Dr Chris Baker
February 2025

Malabar Resources Ltd

(Unlisted. Market value A$1.2bn at A$2.00/share*)

December Quarterly update: start of longwall panel development. New Hope moves to 22.97% of Malabar

- Malabar's Maxwell project is characterised by scalable semi-soft metallurgical and thermal production, low forecast cash costs, low capital intensity, ready access to world class transport infrastructure and access to a skilled workforce in the Hunter Valley.
- With a combined resource of over 1.4 billion tonnes and with prospective sales of 5.5-6.5mtpa ultimately of semi-soft coking coal (with by-product thermal coal), we believe it is appropriate to classify this as a Tier 1 project.
- Production from the smaller Whynot mine, targeting 600ktpa, is currently being sold into the thermal market. This high energy coal is a desirable blending product and achieves a ca. 10% premium to Newcastle benchmark pricing.
- As the Maxwell longwall moves toward full production, Malabar's P/E for 2027e is forecast at 5.4x (at a $2.00 share price*), and EV/EBITDA of around 4.1x, declining to 3.1x and 2.8x respectively in 2028 at full production, under our assumptions. These metrics combined with a 67% discount to our NAV_8 estimate (now A$5.90/share) for the company confirms that Malabar remains inexpensive.
- Based on our assumptions, the Maxwell underground begins to deliver strong free cashflow from 2027. This may allow the start of dividend payments from that year. Our estimates assume payment of an 18c dividend in 2027, increasing to 30c/share in 2028. This of course is dependent on commodity and currency price assumptions.
- During the December quarter, there were two significant acquisitions in the coal sector. Coal major, Peabody, acquired the hard coking coal assets of Anglo American for US$2.3bn. The sale of Anglo's 51% share of high-cost Dawson thermal/semi-soft operation to Indonesia's BUMA group implied a valuation of around A$1.4bn for 100% of the project. At a current production rate of 6-7m product tonnes per annum, this is comparable with the forecast production rate from the Maxwell longwall. The implied margin for Maxwell is significantly higher than that of Dawson with FOB costs forecast at around US$50/t for Maxwell against US$95-100/t for Dawson. This we believe should translate ultimately to a significant value premium for the Maxwell operation.
- Major shareholder, New Hope Corp (ASX NHC) has drawn a line in the sand, purchasing some 18.1m shares in Malabar for $2.00/share taking NHC's holding in Malabar to 22.97%. The company commented: *"The acquisition aligns with the Company's strategy of investing in low-cost coal assets with long-life approvals and provides exposure to high-quality metallurgical coal."* We see this as an important validation of the quality of Malabar's Maxwell project.

*Malabar Resources is an Unlisted Public Company. It operates a low-volume financial market for its ordinary shares for the purposes of connecting potential buyers and sellers.

