

**Malabar Coal Limited**

**ABN 29 151 691 468**

**Annual Report  
30 June 2013**

**MALABAR COAL LIMITED  
AND CONTROLLED ENTITIES  
ABN 29 151 691 468**

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**CHAIRMAN'S REPORT**

Dear Fellow Shareholder

It is a pleasure to present our inaugural Annual Report as a listed company on behalf of the Board of Directors and management of Malabar Coal. The year ending 30th June 2013 has been a successful year for Malabar Coal with a number of important milestones achieved, as detailed below:

**ASX Listing**

The Company raised \$20 million from institutional and retail shareholders in the IPO that was completed in late March 2013.

While the share price has suffered as a result of low coal prices and a high \$AUD:\$USD exchange rate, in the longer term our shareholders should benefit as the Spur Hill Underground Coking Coal Project ('Project') is advanced and the coal markets improve (as anticipated by the consensus of coal market forecasters).

**Spur Hill JORC Resource Upgrade**

The Company's ongoing drilling and geological work increased total JORC Resources on the Project from 586 million tonnes to 623 million tonnes including a significant increase in Indicated Resources from 117 million tonnes to 334 million tonnes.

**Coal Quality**

Coal quality analyses confirm that the target seams contain high quality low ash soft coking coal.

**Spur Hill Project development**

Technical field-work in 2013 also included the collection of data essential for designing the underground project. This work consisted of, inter alia, extensive geotechnical assessment of drill cores, comprehensive assays, down-hole geophysical surveys of all holes, gas sampling, an aeromagnetic survey, and testing of aquifers.

Consequential engineering work has included: mine design and layout for the underground longwall mine, preliminary design of coal handling and preparation facilities and mine infrastructure facilities design.

Baseline environmental studies commenced during the financial year including: flora and fauna surveys, soil testing, dust monitoring, subsidence assessment, and surface water and groundwater assessments.

In addition, a number of strategic property acquisitions have been completed which assist in locating the project's surface infrastructure.

**Permitting**

In September 2012 the NSW Government released its Strategic Regional Land Use Plan ('Plan'), which has implications for the Project. The Plan requires State significant mining projects located within areas identified as either Biophysical Strategic Agricultural Land ('BSAL') or Critical Industry Clusters ('CIC's) to obtain a Gateway Certificate prior to lodging a Development Application ('DA') and accompanying Environmental Impact Statement ('EIS'). As the Project falls within these criteria, the Project requires an assessment by a Gateway panel of experts. They will focus on potential impacts on BSAL and CIC's and issue the Gateway certificate, with or without conditions.

The Board is comfortable that as an underground mine the Project will meet the requirements of the Gateway criteria.

Unfortunately the Project's permitting progress was temporarily delayed due to the slow formation of the Gateway Panel and the release of the Gateway criteria. This was originally due to be released in March 2013; however the NSW Government released the Gateway criteria and formally announced the Gateway Panel on 3 October 2013, together with confirmation of statutory timelines.

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**CHAIRMAN'S REPORT (continued)**

This provides Malabar with the certainty of process required to progress the Project to a DA and EIS submission as soon as possible. Given the substantial resource definition, environmental and engineering studies performed to date we will be in a position to make the Gateway application for the Spur Hill Underground Coking Coal Project in the near future.

**Outlook**

During the 2014 financial year Malabar Coal looks forward to progressing the Project through the Gateway process and continuing engineering studies and preparing the EIS and DA application.

We thank the shareholders of Malabar Coal for their continued support and we look forward to reporting on our progress during the year ahead.



Wayne Seabrook

Chairman

24 October 2013

**MALABAR COAL LIMITED  
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**DIRECTORS' REPORT**

Your directors present their report, together with the consolidated financial statements of Malabar Coal Limited ('the Company' or 'Malabar') and its controlled entities ('the Group'), for the year ended 30 June 2013.

**Directors**

The directors of the Company during or since the end of the financial year are:

Wayne Seabrook	Non-Executive Chairman	
Hans Mende	Non-Executive Director	
Andrew (Andy) Plummer	Non-Executive Director	(Appointed 23 November 2012)
Simon Keyser	Non-Executive Director	
Anthony (Tony) Galligan	Non-Executive Director	(Appointed 23 January 2013)
Aldo Dal Pozzo	Alternate to Simon Keyser	(Resigned 23 January 2013)
Brian Beem	Alternate to Hans Mende	(Resigned 23 January 2013)

**Principal activities**

The principal activity of the Group during the financial year was the development of the Spur Hill Underground Coking Coal Project ('Project') on Exploration Licence 7429 ('EL 7429') in the Hunter Valley Region of New South Wales. Once operational the Project is expected to produce predominantly high quality low ash soft and semi-soft coking coal products from its underground mining operations.

The Company achieved a significant milestone during the year when the Company was listed on the ASX on 28 March 2013, raising \$20 million cash (before capital raising costs) from institutional and retail investors.

Key Project activities during the financial year included continuing development activities including resource definition drilling for the Project, conducting environmental baseline and engineering studies and acquiring land of strategic importance to the Project.

There were no significant changes in the nature of the Group's principal activities during the financial year.

**Operating and Financial Review**

**Operating Results**

The consolidated loss for the year ended 30 June 2013 of the Group amounted to \$639,972 (for the period 24 June 2011 to 30 June 2012: \$255,473), after providing for income tax and eliminating non-controlling equity interests.

**Review of Operations**

Malabar's primary focus is on the development of the Project, of which it has the right to acquire up to 80%. The primary activities conducted on the Project during the year ended 30 June 2013 are outlined below:

Resource definition

Malabar commenced a further resource definition drilling program for the Project in February 2013. This program involved the drilling of approximately 26 holes. As at 30 June 2013, 22 holes were complete. Data from these 22 holes was used to update the Project JORC Resource Statement which the Company released on 9 July 2013 to the ASX. Key highlights of the updated JORC Resource Statement included a significant increase in JORC compliant Indicated Resources from 117Mt to 334Mt and a Total Resource (Indicated and Inferred) upgrade from 586Mt to 623Mt. A summary table is presented below.

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**DIRECTORS' REPORT (continued)**

**Review of Operations (continued)**

**Updated JORC Mineral Resources as per ASX Release 9 July 2013**

Area	Indicated Mineral Resources (Mt)	Inferred Mineral Resources (Mt)	Total Mineral Resources (Mt)	Exploration Target (Mt)
Underground Resource Area (100% basis)	333.5	180.2	513.7	80
Eastern Area (100% basis)	-	108.9	108.9	
<b>Total</b>	<b>333.5</b>	<b>289.1</b>	<b>622.6</b>	<b>80</b>

(\*) – See Competent Person's Statement at conclusion of this Report

**JORC Mineral Resources as per Replacement Prospectus dated 1 March 2013**

Area	Indicated Mineral Resources (Mt)	Inferred Mineral Resources (Mt)	Total Mineral Resources (Mt)	Exploration Target (Mt)
Underground Resource Area (100% basis)	117.1	371.5	488.6	-
Eastern Area (100% basis)	-	97.1	97.1	-
<b>Total</b>	<b>117.1</b>	<b>468.6</b>	<b>585.7</b>	<b>-</b>

(\*) – See Competent Person's Statement at conclusion of this Report

Malabar's exploration program also included comprehensive assays of the coal seams; down-hole geophysical surveys of all holes; testing of aquifers; gas sampling and extensive geotechnical assessment of drill core.

