

ALLEGIANCE COAL LIMITED

ACN 149 490 353

Notice of Annual General Meeting and Explanatory Memorandum

Date of Meeting

Thursday, 28 November, 2013

Time of Meeting

10.00a.m. EDST

Place of Meeting

Allegiance Coal Limited
Level 2
49-51 York Street
SYDNEY NSW 2000

This Notice of Annual General Meeting and Explanatory Memorandum should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

ALLEGIANCE COAL LIMITED

ACN 149 490 353

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given of the Annual General Meeting of Allegiance Coal Limited ("**Company**" or "**Allegiance**") to be held at the Offices of Allegiance Coal Limited, Level 2, 49-51 York Street, Sydney NSW 2000 on Thursday, 28 November, 2013 at 10:00a.m. EDST, for the purpose of transacting the following business referred to in this Notice of Annual General Meeting.

An Explanatory Memorandum containing information in relation to the following Resolutions accompanies and forms part of this Notice of Annual General Meeting.

AGENDA

Accounts and Reports

To receive and consider the annual financial report of the Company for the year ended 30 June, 2013 and accompanying reports of the Directors and auditor of the Company.

Resolution 1 – Adoption of Remuneration Report

To consider and put to a non-binding vote the following resolution as an **ordinary resolution**:

"That the Remuneration Report required by section 300A of the Corporations Act, as disclosed in the report of the Directors for the year ended 30 June, 2013, be adopted."

Note: The vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Prohibition Statement

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person (the **Voter**) described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- (a) the Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the Resolution; or
- (b) the Voter is the Chair and the appointment of the Chair as proxy:
 - (i) does not specify the way the proxy is to vote on this Resolution; and
 - (ii) expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

Resolution 2 –Election of Mr Peter Donkin as a Director

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That Mr Peter Donkin, who retires in accordance with the Constitution and who offers himself for election and is eligible for election, be elected as a Director."

Resolution 3 – Approval of Issue of Options to Mr Colin Randall

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act, and for all other purposes, the Company is authorised to issue and allot up to 2,600,000 Options to Mr Colin Randall and/or his nominee(s) for the purposes, on the terms and conditions, and in the manner described in the Explanatory Memorandum."

Voting Exclusion Statement

The Company will disregard any votes cast on the Resolution by Mr Colin Randall and/or his nominee(s) and any of their respective associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person (the **Voter**) described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- (c) the Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the Resolution; or
- (d) the Voter is the Chair and the appointment of the Chair as proxy:
 - (i) does not specify the way the proxy is to vote on this Resolution; and
 - (ii) expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

Resolution 4 – Approval of Issue of Options to Mr Anthony Howland-Rose

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act, and for all other purposes, the Company is authorised to issue and allot up to 500,000 Options to Mr Anthony Howland-Rose and/or his nominee(s) for the purposes, on the terms and conditions, and in the manner described in the Explanatory Memorandum."

Voting Exclusion Statement

The Company will disregard any votes cast on the Resolution by Mr Anthony Howland-Rose and/or his nominee(s) and any of their respective associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person (the **Voter**) described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- (c) the Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the Resolution; or

- (d) the Voter is the Chair and the appointment of the Chair as proxy:
- (i) does not specify the way the proxy is to vote on this Resolution; and
 - (ii) expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

Resolution 5 – Approval of Issue of Options to Mr Peter Donkin

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act, and for all other purposes, the Company is authorised to issue and allot up to 500,000 Options to Mr Peter Donkin and/or his nominee(s) for the purposes, on the terms and conditions, and in the manner described in the Explanatory Memorandum."

Voting Exclusion Statement

The Company will disregard any votes cast on the Resolution by Mr Peter Donkin and/or his nominee(s) and any of their respective associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person (the **Voter**) described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- (c) the Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the Resolution; or
- (d) the Voter is the Chair and the appointment of the Chair as proxy:
 - (i) does not specify the way the proxy is to vote on this Resolution; and
 - (ii) expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

Resolution 6 – Approval of Issue of Options to Mr David Deitz

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act, and for all other purposes, the Company is authorised to issue and allot up to 500,000 Options to Mr David Deitz and/or his nominee(s) for the purposes, on the terms and conditions, and in the manner described in the Explanatory Memorandum."

Voting Exclusion Statement

The Company will disregard any votes cast on the Resolution by Mr David Deitz and/or his nominee(s) and any of their respective associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person (the **Voter**) described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- (c) the Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the Resolution; or
- (d) the Voter is the Chair and the appointment of the Chair as proxy:
 - (i) does not specify the way the proxy is to vote on this Resolution; and
 - (ii) expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

OTHER BUSINESS

To deal with any other business which may be lawfully brought forward.

