

15 September 2015

Dear Shareholder

Malabar Coal Limited entitlement offer – notice to option holders

Today Malabar Coal Limited ACN 151 691 468 (**Malabar** or **Company**) announced a 15 for 17 pro rata non-renounceable entitlement offer of fully paid ordinary shares in Malabar (**Malabar Shares**) at an issue price of \$0.08 to raise approximately \$6 million (**Entitlement Offer**).

The proceeds of the Entitlement Offer will be applied principally to fund the \$3 million payment to our joint venture partner for the Spur Hill underground coking coal project as part consideration for the restructure of the Spur Hill joint venture

Terms of the Entitlement Offer

Under the Entitlement Offer, eligible shareholders will be able to subscribe for 15 new ordinary shares in the Company for every 17 existing shares (**New Shares**) held at 7.00pm (AEST) on 21 September 2015 (**Record Date**) at an offer price of \$0.08 (**Entitlements**).

Fractional Entitlements will be rounded up to the nearest whole number of New Shares.

Malabar will offer the New Shares for issue without disclosure to investors under section 708AA(2)(f) Corporations Act as notionally modified by ASIC Class Order 08/35 (**CO 08/35**).

Eligible shareholders may also apply for additional New Shares in excess of their Entitlement at the same price as under the Entitlement Offer (**Top-Up Facility**). Additional New Shares will only be available under the Top-Up Facility where there is a shortfall between applications for New Shares received from eligible shareholders and the number of New Shares proposed to be issued under the Entitlement Offer.

Three of the Company's major shareholders (being shareholders associated with Simon Keyser and Wayne Seabrook, directors of the Company) have committed to take up entitlements representing 5,625,000 New Shares or 13.6% of the New Shares to be issued under the Entitlement Offer. The Entitlement Offer is also fully underwritten by four existing shareholders, including two associated with the directors, Hans Mende and Andy Plummer, each of whom will also take up their own Entitlement.¹ The underwriters will receive an aggregate fee of 1% of the proceeds raised from the Entitlement Offer not including the proceeds raised from the underwriters taking up their Entitlement.

¹ The underwriters can terminate the underwriting agreement if the major shareholders do not apply for their full commitment

For personal use only

Your options do not entitle you to participate in the Entitlement Offer

The purpose of this letter is to give you notice prior to the Record Date that you may exercise your options should you wish to participate in the Entitlement Offer. Accordingly, if you wish for some or all of the shares underlying your options to be counted as part of your Entitlement under the Entitlement Offer, you will need to exercise that portion of your vested and exercisable options for which you wish to participate and pay the current exercise price for them so that those shares are issued to you before the Record Date.

If you choose to participate in the Entitlement Offer by exercising some or all of your options prior to the Record Date, you will be sent an information booklet and personalised entitlement and acceptance form containing important information about the Entitlement Offer.

In that case, you should be aware that the exercise price of options which you do not exercise may be reduced as contemplated by the ASX Listing Rules.

Further information

If you have any queries, please contact Malabar on +61 2 8248 1272 (within Australia) between 8.30 am and 5.30 pm (AEST) Monday to Friday during the offer period or, alternatively, consult your stockbroker, solicitor, accountant or other professional financial adviser.

On behalf of the Directors, I thank you for your continued support of Malabar.

Yours sincerely



Wayne Seabrook
Chairman
Malabar Coal Limited

This notice does not constitute an offer to sell or the solicitation of an offer to buy, any securities in the United States. No action has been or will be taken to register, qualify or otherwise permit a public offering of the Entitlements or New Shares in any jurisdiction outside Australia or New Zealand. In particular, the Entitlements and New Shares have not been, and will not be, registered under the US Securities Act of 1933 or the securities laws of any state or other jurisdiction of the United States. Accordingly, the Entitlements may not be taken up by, and the New Shares may not be offered or sold to, persons in the United States, except in a transaction exempt from, or not subject to, the registration requirements of the US Securities Act and any applicable securities laws of any state or other jurisdiction of the United States.