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31 October, 2012

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## Quarterly Report

### For period ended 30 September, 2012

#### Overview

The September quarter finished with completion of Stage 2 drilling on the lead Back Creek project in the Surat Basin which had been previously delayed due to wet weather.

The Stage 2 drilling included the drilling of 27 non-cored holes and 4 partially diamond drill cored holes.

During the quarter, attention has been given to the on-going environmental requirements for the two lead projects Back Creek in the Surat Basin and Kilmain in the Bowen Basin.

#### Project Status

##### Back Creek Project

Stage 2 drilling included the drilling of 1,696m among 27 non-cored geophysically logged percussion holes as well as 203.75m among 4 diamond tailed drill holes. The unusual wet winter delayed completion of drilling into late September.

The majority of the drilling was in the southern part of the tenement with cumulative coal intersections in the range 2.85m to 8.26m.

Coal seam intersections in the latest drilling were, for the most part, in line with the modelling of the deposit based on previous data. In BC041, at a depth of 73.01m, an additional unexpected coal ply of 0.44m was intersected below the Condamine seam.

See Table 1 for all drill hole data from Stage 1 and Stage 2 drilling.

Coal cores recovered from BC034C and BC038C have been sent away for analysis. Coal core from BC038C was canistered so that the potential carbon taxable fugitive emission can be quantified. Both coal analyses and gas results are expected at the middle of next quarter.

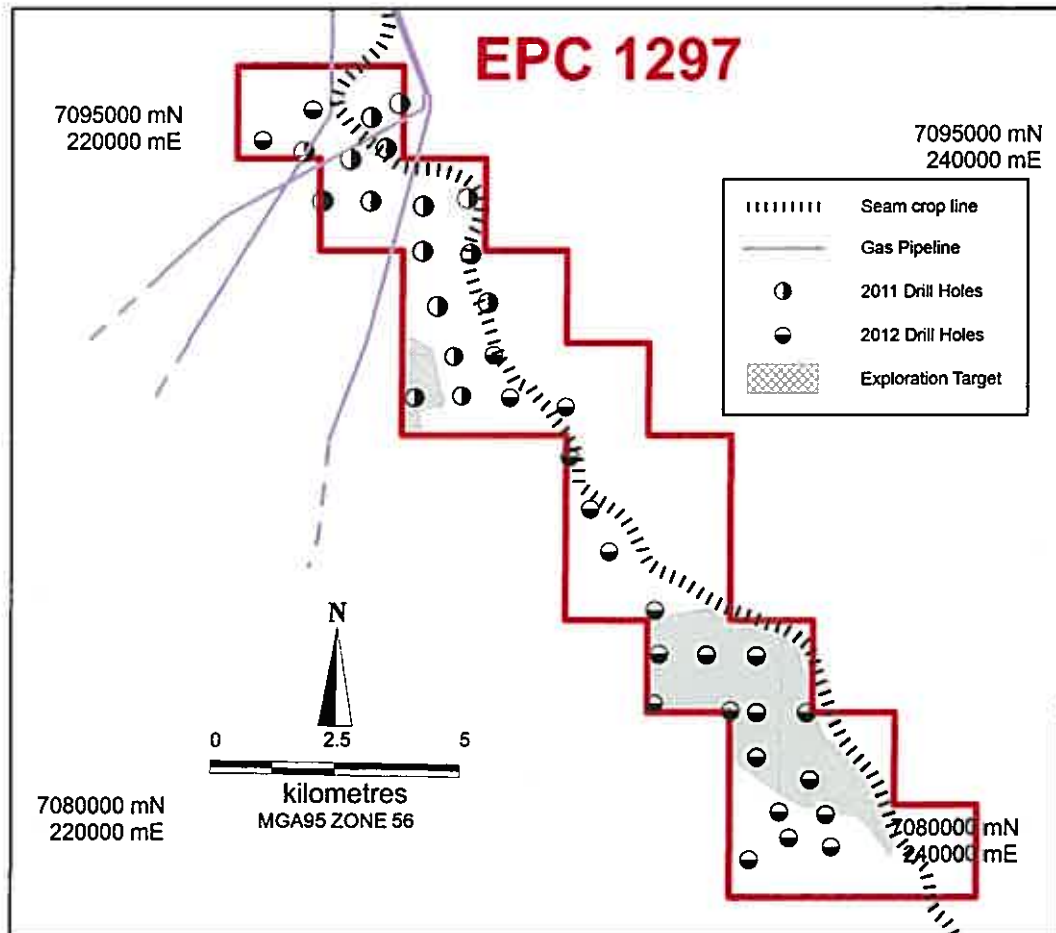
Table 1 – Summary of all drilling by Allegiance

