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**Malabar Coal Limited  
and controlled entities  
ABN 29 151 691 468**

**Interim Financial Report  
For the half-year ended 31 December 2015**

**This interim financial report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.2A.3.**

**The information contained in this report is to be read in conjunction with Malabar Coal Limited's 2015 Annual Report and any announcements made to the market by Malabar Coal Limited during the half-year period ending 31 December 2015.**

**Malabar Coal Limited  
and Controlled Entities  
ABN 29 151 691 468**

**DIRECTORS' REPORT**

Your directors submit the financial report of the consolidated group, consisting of Malabar Coal Limited ('the Company' or 'Malabar') and its controlled entities ('the Group') for the half-year ended 31 December 2015.

**Directors**

The following persons were directors of Malabar Coal Limited during the whole of the half-year and up to the date of this report, unless otherwise stated:

Wayne Seabrook	Non-Executive Chairman
Graeme Booth	Managing Director
Hans Mende	Non-Executive Director
Andrew (Andy) Plummer	Non-Executive Director
Simon Keyser	Non-Executive Director
Anthony (Tony) Galligan	Non-Executive Director
Nicole Hollows	Alternate to Hans Mende

**Operating Results**

The consolidated loss after tax for the half-year ended 31 December 2015 of the Group amounted to \$653,227 (31 December 2014: \$31,472,146, after the elimination of non-controlling equity interests). The loss for the prior comparative period included an impairment charge of \$32,973,695 in relation to the impairment of capitalised exploration and evaluation expenditure, land and buildings and water access licences.

**Review of Operations**

On 15 September 2015 the Company announced that it had entered into legally binding agreements to restructure the Spur Hill Joint Venture ('JV') by increasing its stake in the Spur Hill Underground Coking Coal Project (the 'Project') to 100% (from 38.27% as at 30 June 2015). Approval for the transaction was received from the NSW Minister for Resources and Energy prior to the half year end and the transaction completed accordingly. The directors believe that 100% project ownership is advantageous for future project funding and provides clarity of ownership to all stakeholders connected with the Project.

In addition the Company also announced a \$6 million entitlement offer on 15 September 2015 which was fully underwritten by four shareholders. The entitlement offer completed on 13 October 2015 with applications received for over 78% of the entitlement offer with the balance taken up by the underwriters to raise gross proceeds of \$6 million for the Company. Given the prevailing investment climate for resource stocks the directors were pleased with the high percentage application rate and the underwriting support shown by key shareholders.

For further transaction details on the project restructure and the entitlement offer please see the Investor Presentation released to the ASX on 15 September 2015.

Malabar Coal Limited's primary focus is on the development of the Project, of which it has now acquired 100% ownership. The primary activities conducted on the Project other than the significant effort expended on the JV restructure and the entitlement offer during the six months to 31 December 2015 are outlined below:

Community and Landholder Consultation

The Company places an emphasis on regular interactions with all stakeholders in the community in accordance with its Community Consultation Plan.

The sixth Community Consultative Committee ('CCC') meetings for the Project was held during the period. Further CCC meetings will be held at regular intervals on an ongoing basis.

DIRECTORS' REPORT

**Review of Operations (continued)**

In addition, senior Company executives continually interact with the community on an informal basis through various activities including attending and sponsoring sporting and community events.

Access agreements are in place covering the proposed underground mining area as set out in the Mining Lease Applications. Malabar maintains regular dialogue with landholders on the Exploration Licence in accordance with our Community Consultation Plan.

Environmental and Project Approvals

Malabar continued to advance studies in connection with the Environmental Impact Statement ('EIS') including:

- Surface and Groundwater assessments;
- Transport assessment; and
- Aboriginal cultural heritage assessment

Mine Design and Infrastructure

The Company advanced studies in relation to the review and design of mine surface infrastructure and underground mine layouts. These studies included:

- Review and design of coal handling and preparation facilities;
- Review and design of mine surface infrastructure; and
- Underground mine layout.

Resource Definition

While the corporate focus has been the JV restructure and the entitlement offer during the period preparatory works for the next field exploration program at the Project have commenced.

Total Resources for the Spur Hill Project are 625.9 million tonnes including 394.4 million tonnes of Indicated Resources. Please see Table 1 for further details.

The Probable Reserves Estimate of 91 million tonnes was calculated solely for the Whynot and Bowfield seams, which are two of the seams targeted for initial mining. Further exploration and technical studies are expected to progressively convert an increasing proportion of the remaining Resources to Reserves.

