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## KILMAIN PROJECT COMPLETION OF GEOPHYSICAL SURVEYS AND PREPARATION FOR DRILLING

### Highlights

- Seismic surveys totalling 7.7 km completed within the southern part of the Kilmain project area show coal seam continuity.
- Ground magnetometer surveys totalling 21.0 km defines overlying basalt flow on eastern side of the tenement.
- Preparation for drilling has commenced with cultural clearance completed and drill rig mobilisation underway.
- Additional seismic surveys and potential drilling sites defined.

Allegiance Coal Limited ("Allegiance" or the Company) has completed seismic surveys totalling some 7.7 km within the southern part of the Kilmain tenements.

The seismic surveys were designed to provide information on the structure and continuity of the seams in the Rangal Coal Measures. Initial results are that the seams are continuous and with little or no structural discontinuities.

The company also has completed some 21.0 km of ground magnetometer surveys which were designed to detect and define the limits of a predicted basalt flow in the south eastern area of the Kilmain tenements. The surveys successfully defined the extent of the basalt showing limited encroachment into the tenement.

As a result of the geophysical surveys up to ten potential drill sites were selected.

Mobilisation for drilling within the southern part of the project area has commenced following cultural heritage clearance of the potential drill sites.

Previous drilling by Allegiance Coal identified coal seams at depth and a working seam section of 3.1 m within the Castor/Pollux Seams

Additional seismic surveys and drilling are now planned for other areas within the Kilmain project area.

Exploration activities are being undertaken using funding provided by **Japan Oil, Gas and Metals National Corporation (JOGMEC)** under 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.

JOGMEC, a Japanese government owned corporation, 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.

The Kilmain Project (EPC 1298 and EPC 1917) is a 56 km<sup>2</sup> area within the Bowen Basin. The project area is located 85 km southeast of Emerald and 12 km west of the Rolleston rail line. The project area, on its eastern boundary adjoins the BMA Togara South Project while on the western boundary adjoins the Bandanna Energy's Arcturus Project and to the north the Bandanna Energy Springsure Creek Project.

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

Allegiance Coal's Managing Director Mr Colin Randall said, "We were very pleased to start work at Kilmain and in spite of an anxious start due to wet weather, the weather is now dry and our on-site activities are now moving apace with drilling due to commence within the next few days".

Mr Randall said "At a time of great disquiet in the coal industry our partnership with JOGMEC is one that gives strength to Allegiance Coal's plan to develop the Kilmain project into a viable operation producing low ash high quality coal that will be well appreciated by power station and/or steel mill customers."

Colin Randall  
Managing Director  
**Allegiance Coal Limited**

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**NOTE A**

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

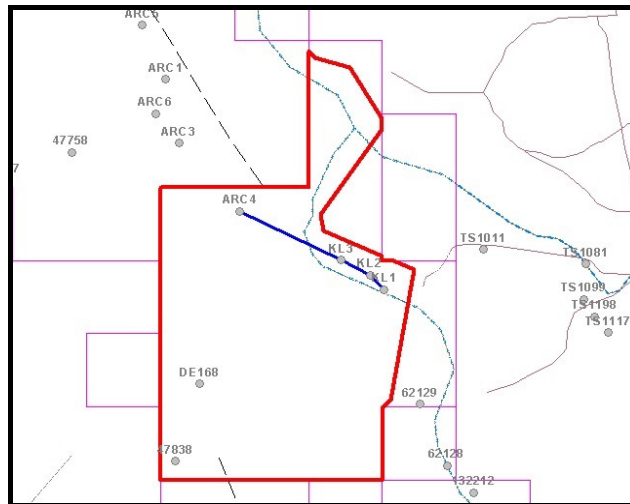
The Exploration Target was estimated by Competent Person Colin Randall, utilising the results of drilling of KL001 as well as existing drill holes (ARC4 and DE168) within the tenement from earlier exploration.