Hole Number	MGA94E Zone 56	MGA94N Zone 56	Elevation ASL	Total Drilled Depth	Cumulative Seam Thickness	Depth to Base of Coal	Year Drilled
BC001	224000	7095000	365	-	-	-	ND
BC002	224752	7094723	362	99.50	3.10	34.10	2012
BC003	226420	7094696	354.1	100.00	0.45	20.50	2011
BC004	227039	7095012	352.5	76.00	SH		2011
BC005	224000	7094000	370	113.00	9.30	66.70	2012
BC006	225111	7093878	360.6	88.50	3.90	45.80	2011
BC007	226000	7094000	362.2	91.00	1.60	42.60	2011
BC008	226730	7094081	359.5	88.00	SH		2011
BC009	225496	7093012	370.8	100.00	1.16	42.16	2011
BC010	226449	7093019	365.3	100.00	1.96	55.25	2011
BC011	227509	7092950	359.3	82.00	2.34	59.54	2011
BC012	228404	7093129	353.5	52.00	0.86	38.67	2011
BC013	227525	7092045	363.7	100.00	3.02	65.02	2011
BC014	228495	7092007	364.8	31.00	1.49	27.10	2011
BC015	227848	7090951	373.5	64.00	2.28	57.65	2011
BC016	228869	7091042	371.0	34.00	SH		2011
BC017	228207	7089954	358.5	64.00	2.01	47.60	2011
BC017C	228204	7089954	358.6	53.00	2.02	47.50	2011
BC018	230465	7090094	359	31.00	SH		2012
BC018A	230460	7090094	359	30.00	SH		2012
BC019	227445	7089121	366.3	82.00	6.89	69.85	2011
BC019C	227442	7089120	366.4	72.00	7.20	69.90	2011
BC020	228387	7089177	363.8	65.00	2.16	48.42	2011
BC021	229448	7089238	365	107.00	3.55	76.60	2012
BC022	230516	7089084	366	88.00	0.90	37.20	2012
BC023	230788	7088020	375	30.00	SH		2012
BC024	231097	7086902	370	44.00	3.19	36.47	2012
BC025	231500	7086000	352	36.70	6.22	32.42	2012
BC026	232500	7086000	350	-	-	-	ND
BC027	231500	7085000	345	-	-	-	ND
BC028	232542	7084963	349	47.50	1.00	30.00	2012
BC029	233500	7085000	342	-	-	-	ND
BC030	232510	7083997	350	63.79	3.95	48.35	2012
BC031	233491	7083998	359	63.79	0.97	29.45	2012
BC032	234528	7084012	348	48.79	2.92	34.45	2012
BC033	235500	7084000	342	-	-	-	ND
BC034	232500	7083000	362	68.69	4.66	57.65	2012
BC034C	232500	7083003	362	99.00	4.83	58.23	2012

**Table 1 – Summary of all drilling by Allegiance Continued**

Hole Number	MGA94E Zone 56	MGA94N Zone 56	Elevation ASL	Total Drilled Depth	Cumulative Seam Thickness	Depth to Base of Coal	Year Drilled
BC035	233986	7082987	349	108.79	5.05	48.60	2012
BC035CR	233994	7082979	354	52.98	4.85	48.50	2012
BC036	234500	7083000	352	73.79	3.11	36.60	2012
BC037	235572	7082988	335	58.79	2.80	43.76	2012
BC038	234530	7081978	358	88.79	6.50	64.08	2012
BC038C	234530	7081980	358	127.44	6.32	64.53	2012
BC039	235688	7081663	348	43.79	0	-	2012
BC040	236500	7082000	347	-	-	-	ND
BC041	234986	7080936	359	143.69	8.26	50.98	2012
BC042	235996	7080970	355	58.69	0.76	41.68	2012
BC043	237000	7081000	347	-	-	-	ND
BC044	234451	7079888	378	68.59	5.91	49.23	2012
BC045	235179	7080423	357	103.69	1.33	54.50	2012
BC046	236174	7080279	382	58.79	2.85	51.6	2012
BC047	237500	7080000	347	-	-	-	ND

*Notes: All measurements are in metres. ND : Not Drilled, SH : Sterilisation Hole – no coal intersected  
2011 : Phase 1 drilling (surveyed collar) and 2012 : Phase 2 drilling (handheld GPS). All holes were drilled vertically*



**Plan 1: Back Creek Drill Hole Location Map**

The data package generated from the Company's two stages of drilling program as well as that from adjacent tenements, plus the coal quality data generated from Stage 2 coal cores should provide sufficient data to allow the reporting of a JORC resource prior to December 2012.

*At Back Creek the Company's current exploration target of 60-80 million tonnes<sup>(1)</sup> of shallow, open cut low ash thermal coal is located in the central and southern portions of the tenement - Plan 1.*

#### **Kilmain Project**

Coal quality data obtained from the drilling of KL001, KL002 and KL003 demonstrated that a coking fraction exists within the Aries and conjoined Castor/Pollux seams intersected in the drill holes.

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

A data swap arrangement with neighbour Bandanna Energy on their Arcturus and Springsure Creek projects was concluded during the quarter. Their data will assist in the planning of drilling within Kilmain.

*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 million tonnes of coal<sup>(1)</sup>.*

#### **Mintovale Project**

There were no field activities conducted during the quarter.

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.

*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 were drilled within the Connemarra project area during the Quarter each to a depth of 120m. None of the holes intersected coal.

A review of the geology of the project area is being undertaken. The Company considers that the Connemarra Project EPC1296 remains a speculative exploration area.