By Order of the Board of Directors



Anthony Howland-Rose
Chairman

Dated 21 October, 2013

PROXIES

- Votes at the Annual General Meeting may be given personally or by proxy, attorney or representative.
- A Shareholder who is entitled to attend and vote at the Meeting has a right to appoint a proxy to attend and vote instead of the Shareholder. A proxy need not be (but may be) a Shareholder and can be either an individual or a body corporate. If a Shareholder appoints a body corporate as a proxy that body corporate will need to ensure that it:
 - appoints an individual as its corporate representative to exercise its powers at the Meeting, in accordance with section 250D of the Corporations Act; and
 - provides the Company with satisfactory evidence of the appointment of its corporate representative prior to commencement of the Meeting.
- If such evidence is not received before the Meeting, then the body corporate (through its representative) will not be permitted to act as proxy.
- Proxies given by corporate Shareholders must be executed in accordance with their constitutions, or signed by a duly authorised attorney. A proxy may decide whether to vote on any motion, except where the proxy is required by law or the Constitution to vote, or abstain from voting, in their capacity as proxy.
- A Shareholder entitled to cast 2 or more votes at the Meeting may appoint not more than two proxies to attend and vote at this Meeting. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the Shareholder's voting rights. If no proportion or number is specified, each proxy may exercise half of the Shareholder's votes. Fractions will be disregarded.
- A proxy may, but need not be, a Shareholder.
- The instrument appointing the proxy must be in writing, executed by the appointor or his attorney duly authorised in writing or, if such appointor is a corporation, either under seal or under hand of an officer(s) or his attorney duly authorised.
- The instrument of proxy (and the power of attorney or other authority, if any, under which it is signed or certified copy of the same) must be lodged by person, post, courier or facsimile and reach the Registered Office of the Company at least 48 hours prior to the Meeting.
- Proxies appointing the Chair which do not specify the way in which the proxy is to vote on a particular Resolution will be recorded as voting in favour of the Resolutions (subject to the other provisions of these notes on Proxies and any required voting exclusions including those in the Notice) as this is the Chair's voting intention. If the Chair is your nominated proxy, or may be appointed by default, and you have not directed your proxy how to vote by ticking either the 'for', 'against' or 'abstain' box in relation to Resolutions 1, 3, 4, 5 and 6, you will be authorising the Chair to vote in accordance with the Chair's voting intentions on Resolutions 1, 3, 4, 5 and 6 even if Resolutions 1, 3, 4, 5 and 6 are connected directly or indirectly with the remuneration of the Chair and other Key Management Personnel. The Chair intends to vote all available proxies in favour of Resolutions 1, 3, 4, 5 and 6.
- A proxy form accompanies this Notice and to be effective the proxy form and the power of attorney or other authority (if any) under which it is signed (or a certified copy) must be received by the Company no later than 48 hours before the commencement of the Meeting, at:
 - the Company's registered office, Level 2, 49 – 51 York Street, Sydney, New South Wales; or
 - by facsimile to the Company on facsimile number (02) 9397 7575; or
 - by post to Allegiance Coal Limited, GPO Box 2703, Sydney NSW 2001

Any proxy form received after that time will not be valid for the Meeting.

The **enclosed** proxy form provides further details on appointing proxies and lodging proxy forms.

Corporations

A corporation may elect to appoint a representative in accordance with the Corporations Act in which case the Company will require written proof of the representative's appointment which must be lodged with, or presented to the Company before the commencement of the Meeting.

NOTES

For the purpose of regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the Directors have determined that Shares held at 10.00a.m. EDST on 26 November, 2013 will be taken, for the purposes of the Annual General Meeting, to be held by the persons who held them at that time. The entitlement of Shareholders to vote at the Meeting will be determined by reference to that time.

EXPLANATORY MEMORANDUM

This Explanatory Memorandum is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of Annual General Meeting.

The Directors recommend Shareholders read this Explanatory Memorandum in conjunction with the Notice of Meeting (of which this Explanatory Memorandum forms a part) in full before making any decision in relation to the Resolutions.

ORDINARY BUSINESS

ANNUAL REPORT

As required under section 317 of the Corporations Act, the Annual Report (which includes the financial report, Directors' report and auditor's report) will be laid before the Annual General Meeting.

Shareholders at the Meeting will be given a reasonable opportunity to ask questions and make comments about the Annual Report or the Company generally, but there will be no formal resolution submitted to the Meeting.

Reasonable opportunity will also be given to Shareholders at the Meeting to ask the Company's auditor questions relevant to the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and the independence of the auditor in relation to the conduct of the audit.

RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT (Non-binding vote)

Requirements of Corporations Act

Section 298 of the Corporations Act requires that the annual Directors' Report contain a Remuneration Report prepared in accordance with section 300A of the Corporations Act.

By way of summary, the Remuneration Report:

- (a) discusses the Company's policy and the process for determining the remuneration of its executive officers (there are no executives other than the Directors); and
- (b) sets out remuneration details for each Director named in the Remuneration Report for the financial year ended 30 June, 2013.

Section 250R(2) of the Corporations Act requires companies to put a resolution to their members that the Remuneration Report be adopted. Pursuant to section 250R(3) of the Corporations Act, the vote on this resolution is advisory only and does not bind the Board or the Company.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the Meeting.

Voting consequences

Under changes to the Corporations Act that came into effect on 1 July 2011, if at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report in two consecutive annual general meetings, a company will be required to put to its shareholders a resolution proposing the calling of a general meeting to consider the appointment of directors of the company (**Spill Resolution**) at the second annual general meeting.

If more than 50% of shareholders vote in favour of the Spill Resolution, the company must convene the general meeting (**Spill Meeting**) within 90 days of the second annual general meeting.

All of the directors of the company who were in office when the directors' report (as included in the company's annual financial report for the financial year ended immediately before the second annual general meeting) was approved, other than the managing director of the company, will cease to hold office immediately before the end of the Spill Meeting but may stand for election or re-election at the Spill Meeting. Following the Spill Meeting those persons whose election or re-election as directors is approved will be the directors of the company.

At the Company's previous annual general meeting, less than 25% of votes were cast against the remuneration report at that meeting. Accordingly the Spill Resolution is not relevant for this Annual General Meeting.

Directors' Recommendation

The Board unanimously recommends that Shareholders adopt the Remuneration Report.

RESOLUTION 2 –ELECTION OF MR PETER DONKIN AS A DIRECTOR

Mr Peter Donkin

Resolution 2 seeks approval for the election of Mr Peter Donkin as a Director with effect from the end of the Meeting.

The Constitution provides that at each annual general meeting of the Company one-third of the Directors or, if their number is not a multiple of three, then such number as is appropriate to ensure that no Director holds office for more than 3 years, shall retire from office.

Mr Donkin retires from office in accordance with this requirement, being eligible, and submits himself for election. His profile is contained in the Annual Report.

Directors' Recommendation

The Directors (other than Mr Peter Donkin) recommend the election of Mr Peter Donkin.

RESOLUTIONS 3, 4, 5 AND 6 - APPROVAL OF ISSUE OF OPTIONS TO DIRECTORS

Background

Resolutions 3, 4, 5 and 6 seek Shareholder approval for the issue of a total of 4,100,000 Options to Messrs Colin Randall, Anthony Howland-Rose, Peter Donkin and David Deitz, who are Directors, and/or their nominee(s), as follows:

Name	Number of Options
Mr Colin Randall and/or his nominee(s)	2,600,000
Mr Anthony Howland-Rose and/or his nominee(s)	500,000
Mr Peter Donkin and/or his nominee(s)	500,000
Mr David Deitz and/or his nominee(s)	500,000

The terms of the Options are set out in Annexure A to this Explanatory Memorandum. The exercise price of the Options will be the price that is 50% above the closing sale price of the Shares recorded on the stock market of the ASX on the trading day immediately preceding the day of the Annual General Meeting. However, since the actual Share price is not known, for the purposes of the valuation, the Options have been valued as though granted on 21 October 2013. The Options have been valued using market data current at that time. Accordingly the actual exercise price (and also the value of the Options as at the date of issue) could vary having regard to the fluctuations in the market price of the Shares between the date of this Notice and the date upon which the Options are offered to Messrs Randall, Howland-Rose, Donkin and Deitz following the Meeting in which case the valuation of the Options may vary.

The primary purpose of the grant of Options to Messrs Randall, Howland-Rose, Donkin and Deitz is to provide a market linked incentive package in their capacity as Directors and to encourage the future performance by them. The Directors believe that the future success of the Company will depend in large measure on the skills and motivation of the people engaged in and engaged in and overseeing the management of the Company's operations. It is therefore important that the Company is able to attract and retain people of the highest calibre.

The Directors consider that the most appropriate means of achieving this is to reward Directors for their performance, to provide Directors with an opportunity to participate in the Company's future growth and give them an incentive to contribute to that growth. The Board considered the extensive corporate and exploration industry experience of Messrs Randall, Howland-Rose, Donkin and Deitz and the current market price of Shares when determining the number and exercise price of the Options to be put before Shareholders for their approval.