**Malabar Coal Limited  
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**DIRECTORS' REPORT**

**Table 1: Reserves and Resources as at November 2013**

100% BASIS	RESERVES		RESOURCES				
	Western (Underground) Zone		Western (Underground) Zone			Eastern Zone	Total
Seam	Probable Coal Reserve (Mt)	Probable Marketable Coal Reserve (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)	Inferred (Mt)	Mt
WL2			0.0	46.8	46.8	0.0	46.8
WL1			0.0	22.0	22.0	0.0	22.0
Whybrow			58.5	1.2	59.7	1.8	61.5
Redbank Creek Upper			0.0	0.0	0.0	3.8	3.8
Redbank Creek Middle			0.0	0.0	0.0	3.7	3.7
Redbank Creek Lower			51.3	0.7	52.0	6.2	58.2
Wambo			38.1	4.3	42.4	16.0	58.4
Whynot	78	59	104.5	5.3	109.8	23.0	132.8
Glen Munro			14.7	0.5	15.2	1.6	16.8
Arrowfield			14.6	0.0	14.6	0.0	14.6
Bowfield	13	10	34.0	2.5	36.5	21.7	58.2
Warkworth			78.7	26.6	105.3	23.4	128.7
Mount Arthur			0.0	9.3	9.3	11.1	20.4
<b>Total</b>	<b>91</b>	<b>69</b>	<b>394.4</b>	<b>119.2</b>	<b>513.6</b>	<b>112.3</b>	<b>625.9</b>

- The Resources and Reserves Estimates have been prepared in accord with the JORC Code 2012
- The Reserves Estimate has been prepared by MineCraft Consulting Pty Ltd
- The Resources Estimate has been prepared by Geological and Mining Services Australia Pty Ltd
- The Resources in the above Table are inclusive of Reserves
- The Probable Marketable Coal Reserve is derived from the Probable Coal Reserve based on an average yield of 76% from the Whynot seam and 79% from the Bowfield seam. These average yields are derived from laboratory yields ranging from 80% to 85% adjusted for mining dilution and moisture adjustments

**Malabar Coal Limited  
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**DIRECTORS' REPORT**

**Financial Position**

The net assets of the Group have increased by \$13,181,120 during the half year, from \$17,872,069 at 30 June 2015 to \$31,053,189 at 31 December 2015. The increase in net assets reflects the acquisition of an additional 61.73% in the Project in the JV restructure which was funded by a combination of cash and deferred consideration and the proceeds from the entitlement offer.

The Group's cash position increased from \$1,502,468 at 30 June 2015 to \$2,600,444 at 31 December 2015, predominantly due to the gross \$6,000,000 proceeds received from the entitlement offer less the upfront cash payment of \$3,000,000 for the JV restructure and the investment in exploration and evaluation expenditure during the period.

Malabar's principal asset is its interest in the Project. Expenditure on the Project during the financial period, which was sole funded by Malabar, totalled \$1,151,188. The completion of the JV restructure increased Malabar's interest in the Project from 38.27% at 30 June 2015, to 100% as at 31 December 2015.

**Future Developments, Prospects and Business Strategies**

The material business risks which relate to the development of the Project are the timing of the permitting process and the nature and form of the longer term funding required for the Project development.

The directors note that the approval process for new coal mines has become politicised in New South Wales. Nonetheless the Board is comfortable that the underground nature of our Project mitigates the key concerns of dust and visual amenity which are material considerations for open cut operations.

The Board believes the Company to be relatively well placed financially with key shareholder support (as evidenced by the full underwriting of the \$6 million entitlement offer by 4 major shareholders). In addition, and consistent with the fiduciary responsibilities of the Board the Group is investigating medium and longer term financing options for the Project development. Malabar acquiring 100% ownership of the Project is advantageous for future Project funding. At the appropriate juncture, Malabar may seek a strategic partner for the Project as is common in Australian coal development projects.

If compelling opportunities present themselves Malabar may also seek to acquire other coal assets as part of the Company's strategy of becoming a large-scale producer.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 7 for the half-year ended 31 December 2015.

This director's report is signed in accordance with a resolution of the Board of Directors.



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**Wayne Seabrook**

Chairman

Sydney, 10 March 2016

**Malabar Coal Limited  
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**COMPETENT PERSON'S STATEMENTS**

The information in this Report that relates to JORC Mineral Resources for the Spur Hill Underground Coking Coal Project is based on information compiled by Mr Darryl Stevenson. Mr Darryl Stevenson is the Principal Geologist and employee of Geological and Mining Services Australia Pty Ltd, an independent consultancy group specialising in mineral resource estimation, evaluation and exploration. Mr Darryl Stevenson is a Member of The Australasian Institute of Mining and Metallurgy. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". The relationship between the Estimator and the Project owner is that of independent consultant. Mr Darryl Stevenson consents to the inclusion in this Report of the matters based on his information in the form and context in which it appears.

The information in this Report that relates to JORC Mineral Reserves for the Spur Hill Underground Coking Coal Project is based on a Reserves Estimate that has been prepared by Mr Jeremy Busfield, Principal Mining Consultant of MineCraft Consulting Pty Ltd. Mr Busfield holds a Bachelor of Mining Engineering degree from the University of Queensland, is a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy (AusIMM) and is a Registered Professional Engineer of Queensland (Mining) (RPEQ 10285). Mr Busfield has worked in various planning, operational and consulting roles for the underground coal industry for 27 years and as such qualifies as Competent Person under the JORC Code 2012. The relationship between the Estimator and the Project owner is that of independent consultant. Mr Busfield consents to the inclusion in this Report of the matters based on his information and in the form and context in which it appears.