The coal analyses confirm that the target seams contain high quality low ash soft coking coal. The following table sets out the coal quality of the target underground coal seams:

UNDERGROUND ZONE	Raw (average) air dried		F1.60 (average) air dried								Mt
	Ash %	Moist %	Ash %	Moist %	Yield %	Energy (MJ/kg)	FC %	Vol %	CSN	Sulphur %	
<b>Whybrow</b>											
Indicated	30.1	4.5	10.9	4.3	64.5	28.6	51.1	33.8	3.6	0.49	45.2
Inferred	29.5	4.8	9.7	4.4	64.6	28.9	51.9	34.1	3.1	0.51	16.4
<b>Wambo</b>											
Indicated	11.6	3.8	5.3	4.2	87.8	30.8	55.0	35.4	4.2	0.41	38.8
Inferred	12.7	4.0	5.4	4.3	85.8	30.8	55.6	34.8	3.7	0.43	5.6
<b>Whynot</b>											
Indicated	16.7	4.3	5.3	4.3	81.6	30.8	55.3	35.1	4.4	0.41	98.5
Inferred	16.8	4.3	5.2	4.3	80.7	30.8	55.7	34.9	4.4	0.40	13.6
<b>Bowfield</b>											
Indicated	14.8	3.0	8.2	2.9	86.2	30.6	58.7	30.2	4.7	0.43	28.0
Inferred	16.2	2.8	8.2	2.8	82.3	30.6	61.5	27.5	4.5	0.44	8.4
<b>Warkworth</b>											
Indicated	20.3	2.4	9.8	2.7	79.2	30.3	62.3	25.3	4.7	0.42	62.7
Inferred	23.1	2.4	10.2	2.6	75.4	30.2	64.4	22.7	4.2	0.44	40.4

(\*) – See Competent Person's Statement at conclusion of this Report

An aeromagnetic survey of EL 7429 was undertaken prior to the financial year end. Interpretation of the data is in progress.

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**DIRECTORS' REPORT (continued)**

**Review of Operations (continued)**

Environmental

Baseline environmental studies commenced during the financial year including; flora and fauna surveys, soil testing, dust monitoring, subsidence assessment and surface and groundwater assessments. These studies will form part of the application for a Gateway Certificate and the Environmental Impact Statement ('EIS') for the Project.

Engineering and infrastructure

Malabar has undertaken the following engineering studies during the financial year:

- Mine plans for a longwall mine in the target seams;
- Coal quality assessment;
- Coal handling and preparation facility design;
- Options for train loading; and
- Mine infrastructure facilities design.

Land

Throughout the financial year, Malabar assessed opportunities to acquire strategically important land for the Project. Since 30 June 2012, Malabar, through its 80%-owned subsidiary Spur Hill Agricultural Pty Ltd, has acquired one property, contracted to acquire another three properties and has entered into an option agreement to acquire a further property. As set out in the 'Events after the Financial Year End' paragraph below, these three properties have settled and the option has lapsed subsequent to the year end.

**Financial Position**

The net assets of the Group have increased by \$17,097,740 during the financial year from \$36,307,140 to \$53,404,880, principally due to the raising of \$20 million cash through the issue of ordinary fully paid shares from the Company's IPO in March 2013. The Group's cash position was \$17,831,143 at 30 June 2013 (2012: \$22,425,110).

Malabar's principal asset is its participating interest in the Project. Expenditure on the Project during the financial year which was sole funded by Malabar totalled \$21,885,881. This expenditure increased Malabar's participating interest in the Project by 12.5% from 17.34% as at 30 June 2012 to 29.84% as at 30 June 2013.

During the financial year the Group drew down \$3,475,000 from its \$5,350,000 revolving bill facility with the National Australia Bank ('NAB') in order to part finance a strategic property acquisition for the Project. The NAB facility was increased from \$5,350,000 to \$6,200,000 in June 2013 in anticipation of further strategic property purchases during July 2013 and August 2013.

The directors believe the Group is in a strong and stable financial position to continue the development of the Project.

**Significant changes in the state of affairs**

As part of the IPO the following significant changes in the state of affairs of the Company occurred during the financial year:

- On 26 March 2013 the Company subdivided all issued shares from 18,382,822 ordinary fully paid shares to 40,999,979 ordinary fully paid shares;
- On 26 March 2013 the 20,000,000 converting preference shares were converted into 24,000,021 ordinary shares (post subdivision); and
- On 28 March 2013 Malabar listed on the ASX after successfully raising \$20 million cash (before capital raising costs) from institutional and retail investors.

**Dividends**

There were no dividends paid to members during the financial year.

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**DIRECTORS' REPORT (continued)**

**Events after the Financial Year End**

During July 2013 and August 2013 the Group completed settlement on three further strategic property acquisitions. A further \$2,725,000 was drawn down on the NAB revolving bill facility to part finance these property acquisitions. At the date of this report, this NAB facility is fully drawn. Further details on these purchases are contained in Notes 26 and 28.

In addition, after completing further due diligence, the Group elected not to exercise a call option to purchase a further property. This option expired on 30 July 2013.

Other than the above, no other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

- The Group's operations in future financial years, or
- The results of those operations in future financial years, or
- The Group's state of affairs in future financial years.

**Future Developments, Prospects and Business Strategies**

The key objective of the Group is the development of the Project. To this end Malabar is currently undertaking work in preparation for an Environmental Impact Statement which will accompany a Development Application ('DA') under the EP&A Act approval process.

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.

Prior to the lodgement of the DA the Project is required to pass through the 'Gateway' process as outlined in the Strategic Regional Land Use Plan released by the NSW Government on 11 September 2012. At the date of this report the NSW Government is yet to release the terms of reference for the 'Gateway' process.

Malabar estimates a period of approximately 24 months is required for preparation, lodgement, assessment and approval of the DA. However, to the extent that the NSW Government extends the timing of the release of the terms of reference for the 'Gateway' process or indeed amends the permitting process this may impact on the timeline for approval of the DA. The directors are confident that due to the quality and underground nature of the Project, the Project will meet the requirements of any reasonable permitting process, once final details of that process are released.

The Company is well funded. Consistent with the fiduciary responsibilities of the Board the Company is investigating longer term financing options for the Project development. The Board believes the Company to be well placed with key shareholder support and at the appropriate juncture, Malabar may seek a strategic partner for the Project as is common in Australian coal development projects.

As outlined in the Prospectus, 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 coal developer and producer.

**Environmental Issues**

The Group's operations are subject to significant environmental regulation under the laws of the commonwealth and state. The Group is compliant with all aspects of these requirements. Directors are not aware of any environmental law that is not being complied with.



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**DIRECTORS' REPORT (continued)**

**Information on the Directors**

<b>Wayne Seabrook</b>	B.Eng (Chem - 1 <sup>st</sup> Hons)
<b>Role</b>	Non-Executive Chairman
<b>Experience</b>	<p>Wayne has more than 30 years of resources sector and corporate finance experience. He has broad project development experience from previous roles with Alcoa, Macraes Mining, Minproc Engineers, &amp; Barclay-Mowlem. Wayne has also held senior corporate finance roles with Macquarie Bank, Challenger and Wilson HTM. He has managed transactions for many coal companies including; Felix Resources, Whitehaven Coal, Excel Coal, Cleveland-Cliffs, and AMCI. Wayne was a founding director of ASX-listed Apollo Gas Ltd and ASX-listed Titan Energy Services Ltd. He is a director of XLX Pty Ltd and Ironstone Capital Partners Pty Ltd. As Non-Executive Chairman Wayne is responsible for leadership of the Board, for efficient organisation and conduct of the Board's function and the briefing of all Directors in relation to issues arising at Board meetings. As Chairperson, Wayne is also responsible for shareholder communication and arranging Board performance evaluation.</p> <p>Wayne holds a Bachelor of Engineering (Chemistry – 1st Hons) from the University of Canterbury, New Zealand and a Graduate Diploma from FINSIA. He is a fellow of FINSIA and a member of AUSIMM.</p>
<b>Special Responsibilities</b>	Member of Occupational Health, Safety & Environment Committee and Audit Committee
<b>Interest in Shares and Options (direct and indirect)</b>	Ordinary Shares – 8,328,538 (including 5,483,590 shares held by Ironstone Capital Partners Pty Ltd, a company in which Wayne Seabrook is a director and shareholder)
<b>Former directorships held in previous three years</b>	<p>Apollo Gas Ltd – Non-Executive Director appointed 15 September 2009, ceased 23 December 2010</p> <p>Titan Energy Services Ltd – Non-Executive Director appointed 28 March 2011, ceased 18 October 2012</p>
<b>Hans Mende</b>	MBA
<b>Role</b>	Non-Executive Director
<b>Experience</b>	Hans has been President of AMCI since he co-founded the company in 1986. Prior to founding AMCI, Hans was with the Thyssen Group, in various senior executive positions including President of Thyssen Carbometal Inc. from 1968 to 1986. Hans has served as a director of Alpha Natural Resources (Inc) USA (ANR) and as Chairman of the Board of Directors of ANR Holdings from 2003 to 2005. Hans is currently a member of the board of directors of the publicly traded MMX Mineracao in Brazil, and a non-executive director of White Energy Company. He was most recently a Non-Executive Director of Whitehaven Coal Limited.
<b>Special Responsibilities</b>	Nil
<b>Interest in Shares and Options (direct and indirect)</b>	Ordinary Shares – 9,859,789
<b>Former directorships held in previous three years</b>	Whitehaven Coal Ltd – Non-executive Director appointed 3 May 2007, ceased 2 July 2012