The Options will be issued and allotted on a single occasion as soon as possible and, in any event, within one month of the date of the Annual General Meeting.

As the Options will be issued for no cash consideration, no cash funds will be raised by the Company from their issue. Any funds received on the exercise of the Options will be used for working capital purposes.

The issue of options as part of the remuneration packages of directors is a well established practice of public listed companies and, in the case of the Company, has the benefit of conserving cash whilst properly rewarding their directors.

The number of Options to be granted to Messrs Randall, Howland-Rose, Donkin and Deitz and their exercise price and expiry date has been determined based upon the Directors' wish to ensure that the remuneration offered is competitive with market standards and where appropriate, based upon performance hurdles.

The Board considers the packages, including the proposed grant of Options, are comparable to other remuneration packages for directors of comparable companies. The exercise of the Options will provide working capital for the Company at no significant cost. If all Options proposed to be issued pursuant to Resolutions 3, 4, 5 and 6 are ultimately exercised, an amount of \$112,773 would be raised.

The Board considers the proposed grant of the Options pursuant to Resolutions 3, 4, 5 and 6 to be put before the Shareholders to be reasonable and commercial in light of the circumstances of the Company given its size and stage of development, market practice of other companies in the mineral exploration and development industry and given the necessity to attract and retain the highest calibre of skilled professionals to the Company whilst maintaining the Company's cash reserves. Accounting standards require that granted options be valued and expensed.

Material Personal Interest

Section 195 of the Corporations Act provides, in essence, that a director of a public company may not vote or be present during meetings of directors when matters in which that director holds a "material personal interest" are being considered.

As each Director may be considered to hold a material personal interest in the consideration of the issue of the Options pursuant to Resolutions 3, 4, 5 and 6, a quorum cannot be formed to consider the matter at Board level. However by reason of section 195(4) of the Corporations Act, the Directors are permitted in such instances to put the matter before Shareholders to consider and resolve.

The Directors have accordingly exercised their right under section 195(4) of the Corporations Act and have resolved to place the proposed issue of Options pursuant to Resolutions 3, 4, 5 and 6 to Shareholders to consider and resolve upon.

Related Party Transactions

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party of the public company unless either:

- the giving of the financial benefit falls within one of the nominated exceptions to the provision; or
- shareholder approval is obtained prior to the giving of the financial benefit and the benefit is given within 15 months after obtaining such approval.

For the purposes of Chapter 2E, the Directors are each a related party of the Company.

Resolutions 3, 4, 5 and 6 provide for the grant of Options to the Directors which is a financial benefit for the purposes of Chapter 2E of the Corporations Act.

In accordance with section 219 of the Corporations Act, the following information is provided to Shareholders:

- (a) The related parties to whom the proposed resolution would permit the financial benefit to be given are as follows:

Name	Number of Options
Colin Randall and/or his nominee(s)	2,600,000
Anthony Howland-Rose and/or his nominee(s)	500,000
Peter Donkin and/or his nominee(s)	500,000
David Deitz and/or his nominee(s)	500,000

- (b) The nature of the financial benefit proposed to be given is the grant of the Options for no consideration on the terms and conditions set out in Resolutions 3, 4, 5 and 6 and Annexure A to this Explanatory Memorandum.

On the basis of the Option value, as detailed in paragraph (d)(ii) below, the value of the Options proposed to be issued to each of the Directors, is as follows:

Name	Role	Value of Options (\$)
Colin Randall	Managing Director	21,450
Anthony Howland-Rose	Chairman	4,125
Peter Donkin	Director	4,125
David Deitz	Director	4,125

- (c) As all Directors and/or their respective nominee(s) are participating in the proposed issue of Options, each of the Directors expresses no opinion and makes no recommendation in respect of the grant of the Options proposed by Resolutions 3, 4, 5 and 6 as they consider that they have a material personal interest in the outcome of these Resolutions.
- (d) Other information (apart from that as set out throughout this Notice of Meeting) that is reasonably required by Shareholders to make a decision whether it is in the interests of the Company to pass Resolutions 3, 4, 5 and 6 that is known to the Company or any of its Directors is as follows:
- (i) The proposed Resolutions 3, 4, 5 and 6 would have the effect of giving power to the Directors to grant up to 4,100,000 Options on the terms and conditions as set out in Annexure A to this Explanatory Memorandum and as otherwise mentioned above. The Company presently has 176,667,674 Shares, and 19,555,561 options on issue.
- (ii) The Company has valued the Options using the Black-Scholes Option Pricing Model (“**BSModel**”), which is the most widely used and recognised model for pricing options, and which ASIC has indicated as acceptable. The value of an option calculated by the BSModel is a function of a number of variables and is rounded to the nearest one hundredth of a cent. Their assessment of the value of the Options has been prepared using the following variables:
- the price of the underlying Share is \$0.183 cents based on the volume weighted average price of the Shares recorded on the stock exchange of the ASX over the last five days trading up to and including 21 October 2013;
 - the exercise price is \$0.0275 cents being a 50% premium;
 - the Option term is 5 years;
 - a price volatility factor of 64 %; and
 - the average risk free interest rate of 3.01 %, as at 21 October 2013.