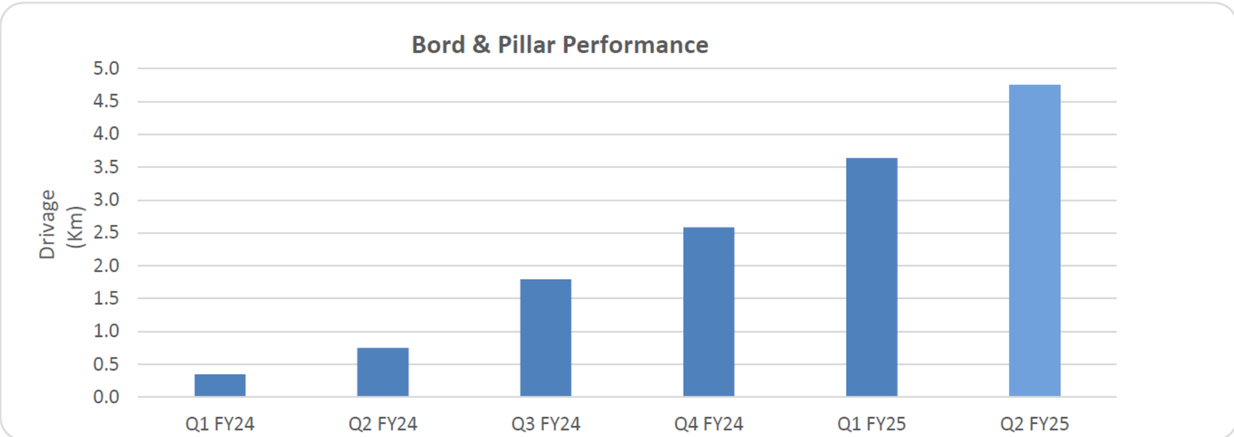
QUARTERLY SUMMARY

Malabar's Maxwell and Spur Hill projects are located in the Upper Hunter coalfield of NSW and represent two of the last semi-soft coking coal-dominated deposits of size in the area. With a low operating cost structure, long mine life and with expansion options, we judge the project to be truly Tier 1 in status. The project is fully permitted for coal sales of 5.5-6.5mtpa. The current Whynot bord and pillar operation is targeting a rate of some 600-650,000 product tonnes per year. The ramp up of the main Maxwell/Woodlands Seam longwall operation is scheduled to commence in late 2025 ramping up to full production from 2027.

Malabar published a quarterly update on development at the Maxwell thermal/semi-soft coking coal project in January 2025. This report summarises progress at the Whynot bord and pillar operation and the development of the Maxwell longwall mine.

The Whynot bord and pillar mine

- Production (ROM) in the December quarter was 117kt, a ~30% increase on the ca. 30,000 tonnes per month rate from the September quarter.
- The mine continues to ramp up towards name plate capacity of ~600ktpa production levels which should be achieved as the mine begins to extract pillars which is expected to commence in the June quarter.



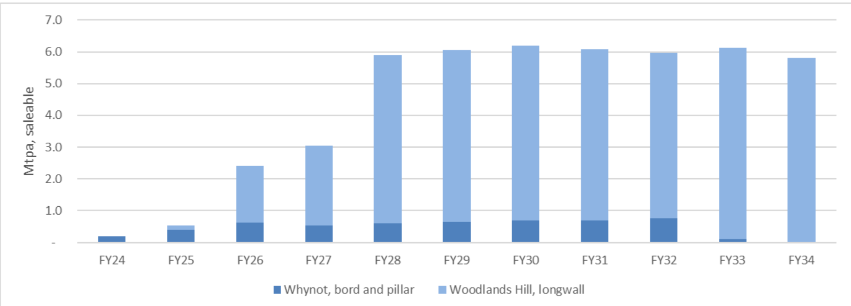
- Sales of thermal coal for the quarter were 85kt against ~70kt in the September quarter. Pricing averaged US$149/t, a 10% premium to the Newcastle benchmark, driven by higher energy content for the Whynot washed product (around 6,300-6,500kcal/kg). The average price in the September quarter was US$155/t.
- Note, we have bumped up cost assumptions for the Whynot mine for 2025 as the project ramps up to full production. See further commentary below.
- The Whynot operation has brought Malabar to early coal production and has enabled training of the workforce with commissioning of the washery/coal loading/transport systems to port prior to the commencement of the main longwall operation late next year. It represents a very small proportion of the value of the project.

The Maxwell Longwall operation

- The Woodlands Hill seam was intersected during the quarter with the completion of two parallel drifts. A drift conveyer was installed and commissioned and the mine ventilation shaft completed.
- Machinery capability testing of longwall components has commenced and the first set of development equipment including a continuous miner, shuttle car and feeder breaker have been delivered and commissioned.
- Early in January the Maxwell Underground Mine cut its first coal at the longwall operation and commenced panel development to establish the life-of-mine pit bottom infrastructure.

Source: Malabar

- The longwall supports have been delivered to site in readiness for a 'mini-build' on surface early in the first half of CY25, prior to transporting to the first face. 72 supports will be required for the narrower (and shorter) panels, expanding to 146 supports for the 300m panels.
- No change to the revised development schedule with first longwall coal scheduled for the end of CY25. The company confirmed that the capex remains in line with earlier guidance and the project is fully funded.



Maxwell Production Profile (Mtpa, saleable)	FY24	FY25	FY26	FY27	FY28
Whynot, bord and pillar	0.2	0.4	0.6	0.5	0.6
Woodlands Hill, longwall	-	0.1	1.8	2.5	5.3
Cash costs (A$/t FOB, excluding royalties)					
Whynot, bord and pillar	200	200	120	120	120
Woodlands Hill, longwall	-	120	80	80	60

BSCP estimates

- Our earnings estimates for FY2025 have dropped, based on what we believe to be higher than expected costs for the Whynot bord and pillar operation. Previously we'd been forecasting A$120/t. This has seen our FY25 estimates drop from a modest profit of $14m to a loss of $12m, largely irrelevant in the context of the +6Mtpa longwall, due to start operation from late 2025. Our valuation remains largely unchanged at $5.90/share (at an 8% discount rate).
- We have used a $2.00/share price based on the transaction price of the recent sale of the 18.1m share parcel to New Hope.

