

Quarterly Report

For period ended 30 June, 2012

Overview

The June Quarter saw the listing on the ASX. The Company raised \$7 million for exploration of the company's coal projects in Queensland and listed on the ASX on 29 May, 2012.

Subsequent to the listing, drilling recommenced at the Back Creek project in the Surat Basin with drilling on 31 selected sites proposed. Potentially significant coal was intersected in the northern part of Back Creek and in particular, in drill hole BC005 with 9.3m cumulative of coal being intersected to a depth of 69.05m. Heavy rains in the Back Creek area led to a postponement of the drilling but is expected to recommence in August.

Considerable attention has been given during the Quarter to the long term planning needs for infrastructure requirements for power, water, rail and port facilities to support the two lead projects Back Creek and Kilmain.

Project Status

Back Creek Project

Drilling recommenced on 8 June, 2012 at its Back Creek project EPC 1297 in the Surat Basin at drill location BC002. Drilling of 6 holes was completed prior to postponing the drilling because of heavy rains in late June.

The 2012 drilling program at Back Creek entails drilling at 31 drill locations, including the drilling of 5 cored holes. The original program was expected to be completed by August, 2012 (weather permitting) and has been designed to provide sufficient information to allow the reporting of JORC Resources in or before Quarter 4 2012 for EPC 1297.

An earlier drilling program in the northern section of EPC 1297 was completed by the Company in Quarter 2 2011. Two additional cored holes have been proposed in this northern section to provide additional coal quality data.

Widely spaced drilling was completed in this northern section by other companies in the 1960s and 1980s, and by Allegiance in 2011. The current drilling has been planned to infill the historic drilling to a spacing of approximately one (1) km, both in the north as well as in the Company's high priority areas to the south.

During the quarter the company completed 2 holes in this northern section of the tenement, holes BC002 and BC005. Both of these holes intersected potentially significant coal. In particular, hole BC005 intersected 9.3m of cumulative coal a depth of 69.05m.

31 July, 2012

ASX Code : AHQ

ACN 149 490 535
Level 13
49-51 York Street
Sydney NSW 2000
Australia

Tele : +61 2 9299 5007
Fax : +61 2 9299 5006

www.allegiancecoal.com
info@allegiancecoal.com

Details of the drill hole intersections in BC002 and BC005, as well as holes previously drilled by Allegiance in the northern area, are appended.

Prior to commencement of the drilling, the Company negotiated site access agreements to the Barakula and Quandong State Forests and cleared access tracks and drill sites to enable drilling in the current program.

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

Kilmain Project

Final test results for washability and coal quality have been obtained by the Company for KL001, KL002 and KL003, enabling commencement of a detailed review of the data.

Final gas data results were also obtained. The gas concentrations were considered too low to be of commercial interest by way of pre drainage prior to mining.

During the Quarter advice was received from the Queensland Department of Natural Resources and Mines that the amalgamation of EPC 1298 and EPC 1917 would proceed with the combined tenement to be granted for a period of four years (previously two years).

Drilling is planned to recommence in September, 2012 with first JORC resources planned to be announced in Quarter 1 2013.

The Kilmain Project has potential for an underground deposit of coking/thermal coal within the Rangal Coal Measures and has an initial target of 100-200 million tonnes⁽¹⁾ of coal.

Mintovale Project

While the new LNP Queensland State Government made statements before the election that there would be no mining within the Scenic Rim Council area, no legislation has yet been enacted to prohibit Moreton Coal Pty Ltd (wholly owned by AHQ) from continuing to exercise its rights under the existing legislation regarding its Mintovale MDL 138.

Meetings have been held with a group of landowners from the Mintovale area and with the Mayor of Scenic Rim Council. The Company emphasised that without further drilling uncertainty remains, in particular with respect to whether there are sufficient reserves to justify a small open cut mine. Although many landowners voiced their opposition to mining in their area they were advised that landowners would be approached by the Company in October to determine whether they would agree to provide access for further drilling.

Potential exists for Mintovale to be a small open cut direct shipping thermal coal by road and by rail to the port of Brisbane.

Connemarra Project

While a potential farm-out of the project was considered, the level of knowledge on the potential of the tenement was considered to be insufficient to value the project. The company plans to drill within the Connemarra tenement by end Quarter 4 2012.

The Connemarra Project EPC 1296 remains a speculative exploration area due to the lack of current geological data.

Calen Project

During the quarter, a potential farm-out was under negotiation with the holder of other tenements in the Calen Basin.

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

Lochaber

A field mapping program was completed during the quarter following drilling in late 2011. The field mapping has provided further definition to planned drilling within the area which is proposed to involve some 6 holes in the central prospective area.