In deriving the valuation the BSModel relies upon the following assumptions:

- that the Options are American call options (ie. they can be exercised at any time during the period);
- there are no transaction costs, options and shares are infinitely divisible, and information is available to all without cost;
- short selling is allowed without restriction or penalty;
- the risk free interest rate is known and constant throughout the duration of the option contract;
- the underlying shares do not pay a dividend; and
- share prices behave in a manner consistent with a random walk in continuous time.

Using the abovementioned variables the BSModel indicates the value of each Option to be \$0.008. Any change in the variables applied in the BSModel between the date of the valuation and the date the Options are granted would either increase or decrease their value.

- (iii) The exercise price of the Options will be the price that is 50% above the closing sale price of the Shares recorded on the stock market of the ASX on the trading day immediately preceding the day of the Annual General Meeting. However, since the actual Share price is not known, for the purposes of the valuation, the Options have been valued as though granted on 21 October 2013. The Options have been valued using market data current at that time. Accordingly the actual exercise price (and also the value of the Options as at the date of issue) could vary having regard to the fluctuations in the market price of the Shares between the date of this Notice and the date upon which the Options are offered to Messrs Randall, Howland-Rose, Donkin and Deitz following the Meeting in which case the valuation of the Options may vary.
- (iv) If any Options granted as proposed are exercised, the effect would be to dilute the shareholding of existing Shareholders. Based on the securities of the Company on issue as at 21 October 2013, and assuming that no other Options are exercised and no other Shares are issued except Shares issued upon exercise of the Options) the effect of the exercise of the Options will be that the shareholding of existing Shareholders would be diluted by 2.3%. The market price of the Shares during the period of the Options will normally determine whether or not Option holders exercise the Options. At the time any Options are exercised and Shares are issued pursuant to the exercise of the Options, the Shares may be trading on ASX at a price which is higher than the exercise price of the Options. If the Options are exercised at a time at which the Shares are trading on ASX at a price that is higher than the exercise price of the Options, there may be a perceived cost to the Company.

The following table gives details of the highest, lowest and latest price of Shares trading on ASX over the past 12 months ending on 21 October 2013:

Security	Highest Price on 7/11/2012	Lowest Price on 11/7/2013	Latest Price on 21/10/2013
Ordinary Shares	\$0.075	\$0.012	\$0.02

- (v) As at the date of this Notice, the Directors and their associates have relevant interests in securities in the Company as follows:

Name	Shares	Options		
		Number of options	Exercise Price	Expiry Date
Colin Randall	27,882,165	1,700,000	25 cents	09.05.16
		25,000	25 cents	30.03.14
Anthony Howland-Rose	1,256,667 1,276,667	1,200,000	25 cents	09.05.16
		242,222	25 cents	30.03.14
Peter Donkin	343,334	1,000,000	25 cents	09.05.16
		113,612	25 cents	30.03.14
David Deitz	686,667	1,000,000	25 cents	09.05.16
		224,722	25 cents	30.03.14

- (vi) Based on the Option values set out in paragraph (d)(ii) above the Directors will be receiving the following remuneration for their roles as Directors, plus compulsory superannuation contributions in accordance with the Superannuation Guarantee legislation in the next financial year if Resolutions 3, 4, 5 and 6 are passed:

Name	Role	Cash salary and fees (\$)	Value of Options (\$)	Total Remuneration (p.a.) (\$)
Colin Randall	Managing Director	100,000	21,450	121,450
Anthony Howland-Rose	Chairman	20,000	4,125	24,125
Peter Donkin	Director	20,000	4,125	24,125
David Deitz	Director	20,000	4,125	24,125

The Directors receive no other remuneration for their roles as Directors.