#### **(1) 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 are conceptual in nature. There has been insufficient exploration undertaken to date to define a coal resource in accordance with the JORC Code, and it is uncertain if further exploration will result in the definition of a coal resource in accordance with the JORC Code.

**Table 2 – Summary of all Connemarra drilling by Allegiance**

Hole Number	MGA94E Zone 55	MGA94N Zone 55	Elevation ASL	Total drilled Depth	Year Drilled	Comment
CN004	582747	7338877	272	120	2012	No coal intersected
CN005	579086	7337073	267	120	2012	No coal intersected
CN006	580350	7339921	291	120	2012	No coal intersected

*Notes: All measurements are in metres. Collars were surveyed using a handheld GPS. All holes were drilled vertically.*

### **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 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**

A review of water bores within the area was completed providing a better understanding of the basement rocks. The reported presence of coal in water bores to the east of the project area is considered encouraging and a future drilling program is being considered.

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 is negotiating access for field mapping.

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

### **Cedar Creek**

The development of a future drilling program was undertaken.

The potential for development of a gasification project based on the somewhat isolated Cedar Creek deposit is now under consideration.

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

### **Mobs Creek**

A review of available geological data within and adjacent to the Mobs Creek tenement was undertaken during the Quarter.

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

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

### **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.

In relation to the prospective Mt Marrow project, a MOU was signed with Cuesta Coal to look at a common facility for preparing and loading coal onto a balloon loop west of Ipswich.

### **Environmental**

During the 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 are now under consideration by the company.

### **Corporate**

#### **Cash**

At 30/9/2012 the company held \$4.9m in cash

#### **Cost control**

A number of initiatives have been undertaken to reduce the operating overheads of the Company during the quarter. They include:-

- the MD taking over the role of Exploration Manager;
- appointment of a Field Manager with hands on control during all field operations resulting in closer control of contractors;
- reduction in use of outside consultants;
- increased access to adjacent tenement geological data bases.

#### **Budget**

A review was conducted of the budget having regard to cash needs for the next two years. The reforecast budget will be submitted to the Board for approval in the next quarter.

### **Personnel**

During the quarter the company appointed Mr Maurie March as Field Manager.

### **Tenement Renewals**

The following tenements renewals were received during the quarter:

EPC 1297 Back Creek - Renewal granted on 12 September, 2012 for two years until 21 March, 2014;

EPC 1492 Townsville Extended – Renewal granted on 5 October, 2012 for three years until 20 May, 2015.

### **Priority Applicant for EPCA 2374 Mt Marrow**

The Company is the priority applicant for EPCA Mt Marrow. No date for grant of the area has yet been given.

The Mt Marrow Thermal coal project is west of Ipswich and north of the existing 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 2474 Palmeria - lodged 1 April, 2011;
- 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

**Mr Colin Randall**  
Managing Director  
0408 969 424

**Mr Mendel Deitz**  
Tenement and Corporate Relations Manager  
02 9299 5007

**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.



## Appendix 5B

### Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

ALLEGIANCE COAL LIMITED

ABN

47 149 490 353

Quarter ended ("current quarter")

30 September, 2012

#### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation	(794)	(794)
(b) development		
(c) production	(162)	(162)
(d) administration		
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	39	39
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)		
<b>Net Operating Cash Flows</b>	<b>(917)</b>	<b>(917)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects		
(b) equity investments		
(c) other fixed assets	(36)	(36)
1.9 Proceeds from sale of: (a) prospects		
(b) equity investments		
(c) other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (property) and security deposit		
<b>Net investing cash flows</b>	<b>(36)</b>	<b>(36)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(953)</b>	<b>(953)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(953)	(953)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.		
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)		
	<b>Net financing cash flows</b>	0	0
	<b>Net increase (decrease) in cash held</b>	(953)	(953)
1.20	Cash at beginning of quarter/year to date	5,930	5,930
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	4,977	4,977

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	97
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

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**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

NIL
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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

NIL
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+ See chapter 19 for defined terms.

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities – Gullewa Limited - Float	400	400
Loan facilities – Gullewa Limited – Operating	1,580	1,545
Loan facilities – C Randall & Associates – Float	100	100
Loan facilities – C Randall & Associates – Operating	320	311
3.2 Credit standby arrangements		

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	450
4.2 Development	
4.3 Production	
4.4 Administration	250
<b>Total</b>	<b>700</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	4,977	5,930
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>4,977</b>	<b>5,930</b>

+ See chapter 19 for defined terms.

**Changes in interests in mining tenements**

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> <i>(description)</i>			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>+Ordinary securities</b>	176,667,674	47,500,005	
7.4	Changes during quarter (a) Increases through issues  (b) Decreases through returns of capital, buy-backs			
7.5	<b>+Convertible debt securities</b> <i>(description)</i>			

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+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> <i>(description and conversion factor)</i>	5,650,000 14,305,561	Nil Nil	<i>Exercise price</i> 25.00 cents 25.00 cents	<i>Expiry date</i> <b>09.05.2016</b> <b>30.03.2014</b>
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: ..... Date: 31 OCTOBER, 2012  
(Company secretary)

Print name: GRAHAM HURWITZ

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.