FINANCIAL SUMMARY

BRIDGE STREET
CAPITAL PARTNERS

+61 (0) 2 9002 5414
info@bridgestreetcapital.com.au
LEVEL 14, 234 GEORGE STREET
SYDNEY NSW 2000
BRIDGESTREETCAPITAL.COM.AU

FINANCIAL SUMMARY 2018 **Malabar Resources Limited**

Share Price	A$/sh	2.00
Shares on Issue	m	602
Market Cap (A$m)	A$m	1,204
Net Cash (A$m as at 6/24)	A$m	(72)
Enterprise Value (A$m)	A$m	1,277

Profit & Loss	Units	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Sales and Other Income	A$m	7	28	122	472	581
Expenses	A$m	(3)	(19)	(109)	(266)	(323)
EBITDA	A$m	**5**	**8**	**13**	**206**	**259**
D&A	A$m	(1)	(5)	(4)	(17)	(21)
EBIT	A$m	**4**	**4**	**9**	**189**	**237**
Interest	A$m	3	(4)	(21)	(21)	(21)
Tax	A$m	9	1	-	-	-
NPAT	A$m	**16**	**1**	**(12)**	**168**	**216**

Cashflow	Units	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Cash From Operations	A$m	2	0	13	206	259
Interest	A$m	4	4	36	31	32
Tax	A$m	-	-	-	-	-
Working Capital	A$m	-	(30)	(70)	(70)	(70)
Net Cash From Operations	A$m	**6**	**(26)**	**(21)**	**167**	**221**
Capex	A$m	(136)	(118)	(174)	(134)	(129)
Exploration	A$m	(1)	(1)	(1)	(1)	(1)
Acquisitions / Investments	A$m	3	-	-	-	-
Free Cash Flow	A$m	**(128)**	**(145)**	**(196)**	**32**	**91**
Borrowings	A$m	23	101	133	(20)	-
Equity	A$m	242	180	-	-	-
Dividend	A$m	(11)	3	-	-	(108)
Other	A$m	(13)	114	-	-	-
Net Increase / (Decrease) in Cash	A$m	**114**	**(25)**	**(62)**	**12**	**(18)**

Balance Sheet	Units	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Cash	A$m	143	94	31	43	26
Receivables	A$m	3	7	10	38	47
Inventory	A$m	7	11	12	47	58
PP&E	A$m	297	548	720	838	946
Other	A$m	43	132	132	132	132
Assets	A$m	**492**	**793**	**905**	**1,099**	**1,209**
Creditors	A$m	18	-	10	38	47
Borrowings	A$m	52	153	286	265	265
Other	A$m	65	105	125	125	125
Liabilities	A$m	**135**	**258**	**420**	**429**	**438**
Net Assets	A$m	**358**	**535**	**485**	**670**	**772**

Liquidity & Leverage	Units	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Borrowings	A$m	52	153	286	265	265
Net Debt / (Cash)	A$m	(91)	59	254	222	240
Gearing: Net Debt / (Net Debt + Equity)	%	-34%	10%	34%	25%	24%
Net Debt / EBITDA	x	(19.2)x	6.9x	19.7x	1.1x	0.9x
EBIT Interest Cover	x	n/a	n/a	0.4x	8.9x	11.2x

Per Share Data	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Shares Out (m)	502	602	602	602	602
EPS (¢)	3.3¢	0.3¢	(2.0¢)	27.9¢	35.9¢
Dividend (¢)	-	-	-	-	18.0¢
Payout Ratio (%)	0%	0%	0%	0%	50%
Book Value (A$/share)	0.71	0.89	0.80	1.11	1.28
Operating Cash Flow (A$/sha	0.01	(0.04)	(0.03)	0.28	0.37
Free Cash Flow (A$/share)	(0.25)	(0.24)	(0.33)	0.05	0.15
EBITDA (A$/share)	0.01	0.01	0.02	0.34	0.43

