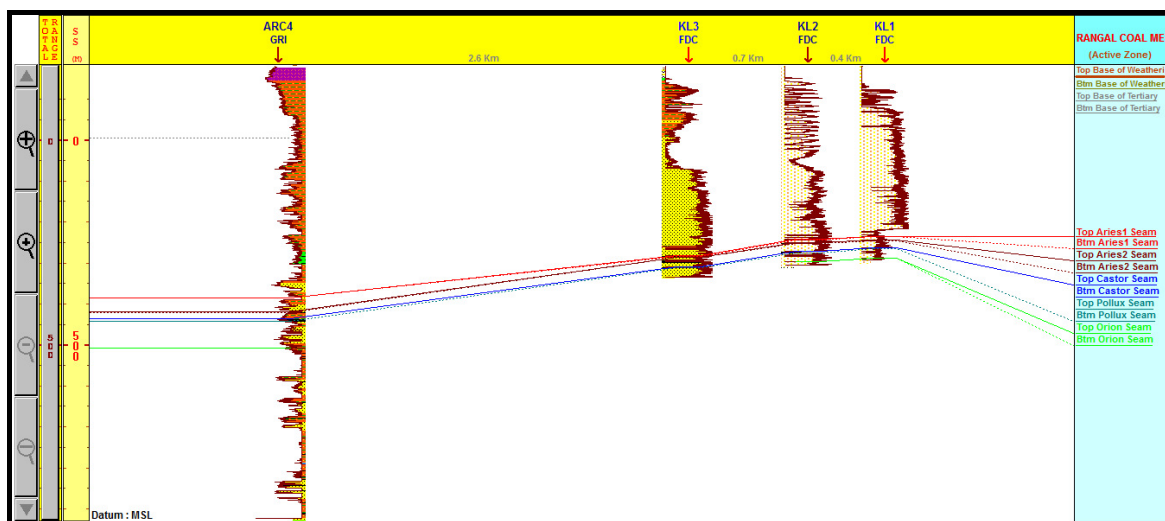
(2) Aurizon Holdings Limited ASX Announcement 13/04/2013

a) Current Process and Data Supporting The Exploration Target

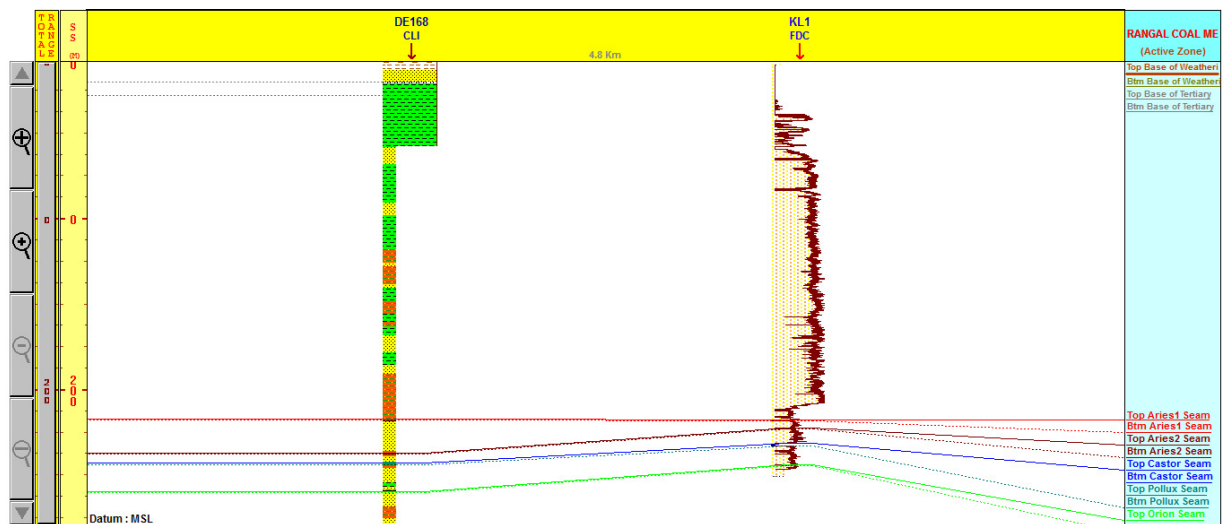
As stated above the Exploration Target was estimated using MCI drill hole KL001 as well as existing holes ARC4 and DE168. Figures showing the location of these holes and drill sections containing these holes showing the respective seam correlations are shown below in Plans 2-5. The inter-hole distance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

