

# Quarterly Report

## For period ended 31 December, 2012

### Overview

The December quarter saw the posting of a Maiden Resource compliant with the JORC Code for the Company.

A 98 Mt Inferred JORC Resource was reported for the Back Creek Project in the Surat Basin.

Notified of impending grant of Mt Marrow with potential to bring the project into production in near term.

Continuing attention to reducing operating costs during the Quarter.

### Project Status

#### Back Creek Project

The data package generated from the Company's two stages of drilling, plus the coal quality data generated from Stage 2 coal cores, as well as data from Cockatoo Coal Limited and Stanmore Coal Limited on their adjacent tenements, provided sufficient data to allow the Reporting of an Inferred Resource of 98 Mt<sup>1</sup> compliant with the JORC Code. The Resource Report was prepared by Runge Limited (now RungePincockMinarco Limited, an independent mining advisory and geological consultant group.

The Inferred Resource significantly exceeded the previous target of 60-80 Mt.<sup>2</sup>

*The company anticipates that further drilling will expand Back Creeks Inferred Resource figure.*

31 January, 2013

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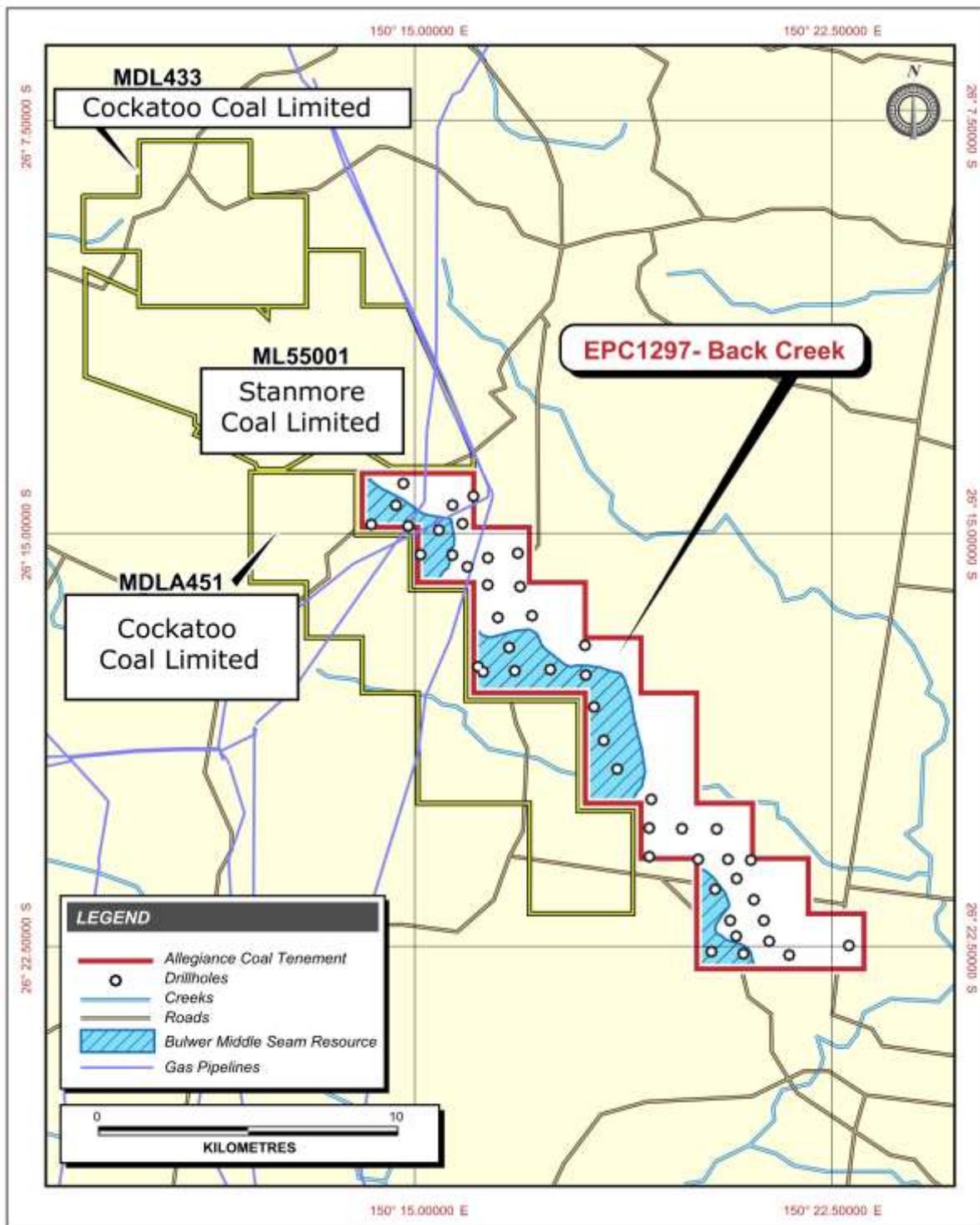
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<sup>1</sup> Allegiance Coal Limited ASX Announcement 26/11/2012

<sup>2</sup> 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



At Back Creek the Company's 98 Mt of Inferred Resources of shallow, open cut low ash thermal coal are located in the central and southern portions of the tenement - Plan 1.