Valuation Metrics	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
P/E (x)	60.3x	-	-	7.2x	5.6x
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	9.0%
EV / Sales	174.9x	46.0x	10.4x	2.7x	2.2x
EV / EBITDA	269.7x	151.0x	99.1x	6.2x	4.9x
EV / EBIT	338.3x	328.3x	139.1x	6.8x	5.4x
FCF Yield (%)	-12.7%	-12.0%	-16.3%	2.7%	7.5%

Operating Metrics (%)	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
EBITDA Margin	n/a	30%	11%	44%	44%
EBIT Margin	n/a	14%	8%	40%	41%
Net Profit Margin	n/a	5%	-10%	36%	37%
ROIC	n/a	1%	1%	21%	23%
Return on Assets	n/a	0%	-1%	15%	18%
Return on Equity	n/a	0%	-2%	25%	28%
Effective Tax Rate	n/a	-633%	0%	0%	0%

Key Assumptions	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Semi-Soft Coking Coal (US$/t	140	150	150	140	140
Thermal Coal (US$/t)	140	143	143	132	121
AUDUSD	0.70	0.67	0.65	0.70	0.70
Coal Sold (mt)	-	0.2	0.5	2.4	3.0

Valuation	A$m	Equity	Risk	A$m	A$/share
Maxwell Mine	3,534	100%	100%	3,534	5.85
Spur Hill	893	100%	25%	223	0.37
Other Assets	138	100%	100%	138	0.23
Corporate Costs	(88)	100%	100%	(88)	(0.14)
Net Cash (Debt as at 6/24)	(254)	100%	100%	(254)	(0.42)
Total	**4,223**			**3,553**	**5.90**
WACC					**8.0%**
FPO Shares					602
Options					-
Performance Rights					2
Fully Diluted SOI					**605**

COMMODITY UPDATE

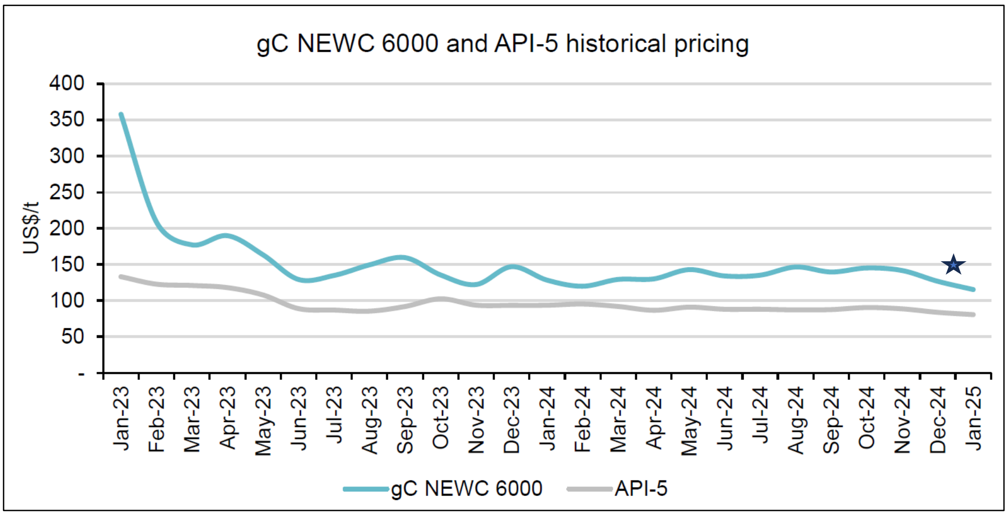
No changes to our commodity price assumptions but we are watching the current downswing in coal prices closely. We have marked back our short term AUDUSD assumptions.

		2024	2025	2026	2027	2028
Semi-Soft Coking Coal	US$/t	150	150	140	140	140
Thermal Coal (Realised)	US$/t	143	143	132	121	99
Thermal Coal (Benchmark NEWC6000)	US$/t	130	130	120	110	90
AUDUSD	:	0.67	0.65	0.70	0.70	0.70

At the time of writing, premium hard coking coal was trading at around $188/t down nearly 7.5% over the past 3 months. Semisoft coal prices (as reported by Whitehaven) have fallen over the course of the year to just under US$140/t (FOB) for the December quarter. This is now at parity with premium thermal coal reflecting the low demand for semi-soft furnace feed.