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**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF MALABAR COAL LIMITED**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2015, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

*PKF HACKETTS*

**PKF HACKETTS AUDIT**



**Liam Murphy**  
**Partner**

Brisbane, 10 March 2016

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**Malabar Coal Limited  
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

	Note	Consolidated Group	
		31 December 2015	31 December 2014
		\$	\$
<b>Revenue from continuing operations</b>			
Interest income		13,452	80,089
Other income		78,144	49,457
<b>Expenses</b>			
Share based payments – employee share options	14	(20,508)	(35,381)
Legal and professional fees		(115,994)	(219,563)
Consultants		(128,057)	(202,596)
Finance costs		(175,501)	(181,996)
Employee benefits expense		(62,515)	(92,307)
Directors' fees		(134,673)	(140,924)
Impairment	9	-	(32,973,695)
Other expenses		(107,575)	(96,156)
<b>Profit (loss) before income tax</b>		<u>(653,227)</u>	<u>(33,813,072)</u>
Income tax expense		-	-
<b>Profit (loss) for the period</b>	2	<u>(653,227)</u>	<u>(33,813,072)</u>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the period</b>		<u>(653,227)</u>	<u>(33,813,072)</u>
Profit (loss) attributable to:			
- Members of the parent entity		(653,227)	(31,472,146)
- Non-controlling interest		-	(2,340,926)
		<u>(653,227)</u>	<u>(33,813,072)</u>
Total comprehensive income attributable to:			
- Members of the parent entity		(653,227)	(31,472,146)
- Non-controlling interest		-	(2,340,926)
		<u>(653,227)</u>	<u>(33,813,072)</u>
<b>Earnings per share</b>			
From continuing operations:			
- basic earnings per share (cents)		(0.56)	(36.62)
- diluted earnings per share (cents)		(0.56)	(36.62)

The accompanying notes form part of these financial statements.

**Malabar Coal Limited  
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2015**

		<b>Consolidated Group</b>	
	<b>Note</b>	<b>31 December 2015</b>	<b>30 June 2015</b>
		<b>\$</b>	<b>\$</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		2,600,444	1,502,468
Trade and other receivables		498,388	505,401
Other assets	5	247,922	91,484
<b>TOTAL CURRENT ASSETS</b>		<u>3,346,754</u>	<u>2,099,353</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	10,527,908	10,527,903
Intangible assets	7	2,965,600	2,965,600
Capitalised exploration and evaluation costs	8	30,396,949	21,031,761
Other assets	5	36,619	36,619
<b>TOTAL NON-CURRENT ASSETS</b>		<u>43,927,076</u>	<u>34,561,883</u>
<b>TOTAL ASSETS</b>		<u><u>47,273,830</u></u>	<u><u>36,661,236</u></u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	401,641	298,898
<b>TOTAL CURRENT LIABILITIES</b>		<u>401,641</u>	<u>298,898</u>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	10	-	12,290,269
Provision for Deferred Consideration	11	9,619,000	-
Borrowings	12	6,200,000	6,200,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>15,819,000</u>	<u>18,490,269</u>
<b>TOTAL LIABILITIES</b>		<u>16,220,641</u>	<u>18,789,167</u>
<b>NET ASSETS</b>		<u>31,053,189</u>	<u>17,872,069</u>
<b>EQUITY</b>			
Issued capital	13	60,242,961	54,317,581
Reserves	14	8,164,589	255,622
Retained earnings (accumulated losses)		(37,354,361)	(34,194,112)
Parent interest		31,053,189	20,379,091
Non-controlling interest		-	(2,507,022)
<b>TOTAL EQUITY</b>		<u>31,053,189</u>	<u>17,872,069</u>

The accompanying notes form part of these financial statements.