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.

The Lochaber Project EPC 1672 has potential for open pit thermal coal deposits.

Townsville

Discussions have taken place with an adjoining tenement applicant who has potentially relevant airborne geophysical data. A geological data swap arrangement is expected to be completed by end Q3 2012 which will assist in defining a drilling program.

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

Pinetree

A review of drilling results from historic exploration in areas adjacent to the tenement has enabled definition of target areas within EPC 1875. Field mapping undertaken earlier in the year has assisted in the interpretation of these results.

Negotiation for an access agreement with the single landowner is continuing.

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

Normanby

A review of drilling results from past exploration in areas adjacent EPC 1874 was undertaken.

Field mapping is planned for later this year.

The Normanby Project, EPC 1874, has potential for open pit and underground coal deposits.

Cedar Creek

A review of drilling data from past exploration data was completed during the quarter. This will assist in the development of a future drilling program.

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

Mobs Creek

No activity apart from a literature search has taken place within this tenement over the quarter.

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

Infrastructure

Queensland infrastructure consultants Balance Resources completed a review during the quarter of the infrastructure needs of the Back Creek and Kilmain projects. The infrastructure requirements included port, rail, water and power for both projects.

As a result of that review the company took the following action during the quarter:

- Sunwater Nathan Dam – lodged Expression of Interest for water offtake for both projects;
- Ergon Energy – provided potential power offtake when Back Creek and Kilmain in full operation to satisfy Enquiry Stage data requirements;
- Central Surat Rail Project – seeking membership of the group;
- QR Network – RFP submissions for the Capacity Notification Register;
- WICET Holdings – obtained B Class shareholding;
- Fitzroy Terminal Pty Limited – Signed Confidentiality Agreement;
- Tenement To Terminal Pty Ltd – RFP submissions.

In relation to the potential coal export tonnage from the Minto Vale, Mobs Creek, Cedar Creek and Mt Marrow projects, the Company responded to a request for ‘Expressions of Interest’ for access to increased port capacity through Brisbane. In particular :

- Port of Brisbane – Responded to EOI;
- Queensland Bulk Handling Pty Ltd – Responded to EOI.

Corporate

ASX listing – The listing occurred on 29 May, 2012;

Capital Raising – The company raised \$7 million through the IPO;

Current shareholding – There are 520 shareholders and 176 million shares on issue with current percentages as follows:

- | | |
|-------------------------------------|-------|
| • Gullewa Limited | 56.6% |
| • C. Randall and Associates Pty Ltd | 14.1% |
| • Pre IPO investors | 9.5% |
| • IPO investors | 19.8% |

Priority Applicant for EPCA 2374 Mt Marrow

The company has been advised that it is the priority applicant for EPCA 2374 Mt Marrow although no date for grant of the area has been given.

The Mt Marrow thermal coal project is west of Ipswich and north of the existing Oakleigh coal mine.

Current Competing EPC Applications

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
- (EPCA 2132 North Texas was void with the grant of an EPC over the area)

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

(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.

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.