Maxwell's high quality thermal coal is currently achieving a 10% pricing premium to benchmark pricing reflecting its higher energy content. In a recent presentation, Malabar spoke of blending opportunities for its premium thermal product, employing a high energy thermal coal in blends with the likes of AP-5 grade coal (a 5,500kcal product) which is currently trading at around US$90/t.

An average price of US$149/t (ca. A$236/t) was reported by Malabar for the quarter against US$155/t for the September quarter.



Source: New Hope December 2024 quarterly

There is little incentive for the Hunter producers of semi-soft to sell into the current market. For example, Whitehaven in the December quarter reported only 6% of total NSW sales as metallurgical coal.

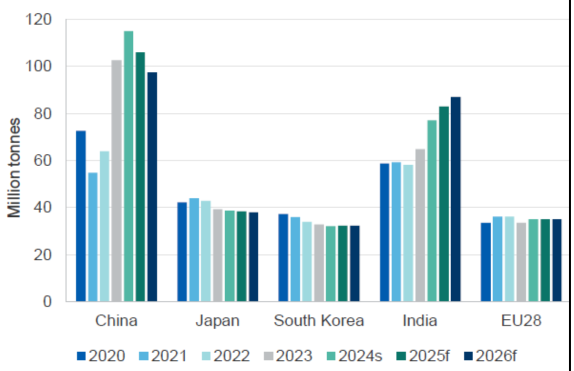
The A$/US$ has traded in a 0.62-0.69 range over the past 2 years and at current levels continues to provide benefit to Australian producers.

Coking coal

Metallurgical coal prices recovered from September lows to average just above US$200 a tonne over October and November but have since fallen to under US$190/t. China remains the dominant importer of coking coal consuming approximately half the world's metallurgical coal. Increasingly protectionist global trade policy presents a risk to Chinese steel production, as does a soggy Chinese economy. China has recently imposed a 15% import tariff on US coal, which may drive China to seek sources from elsewhere. (The US exports around 40mt of coking coal, a quarter of which finds its way to Chinese steel mills).

The growth in India's steel industry is slowly tipping the balance. However as noted by Whitehaven in its December quarterly, the rebound in Indian demand for metallurgical coal has been slower than expected, in part due to the availability of cheap Chinese steel exports ahead of Chinese domestic consumption lifting. WHC remains confident in India's underlying growth.

Figure 4.1: Metallurgical coal imports



Notes: s Estimated f Forecast
Sources: McCloskey (2024); Department of Industry, Science and Resources (2024)

Resources and Energy Quarterly, December 2024

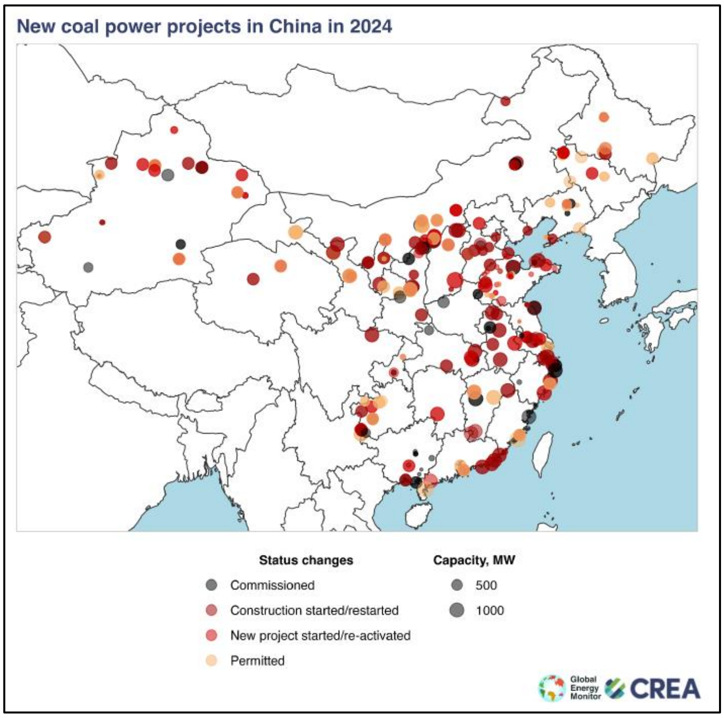
Over the longer term, there is an expected structural shortfall in global metallurgical coal production, particularly the long-term depletion of hard coking coal from Australian producers combined with increased seaborne demand from India.