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

Consolidated Group	Ordinary Share Capital	Reserves	Retained Earnings (Accumulated Losses)	Total Parent Entity Interest	Total Non- controlling Interest	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2014</b>	54,317,581	177,119	(2,173,628)	52,321,072	(149,482)	52,171,590
<b>Comprehensive income</b>						
Profit (loss) for the period	-	-	(31,472,146)	(31,472,146)	(2,340,926)	(33,813,072)
Other comprehensive income for the period	-	-	-	-	-	-
<b>Total comprehensive income for the half year</b>	-	-	(31,472,146)	(31,472,146)	(2,340,926)	(33,813,072)
<b>Transactions with owners, in their capacity as owners, and other transfers</b>						
Shares issued during the period	-	-	-	-	-	-
Shared based payments	-	35,381	-	35,381	-	35,381
<b>Total transactions with owners and other transfers</b>	-	35,381	-	35,381	-	35,381
<b>Balance at 31 December 2014</b>	54,317,581	212,500	(33,645,774)	20,884,307	(2,490,408)	18,393,899
<b>Balance at 1 July 2015</b>	54,317,581	255,622	(34,194,112)	20,379,091	(2,507,022)	17,872,069
<b>Comprehensive income</b>						
Profit (loss) for the period	-	-	(653,227)	(653,227)	-	(653,227)
Other comprehensive income for the period	-	-	-	-	-	-
Minority interest recognised after restructure	-	-	(2,507,022)	(2,507,022)	2,507,022	-
<b>Total comprehensive income for the half year</b>	-	-	(3,160,249)	(3,160,249)	2,507,022	(653,227)
<b>Transactions with owners, in their capacity as owners, and other transfers</b>						
Shares issued during the period	5,925,380	-	-	5,925,380	-	5,925,380
Shared based payments	-	20,508	-	20,508	-	20,508
Other reserves recognised after restructure	-	7,888,459	-	7,888,459	-	7,888,459
<b>Total transactions with owners and other transfers</b>	5,925,380	7,908,967	-	13,834,347	-	13,834,347
<b>Balance at 31 December 2015</b>	60,242,961	8,164,589	(37,354,361)	31,053,189	-	31,053,189

The accompanying notes form part of these financial statements.

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**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED  
31 DECEMBER 2015**

	<b>Consolidated Group</b>	
	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	78,143	48,616
Payments to suppliers and employees	(297,872)	(505,196)
Interest received	13,452	80,089
Finance costs	(331,939)	(367,181)
Net cash (used in)/provided by operating activities	<u>(538,216)</u>	<u>(743,672)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for additions of property, plant and equipment	-	(56,406)
Payments for exploration expenditures	(1,151,188)	(2,243,543)
Payment for acquisition of asset	(3,138,000)	-
Net cash (used in)/provided by investing activities	<u>(4,289,188)</u>	<u>(2,299,949)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from shares issued	5,925,380	-
Net cash (used in)/provided by financing activities	<u>5,925,380</u>	<u>-</u>
Net increase / (decrease) in cash held	1,097,976	(3,043,621)
Cash and cash equivalents at beginning of period	<u>1,502,468</u>	<u>6,194,615</u>
Cash and cash equivalents at end of period	<u><u>2,600,444</u></u>	<u><u>3,150,994</u></u>

The accompanying notes form part of these financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

These consolidated interim financial statements and notes represent those of Malabar Coal Limited (the Company) and Controlled Entities (the Group).

Malabar Coal Limited is a public company incorporated and domiciled in Australia.

The financial statements were authorised for issue on xx March 2016 by the directors of the Company.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of preparation**

These general purpose interim financial statements for half-year reporting period ended 31 December 2015 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Malabar Coal Limited and its controlled entities (referred to as the Consolidated Group or the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2015, together with any public announcements made during the following half-year.

**b) Accounting Policies**

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2015 annual financial report for the financial year ended 30 June 2015.

**c) Critical Accounting Estimates and Judgments**

The critical estimates and judgments are consistent with those applied and disclosed in the 30 June 2015 annual report, except as noted below:

*i. Exploration and evaluation expenditure*

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The Directors acknowledge that to continue the development and commercial exploitation of the tenement, the budgeted cash flows from operating and investing activities for the future will necessitate further capital raisings and a renegotiation of the current loan facility.

In the current market environment the directors are cognisant of the funding challenges being faced by the junior resources and coal sector. The directors believe the Group to be well placed with key shareholder support (as evidenced by the full underwriting of the \$6 million entitlement offer by 4 major shareholders). Consistent with the fiduciary responsibilities of the Board the Group is investigating medium and longer term financing options for the Project development. Acquiring 100% ownership of the Project is also advantageous for future Project funding. At the appropriate juncture, Malabar may seek a strategic partner for the Project as is common in Australian coal development projects.

Life-of-mine value in use calculations are based on pre-feasibility capital and operating cost estimates utilising mine plans and JORC reserve and resource statements. Key assumptions contained in cash flow projections are based on external sources of information where available, or reflect past experience and include forecast semi-soft coking and export thermal coal prices and foreign exchange rates (based on external economic forecasters), discount rates, JORC reserve and resource statements and operating and capital cost estimates.

The Directors believe that the assumptions used in the determination of the recoverable value of exploration and evaluation expenditure are conservative and supported by the life-of-mine value in use calculations for the Project. Accordingly, the Directors are of the opinion that the exploration and evaluation expenditure is recoverable for the amount stated in the financial report.

**Malabar Coal Limited  
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

**NOTE 2: LOSS FOR THE PERIOD**

	<b>Consolidated Group</b>	
	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>\$</b>	<b>\$</b>
The following expense items are relevant in explaining the financial performance for the interim period:		
Share based payments – employee share options	20,508	35,381
Consultant fees	128,057	202,596
Depreciation	20,812	39,600
Impairment <sup>(1)</sup>	-	32,973,695
Finance costs	175,501	181,996

<sup>(1)</sup> Refer to notes 6, 7, 8 and 9 for additional information on impairment.