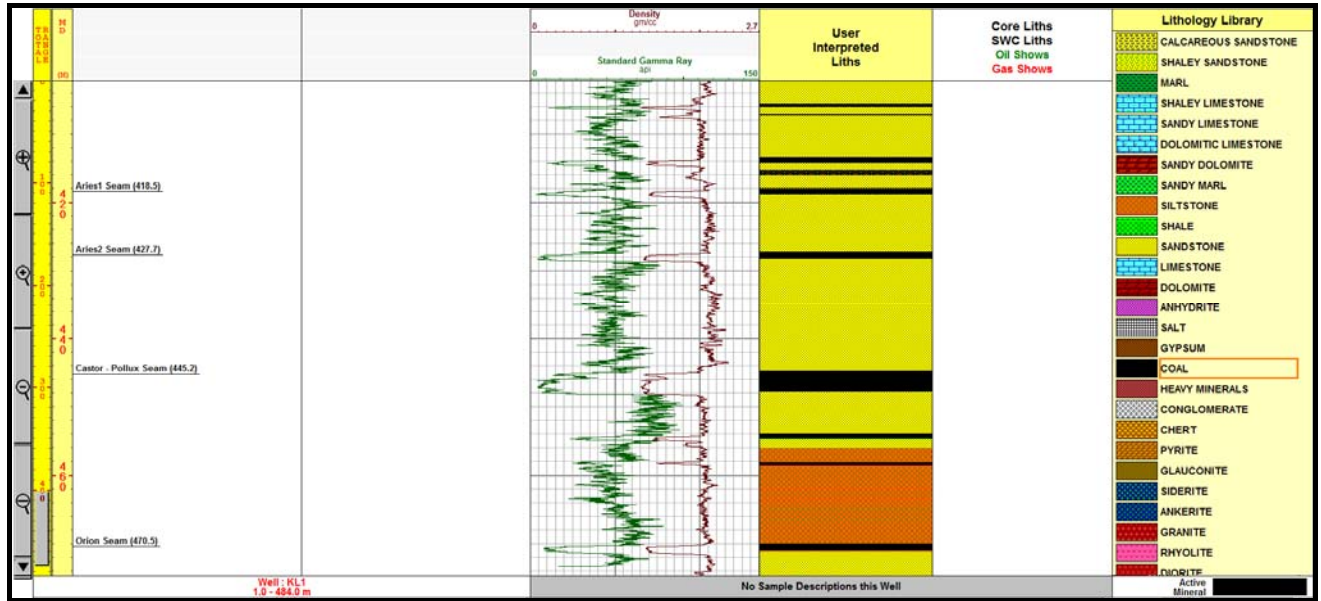
SEAM NAME	From (m)	To (m)	Length (m)	#	RD	A	FC	VM	IM	S	SE	CSN
ARIES 1	414.667	419.25	0.86	2	1.42	11.0	52.2	30.10	6.7	0.52	5404	NA
ARIES 2	427.69	428.72	1.03	3	1.45	15.1	49.4	30.4	5.1	0.27	6738	1.0
CASTOR- POLLUX	445.22	448.35	3.13	8	1.45	14.4	51.5	27.8	6.3	0.34	6460	3.0
ORION	470.48	471.54	1.06	2	1.41	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 mean 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 :