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**DIRECTORS' REPORT (continued)**

**Information on the Directors (continued)**

<b>Andy Plummer</b>	BSc Mining Eng
<b>Role</b>	Non-Executive Director
<b>Experience</b>	Andy has over 35 years' experience in the investment banking and mining industries. He holds a BSc Mining Engineering from the Colorado School of Mines, USA. He was most recently an Executive Director of Whitehaven Coal Limited and King Island Scheelite Limited and prior to that was an Executive Director of Excel Coal Limited. During his tenure at both Whitehaven and Excel he was responsible for business development activities. He has worked in the Australian banking and finance industry since 1985 with Eureka Capital Partners, Resource Finance Corporation and Westpac. Prior to that, he was employed in a variety of management and technical positions with ARCO Coal, Utah International and Consolidation Coal.
<b>Special Responsibilities</b>	Chairman of the Nominations & Remuneration Committee and member of Occupational Health, Safety & Environment Committee
<b>Interest in Shares and Options (direct and indirect)</b>	Ordinary Shares – 6,374,684
<b>Former directorships held in previous three years</b>	Whitehaven Coal Ltd – Executive Director appointed 17 October 2008, ceased 3 May 2012 King Island Scheelite Ltd – Non-executive Director appointed 1 March 2006, ceased 24 October 2012

<b>Simon Keyser</b>	B.Bus, CA
<b>Role</b>	Non-Executive Director
<b>Experience</b>	Simon has over 20 years of finance sector experience, specialising in the resources and energy sectors. Simon held senior investment banking positions with Chase Securities (now J.P. Morgan Chase) and was head of Wilson HTM's corporate finance division. Simon has managed transactions for many coal and energy companies including Felix Resources, Excel Coal, Whitehaven Coal, Austral Coal and Arrow Energy. Simon is currently a director of XLX Pty Ltd, Ironstone Capital Partners Pty Ltd and ASX-listed Titan Energy Services Ltd.  Simon holds a Bachelor of Business from the Queensland University of Technology, Graduate Diploma from FINSIA and is a Chartered Accountant.
<b>Special Responsibilities</b>	Chairman of the Audit Committee and member of the Nominations & Remuneration Committee
<b>Interest in Shares and Options (direct and indirect)</b>	Ordinary Shares – 8,286,038 (including 5,483,590 shares held by Ironstone Capital Partners Pty Ltd, a company in which Simon Keyser is a director and shareholder)
<b>Former directorships held in previous three years</b>	Nil

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**DIRECTORS' REPORT (continued)**

**Information on the Directors (continued)**

<b>Tony Galligan</b>	BSc (Geology)
<b>Role</b>	Non-Executive Director
<b>Experience</b>	Tony has more than 40 years of experience in the Australian coal industry. He has held senior positions in the areas of geology, project approvals and development, mine safety, and mine-related infrastructure. His most recent position was General Manager Infrastructure with Whitehaven Coal. He was Chairman of NCIG for more than 3 years during the feasibility, financing and construction of the new coal terminal and also played a pivotal role in the upgrade of the rail line to the Gunnedah Basin. Previous positions include Exploration Manager for Agip Coal, Chief Coal Geologist, Director Coal and Director Development with the NSW Government.  Tony holds a Bachelor of Science (Geology) from the University of Queensland.
<b>Special Responsibilities</b>	Chairman of the Occupational Health, Safety & Environment Committee.
<b>Interest in Shares and Options (direct and indirect)</b>	Options – 200,000 options over Ordinary Shares
<b>Former directorships held in previous three years</b>	Nil

**Company Secretary**

The Company Secretary is Ian Morgan - BBus, MComLaw, Grad Dip App Fin, CA, ACIS, CSA, MAICD, FFin. He was appointed on 8 November 2012.

Ian has over 30 years of experience in accounting and corporate administration. He provides secretarial and advisory services to a range of companies, and is company secretary of other publicly listed companies.

Ian holds a Bachelor of Business from the NSW Institute of Technology (now University of Technology, Sydney), a Master of Commercial Law from Macquarie University, and a Graduate Diploma of Applied Finance and Investment from the Securities Institute of Australia (now FINSIA). He is an Associate Member of the Institute of Chartered Accountants in Australia, an Associate Member of Chartered Secretaries Australia, a Member of the Australian Institute of Company Directors, and a Fellow of the Financial Services Institute of Australasia (FINSIA).

**Meetings of Directors**

During the financial year, there were 14 meetings of directors. Attendances by each director during the year were as follows:

	<b>Directors' Meetings</b>	
	<b>Number eligible to attend</b>	<b>Number attended</b>
Wayne Seabrook	14	13
Hans Mende	14	4
Andy Plummer	10	6
Simon Keyser	14	13
Anthony Galligan	10	8

Prior to the Company's admission to the ASX's Official List on 26 March 2013 the Company constituted an Audit Committee, a Nominations & Remuneration Committee, and an Occupational Health, Safety & Environment ('OHSE') Committee. In the period between 26 March 2013 and 30 June 2013 the OHSE Committee met once with all eligible members attending (i.e. Messrs Galligan (Chair), Plummer and Seabrook). The Audit Committee and the Nominations & Remuneration Committee did not meet in the period between 26 March 2013 and 30 June 2013.

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**DIRECTORS' REPORT (continued)**

**Indemnifying Officers or Auditor**

During or since the end of the financial year, the Group paid insurance premiums of \$49,365 to insure directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

**Options**

At the date of this report, the unissued ordinary shares of the Company under option are as follows:

<b>Grant Date</b>	<b>Vesting Date</b>	<b>Date of Expiry</b>	<b>Exercise Price</b>	<b>Number under Option</b>
22 March 2013	22 March 2014	22 March 2017	\$1.50	150,000
22 March 2013	22 March 2015	22 March 2017	\$1.50	150,000
22 March 2013	22 March 2016	22 March 2017	\$1.50	150,000
31 May 2013	31 May 2014	31 May 2017	\$1.50	208,334
31 May 2013	31 May 2015	31 May 2017	\$1.50	208,334
31 May 2013	31 May 2016	31 May 2017	\$1.50	208,332
				1,075,000

Option holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since the end of the financial year.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report on page 12.

**Proceedings on Behalf of Company**

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the financial year.