**Kilmain Project**

Planning for crossing the Comet River to undertake drilling on the south eastern portion of the tenement continued. The continuing high flow rates in the river and steep river banks are providing significant challenges to enable drilling to commence.

A data swap arrangement with neighbour Bandanna Energy on their Arcturus and Springsure Creek projects concluded during the previous quarter and enabled the flow of data to commence. Detailed coal quality information from this data along with that from our three cored holes will enable an Indicative Typical Coal Specification to be developed.

*The Kilmain Project has potential for an underground deposit of coking/thermal coal within the Rangal Coal Measures and has an initial exploration target of 100-200 Mt of coal<sup>3</sup>.*

**Mintovale Project**

Consideration was given as to potential coal preparation and transport routes and methodologies.

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

There were no field activities conducted during the quarter.

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

**Connemarra Project**

Three drill holes, each to a depth of 120m, were drilled within the Connemarra project area during the previous Quarter to test for possible open cut depths coal. None of the holes intersected coal. The potential for coal at greater depths and suitable for underground mining will form part of a further review of the geology of the tenement.

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

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### **Calen Project**

During the Quarter, the Company continued negotiations for a potential farm-out with an adjacent tenement holder.

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

### **Lochaber**

There were no field activities undertaken during the period.

The company, as a member of the North Burnett Mineral Group, has been considering road/rail transport options for bulk commodities from the North Burnett region which includes the Lochaber tenement.

*The Lochaber project has potential for open pit thermal coal deposits.*

### **Townsville**

Further consideration was given to a future drilling program following the reported presence of coal in water bores to the east of the project area.

Negotiations continued with adjoining tenement applicant regarding data swap and cooperation on future airborne geophysical exploration.

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

### **Pinetree**

Negotiation for an access agreement is continuing.

*The Pinetree Project EPC 1875 has potential for open pit and underground coal deposits.*

### **Normanby**

The Company completed access arrangements for field mapping.

Field mapping took place with delineation of a section of the Permian Normanby Formation identified within the tenement. The structurally deformed nature of the strata, where exposed, confirms that should any coal in the area may be anthracitic in nature. Future exploration will include the use of geophysical techniques to delineate the edge of the narrow zone of coal measures under cover.

*The Normanby Project has potential for open pit and underground coal deposits.*

### **Cedar Creek**

The potential for development of a gasification project based on the Cedar Creek deposit and adjacent tenements was given further consideration during the Quarter with potential participants and end users being identified and approached.

*The Cedar Creek Project EPC2309 has potential for an open pit thermal coal deposit.*

### **Mobs Creek**

The review of available geological data within and adjacent to the Mobs Creek tenement continued during the Quarter.

A review of the soils associated within the tenement has defined an area where strategic cropping issues may be minimised and delineated a potential exploration target area.

*The Mobs Creek Project EPC 2309 has potential for an open pit thermal coal deposit.*

### **Mt Marrow**

The Company was notified of an impending grant of the Mt Marrow area EPCA2374 which is located within the West Moreton coalfield west of Ipswich.

The area hosts sequences from the Walloon Coal Measures and the company is targeting shallow open cut coal.

There are numerous parameters which make this tenement very significant: its proximity to existing rail infrastructure (only 90km from Port of Brisbane); Walloon coal is export quality thermal coal with low sulphur and low nitrogen; potential near term producer; potential low capital; and most importantly low capital cost.

The Company was able to gain access to data from some 200 drill holes (mainly cored) located in the West Moreton coalfields and drilled in the early 1950's. Over 300 individual coal quality data sets accompany the detailed core logs. Many of the cores are understood to be stored in the State core library.

*The Mt Marrow Project EPCA2374 has potential to be a near term open pit thermal coal mine.*

### **Infrastructure**

Following actions initiated from the review of infrastructure needs for the two lead projects, Back Creek and Kilmain, the Company has reviewed what, if any, additional actions are needed at this time to ensure that infrastructure will be in place to enable a first coal production from both lead projects in 2017.

Having regard to uncertainties associated with the Surat Basin Rail project no action has been taken at this time in relation to securing rail and port capacity for the Back Creek Project.

In relation to Kilmain, the current underutilisation of existing rail and port capacity, let alone the restrictive nature of take or pay contracts for new port capacity, has caused the Company to defer any decision in relation to securing rail and port capacity for this project which is only 15 km from existing Rolleston rail line.

With the imminent granting of the prospective Mt Marrow project, the company has investigated alternative coal washing, stockpiling and train loading facilities within the West Moreton coalfield as well as potential for export through the Port of Brisbane.

### **Environmental**

During the previous Quarter, the Company engaged ELP to undertake a review of the environmental factors and considerations in relation to the development of the two lead projects i.e. Back Creek and Kilmain. The recommendations from these reports remain under consideration by the company.

### Corporate

Cash	At 31 December, 2012 the company held \$4.25m in cash.
Budget	A reforecast budget was approved by the Board during the quarter taking into consideration the changed exploration program and cost savings.

### Grant of EPCA 2374 Mt Marrow

The Company was granted EPC 2374 Mt Marrow on 14 January 2013 for a five year period.

The Mt Marrow Thermal coal project is west of Ipswich and north of the existing Jeebropilly and New Oakleigh open cut coal mine.

### 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

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**Mr Mendel Deitz**  
Tenement and Corporate Relations Manager  
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#### <sup>i</sup>Competent Person 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.