**NOTE 3: DIVIDENDS**

No dividend has been paid during the half-year ended 31 December 2015, and none is proposed.

**NOTE 4: OPERATING SEGMENT**

The Group operates solely within one segment, being the mineral exploration industry in Australia.

**NOTE 5: OTHER ASSETS**

	<b>31 December 2015</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT:</b>		
Prepaid finance costs	247,922	91,484
	247,922	91,484
<b>NON-CURRENT:</b>		
Security deposits	36,619	36,619
	36,619	36,619

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

**NOTE 6: PROPERTY, PLANT AND EQUIPMENT**

	<b>Consolidated Group</b>	
	<b>31 December 2015</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
Land - at cost	19,046,606	19,046,606
Less: Impairment <sup>(1)</sup>	(9,407,066)	(9,407,066)
<b>Total land</b>	<b>9,639,540</b>	<b>9,639,540</b>
Buildings - at cost	2,265,139	2,264,092
Less: accumulated depreciation	(125,670)	(114,696)
Less: Impairment <sup>(1)</sup>	(1,421,282)	(1,421,282)
<b>Total buildings</b>	<b>718,187</b>	<b>728,114</b>
<b>Total land and buildings</b>	<b>10,357,727</b>	<b>10,367,654</b>
Plant and equipment	230,068	210,298
Less: accumulated depreciation	(59,887)	(50,049)
	170,181	160,249
	<b>10,527,908</b>	<b>10,527,903</b>

<sup>(1)</sup> Refer to note 9 for additional information on impairment.

**a. Movements in Carrying Amounts**

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial period:

	<b>Freehold Land</b>	<b>Buildings</b>	<b>Plant and Equipment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consolidated Group:</b>				
Balance at 1 July 2014	19,046,606	2,095,951	104,797	21,247,354
Additions	-	94,943	88,381	183,324
Disposals	-	-	(8,250)	(8,250)
Depreciation expense	-	(41,498)	(24,679)	(66,177)
Impairment	(9,407,066)	(1,421,282)	-	(10,828,348)
<b>Balance at 30 June 2015</b>	<b>9,639,540</b>	<b>728,114</b>	<b>160,249</b>	<b>10,527,903</b>
Additions	-	1,047	19,770	20,817
Disposals	-	-	-	-
Depreciation expense	-	(10,974)	(9,838)	(20,812)
Impairment	-	-	-	-
<b>Balance at 31 December 2015</b>	<b>9,639,540</b>	<b>718,187</b>	<b>170,181</b>	<b>10,527,908</b>

**Malabar Coal Limited  
and Controlled Entities  
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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

**NOTE 7: INTANGIBLE ASSETS**

	<b>Consolidated Group</b>	
	<b>31 December 2015</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
<b>NON-CURRENT:</b>		
Water allocation licences	2,965,600	2,965,600
	<u>2,965,600</u>	<u>2,965,600</u>
Balance at the beginning of the period	2,965,600	3,709,100
Additions	-	-
Disposals	-	-
Amortisation charge	-	-
Impairment <sup>(1)</sup>	-	(743,500)
	<u>2,965,600</u>	<u>2,965,600</u>

These particular water allocation licences are issued as “continuing” and as such have an indefinite useful life.

<sup>(1)</sup> Refer to note 9 for additional information on impairment.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

**NOTE 8: CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE**

	Note	Consolidated Group	
		31 December 2015	30 June 2015
		\$	\$
Capitalised exploration and evaluation costs consist of:			
Mining information		963,848	963,848
Exploration license		35,959,629	35,175,262
Exploration & evaluation expenditures		8,306,619	7,939,798
Reserves & resources acquired <sup>(1)</sup>	11	8,214,000	-
Provision for impairment of E&E <sup>(2)</sup>		(21,401,846)	(21,401,846)
R&D tax incentive		(1,645,301)	(1,645,301)
		30,396,949	21,031,761

The capitalised exploration and evaluation expenditure carried forward above has been determined as follows:

Opening balance	21,031,761	39,260,564
Mining information – increase in participants interest	-	63,216
Exploration licence – increase in participants interest and revaluation of licence	784,368	2,033,319
Expenditures incurred during the period	366,820	1,975,122
Reserves & resources acquired <sup>(1)</sup>	8,214,000	-
Provision for impairment of E&E <sup>(2)</sup>	-	(21,401,846)
R&D tax incentive recognised during the period	-	(898,614)
	30,396,949	21,031,761

<sup>(1)</sup> The transaction for the acquisition of 100% of the Project completed on 24 December 2015. An independent external party was engaged to value the acquired assets and liabilities on a fair value basis in accordance with AASB 13 and to assess the purchase price allocation taking into account the structure of the transaction and the Joint Venture. Refer to note 11 for additional details.