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**DIRECTORS' REPORT (continued)**

**Non-audit Services**

The Board of Directors ('Board'), in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year ended 30 June 2013 is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Lawler Hacketts Audit and its related practices for non-audit services provided during the year ended 30 June 2013:

	<b>2013</b>
	<b>\$</b>
Taxation compliance services	7,965
Investigating accountant's services for the IPO	67,500
Review of regulatory returns	1,500
	<hr/>
	76,965
	<hr/> <hr/>

**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 18 for the year ended 30 June 2013.

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**REMUNERATION REPORT (AUDITED)**

**Remuneration Policy**

The remuneration policy of the Company has been designed to align Key Management Personnel ('KMP') objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of Malabar believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the Group is as follows:

- The remuneration policy is to be developed by the remuneration committee and approved by the Board.
- All KMP receive a base salary (which is based on factors such as experience and market rates of pay) inclusive of superannuation and fringe benefits, options and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators (KPIs) have been met.
- Incentives paid in the form of options are intended to align the interests of the directors, executives and the Company with those of the shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The remuneration committee reviews KMP packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

The performance of KMP is measured against criteria agreed annually with each executive and is based predominantly on the achievement of key milestones. Once the Company is in production the criteria will shift focus to forecast growth of the Group's profits and shareholders' value. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any change must be justified by reference to measurable performance criteria. The policy is designed to attract high calibre executives and reward them for performance results leading to long-term growth in shareholder wealth.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Current remuneration for non-executive directors is as follows:

	<b>Fees including Superannuation</b>
Chairman	\$65,000
Non-executive director	\$50,000

Additional fees are payable for chairmanship and membership of Committees of the Board.

KMP are also entitled and encouraged to participate in the employee share and option arrangements to align directors' and executives' interests with shareholders' interests. Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share once the hurdles have been met and is measured using the Black-Scholes and the Binomial model methodology.

All remuneration paid to KMP is valued at the cost to the Company and expensed.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

**MALABAR COAL LIMITED  
AND CONTROLLED ENTITIES  
ABN 29 151 691 468**

**REMUNERATION REPORT (AUDITED) (continued)**

**Performance-based Remuneration**

KPIs are to be set annually, with a certain level of consultation with KMP. The measures will be specifically tailored to the area each individual is involved in and has a level of control over. The KPIs will target areas the Board believes hold greater potential for Group development and shareholder value growth, covering financial and non-financial as well as short and long-term goals. The level set for each financial KPI will be based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs will be assessed annually, with bonuses awarded depending on the number and deemed difficulty of the KPIs achieved. (No bonuses have been paid for the year ended 30 June 2013). Following the assessment, the KPIs will be reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following financial year.

In determining whether or not a financial KPI has been achieved, Malabar Coal Limited will base the assessment on audited figures.

**Relationship between Remuneration Policy and Company Performance**

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on KPIs (not paid in the year ended 30 June 2013), and the second being the issue of options to directors and executives to encourage the alignment of personal and shareholder interests. The issue of options have been on the appointment as director (Tony Galligan), on appointment as Chief Executive Officer ('CEO') (Peter Doyle) and on offer of employment (Graeme Booth and Bill Dean).

The performance related proportions of remuneration based on these targets are included in the table below. The objective of the reward schemes is to both reinforce the short and long term goals of the Group and provide a common interest between management and shareholders.

The satisfaction of financial performance conditions is based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

**Employment Details of Members of Key Management Personnel**

The following table provides employment details of persons who were, during the financial year, members of KMP of the Group. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

	Position Held as at 30 June 2013 and any Change during the Year	Proportions of Elements of Remuneration Related to Performance			Proportions of Elements of Remuneration Not Related to Performance	
		Non-salary Cash-based Incentives %	Shares/ Units %	Options/ Rights %	Fixed Salary/ Fees %	Total %
<b>Group KMP</b>						
Peter Doyle	CEO	-	-	7	93	100
Graeme Booth	CFO	-	-	5	95	100
Bill Dean	Engineering Manager	-	-	1	99	100
Ian Morgan	Company Secretary	-	-	-	100	100

**MALABAR COAL LIMITED  
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**REMUNERATION REPORT (AUDITED) (continued)**

The employment terms and conditions of KMP are formalised in contracts of employment in the case of Peter Doyle, Graeme Booth and Bill Dean. In the case of Ian Morgan, the Company and IHM Corporate Services Pty Ltd ("IHM") entered into a letter agreement on 2 November 2012 under which IHM agrees to provide certain company secretarial services. IHM is owned and controlled by Ian Morgan.

Key terms of the contracts and agreements are as follows:

<b>Group KMP</b>	<b>Contract Duration</b>	<b>Notice Period</b>	<b>Termination Payments</b>
Peter Doyle <sup>1</sup>	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Peter Doyle or Malabar to give 3 months	Malabar may make a payment in lieu. On retrenchment 3 weeks salary will be paid for every completed year of service, with no limiting cap. Issue of shares connected to employee options in accordance with the employee share option plan.
Graeme Booth	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Graeme Booth or Malabar to give 3 months	Malabar may make a payment in lieu. On retrenchment 3 weeks salary will be paid for every completed year of service, with no limiting cap. Issue of shares connected to employee options in accordance with the employee share option plan.
Bill Dean	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Bill Dean or Malabar to give 1 month	Issue of shares connected to employee options in accordance with the employee share option plan.
Ian Morgan	Employment will continue until terminated by notice in accordance with the provisions of the agreement	IHM or Malabar to give 1 month	None

Note 1 : Peter Doyle has an additional long term incentive specified in his letter of employment. A cash payment of \$1,000,000 will be paid to Peter Doyle by the Company when the Spur Hill project is granted a Mining Lease allowing a decision to construct a mine to proceed. Refer to Note 27.

**Changes in Directors and Executives Subsequent to Year-end**

There have been no changes in directors or executives subsequent to year end.



**MALABAR COAL LIMITED  
AND CONTROLLED ENTITIES  
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**REMUNERATION REPORT (AUDITED) (continued)**

**Remuneration Details for the Year Ended 30 June 2013**

The following table of benefits and payments details, in respect to the financial year, the components of remuneration for each director and member of KMP of the Group:

**Table of Benefits and Payments for the Year Ended 30 June 2013**

		Commence- ment Date	Financial Year	Salary and Directors Fees <sup>1</sup>	Cash Bonus <sup>2</sup>	Consult- ancy Fees <sup>3</sup>	Post- employ- ment Benefits Super <sup>4</sup>	Share Based Payments Options <sup>5</sup>	Total
				\$	\$	\$	\$	\$	\$
<b>Directors</b>									
<b>Wayne Seabrook</b>		24/06/2011	2013	17,500	-	42,500	-	-	60,000
Non-Executive Chairman			2012	-	-	-	-	-	-
<b>Hans Mende</b>		22/03/2012	2013	12,500	-	-	-	-	12,500
Non-Executive director			2012	-	-	-	-	-	-
<b>Andy Plummer</b>		23/11/2012	2013	13,750	-	-	-	-	13,750
Non-Executive director			2012	-	-	-	-	-	-
<b>Simon Keyser</b>		24/06/2011	2013	14,063	-	-	-	-	14,063
Non-Executive director			2012	-	-	-	-	-	-
<b>Tony Galligan</b>		23/01/2013	2013	12,615	-	-	1,135	15,667	29,417
Non-Executive director			2012	-	-	-	-	-	-
<b>Aldo Dal Pazzo</b> <sup>6</sup>		2/10/2012	2013	-	-	-	-	-	-
Alternate to Simon Keyser			2012	-	-	-	-	-	-
<b>Brian Beem</b> <sup>6</sup>		2/05/2012	2013	-	-	-	-	-	-
Alternate to Hans Mende			2012	-	-	-	-	-	-
<b>Other KMP</b>									
<b>Peter Doyle</b> <sup>8</sup>		28/03/13	2013	253,754	-	-	16,246	19,583	289,583
CEO <sup>7</sup>			2012	95,705	-	-	9,900	-	105,605
<b>Graeme Booth</b> <sup>8</sup>		7/05/2013	2013	39,023	-	-	3,382	2,056	44,461
CFO			2012	-	-	-	-	-	-
<b>Bill Dean</b> <sup>8</sup>		19/03/2013	2013	35,780	-	-	3,220	514	39,514
Engineering Manager			2012	-	-	-	-	-	-
<b>Ian Morgan</b>		8/11/2012	2013	-	-	56,052	-	-	56,052
Company Secretary			2012	-	-	-	-	-	-
<b>Total KMP</b>			<b>2013</b>	<b>398,985</b>	-	<b>98,552</b>	<b>23,983</b>	<b>37,820</b>	<b>559,340</b>
			2012	95,705	-	-	9,900	-	105,605

Note 1: Salary and directors' fees may be delivered as a combination of cash and prescribed non financial benefits at the executives discretion. Directors and executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pays are reviewed annually to ensure the rate is competitive with the market. Some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation which is included here.