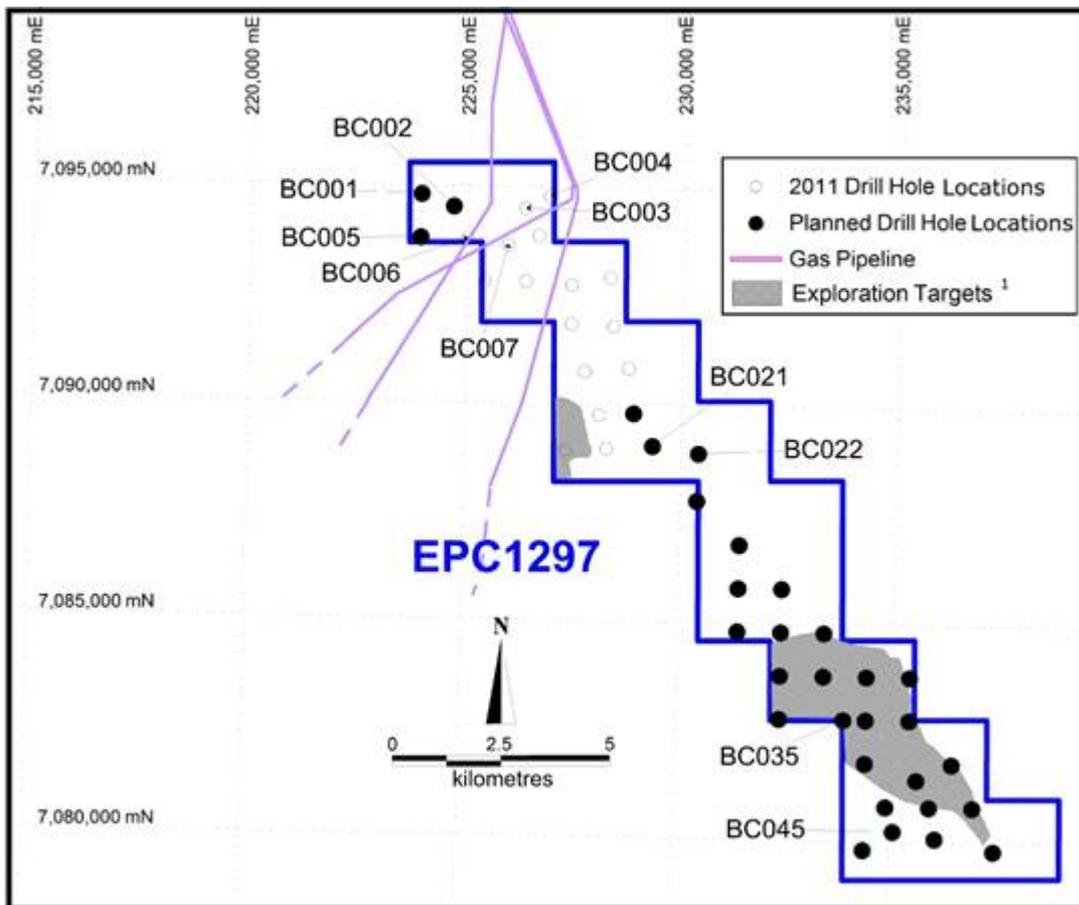


Figure 1 – Drill Hole Locations

DRILL HOLE LOCATIONS (GDA 94 MGA 56)				COAL INFORMATION				
HOLE NUMBER	EASTING	NORTHING	ELEVATION (metres ASL)	TOTAL DRILLED DEPTH (m)	CUMULATIVE SEAM THICKNESS	DEPTH TO BASE OF COAL (m)	YEAR DRILLED	COMMENT
BC001							N/A	NOT YET DRILLED
BC002	224752	7094723	362	99.5	3.1	34.1	2012	
BC003	226420	7094696	354.12	100.0	0.45	20.5	2011	Minor coal seam development in possible upper seam within zone of oxidation
BC004	227039	7095012	352.50	76.0	0.0	No coal intersected	2011	Collared below the coal measures.
BC005	224000	7094000	370	112.0	9.3	66.7	2012	This intercept includes 2 seams each greater than 2.0 metres thickness.
BC006	225111	7093878	360.62	88.5	3.9	45.8	2011	0.75 metres of coal above the level of oxidation was excluded from the seam thickness.
BC007	226000	7094000	362.21	91.0	1.6	42.6	2011	
BC021	229448	7089238	365	107	3.15	52.35	2012	
BC022	230516	7089084	366	88	0.9	37.2	2012	
BC035	233998	7082983	349	52.98	4.55	64.4	2012	Core hole 4.2 metres in top portion of hole.
BC045	235179	7082987	357	103.69	1.0	53.45	2012	

Table 1 : Allegiance Coal Limited Drilling – EPC 1297

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 June, 2012

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation	(240)	(2,145)
(b) development		
(c) production		
(d) administration	(350)	(765)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	28	50
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material) – IPO expenditure	(802)	(1,093)
Net Operating Cash Flows	(1,364)	(3,953)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects		
(b) equity investments		
(c) other fixed assets	(14)	(59)
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		
Net investing cash flows	(14)	(59)
1.13 Total operating and investing cash flows (carried forward)	(1,378)	(4,012)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,378)	(4,012)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	7,000	9,500
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		950
1.17	Repayment of borrowings		(663)
1.18	Dividends paid		
1.19	Other (provide details if material)		
	Net financing cash flows	7,000	9,787
	Net increase (decrease) in cash held	5,622	5,775
1.20	Cash at beginning of quarter/year to date	308	155
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	5,930	5,930

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	213
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

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

+ 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	1,000
4.2 Development	
4.3 Production	
4.4 Administration	250
Total	1,250

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	5,930	308
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	5,930	308

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

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	Preference securities <i>(description)</i>			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	+Ordinary securities	176,667,674	47,500,005	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	35,000,000	35,000,000	
7.5	+Convertible debt securities <i>(description)</i>			

+ 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	Options <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> 09.05.2016 30.03.2014
7.8	Issued during quarter	8,750,000	Nil	25.00 cents	30.03.2014
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <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 JULY, 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.