Slightly concerning is a recent announcement of the construction of a coal rail line from Mongolia into China, with a capacity of ca. 30Mtpa. This could almost double the level of Mongolian coal exports into China. This could further reduce China's demand for Australian coking coal.

Thermal coal

The thermal coal market is currently experiencing a phase of oversupply and weakening demand, creating downward pressure on pricing. It is generally expected that the market will find a balance through calendar year 2025. Gas prices remain high and continue to provide an opportunity for upside to thermal coal pricing on the back of any supply disruptions, either locally or globally.

A report from the Centre for Research on Energy and Clean Air (CREA) shows that instead of coal being replaced by clean energy in China, renewables generation is being layered on top of coal generation and the country continues to rely heavily on coal for power generation.



Key findings from this report are as follows:

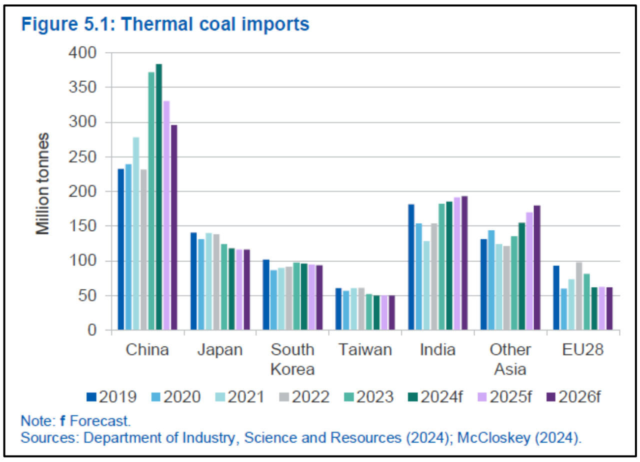
- Coal power permits and new project activity remain high despite some signs of slowing. In 2024, ~67GW of new coal power capacity was permitted – lower than previous years but still well above the levels seen in the first half of the year. Meanwhile, new and revived coal power proposals totalled ~69 GW, down from 117 GW in 2023 and 146 GW in 2022, suggesting a potential reduction in new project initiation.

- Coal power construction starts reached their highest level since 2015 despite President Xi Jinping's pledge in 2021 to 'strictly control coal power projects'. However, actual commissioning has slowed, with 30.5 GW coming online so far, down from 49.8 GW last year but in line with 2021 and 2022 levels.

- China's coal power expansion contrasts with global trends. While China continues to add new capacity, the global coal fleet outside China shrank by 9.2 GW in 2024, reinforcing China's dominant role in shaping the future of coal power. China now accounts for 93% of global construction starts for coal power in 2024.

- Interestingly Chinese coal mining companies have become significant investors in coal power projects. In 2024, CREA reports that more than 75% of newly approved coal power projects were financed by coal mining companies or energy groups with coal mining operations, ensuring a steady demand for their coal production.

The latter issue suggests that the trend of declining thermal coal imports into China might continue with additional imports from India and S/SE Asia taking up the slack. Otherwise thermal coal could remain in oversupply and further pressure prices.



Resources and Energy Quarterly, December 2024

Wild cards in the supply/demand equation include:

- Possible easing of Russian sanctions, and
- The rebuilding of South Africa's Transnet rail infrastructure.

Minerals industries in both countries are enjoying weak currencies and are therefore very cost competitive (at least on an FOB basis).

The sale of Anglo's coal assets

The sale of Anglo American's Australian coal assets presents a useful valuation benchmark for Malabar. In summary, Anglo has disposed of most its Australian coal assets to US major Peabody Energy for a cash consideration of US$2.32bn. The four assets purchased, Grosvenor, Moranbah North, Aquila and Capcoal, are expected to deliver around 11.3Mt of product coal. Over 80% of production is premium hard coking coal. The total consideration is made up of a $1.7bn up-front payment, with $625m in a time deferred payment. As well there is a US$1bn contingent consideration based on the success of the restart of the Grosvenor mine, currently closed following a major underground fire in 2024.

As well, Anglo American is entitled to 35% of revenue above benchmark trigger prices during the first five-years following completion, up to an aggregate amount of $550 million.