<sup>(2)</sup> Refer to note 9 for additional information on impairment

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

**NOTE 9: IMPAIRMENT**

The Group assesses whether there are indicators that assets, or group of assets, may be impaired at each reporting date. Total impairment charges recognised in the Consolidated Statement of Comprehensive Income for the prior half year period were as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>\$</b>	<b>\$</b>
Land and buildings	-	10,828,348
Intangible assets (water access licenses)	-	743,500
Capitalised exploration and evaluation expenditure	-	21,401,846
<b>Impairment charge</b>	<b>-</b>	<b>32,973,694</b>

**Land and buildings**

An impairment charge of \$10,828,348 was recognised during the 2015 Financial year to adjust the value of these properties to their rural valuation, which was supported by an external valuation obtained by management during the prior period. Management considers these values have not changed materially since the rural valuation took place.

**Intangible assets (water access licenses)**

During the 2015 Financial Year, the Group obtained an external valuation of the water licences. Due to market conditions, directors determined it prudent to adjust the carrying values of these intangibles to reflect their current market values. As a result, an impairment charge of \$743,500 was recognised during the prior period. Management considers these values have not changed materially since the external valuation took place.

**Capitalised exploration and evaluation expenditure**

During the half-year ended 31 December 2014, Malabar recognised an impairment charge for its capitalised exploration and evaluation expenditure of \$21,401,846 effectively adjusting the carrying value to a recoverable amount of \$20,000,000. This amount has since then increased by \$10,396,949 due to additional expenditure and acquisition of the Joint Venture partner's interest in the tenement (Note 8).

Life-of-mine value in use calculations are based on pre-feasibility capital and operating cost estimates utilising mine plans and JORC reserve and resource statements. Key assumptions contained in cash flow projections are based on external sources of information where available, or reflect past experience and include forecast semi-soft coking and export thermal coal prices and foreign exchange rates (based on external economic forecasters), discount rates, JORC reserve and resource statements and operating and capital cost estimates.

The nominal post-tax discount rate applied to cash flow projections was 10% (December 2014: 10%).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

**NOTE 10: TRADE AND OTHER PAYABLES**

	Consolidated Group	
	31 December 2015	30 June 2015
	\$	\$
<b>CURRENT:</b>		
Trade creditors	204,883	103,654
Other creditors	196,758	195,244
	401,641	298,898
<b>NON-CURRENT:</b>		
Other creditors	-	8,509
Loan payable Spur Hill Agricultural to Spur Hill Joint Venture <sup>(1)</sup>	-	12,281,760
	-	12,290,269

<sup>(1)</sup> As at 31 December 2015, one of the Company's subsidiaries, Spur Hill Agricultural Pty Ltd, had borrowed \$20,136,566 from the Spur Hill Joint Venture to finance operating activities.

As at 30 June 2015 the Malabar Group had a 38.27% interest in the Spur Hill Joint Venture with the right to acquire up to 80% interest. The remaining 61.73% interest in the Spur Hill Joint Venture was held by a third party external to the Group, Spur Hill Unit Trust. In accordance with AASB11: Joint Arrangements, the Group incorporated the Joint Venture's assets and liabilities in proportion to its ownership interest in the Joint venture. The loan payable disclosed above represented the loan payable by Spur Hill Agricultural to the Spur Hill Joint Venture after elimination on consolidation of the portion of the loan that related to Malabar Group's 38.27% interest in the Joint Venture.

The acquisition of The Spur Hill Unit Trust and thereby an effective 100% interest in the Spur Hill Joint Venture completed on 24 December 2015. At this date all of the Company's subsidiaries were 100% held and the abovementioned loan was eliminated as an intercompany receivable in the consolidation of the Group entities.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

**NOTE 11: FAIR VALUE OF DEFERRED CONSIDERATION (continued)**

On 24 December 2015, the Company acquired control of Spur Hill Unit Trust Pty Ltd, the trustee for Spur Hill Unit Trust ("SHUT"). SHUT held the remaining interest in the Spur Hill JV not held by the Company. It has been determined that the acquisition of SHUT represents an asset acquisition and not a business combination. Therefore, individual assets and liabilities acquired have been recognised at fair value in accordance with AASB 13 Fair Value Measurement.

The Company engaged an external party to value the acquired assets and liabilities on a fair value basis in accordance with AASB 13 and to assess the purchase price allocation taking into account the structure of the transaction and the Joint Venture as set out below.