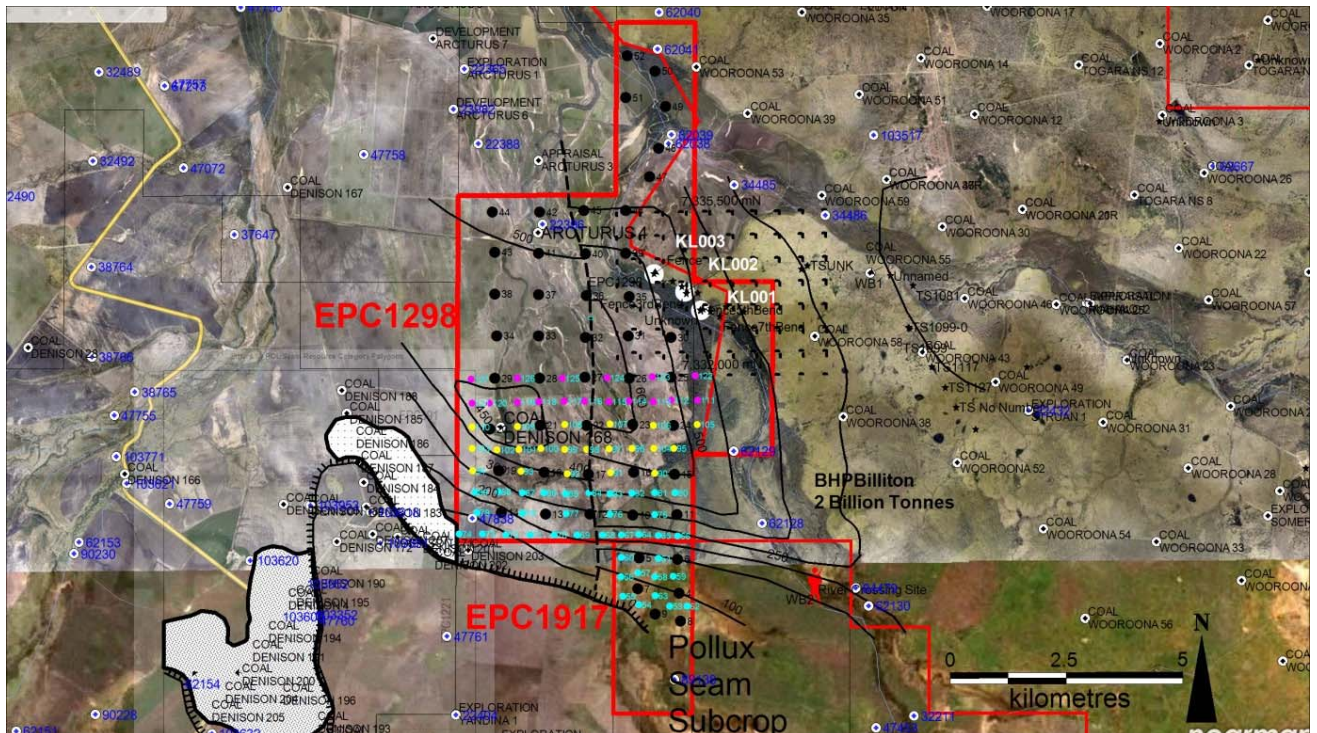
1. Coal quality test work from the three holes tested to date has determined that the combined Castor-Pollux seam is capable of producing three products comprising a semi hard coking coal, PCI and a high energy thermal coal.
2. Float sink analyses were conducted on a ply-by-ply basis on KL001 and KL002.
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

b) Future Process Planned to Test the Exploration Target

At this stage while partners are sought there are no plans for work to be undertaken however, it is anticipated that some 49 holes (38 chips, 11 core) at an average depth of 420 metres, will be required to move the project to 100% Inferred JORC Resource category. A figure of these planned drill hole locations is shown in Plan 6 below.



Plan 6 - Kilmain Project – Possible Future Drilling to achieve 'Indicated Resource' JORC Category

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.*

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

A potential JV partner for the Mt Marrow project requested in December a detailed two year drilling program to bring the project to JORC Indicated Resources status. With the now large volume of available data, this program was under preparation during the Quarter and is due to be supplied in mid April.

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

Connemarra Project

Following a review of all available geological data within and adjacent to the Connemarra tenement and with the potential for an intersection of 5m of coal at underground mining depth it was decided to drill a stratigraphic hole at Connemarra to a depth of 450m - 550m.

The hole was completed to a depth of 620m in December 2013 and while no coal was intersected it has provided valuable information on the geological setting for the Connemarra tenement.

Samples from the deep drill hole were under preparation during the period to be sent away for further palynological studies to further investigate the coal potential and to continue the Research and Development programme commenced on this project last year.

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

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.

A Calen Joint Venture meeting to agree the drilling program for 2014 calendar year is planned for April 2014. 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 its data in preparation for an application for a Mineral Development Licence.

