

Quarterly Report For period ended 30th September, 2015

Kilmain Project

As part of Stage 2, further drilling is scheduled to commence on the Kilmain project in the December quarter. This programme plans to drill 2 holes this season and a further hole next year. Each cored hole will be preceded by a pilot chip hole. The total metres to be drilled will be approximately 1500 metres. All the appropriate analysis will be conducted on this core.

The full report on Stage 1 drilling was finalised and presented to JOGMEC. It was prepared by HDR Salva.

The Stage I phase of the Joint Venture with JOGMEC was completed.

The Kilmain Project (EPC 1298 and EPC 1917) is a 56 km² area within the Bowen Basin with coal seams within the Rangal Coal Measures.

Activities on the Kilmain Project commenced in mid September, 2014 with seismic survey and ground magnetometer surveys.

Total length of seismic surveys was 11.25 km with the first program being 7.75 km and the second phase completed on 15 October of 3.5km. Ground magnetometer surveys to locate basalt involved 12 km of survey lines.

Drilling on three selected sites followed the seismic and magnetometer surveys.

Joint Exploration for Kilmain Project with JOGMEC

On 29 August, 2014 the Australian Government's Federal Investment Review Board approved of the Joint Exploration Agreement ("JEA"), in which **Japan Oil, Gas and Metals National Corporation (JOGMEC)** will provide up to \$3 million of exploration expenditure to Allegiance Coal over a 3 year period for the Kilmain Coal Project in three stages.

JOGMEC, a Japanese government owned corporation, will earn up to a 40% economic interest in the Kilmain Project and has the right to assign that interest to a Japanese nominee company in the future, in order to progress the project to development.

Back Creek Project

The Back Creek project in the Surat Basin, is well suited to gain benefit from development of Surat Basin infrastructure. However under the current market condition the potential rate of development of the required infrastructure is unknown and thus the future for the project is under review.

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CORPORATE

Managing Director

On 7 August Mr Colin Randall's role as Managing Director and director on the Board of the Company ended. Mr Randall's related company C. Randall & Associates Pty Ltd ceased to provide consulting services to the company

Cash:

At 30 September, 2015 the company held \$1.6 Million in cash.

Loans

Mineral and Coal Investments Pty Limited (MCI) is a fully owned subsidiary of Allegiance Coal Limited. MCI had loans to value of \$2 Million owing to Gullewa Limited and C. Randall & Associates Pty Ltd, which were due for repayment on 30 September 2015 under certain conditions.

C. Randall & Associates Pty Ltd has requested that its loan be repaid.

Contacts:

For further information please contact:

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