In a separate transaction, and one which is perhaps more relevant to the valuation of Malabar was the sale of Anglo's 51% holding in the Dawson semi-soft/thermal mines to Indonesian coal group BUMA for an up-front consideration of US$355m and a deferred payment of US$100m. On an undiscounted basis this implies a valuation of around A$1.4m for 100% of the project.

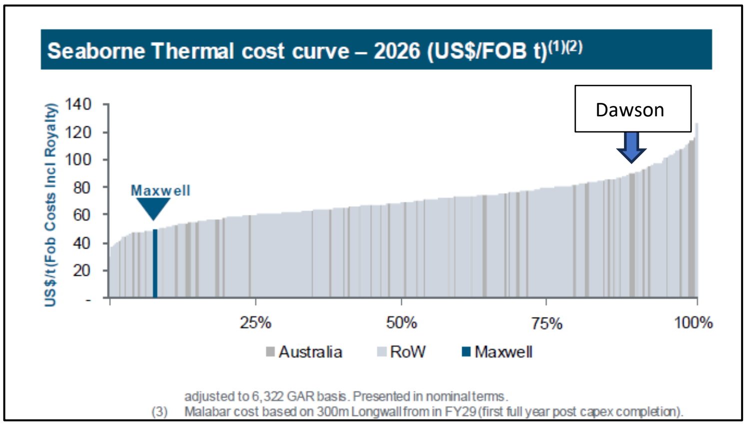
As described by BUMA, the Dawson Mine has been continuously operating for over 60 years and comprises a number of tenements over a ~112km strike length and ~7-10km wide. In its early days, the northern section of Dawson was the troublesome Moura underground mine which was closed in 1994 following a gas explosion in 1994 which killed 11 miners.

Active open cut mining areas are now in Dawson Central and Dawson South. ROM coal is hauled to an overland conveyor then to a coal washery with 12.2Mtpa processing capacity. Product is railed via existing capacity on the Moura railway line to the Port of Gladstone.

Dawson offers a long mine life with over 50 years of resources at current production rates and a +20-year reserve life.

At a current production rate of 6-7m annual product tonnes, this is comparable with the forecast production rate from the Maxwell longwall. However, the cost of production of Maxwell coal at full production is forecast to be significantly lower than that of Dawson. FOB costs forecast at around US$50/t for the Maxwell/Woodlands Hill longwall at full production against US$95-100/t for Dawson. This we believe should translate ultimately to a significant value premium for the Maxwell operation.

This is illustrated in the following cost curve. Here we have chosen to compare the operations on a thermal coal cost curve as much of Australia's semi-soft coking coal is currently being washed to produce a high-quality thermal coal. The coking coal cost curve includes a number of hard coking coal producers where operation costs structures can be quite different to the semi-soft producers.



Source: Malabar presentation 2024

The transaction price for the sale of Dawson was around A$210/annual sales tonne. The Peabody transaction was priced at approximately A$313/annual sales tonne, reflecting lower costs and the dominance of hard coking coal in the new Peabody mines.

We forecast the Maxwell mine as achieving sales of around 6Mtpa from 2028 (60% semisoft, 40% thermal). Malabar's enterprise value is currently around $1.23bn (based on the 6/24 balance sheet and the most recent trade at $2.00/share). The company's EV is of course a moving feast especially as debt is progressively drawn down.

On this basis Malabar is currently trading on an EV/annual future sales tonne of around $200/t.

We would question this methodology as a relevant valuation comparison with margins at Maxwell – still 3 years away from full production- forecast to be significantly higher than that of Dawson. Nonetheless, comparisons of this type should always be made.

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Disclosures

Dr Chris Baker, an authorised representative of BSCP, certifies that the advice in this report reflects his honest view of the company. He has over 30 years investment experience in wholesale capital markets. He worked as a mining analyst for brokers BZW and UBS for 11 years and has a further 16 years' experience as a mining analyst and portfolio manager with Colonial First State and Caledonia Investments. He now provides independent financial advice on a parttime basis. He may own securities in companies he recommends but will declare this when providing advice. He currently owns shares in Malabar. He is remunerated by BSCP but is not paid a specific fee for providing this report. BSCP, its directors and consultants may own shares and options in Malabar and may, from time to time, buy and sell the securities of Malabar.

Appendix 1

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