**MALABAR COAL LIMITED  
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**REMUNERATION REPORT (AUDITED) (continued)**

- Note 2: A portion of the KMP pay is by way of an at risk bonus. This is subject to satisfactory completion of set KPI's and payable at the discretion of the Board.
- Note 3: Wayne Seabrook: The Company has entered into an appointment letter with the Chairman which includes a consultancy arrangement whereby he (or his associated entity) will be paid a consulting fee of \$2,500 per day for any work done for the Company which is not related to his work as Chairman. Consulting fees have only been paid for work done after the IPO of the Company.  
Ian Morgan: The Company has entered into a letter agreement with IHM Corporate Services Pty Ltd ("IHM") under which IHM agrees to provide certain company secretarial services. IHM is owned and controlled by Ian Morgan.
- Note 4: Post employment benefits is statutory superannuation and is calculated as 9% of the base pay. Wayne Seabrook, Andy Plummer and Simon Keyser superannuation components are included in the directors' fees and are paid on receipt of invoice by Malabar Coal Limited. Hans Mende is not eligible for superannuation guarantee being a non resident. There are no other retirement benefits paid by Malabar Coal Limited.
- Note 5: Option values have been determined using the Black-Scholes and Binomial model methods.
- Note 6: Brian Beem and Aldo Dal Pozzo resigned on 23 January 2013.
- Note 7: Peter Doyle was appointed CEO of Malabar Coal Limited and Project Director of Spur Hill Management Pty Ltd with effect from 28 March 2013. Prior to that date Peter was Project Director of Spur Hill Management Pty Ltd, having being appointed to that position on 23 January 2012.
- Note 8: Amounts disclosed for these KMP represent the total contracted amount. However, the actual expense to the Group is based on their proportional interest in the Joint Venture.

**Securities Received that are not Performance Related**

No members of KMP are entitled to receive securities which are not performance-based as part of their remuneration package.

**Share-Based Payments**

The terms and conditions relating to the options are detailed in Note 22. Movements during the year are as follows:

	Position	Balance at Beginning of Year	Issued During the Year	Balance at End of Year
Tony Galligan <sup>1</sup>	Non-Executive Director	-	200,000	200,000
Peter Doyle <sup>2</sup>	CEO	-	250,000	250,000
Graeme Booth <sup>3</sup>	CFO	-	500,000	500,000
Bill Dean <sup>4</sup>	Engineering Manager	-	125,000	125,000
<b>Total</b>		-	<b>1,075,000</b>	<b>1,075,000</b>

Note 1: Option issue as per letter of appointment as non-executive director of Malabar (subject to the terms of the ESOP)

Note 2: Option issue as per letter of appointment as CEO of Malabar (subject to the terms of the ESOP)

Note 3: Option issue as per letter of offer for employment as CFO of Malabar (subject to the terms of the ESOP)

Note 4: Option issue as per letter of offer for employment as engineering manager of Spur Hill (subject to the terms of the ESOP)

There have not been any alterations to the terms or conditions of any grants since grant date.

This Director's Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



-----  
**Wayne Seabrook**  
**Director**

Dated: 27 September 2013

**MALABAR COAL LIMITED  
AND CONTROLLED ENTITIES  
ABN 29 151 691 468**

**Competent Person's Statement**

The information in this Report that relates to Exploration Results and Mineral Resources relating to EL 7429 is based on information compiled by Darryl Stevenson, who is a member of The Australasian Institute of Mining and Metallurgy. Darryl Stevenson is employed by and is a Managing Director/Principal Geologist, at Geological and Mining Services Australia Pty Ltd.

Darryl Stevenson has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity to 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'. Darryl Stevenson has consented in writing to the inclusion in this Report of the matters based on his information in the form and context in which it appears.

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2013 there have been:

1. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

**Lawler Hacketts Audit**



**Liam Murphy**  
**Partner**

Brisbane, 27 September 2013

**MALABAR COAL LIMITED  
AND CONTROLLED ENTITIES  
ABN 29 151 691 468**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2013**

	Note	30 June 2013	30 June 2012
		\$	\$
<b>Revenue from continuing operations</b>			
Interest income		442,895	370,915
Agistment income		51,808	-
Total income		<u>494,703</u>	<u>370,915</u>
<b>Expenses</b>			
Share-based payments – management fee prior to IPO		319,803	332,569
Share-based payments – employee share options		37,820	-
Legal and professional fees		193,266	218,173
Consultants		123,114	36,551
Finance costs		269,592	-
Employee benefits expense		38,443	-
Directors fees		70,427	-
Other expenses		137,328	39,095
Total expenses		<u>1,189,793</u>	<u>626,388</u>
Profit (loss) before income tax		(695,090)	(255,473)
Income tax expense	4	-	-
<b>Profit (loss) for the period</b>		<u>(695,090)</u>	<u>(255,473)</u>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the period</b>		<u>(695,090)</u>	<u>(255,473)</u>
Profit (loss) attributable to:			
- Members of the parent entity		(639,972)	(255,473)
- Non-controlling interest		(55,118)	-
		<u>(695,090)</u>	<u>(255,473)</u>
Total comprehensive income attributable to:			
- Members of the parent entity		(639,972)	(255,473)
- Non-controlling interest		(55,118)	-
		<u>(695,090)</u>	<u>(255,473)</u>
<b>Earnings per share</b>			
From continuing operations:			
- basic earnings per share (cents)	16	(1.23)	(1.51)
- diluted earnings per share (cents)	16	(1.23)	(1.51)

The accompanying notes form part of these financial statements.

**MALABAR COAL LIMITED  
AND CONTROLLED ENTITIES  
ABN 29 151 691 468**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2013**

	Note	30 June 2013 \$	30 June 2012 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	17,831,143	22,425,110
Trade and other receivables	8	187,990	99,383
Other assets	9	2,873,473	708,524
Total Current Assets		<u>20,892,606</u>	<u>23,233,017</u>
<b>Non-Current Assets</b>			
Property, plant and equipment	10	12,226,777	1,082
Capitalised exploration and evaluation costs	12	31,845,354	13,580,269
Deferred tax assets		-	330,000
Intangible assets	11	2,550,000	-
Other assets	9	19,397	11,271
Total Non-Current Assets		<u>46,641,528</u>	<u>13,922,622</u>
<b>Total Assets</b>		<u><u>67,534,134</u></u>	<u><u>37,155,639</u></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	13	535,541	265,554
Total Current Liabilities		<u>535,541</u>	<u>265,554</u>
<b>Non-Current Liabilities</b>			
Trade and other payables	13	10,118,713	582,945
Borrowings	14	3,475,000	-
Total Non-Current Liabilities		<u>13,593,713</u>	<u>582,945</u>
<b>Total Liabilities</b>		<u><u>14,129,254</u></u>	<u><u>848,499</u></u>
<b>Net Assets</b>		<u><u>53,404,880</u></u>	<u><u>36,307,140</u></u>
<b>EQUITY</b>			
Share capital	17	54,317,581	36,230,002
Reserves	18	37,820	332,569
Retained earnings (accumulated losses)		(895,445)	(255,473)
Parent interest		53,459,956	36,307,098
Non-controlling interest		(55,076)	42
<b>Total Equity</b>		<u><u>53,404,880</u></u>	<u><u>36,307,140</u></u>

The accompanying notes form part of these financial statements.