	Note	Fair Value \$
Purchase consideration:		
– Up front cash payment		3,000,000
– Transaction costs		138,000
– Deferred milestone payments		5,691,000
– Future royalties payable on coal sales from the Project		3,728,000
– Participating interest option		200,000
<b>Total deferred consideration<sup>(2)</sup></b>		<b>9,619,000</b>
<b>Total purchase consideration</b>		<b>12,757,000</b>
Assets acquired:		
– Exploration Licence		8,214,000
<b>Total reserves and resources</b>	8	<b>8,214,000</b>
Receivable <sup>(1)</sup>		4,543,000
<b>Total assets acquired</b>		<b>12,757,000</b>

<sup>(1)</sup> The Receivable of \$4.543m represents the fair value of the loan payable to Spur Hill Unit Trust by Spur Hill Agricultural (Refer to note 10 for additional details) at the time of acquisition when considering the net assets of Spur Hill Agricultural. The remainder of the face value of the loan, being \$7,888,459, has been treated as a loan not repayable in the foreseeable future ('quasi-equity'), and has been transferred to a Capital Reserve (Refer to note 14 for additional details).

<sup>(2)</sup> Refer to note 17 for additional details.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

**NOTE 12: BORROWINGS**

	Consolidated Group	
	31 December 2015	30 June 2015
	\$	\$
NON-CURRENT:		
Revolving Bill Facility	6,200,000	6,200,000
	6,200,000	6,200,000

Security on the facility consists of general security agreements, real property mortgages and water allocation license mortgage over the assets of the subsidiary company Spur Hill Agriculture Pty Ltd. The facility has an expiry date of 28 February 2018. Malabar Coal Limited has guaranteed and indemnified the facility.

**NOTE 13: EQUITY SECURITIES ISSUED**

Issues of ordinary share capital during the half-year:

Date	Details	Number of fully paid ordinary shares	\$
30 June 2015	Balance	85,000,000	54,317,581
	Shares issued (Net of costs)	75,000,000	5,925,380
31 December 2015	Balance	160,000,000	60,242,961

**NOTE 14: RESERVES**

	31 December 2015	30 June 2015
	\$	\$
Share based payment reserve <sup>(1)</sup>		
Opening Balance	255,622	177,119
Share based payments – employee share options	20,508	78,503
Closing Balance	276,130	255,622
Capital Reserves <sup>(2)</sup>	7,888,459	-
Total Reserves	8,164,589	255,622

<sup>(1)</sup> The share based payments reserve is used to recognise the grant date fair value of options issued to employees and contractors but not exercised.

<sup>(2)</sup> The Receivable of \$4.543m represents the fair value of the loan payable to Spur Hill Unit Trust by Spur Hill Agricultural (Refer to note 11 for additional details) at the time of acquisition when considering the net assets of Spur Hill Agricultural. The remainder of the face value of the loan, being \$7,888,459, has been treated as a loan not repayable in the foreseeable future ('quasi-equity'), and has been transferred to a Capital Reserve.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

**NOTE 15: RELATED PARTY TRANSACTIONS**

**a. Transactions with related parties**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

*i) Ironstone Capital provision of services to Malabar and the Project*

Ironstone Capital Partners Pty Ltd ('Ironstone Capital') is a boutique corporate advisory business owned by two of the Directors – Wayne Seabrook and Simon Keyser. Ironstone Capital provides consulting services to the Project and the Company in connection with project development and corporate activities. Ironstone Capital is paid at market related rates or less for work conducted by its executives. During the period ended 31 December 2015, a total of \$23,400 was paid by Malabar to Ironstone Capital.

*ii) Other Related Party Transactions*

During the period ended 31 December 2015, Malabar paid XLX Pty Ltd ('XLX') \$72,829 under the current lease agreement for office space on Level 26, 259 George Street, Sydney. The current lease agreement between Malabar and XLX for office space on Level 26, 259 George Street amounts to \$12,138 per month. The lease agreement is charged on a pass through cost basis from XLX to Malabar and the monthly rental is subsequently split 80/20 between the Project and Malabar. XLX is part-owned by Malabar Directors Wayne Seabrook, Simon Keyser and Andy Plummer.

The Company has continued the consultancy arrangement with the Chairman whereby he (or his associated entity) is paid a consulting fee of \$2,500 per day for any work done for the Company which is not related to his role as Chairman. In the period ended 31 December 2015, total payments of \$79,923 have been made under this agreement.

**NOTE 16: CAPITAL AND LEASING COMMITMENTS**

	<b>Consolidated Group</b>	
	<b>31 December 2015</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
<b>a. Operating Lease Commitments</b>		
Non-cancellable operating leases contracted for but not recognised in the financial statements		
Payable – minimum lease payments:		
– not later than 12 months	250,983	348,069
– between 12 months and 5 years	443,458	519,201
– later than 5 years	-	-
	694,441	867,270

The property lease is a non-cancellable lease with a 5-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the lower of the change in the consumer price index (CPI) or 4% per annum.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

**NOTE 17: CONTINGENT LIABILITIES AND CONTINGENCIES**

Estimates of the potential financial effect of contingent liabilities that may become payable:

Project Related	<b>31 December 2015 \$</b>	<b>30 June 2015 \$</b>
a. The Group has entered into various contracts in relation to its participation in the Spur Hill Joint Venture. The Farm in Agreement provides for the Group to make payments to the other Joint Venture participant based on the achievement of Project milestones. On achievement of each of the following four Milestones, SH2 is obliged to pay the other participant \$2.5 million in exchange for a 2.5% Participating Interest:		
i. Proved JORC Reserves of at least 80 million tonnes;	-	2,500,000
ii. submission of an environmental assessment for the Project;	-	2,500,000
iii. completion of a detailed feasibility study into the development of the Project;	-	2,500,000
iv. grant of a Mining Lease.	-	2,500,000
As the Project develops, the Group will be required to make further contributions to the Project Joint Venture to continue to keep the Project viable. The Group may make discretionary prepayments of contributions to the Project to accelerate its participating interest in the Project.		
b. Bonus payment to Peter Doyle upon the grant of a Mining Lease per employment contract.	500,000	500,000
c. Payment to landholder upon the grant of a Mining Lease per contract of purchase.	600,000	600,000
<b>Contingent Liabilities</b>	<b>1,100,000</b>	<b>11,100,000</b>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

**NOTE 17: CONTINGENT LIABILITIES AND CONTINGENCIES (continued)**

**Acquisition of the Spur Hill Unit Trust ('SHUT')**

On 24 December 2015 Malabar formally completed the acquisition of SHUT, taking its cumulative interest in the Spur Hill Project to 100%.

Malabar engaged an external party to value the acquired assets and liabilities in accordance with AASB13 taking into account the structure of the transaction and the Joint Venture. The fair value of the deferred consideration of the acquisition was valued at \$9.619m (Refer to note 11 for additional information) and is accounted for as a Provision for Deferred Consideration. The underlying contingent obligations comprising the deferred consideration are set out as follows:

**Milestone  
Payments to the  
owners of SHUT**

1. \$0.5m on the later of:
  - Submission of the Environmental Assessment; or
  - September 2016
2. \$1m on the later of:
  - 80Mt of Proven Reserves being established; or
  - September 2017
3. \$0.5m on receipt of Environmental Approval
4. \$1m on the grant of the Mining Lease; and

On Financial Close (unconditional financing arrangements in place for Project construction), \$13m less any payments already made under 1-4 above.

**Royalty**

1.75% royalty on all coal sales from the Project.

**Participating  
Option**

- If, by 31 July 2022, Malabar has not either
  1. Spent a total of \$70m on the Project (including expenditure to-date) ('Minimum Spend'); or
  2. Achieved Financial Close on the Project,then the owners of SHUT have the right to exercise an option to obtain a 'Participating Interest %' of the Project ('Option') (whereupon the Royalty would terminate).
- This Option terminates immediately if either the Minimum Spend or Financial Close is achieved prior to 31 July 2022.
- 'Participating Interest %' =  $100 - ((\text{actual cumulative expenditure on Project as at 31 July 2022}) / \$70\text{m}) \times 80\%$ .

Note: As at 31 December 2015, Malabar's cumulative spend on the Project exceeds \$54.9m.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

**NOTE 18: INTEREST IN SUBSIDIARIES**

**a. Information about Principal Subsidiaries**

Set out below are the Group's subsidiaries at 31 December 2015. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's country of incorporation or registration is also its principal place of business.

Name of Subsidiary	Principal Place of Business	Ownership Interest Held by the Group		Proportion of Non-controlling Interests	
		At 31 December 2015	At 30 June 2015	At 31 December 2015	At 30 June 2015
Spur Hill No.2 Pty Ltd	Australia	100%	100%	0%	0%
Spur Hill Agricultural Pty Ltd	Australia	100%	80%	0%	20%
Spur Hill Management Pty Ltd	Australia	100%	80%	0%	20%
Spur Hill Marketing Pty Ltd	Australia	100%	80%	0%	20%
Spur Hill U.T. Pty Ltd <sup>(1)</sup>	Australia	100%	0%	0%	100%

Subsidiaries' financial statements used in the preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

<sup>(1)</sup> The Malabar Group acquired 100% interest in the Spur Hill Joint venture by purchasing Spur Hill U.T. Pty Ltd. Refer to Note 11 for additional details.

**NOTE 19: EVENTS AFTER THE END OF THE INTERIM PERIOD**

The directors are not aware of any significant events since the end of the interim period.

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**DIRECTORS' DECLARATION**

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 8 to 24 are in accordance with the *Corporations Act 2001*, including:
  - a. complying with Accounting Standard AASB 134: *Interim Financial Reporting*; and
  - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date and
2. Having regard to the matters referred to in Note 1, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



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Wayne Seabrook

Director

Sydney, 10 March 2016

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**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE MEMBERS OF MALABAR COAL LIMITED**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Malabar Coal Limited ("the Company") and its controlled entities ("the consolidated entity"), which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Malabar Coal Limited and its controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Malabar Coal Limited and its controlled entities is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PKF HACKETTS

**PKF HACKETTS AUDIT**



**Liam Murphy**  
**Partner**  
Brisbane, 10 March 2016

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