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

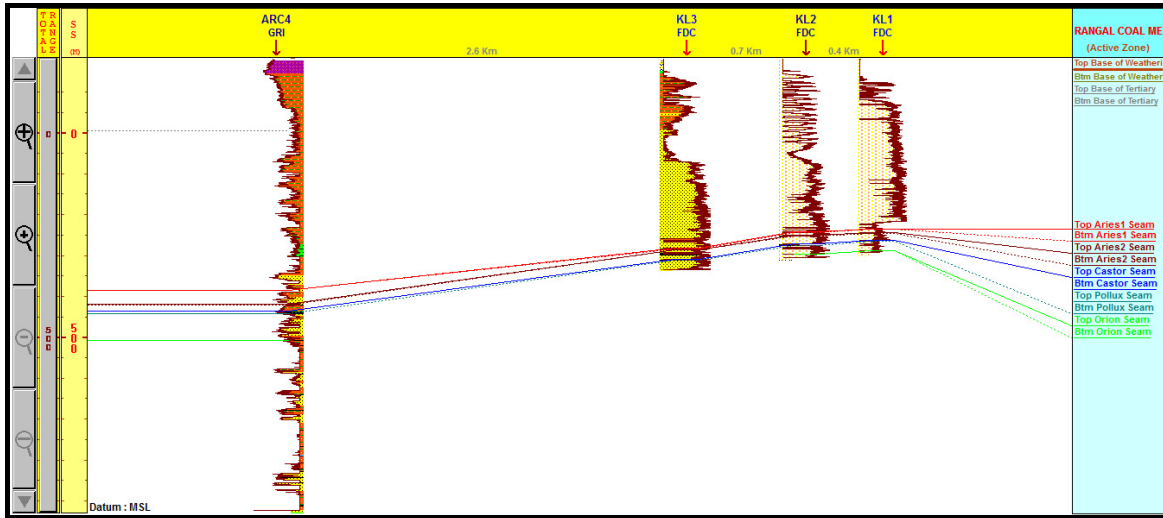
Further technical details supporting the Exploration Target as per clause 17 of the JORC Code 2012 are AS FOLLOWS:

**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.

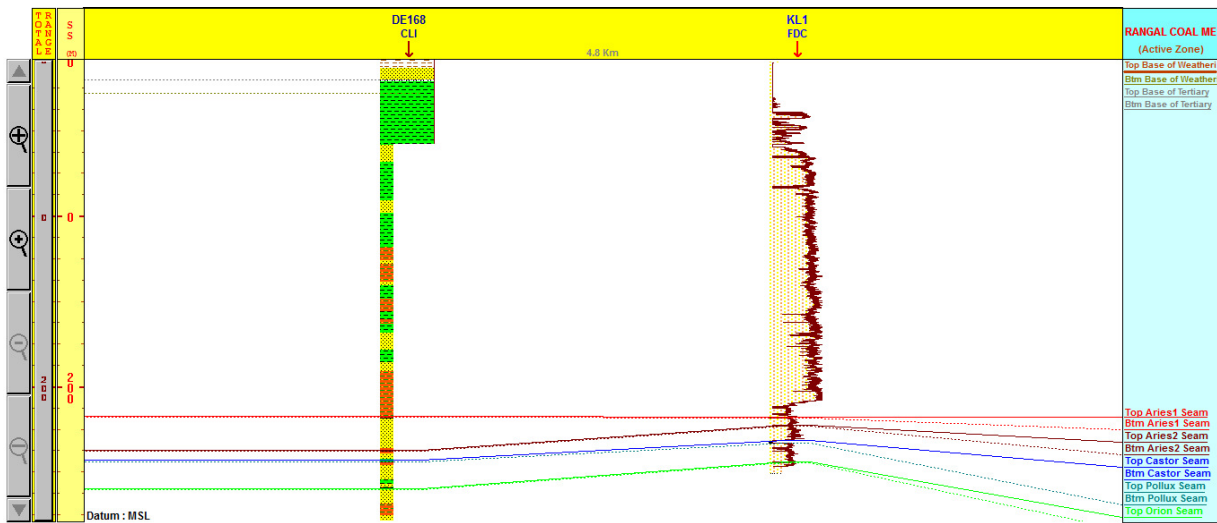


***Plan 2 - Kilmain Project – Drill holes (in sections) used for Exploration Target***



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

ARC4 refers to gas exploration well Arcturus-4 drilled in 1965 by AAR Limited. The APLNG Joint Venture between Origin Energy and SANTOS includes the Arcturus Gas Field of which well ARC4 is a part.



**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**

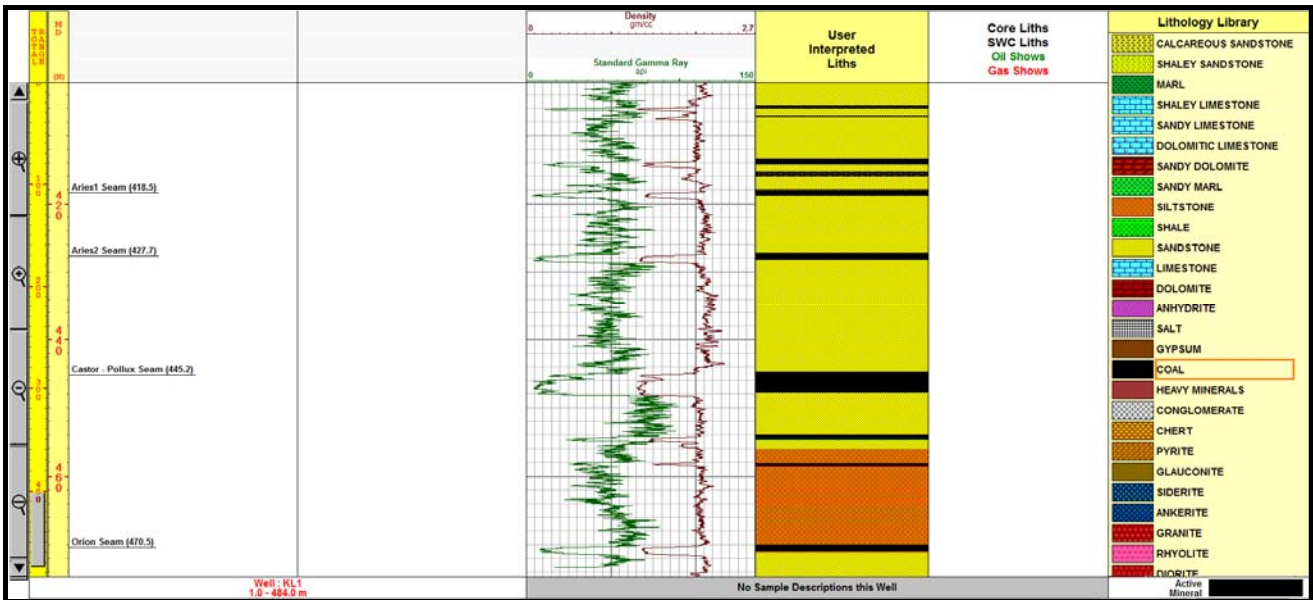
SEAM NAME	From	To (m)	Length (m)	#	RD	A	FC	VM	IM	S	SE	CSN
ARIES 1	414.66	419.25	0.86	2	1.42	11.0	52.2	30.10	6.7	0.52	5404	NA
ARIES 2	427.69	428.72	1.03	3	1.45	15.1	49.4	30.4	5.1	0.27	6738	1.0
CASTOR-POLLUX	445.22	448.35	3.13	8	1.45	14.4	51.5	27.8	6.3	0.34	6460	3.0
ORION	470.48	471.54	1.06	2	1.41	11.8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