**MALABAR COAL LIMITED  
AND CONTROLLED ENTITIES  
ABN 29 151 691 468**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2013**

	Ordinary Share Capital \$	Reserves \$	Retained Earnings (Accumulated Losses) \$	Parent Interest \$	Non- controlling Interest \$	Total \$
Balance as at 24 June 2011	-	-	-	-	-	-
Total comprehensive income for the period	-	-	(255,473)	(255,473)	-	(255,473)
<b>Transactions with owners in their capacity as owners:</b>						
Share contributions, net of transaction costs	36,230,002	-	-	36,230,002	-	36,230,002
Share-based payments – management fee prior to IPO	-	332,569	-	332,569	-	332,569
Non-controlling interest portion from acquisitions	-	-	-	-	42	42
<b>Balance at 30 June 2012</b>	<b>36,230,002</b>	<b>332,569</b>	<b>(255,473)</b>	<b>36,307,098</b>	<b>42</b>	<b>36,307,140</b>

	Ordinary Share Capital \$	Reserves \$	Retained Earnings (Accumulated Losses) \$	Parent Interest \$	Non- controlling Interest \$	Total \$
Balance as at 1 July 2012	36,230,002	332,569	(255,473)	36,307,098	42	36,307,140
Total comprehensive income for the period	-	-	(639,972)	(639,972)	(55,118)	(695,090)
<b>Transactions with owners in their capacity as owners:</b>						
Share contributions, net of transaction costs	18,087,579	-	-	18,087,579	-	18,087,579
Share-based payments – management fee prior to IPO	-	(332,569)	-	(332,569)	-	(332,569)
Share-based payments – employee share options	-	37,820	-	37,820	-	37,820
Non-controlling interest portion from acquisitions	-	-	-	-	-	-
<b>Balance at 30 June 2013</b>	<b>54,317,581</b>	<b>37,820</b>	<b>(895,445)</b>	<b>53,459,956</b>	<b>(55,076)</b>	<b>53,404,880</b>

The accompanying notes form part of these financial statements.

**MALABAR COAL LIMITED  
AND CONTROLLED ENTITIES  
ABN 29 151 691 468**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2013**

	Note	30 June 2013 \$ Inflows / (Outflows)	30 June 2012 \$ Inflows / (Outflows)
<b>Cash flows from operating activities</b>			
Receipts from customers		51,808	-
Payment to suppliers and employees		(914,397)	(147,442)
Interest received		442,894	370,915
Finance costs		(281,931)	-
<b>Net cash (used in)/provided by operating activities</b>	21	(701,626)	223,473
<b>Cash flows from investing activities</b>			
Payments for additions of property, plant and equipment		(11,586,059)	(1,082)
Payments for additions of intangible assets		(2,550,000)	-
Payments for deposit of land purchase		(2,243,577)	(700,000)
Payments for exploration expenditure		(8,736,099)	(2,997,324)
Payments for options of land purchase		(420,001)	-
Payments for acquisition of SH No. 2 Pty Ltd		-	(10,000,000)
<b>Net cash (used in)/provided by investing activities</b>		(25,535,736)	(13,698,406)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		3,475,000	-
Proceeds from share issue		19,020,780	35,900,043
Capital raising costs paid		(852,385)	-
<b>Net cash (used in)/provided by financing activities</b>		21,643,395	35,900,043
Net increase (decrease) in cash held		(4,593,967)	22,425,110
Cash and cash equivalents at beginning of financial period		22,425,110	-
<b>Cash and cash equivalents at the end of financial period</b>	7	17,831,143	22,425,110

The accompanying notes form part of these financial statements.



**MALABAR COAL LIMITED AND CONTROLLED ENTITIES**  
**ABN 29 151 691 468**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2013**

These consolidated financial statements and notes represent those of Malabar Coal Limited (the “Company”) and its controlled entities (the “Group”).

The separate financial statements of the parent entity, Malabar Coal Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 27 September 2013 by the directors of the company.

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

**Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**a. Principles of Consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Malabar Coal Limited at the end of the reporting period. A controlled entity is any entity over which Malabar Coal Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity’s activities.

Where controlled entities have entered or left the Group during the period, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 19 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

**MALABAR COAL LIMITED AND CONTROLLED ENTITIES**  
**ABN 29 151 691 468**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b. Business Combinations**

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

**c. Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur

**MALABAR COAL LIMITED AND CONTROLLED ENTITIES**  
**ABN 29 151 691 468**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c. Income Tax (continued)**

in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**d. Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

**Plant and Equipment**

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(i) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis or on a diminishing value basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Buildings and improvements	2.5% - 5%
Plant and equipment	10% - 40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e. Exploration and Development Expenditure**

Expenditure is accumulated separately for each area of interest until such time as the area is abandoned or sold. The realisation of the value of the expenditure carried forward depends on any commercial results that may be obtained through successful development and exploitation of the area of interest or alternatively by its sale. If an area of interest is abandoned or is considered to be of no further commercial interest the accumulated exploration costs relating to the area are written off against income in the year of abandonment. Some exploration expenditure may also be written off where areas of interest are partly relinquished. In cases where uncertainty exists as to the value, provisions for possible diminution in value are established.

Exploration licences are recognised in accordance with AASB 3: Business Combinations. Additions to Exploration licences are recognised as the fair value of licences acquired at the time of each increase in the Group's participant interest in the Spur Hill project.

**f. Leases**

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset – but not the legal ownership – are transferred to entities in the Group, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

**g. Intangible assets other than Goodwill**

Water allocation licences are recognised at cost of acquisition. They have an indefinite useful life and are carried at cost less any accumulated impairment losses. Water allocation licences are assessed for impairment annually.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h. Financial Instruments**

**Recognition and initial measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

**Classification and subsequent measurement**

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

*Amortised cost* is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

*Fair value* is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

*(i) Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h. Financial Instruments (continued)**

*(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

*(iv) Available-for-sale investments*

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

*(v) Financial liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

**Preferred shares**

Preferred share capital is classified as equity if it is non-redeemable or redeemable only at the discretion of the parent company, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon declaration by the directors.

Preferred share capital is classified as a liability if it is redeemable on a set date or at the option of the shareholders, or where the dividends are mandatory. Dividends thereon are recognised as interest expense in profit or loss.

**Impairment**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment (continued)**

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

**Derecognition**

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**i. Impairment of Assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j. Interests in Joint Ventures**

The Group's shares of the assets, liabilities, revenue and expenses of jointly controlled operations have been included in the appropriate line items of the consolidated financial statements. Details of the Group's interests are provided in Note 20.

The Group's interests in joint venture entities are recorded using the equity method of accounting in the consolidated financial statements.

Where the Group contributes assets to the joint venture or if the Group purchases assets from the joint venture, only the portion of the gain or loss that is not attributable to the Group's share of the joint venture shall be recognised. The Group recognises the full amount of any loss when the contribution results in a reduction in the net realisable value of current assets or an impairment loss.

**k. Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

**Equity-settled compensation**

The Group operates an employee share and option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share based payment reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

**l. Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**m. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.



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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**n. Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Interest revenue is recognised using the effective interest rate method.

All revenue is stated net of the amount of goods and services tax (GST).

**o. Trade and Other Receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(i) for further discussion on the determination of impairment losses.

**p. Trade and Other Payables**

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

**q. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

**r. Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**s. Critical Accounting Estimates and Judgements**

The preparation of the financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates and judgements. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These estimates and associated assumptions are based on historic experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgement about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed and evaluated on an ongoing basis.

