

Quarterly Report For period ended 30 June , 2013

Highlights

- Coal seam outcrops uncovered within the Townsville tenement.
- New streamlined budget with increased focus on cost control and cash preservation
- An MDL application accepted for the Back Creek Project reflecting its reported 98 Mt JORC Inferred Resource. ⁽¹⁾
- 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 always been mindful of maintaining close cost control on its exploration activities and corporate overheads.

As the downturn in the Australian coal industry has continued your Company has undertaken a further critical examination of its cash position and its portfolio of tenements.

As a result, a new two year budget (1 July 2013 to 30 June 2015) was approved by the Board of Directors that substantially reduces the Company's overheads (to circa \$450,000 per annum) while focussing its future attention on only those tenements with short to medium term development potential. Greenfield tenements with 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.

Additional Value Creating Opportunities

Whilst recognising that the coal industry is in a very low point of the industry cycle, the company has identified a number of opportunities to utilise the company's expertise in the development of coal projects.

In return for a free carried interest, the Company is developing a potential external near term production coal project that is viable under current coal pricing and has a low capital profile.

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(1) Allegiance Coal Limited ASX Announcement 26/11/2013

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.

Project Status

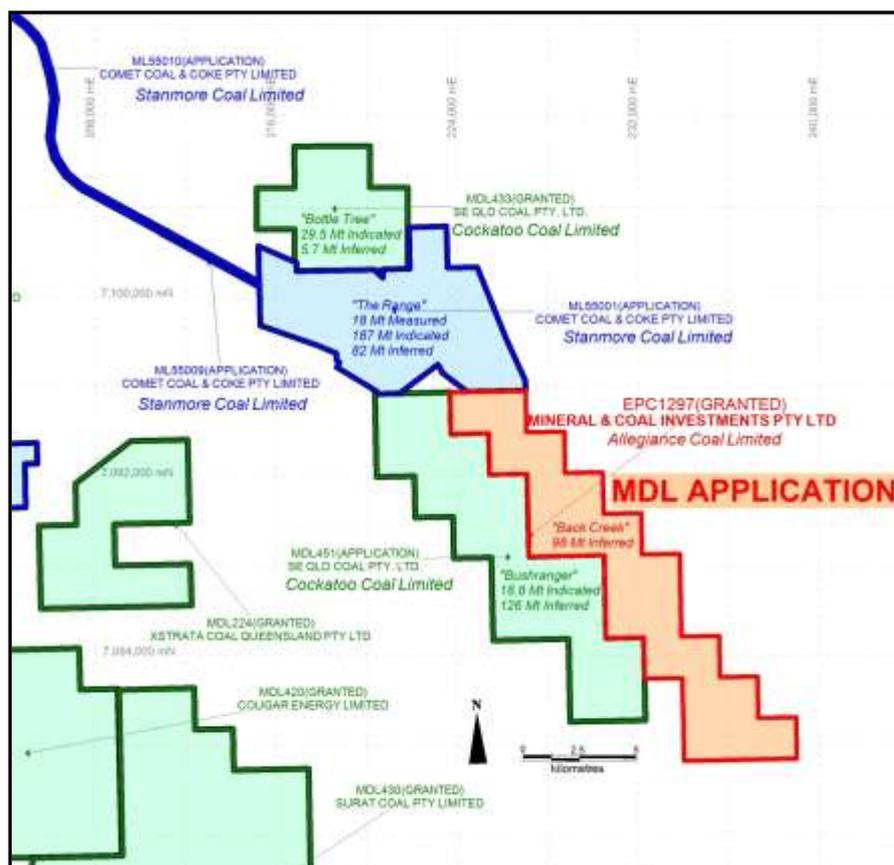
Back Creek Project

The posting of the maiden 98 Mt JORC Inferred Resource in November 2012 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*

During the period the Field Manager completed the rehabilitation of the gas testing holes.

All drill site rehabilitation has been signed off by Forestry Parks and Wildlife.