- (vi) The Directors do not consider that from an economic and commercial point of view, there are any costs or detriments including opportunity costs or taxation consequences for the Company or benefits foregone by the Company in granting the Options pursuant to Resolutions 3, 4, 5 and 6 other than:
- (A) the potential dilution of Shareholding of Shareholders set out in paragraph (d)(iii) above,
- (B) the possibility that, if the Options are exercised at a time when the market price of Shares is greater than the exercise price of the Options, there will be a detriment insofar as the Company will be required to issue Shares at a price lower than it might otherwise have been able to, with the result that less funds will be raised; and
- (C) accounting standards require that granted options be valued and expensed.
- (vii) The Board acknowledges the grant of Options to Messrs Howland-Rose, Donkin and Deitz is contrary to Recommendation 8.2 of the ASX Corporate Governance Principles and Recommendations as Messrs Howland-Rose, Donkin and Deitz are non-executive Directors. However the Board considers the grant to Messrs Howland-Rose, Donkin and Deitz reasonable in the circumstances for the reasons set out above.
- (viii) Neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision in relation to the financial benefits contemplated by the proposed Resolutions 3, 4, 5 and 6, other than as set out throughout this Notice of Meeting.

Listing Rule 10.11

Listing Rule 10.11 requires a listed company to obtain shareholder approval by ordinary resolution prior to the issue of securities (including an option) to a related party. If Resolutions 3, 4, 5 and 6 are passed, securities may be issued to Messrs Randall, Howland-Rose, Donkin and Deitz and/or company(ies) controlled by these persons who are related parties of the Company for the purposes of the Corporations Act and Listing Rules.

Accordingly, approval for the issue of Options to Messrs Randall, Howland-Rose, Donkin and Deitz and/or their respective nominee(s) is also required pursuant to Listing Rule 10.11.

In accordance with ASX Listing Rule 7.2 Exception 14, the approval of the holder of ordinary securities pursuant to the Listing Rule 7.1 is not required in order to issue the Options to Messrs Randall, Howland-Rose, Donkin and Deitz and/or their respective nominee(s) if such approval is obtained under Listing Rule 10.11. Shareholders should note that the issue of Options to Messrs Randall, Howland-Rose, Donkin and Deitz and/or their respective nominee(s), will not be included in the 15% calculation for the purposes of Listing Rule 7.1.

Listing Rule 10.13 sets out a number of matters which must be included in a notice of meeting in which an approval under Listing Rule 10.11 is being sought. The following information is provided to Shareholders for the purposes of Listing Rule 10.13 and approval for the issue of Options to Messrs Randall, Howland-Rose, Donkin and Deitz is sought on the following terms:

- (a) the Options will be granted to Messrs Randall, Howland-Rose, Donkin and Deitz, who are all directors of the Company, and/or their respective nominee(s);

- (b) the maximum number of Options to be granted is 4,100,000 and the maximum number of Options which could be issued to each Director, and/or their respective nominee(s), is as follows:

<u>Name</u>	<u>Options</u>
Colin Randall, and/or his nominee(s)	2,600,000 (Resolution 3)
Anthony Howland-Rose, and/or his nominee(s)	500,000 (Resolution 4)
Peter Donkin, and/or his nominee(s)	500,000 (Resolution 5)
David Deitz, and/or his nominee(s)	500,000 (Resolution 6)

- (c) the Options will be issued no later than one (1) month from the date of approval of the Resolutions (or such later date as approved by ASX);
- (d) the terms and conditions of the Options are set out in Annexure A;
- (e) the Shares issued upon exercise of the Options will rank equally in all respects with the Company's existing issued Shares;
- (f) the Options are being issued for nil consideration as part consideration for the services provided to the Company by Messrs Randall, Howland-Rose, Donkin and Deitz in the roles as Directors and for the purpose set out above, and accordingly no funds will be raised.

GLOSSARY

In the Notice of Meeting and the proxy form which accompanies this Notice of Meeting, the following terms have the following meanings unless the context otherwise requires:

Annual Report	means the Company's annual report including the reports of the Directors and auditor of the Company and the financial statement of the Company for the year ended 30 June, 2013.
ASIC	means the Australian Securities and Investments Commission.
ASX	means ASX Limited (ACN 008 624 691) and the market operated by it, as the context requires.
Board	means the board of Directors.
Chair	means the chairperson of the Meeting.
Closely Related Party	is defined in respect of a member of Key Management Personnel as: <ul style="list-style-type: none">▪ a spouse or child of the member;▪ a child of the member's spouse;▪ a dependent of the member or the member's spouse;▪ anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the Company;▪ a company the member controls; or▪ a person prescribed by the <i>Corporations Regulations 2001</i> (Cth) that may be made for this purpose.
Company or Allegiance	means Allegiance Coal Limited (ACN 149 490 353).
Constitution	means the constitution of the Company.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Director	means a director of the Company.
EDST	means Eastern Daylight Savings Time.
Key Management Personnel	has the meaning given in the accounting standards and broadly means those persons with the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and includes any Director (whether executive or otherwise).
Listing Rules	means the Listing Rules of ASX and any other rules of ASX which are applicable while the Company is admitted to the official list of ASX, each as amended or replaced from time to time, except to the extent of any express written waiver by ASX.
Meeting or Annual General Meeting	means the annual general meeting of the Company to be held on 28 November, 2013 at 10.00a.m. (EDST), convened by this Notice
Notice of Meeting or Notice	means the notice of annual general meeting which accompanies and includes this Explanatory Memorandum.
Option	means an option to acquire a Share on the terms and conditions set out in Annexure A to this Explanatory Memorandum.
Remuneration Report	means that section of the Directors' report under the heading "Remuneration Report" set out in the Annual Report.
Share	means a fully paid ordinary share in the capital of the Company.