The company has signed Confidentiality Agreements with two local parties who could be potential customers for any coal to be produced from within the Townsville tenements. No discussions took place during the period.

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.

Areas for Relinquishment

Six tenements have been confirmed as suitable for relinquishment i.e. Pinetree, Normanby, Minto Vale, Cedar Creek, Mobs Creek and Lochaber. Potential sale to adjacent tenement holders was canvassed but there was no interest expressed. There are a large number of coal tenements in Queensland available for sale.

New South Wales Potential Exploration Area

The Company has been advised that under the interim arrangements for allocation of coal resources for NSW that the identified potential exploration area within the Greta Coal Measures in New South Wales would be such that it would be subject to the calling of tenders for the area. The company will monitor the situation but a call for tenders in the foreseeable future is unlikely.

Corporate

Cash

At 31 March, 2014 the company held \$3.337 m in cash.

Current Liabilities - Borrowings

	Consolidated	
	31 Mar 2013	30 Jun 2013
	\$	\$
Loan – Gullewa Limited	2,508,649	2,395,894
Loan – C Randall & Associates Pty. Limited	526,680	509,170
	3,035,329	2,905,064

The loans are due for repayment on 30 June, 2014, unless at least 14 days before the repayment date, the subsidiary company of Allegiance Coal Limited, Mineral and Coal Investments Pty. Limited ('MCI'), provides Gullewa Limited or C Randall & Associates Pty. Limited (as relevant) evidence on the basis of which MCI reasonably considers that if it were to repay the debt Allegiance Coal Limited and its consolidated entities ('Allegiance') would not have sufficient cash to cover its 12 month operating budget, in which case the repayment date will be extended by 90 days.

The repayment date can continue to be extended by 90 day periods in this manner until a sunset repayment date of 30 June, 2017, at which time all of the debts must be repaid. However, if on the repayment date MCI reasonably considers that it can pay part of the money comprising its debts, such that Allegiance will have sufficient cash to cover its 12 month operating budget, it must repay part of the debt.

Interest charged is based on the 90 day bank bill swap rate plus 4%.

Current Competing EPC Applications – Allegiance is not the primary Applicant

The Company was advised that it was unsuccessful in its application for :

- EPCA 2592 Corsia - lodged 1 June, 2011;
- EPCA 2644 Mayaca - lodged 1 July, 2011.
- EPCA 2251 Sandy Creek - lodged 1 November, 2010;

Meanwhile the following competing application is yet to be determined:

- EPCA 2634 Galium - lodged 1 July, 2011;

Secondary EPC Applications

The Company was advised that it was unsuccessful in its application for :

- EPCA 2699 Fleetwood South - lodged 29 July, 2011.

The following secondary application is yet to be determined:

- EPCA 2698 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 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 is appears.

The information in this report as it to 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 consent to the inclusion in the report of the information in the form and context in which is 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	Granted
Mineral & Coal Investments Pty Ltd	Calen	Calen	EPC 1631	27	Granted
Mineral & Coal Investments Pty Ltd			EPC 1820	17	Granted
Mineral & Coal Investments Pty Ltd	Mt Marrow	Moreton	EPC 2374	30	Granted
Mineral & Coal Investments Pty Ltd	Townsville	Northern Bowen	EPC 1492	120	Granted
Mineral & Coal Investments Pty Ltd			EPC 1617	42	Granted
Mineral & Coal Investments Pty Ltd	Lochaber	Mulgildie	EPC 1672	30	Granted
Mineral & Coal Investments Pty Ltd	Normanby	Hodgkinson	EPC 1874	86	Granted
Mineral & Coal Investments Pty Ltd	Pinetree	Laura	EPC 1875	217	Granted
Mineral & Coal Investments Pty Ltd	Cedar Creek	Surat	EPC 2278	12	Granted
Mineral & Coal Investments Pty Ltd	Mobs Creek	Surat	EPC 2309	23	Granted
Moreton Coal Pty Ltd	Mintovale	Moreton	MDL 138	n/a	Granted
Mineral & Coal Investments Pty Ltd	Galium	Bowen Basin	EPCA 2634	11	Application
Mineral & Coal Investments Pty Ltd	Fleetwood East	Mackay, QLD	EPCA 2699	26	Application