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



Plan 1 - Back Creek Project – MDL Application

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 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. ⁽³⁾

Following the data swap arrangement with neighbour Bandanna Energy on their Arcturus and Springsure Creek projects, detailed coal quality information has enabled Indicative Typical Coal Specifications to be developed.

A single high yielding 9% ash thermal coal and three specifications from washing of the seam to recover three fractions, 5% ash semi hard coking coal, 9% ash PCI coal and 15% ash thermal coal.

The Kilmain Project has potential for an underground deposit of coking/PCI/thermal coal within the Rangal Coal Measures and has an initial exploration target of 100-200 Mt of coal ⁽⁴⁾.

Mt Marrow

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

The 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

The company has undertaken detailed studies of historic drill hole and coal quality data. Some 200 holes (mainly cored) were drilled in the West Moreton coalfields in the period 1950-1962. Over 300 individual coal quality data sets accompanied the detailed core logs. Drill core from some of the deeper sections of the Walloon Coal Measures are retained at the State Core Library in Brisbane in remarkably good condition.

(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.

Mt Marrow Continued...

A company geologist studied four of these drill holes on-site at the State Core Library where re-logging and proximate sample testing were conducted. Although the drill core is over 50 years old, coal sample assays conducted by a NATA-certified laboratory show little diminution of the coal properties compared to assays conducted by the Government in the 1950's. Selected inter-seam sandstone cores were submitted to certified geotechnical laboratories where they were tested for compression strength, abrasiveness and tensile characteristics. These results are essential for providing data for costing the potential use of a surface miner to extract the overburden and coal.

In addition, the one entire drill hole (which has been quoted as the type-section for the Walloon Coal Measures) was submitted for new technology 'HyLogger' analysis. Output from this technique includes high resolution core photography and multi-spectral mineral scanning data which provides a complete mineralogical (clay) profile of the entire hole. This information will be valuable for coal washing planning.

An Indicative Specification for washed West Moreton Coal has been developed for the Mt Marrow Project.

Based on selective mining of the coal plies, an Indicative Specification for Selectively Mined West Moreton Coal is being developed.

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

Connemarra Project

The Project is considered suitable for coal at depth and 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.

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

Mintovale Project

During the period an inspection was made of a potential rail siding on the main north-south standard gauge Australian Rail Track Corporation Ltd (ARTC) controlled rail line near Beaudesert. A subsequent meeting with the ARTC officer responsible for the area discussed the potential for reinstatement of a turn out from the siding to the main line. 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 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.

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

Townsville

During the period, the company completed some field mapping within its Townsville tenement, EPC 1492, and confirmed the presence of an outcropping 1-metre thick coal seam.

This followed extensive archival investigations into all previous reports of coal occurrences in the region and plotting of their locations and of all historic drill holes on current topographic and cadastral maps.

The exposures of the seam in outcrop and in an adjacent quarry, combined with all of the drill hole information, has provided the company with sufficient data to prepare an application for a Mineral Development Licence, the granting of which would enable subsequent excavation of a bulk sample 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 coal deposits.

Pinetree

Discussions have been held with a number of potential JV partners. Discussion with one group continues.

The Pinetree Project EPC 1875 has potential for an underground 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. A detailed photo interpretation was undertaken to assist in delineating the edge of the narrow zone of coal measures under cover and the placement of drill holes.

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

Cedar Creek

The potential for development of a gasification project based on the Cedar Creek deposit and adjacent tenements was progressed during the Quarter. Discussions were held as to the potential for use of the resulting carbon dioxide for stimulating a nearby dwindling oil field. At this time there is no interest and the gasification project will no longer be pursued.

Consideration is now being given as to whether the area should be relinquished.

Mobs Creek

Following the review of available geological and soil data within and adjacent to the Mobs Creek tenement as well as rail transport options, it is now considered that Mobs Creek is of lesser interest than other tenements held by the company.

Consideration is now being given to relinquishment of the Mobs Creek tenement in favour of funding better placed and more prospective tenements.

Corporate

Cash : At 30 June, 2013 the company held \$3.493m 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 :

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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.