ANNEXURE A

The terms and conditions of the Options that are the subject of Resolutions 3, 4, 5 and 6 are:

1. Each Option shall be issued for no consideration.
2. Each Option entitles the holder to subscribe for one Share upon the payment of the price, which is 50% above the closing sale price of the Shares recorded on the stock market on the trading day immediately preceding the day of the Annual General Meeting, per Share subscribed for.
3. The Options will lapse at 5:00 pm, Eastern Standard Time on 27 November 2018 ("**Expiry Date**").
4. The Options are not transferable and will not be listed for official quotation on the ASX.
5. There are no participating rights or entitlements inherent in these Options and holders of the Options will not be entitled to participate in new issues of capital that may be offered to shareholders during the currency of the Option.
6. Option holders have the right to exercise their Options prior to the date of determining entitlements to any capital issues to the then existing shareholders of the Company made during the currency of the Options, and will be granted a period of at least 10 business days before books closing date to exercise the Options.
7. In the event that a pro rata issue (except a bonus issue) is made to the holders of the underlying securities in the Company, the exercise price of the Options may be reduced according to the following formula:

$$O' = O - \frac{E[P - (S + D)]}{N + 1}$$

where:

O' = the new exercise price of the Option.

O = the old exercise price of the Option.

E = the number of underlying securities in the Company into which one Option is exercisable.

P = the average market price per security (weighted by reference to volume) of the underlying securities in the Company during the 5 trading days ending on the day before the ex rights date or ex entitlements date.

S = the subscription price for a security under the pro rata issue.

D = the dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue).

N = the number of securities with rights or entitlements that must be held to receive a right to one new security in the Company.

8. In the event of any re-organisation (including reconstruction, consolidation, subdivision, reduction or return of capital) of the issued capital of the Company, the Options will be re-organised as required by the Listing Rules, but in all other respects the terms of exercise will remain unchanged.
9. The Options shall be exercisable at any time before the Expiry Date ("**Exercise Period**") by the delivery to the registered office of the Company of a notice in writing ("**Notice**") stating the intention of the Option holder to exercise all or a specified number of Options held by them accompanied by an Option Certificate and a cheque made payable to the Company for the subscription monies for the shares. The Notice and cheque must be received by the Company during the Exercise Period. An exercise of only some options shall not affect the rights of the Option holder to the balance of the Options held by him.
10. The Company shall allot the resultant shares and deliver a statement of shareholdings with a holder's identification number within 5 business days of exercise of the Options.
11. The shares allotted shall rank, from the date of allotment, equally with the existing ordinary shares of the Company in all respects.

ALLEGIANCE COAL LIMITED

ACN 149 490 353

PROXY FORM

The Company Secretary
Allegiance Coal Limited
Registered Office Address:
Postal Address:

Level 2, 49-51 York Street, SYDNEY NSW 2000
GPO Box 2703, SYDNEY NSW 2001

I/We (name of shareholder) _____
of (address) _____
being a member/members of Allegiance Coal Limited entitled to attend and vote at the Annual General Meeting HEREBY
APPOINT
(name of proxy) _____
of (address) _____
and/or failing him (name) _____
of (address) _____

I/We acknowledge that the Chair intends to vote all undirected proxies in favour of each of Resolutions 1 to 6 (inclusive).

I/We direct my/our Proxy to vote in the following manner:

	For	Against	Abstain*
1 Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Election of Mr Peter Donkin as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Approval of Issue of Options to Mr Colin Randall	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Approval of Issue of Options to Mr Anthony Howland-Rose	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Approval of Issue of Options to Mr Peter Donkin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Approval of Issue of Options to Mr David Deitz	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If no directions are given my proxy may vote as the proxy thinks fit or may abstain. If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Where I/we have appointed the Chair as my/our proxy or the Chair becomes my/our proxy by default, I/we expressly authorise the Chair to exercise my/our proxy in respect of Resolutions 1, 3, 4, 5 and 6 (except where I/we have indicated a different voting intention above) and acknowledge that the Chair may exercise my/our proxy even though Resolutions 1, 3, 4, 5 and 6 are connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

If the Chair is appointed as your proxy, or may be appointed by default, and you do **not** wish to direct your proxy how to vote as your proxy in respect of Resolutions 1, 3, 4, 5 and 6 please place a mark this box. By marking this box, you acknowledge that the Chair may exercise your proxy even if he has an interest in the outcome of Resolutions 1, 3, 4, 5 and 6 and that votes cast by the Chair for Resolutions 1, 3, 4, 5 and 6 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolutions 1, 3, 4, 5 and 6 and your votes will not be counted in calculating the required majority if a poll is called on any of Resolutions 1, 3, 4, 5 and 6.

***This Proxy is appointed to represent ____% of my voting right (or 100% if no percentage is specified), or if 2 proxies are appointed Proxy 1 represents ____% and Proxy 2 represents ____% of my total votes
My total voting right is _____ shares***

If the shareholder(s) is an individual:

Name: _____

If the shareholder is a company:

Affix common seal (if required by Constitution)

Director/Sole Director and Secretary

Director/Secretary

Dated:

In addition to signing the Proxy Form above please provide the information below in case we need to contact you.

Contact Name

Contact Daytime Telephone

INSTRUCTIONS FOR APPOINTMENT OF PROXY

1. A shareholder entitled to attend and vote is entitled to appoint a proxy to attend and vote at this Annual General Meeting as the shareholder's proxy. A proxy need not be a shareholder of the Company.
2. A shareholder entitled to attend and cast 2 or more votes at this Annual General Meeting is entitled to appoint not more than 2 proxies to attend and vote at this Annual General Meeting. Where more than one proxy is appointed, each proxy must be appointed to represent a specific proportion of the shareholder's voting rights. If such appointment is not made then each proxy may exercise half of the shareholder's voting rights. Fractions shall be disregarded. If you wish to appoint a second proxy, an additional proxy form may be obtained by telephoning the Company's share registry or you may copy this form.
3. The proxy form must be signed personally by the shareholder or his attorney, duly authorised in writing. If a proxy is given by a corporation, the proxy must be executed under either the common seal of the corporation or under the hand of an officer, or officers of the company (as the case may be) or its duly authorised attorney. Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held. In the case of joint shareholders, this proxy must be signed by at least one of the joint shareholders, personally or by a duly authorised attorney.
4. If a proxy is executed by an attorney of a shareholder, then the original of the relevant power of attorney or a certified copy of the relevant power of attorney, if it has not already been noted by the Company, must accompany the proxy form.
5. To be effective, forms to appoint proxies must be received by the Company no later than 48 hours before the time appointed for the holding of this Annual General Meeting, by person, post, courier or facsimile to the respective addresses stipulated in this proxy form.
6. A Shareholder may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose subject to the relevant laws. Where more than one box is marked on an item the vote will be invalid on that item.
7. If the proxy form specifies a way in which the proxy is to vote on any of the resolutions stated above, then the following applies:
 - (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way;
 - (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands;
 - (c) if the proxy is Chairperson, the proxy must vote on a poll and must vote that way; and
 - (d) if the proxy is not the Chairperson, the proxy need not vote on a poll, but if the proxy does so, the proxy must vote that way.

If a proxy is also a shareholder, the proxy can cast any votes the proxy holds as a shareholder in any way that the proxy sees fit.

8. Sections 250BB and 250BC of the Corporations Act broadly provide that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the chair, who must vote the proxies as directed.

Further details on these changes are set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the Chair – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the Chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

If a proxy is also a Shareholder, the proxy can cast any votes the proxy holds as a Shareholder in any way that the proxy sees fit.

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting;
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

9. Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the Shareholder is present at the Annual General Meeting.

- A proxy form accompanies this Notice and to be effective the proxy form and the power of attorney or other authority (if any) under which it is signed (or a certified copy) must be received by the Company no later than 48 hours before the commencement of the Annual General Meeting, at:
 - the Company's registered office, Level 2, 49 – 51 York Street, Sydney, NSW 2000; or
 - by facsimile to Gullewa Limited on facsimile number (02) 9397 7575; or
 - by post to Allegiance Coal Limited, GPO Box 2703, Sydney NSW 2001.

Any proxy form received after that time will not be valid for the Annual General Meeting.