**Key estimates**

*(i) Impairment - general*

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

No impairment has been recognised in respect of assets at the end of the reporting period.

*(ii) Impairment – carbon price*

In November 2011, the Federal Parliament passed the Clean Energy Act 2011 ('Carbon Tax legislation'), which implements a carbon pricing mechanism from 1 July 2012. Under the mechanism, entities that produce over the threshold level of carbon emissions will be required to purchase permits to offset their carbon emissions.

The Group is not directly impacted by the carbon pricing mechanism because it does not control facilities that produce emissions greater than the threshold level. However, the Group may potentially be indirectly impacted by the mechanism through increases in the prices it pays for energy and materials purchased from suppliers that are impacted by the introduction of the mechanism. The Group also anticipates that it may experience an increase in expenditures related to waste disposal under the carbon pricing mechanism, although any future increases in such costs are likely to be less significant than the anticipated increases in energy and material costs.

The new Coalition government elected at the 7 September 2013 election has a clear stated objective to repeal the Carbon Tax legislation. As such the management of the Group do not believe it is appropriate at this point to consider the Carbon Tax legislation as an impairment indicator.

**Key judgements**

*(i) Exploration and evaluation expenditure*

The Group has recognised exploration and evaluation expenditure of \$31,845,354. Exploration and evaluation costs are capitalised in accordance with the accounting policy set out in Note 1(e). Given exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable resources and the difficulty in forecasting cash flows to assess the fair value of exploration and evaluation expenditure there is uncertainty as to the carrying value of exploration and evaluation expenditure. The ultimate recovery of the carrying value of exploration and evaluation expenditure is dependent upon the successful development and commercial exploitation or, alternatively, sale of the interest in the tenement. The Directors are of the opinion that the exploration and evaluation expenditure is recoverable for the amount stated in the financial report.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**t. Adoption of New Accounting Standards**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has elected to early adopt the new AASB 11: Joint Arrangements.

**Joint Arrangement**

On 8 July 2011, the group entered into an 'Acquisition and Exploration Farm-in Agreement for the Spur Hill Project' and an 'Amended and Restated Joint Venture Agreement' with Spur Hill U.T. Pty Ltd (SHUT). Under the AASB 11, the joint arrangement between the Group and SHUT is classified as Joint Operation. The proportionate interests in assets, liabilities and expenses of the joint venture activity for the period ended 30 June 2013 have been incorporated in the financial statements under the appropriate headings. Details of the Joint Operation are set out in Note 20.

**u. New Accounting Standards for Application in Future Periods**

In addition to AASB 11: Joint Arrangements, the AASB has issued the following new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided not to early adopt any of the following new and amended pronouncements.

- AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).
- AASB 10: Consolidated Financial Statements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011) and AASB 128: Investments in Associates and Joint Ventures (August 2011) (as amended by AASB 2012–10: Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments), and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (applicable for annual reporting periods commencing on or after 1 January 2013).
- AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).
- AASB 2011–4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (applicable for annual reporting periods beginning on or after 1 July 2013).
- AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) (applicable for annual reporting periods commencing on or after 1 January 2013).
- AASB 2012–2: Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2013).
- AASB 2012–3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2014).
- AASB 2012–5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 (applicable for annual reporting periods commencing on or after 1 January 2013).

The directors anticipate the adoption of these standards will have no material financial impact on the financial statements of the Group.

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**NOTE 2: PARENT ENTITY INFORMATION**

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	30 June 2013	30 June 2012
	\$	\$
<b>STATEMENT OF FINANCIAL POSITION</b>		
<b>ASSETS</b>		
Current assets	17,926,250	22,471,458
Non-current assets	35,926,025	13,976,298
<b>TOTAL ASSETS</b>	<u>53,852,275</u>	<u>36,447,756</u>
<b>LIABILITIES</b>		
Current liabilities	146,860	115,214
Non-current liabilities	-	-
<b>TOTAL LIABILITIES</b>	<u>146,860</u>	<u>115,214</u>
<b>EQUITY</b>		
Issued capital	54,317,581	36,230,002
Reserve	37,820	332,569
Retained earnings/(accumulated losses)	(649,986)	(230,029)
<b>TOTAL EQUITY</b>	<u>53,705,415</u>	<u>36,332,542</u>

**STATEMENT OF COMPREHENSIVE INCOME**

Total profit/(loss)	(419,957)	(230,029)
<b>Total comprehensive income</b>	<u>(419,957)</u>	<u>(230,029)</u>

**Guarantees**

During the period, Malabar Coal Limited entered into a guarantee in relation to the debts of one of its subsidiaries. The Company guaranteed the NAB bill facility extended to Spur Hill Agricultural. Refer to Note 14: Borrowings.

**Contingent liabilities**

Malabar Coal Limited has certain contingent liabilities as at 30 June 2013. Refer to Note 27.

**Contractual commitments**

Malabar Coal Limited has entered into certain contractual commitments for the acquisition of property, plant and equipment as at 30 June 2013. Refer to Notes 26 and 28.

**NOTE 3: LOSS FOR THE YEAR**

	30 June 2013	30 June 2012
	\$	\$
Profit before income tax from continuing operations includes the following specific expenses:		
Share based payments – management fee prior to IPO	319,803	332,569
Share based payments – employee share options	37,820	-
Interest expense	132,022	-
Depreciation expense	11,027	-

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4: INCOME TAX**

	30 June 2013	30 June 2012
	\$	\$
<b>(a) Numerical reconciliation of income tax expense / (income) to prima facie tax payable:</b>		
Total profit/(loss) before income tax	<u>(695,090)</u>	<u>(255,473)</u>
Tax at the Australian tax rate of 30% (2012 - 30%)	(208,527)	(76,642)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	11,346	-
Stamp duty	-	7,629
	<u>(197,181)</u>	<u>(69,013)</u>
Net adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised	197,181	69,013
	<u>-</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>
<b>(b) The components of income tax expense</b>		
Current tax	-	-
Deferred tax	-	-
Adjustments for current tax of prior periods	-	-
	<u>-</u>	<u>-</u>
Total income tax expense	<u>-</u>	<u>-</u>
<b>(c) Deferred Tax Liabilities</b>		
<b>The balance comprises temporary differences attributable to:</b>		
Exploration expenditure	1,382,237	387,902
Interest receivable	10,184	-
	<u>1,392,421</u>	<u>387,902</u>
Total deferred tax liabilities	<u>1,392,421</u>	<u>387,902</u>
Set-off of deferred tax liabilities pursuant to set-off provisions	(1,357,527)	(353,006)
Net adjustments to deferred tax liability not recognised	(34,894)	(34,896)
	<u>-</u>	<u>-</u>
Net deferred tax liabilities	<u>-</u>	<u>-</u>
<b>(d) Deferred tax assets:</b>		
<b>The balance comprises temporary differences attributable to:</b>		
Tax losses	1,837,350	430,893
Accruals	-	-
Business capital costs	777,192	330,000
	<u>2,614,542</u>	<u>760,893</u>
Total deferred tax assets	<u>2,614,542</u>	<u>760,893</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4: INCOME TAX (continued)**

	<b>30 June 2013</b>	<b>30 June 2012</b>
	<b>\$</b>	<b>\$</b>
Set-off of deferred tax assets pursuant to set-off provisions	(1,357,527)	(353,006)
Net adjustment to deferred tax assets for tax losses not recognised	(1,257,015)	(77,887)
Net deferred tax assets	-	330,000
 <b>(e) Tax losses:</b>		
Unused tax losses for which no deferred tax asset has been recognised	4,190,050	259,623
Potential tax effect at 30%	1,257,015	77,887

Unused losses which have not been recognised as an asset, will only be obtained if:

- (i) the economic entity derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;
- (ii) the economic entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the economic entity in realising the losses.

**NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION**

Management has identified the following personnel as the Key Management Personnel (KMP) of the Company and the Group during the period:

**Directors**

- Wayne Seabrook, Non-Executive Chairman
- Hans Mende, Non-Executive Director
- Andy Plummer, Non-Executive Director
- Simon Keyser, Non-Executive Director
- Tony Galligan, Non-Executive Director (appointed 23 January 2013)
- Aldo Dal Pozzo, Alternate Director to Simon Keyser (resigned 23 January 2013)
- Brian Beem, Alternate Director to Hans Mende (resigned 23 January 2013)

**Other KMP**

- Peter Doyle, Chief Executive Officer (appointed 28 March 2013)
- Graeme Booth, Chief Financial Officer (appointed 7 May 2013)
- Bill Dean, Engineering Manager (appointed 19 March 2013)
- Ian Morgan, Company Secretary (appointed 8 November 2012)

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2013.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (continued)**

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

	30 June 2013	30 June 2012
	\$	\$
Short-term employee benefits	497,537	95,705
Post-employment benefits	23,983	9,900
Other long-term benefits	-	-
Share-based payments – employee share options	37,820	-
<b>Total KMP compensation</b>	<b>559,340</b>	<b>105,605</b>

**KMP Options and Rights Holdings**

The number of options over ordinary shares held by each KMP of the Group during the financial year is as follows:

	Balance at Beginning of Year	Granted during the Year	Exercised during the Year	Other Changes during the Year	Balance at End of Year	Vested during the Year	Vested and Exercisable	Vested and Unexer- cisable
<b>30 June 2013</b>								
<b>Directors</b>								
T Galligan	-	200,000	-	-	200,000	-	-	-
<b>Other KMP</b>								
P Doyle	-	250,000	-	-	250,000	-	-	-
G Booth	-	500,000	-	-	500,000	-	-	-
B Dean	-	125,000	-	-	125,000	-	-	-

There were no options over ordinary shares held by KMP during the period ended 30 June 2012.

**KMP Shareholdings**

The number of ordinary shares in Malabar Coal Limited held by each KMP of the Group during the financial year is as follows:

	Balance at Beginning of Period	Granted as Remuneration during the Year	Issued on Exercise of Options during the Year	Other Changes during the Year	Balance at End of Year
<b>30 June 2013</b>					
<b>Directors</b>					
W R Seabrook*	1,000,000	-	-	1,844,948	2,844,948
H J Mende	2,787,500	-	-	7,072,289	9,859,789
A Plummer	2,000,000	-	-	4,374,684	6,374,684
S J Keyser*	1,000,000	-	-	1,802,448	2,802,448
T Galligan	-	-	-	-	-
A Dal Pozzo (resigned)	100,000	-	-	155,967	255,967
B Beem (resigned)	50,000	-	-	51,521	101,521
<b>Other KMP</b>					
P Doyle	-	-	-	120,000	120,000
G Booth	-	-	-	50,000	50,000
B Dean	-	-	-	-	-
I Morgan	-	-	-	-	-

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**NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (continued)**

	Balance at Beginning of Period	Granted as Remuneration during the Period	Issued on Exercise of Options during the Period	Other Changes during the Period	Balance at End of Period
<b>30 June 2012</b>					
<b>Directors</b>					
W R Seabrook*	-	-	-	1,000,000	1,000,000
H J Mende	-	-	-	2,787,500	2,787,500
A Plummer	-	-	-	2,000,000	2,000,000
S J Keyser*	-	-	-	1,000,000	1,000,000
A Dal Pozzo	-	-	-	100,000	100,000
B D Beem	-	-	-	50,000	50,000
<b>Other KMP</b>					
P Doyle	-	-	-	-	-

\* Simon Keyser and Wayne Seabrook are shareholders of Ironstone Capital. As at 30 June 2013, Ironstone Capital owned 5,483,590 ordinary shares (2012: 1,182,569 shares).

The number of convertible preference shares in Malabar Coal Limited held by each KMP of the Group during the financial year is as follows:

	Balance at Beginning of Year	Granted as Remuneration during the Year	Issued on Exercise of Options during the Year	Other Changes during the Year	Balance at End of Year
<b>30 June 2013</b>					
<b>Directors</b>					
W R Seabrook	197,500	-	-	(197,500)	-
H J Mende	2,000,000	-	-	(2,000,000)	-
A Plummer	1,000,000	-	-	(1,000,000)	-
S J Keyser	197,500	-	-	(197,500)	-
A Dal Pozzo (resigned)	50,000	-	-	(50,000)	-
<b>Other KMP</b>					
P Doyle	100,000	-	-	(100,000)	-

	Balance at Beginning of Period	Granted as Remuneration during the Period	Issued on Exercise of Options during the Period	Other Changes during the Period	Balance at End of Period
<b>30 June 2012</b>					
<b>Directors</b>					
W R Seabrook	-	-	-	197,500	197,500
H J Mende	-	-	-	2,000,000	2,000,000
A Plummer	-	-	-	1,000,000	1,000,000
S J Keyser	-	-	-	197,500	197,500
A Dal Pozzo	-	-	-	50,000	50,000
B D Beem	-	-	-	-	-
<b>Other KMP</b>					
P Doyle	-	-	-	100,000	100,000



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**NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (continued)**

**Other KMP Transactions**

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP, refer to Note 24: Related Party Transactions.

**NOTE 6: AUDITORS' REMUNERATION**

	30 June 2013	30 June 2012
	\$	\$
Remuneration of the auditor for:		
– Audit and review of the financial statements	61,500	15,000
– Taxation compliance services	7,965	5,000
– Investigating accountant's services	67,500	17,500
– Review of regulatory returns	1,500	-

**NOTE 7: CASH AND CASH EQUIVALENTS**

Cash at bank and on hand	7,930,631	18,425,110
Short-term bank deposits	9,900,512	4,000,000
	<u>17,831,143</u>	<u>22,425,110</u>

The effective interest rate on short-term bank deposits was 4.04% (2012: 5.125%); these deposits have an average maturity of 66 days.

**Reconciliation of cash**

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash and cash equivalents	17,831,143	22,425,110
Bank overdrafts	-	-
	<u>17,831,143</u>	<u>22,425,110</u>

**NOTE 8: TRADE AND OTHER RECEIVABLES**

**CURRENT:**

Trade receivables	53,720	-
Other receivables	134,270	99,383
	<u>187,990</u>	<u>99,383</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 9: OTHER ASSETS**

	<b>30 June 2013</b>	<b>30 June 2012</b>
	<b>\$</b>	<b>\$</b>
CURRENT:		
Prepayment on purchase of land	1,936,888	700,000
Call options acquired	468,075	-
Stamp duty prepaid	397,187	-
Other assets	71,323	8,524
	<u>2,873,473</u>	<u>708,524</u>
NON-CURRENT:		
Other assets	19,397	11,271
	<u>19,397</u>	<u>11,271</u>

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**NOTE 10: PROPERTY, PLANT AND EQUIPMENT**

	30 June 2013	30 June 2012
	\$	\$
Land - at cost	11,869,832	-
Total land	<u>11,869,832</u>	<u>-</u>
Buildings - at cost	317,286	-
Less: accumulated depreciation	(11,027)	-
Total buildings	<u>306,259</u>	<u>-</u>
Total land and buildings	<u>12,176,091</u>	<u>-</u>
Plant and Equipment	58,664	1,283
Less: accumulated depreciation	(7,978)	(201)
	<u>50,686</u>	<u>1,082</u>
Total property, plant and equipment	<u><u>12,226,777</u></u>	<u><u>1,082</u></u>

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 year:

	Freehold Land	Buildings	Plant and Equipment	Total
	\$	\$	\$	\$
<b>Consolidated Group:</b>				
Balance at 24 June 2011	-	-	-	-
Additions	-	-	1,283	1,283
Disposals	-	-	-	-
Depreciation expense	-	-	(201)	(201)
Balance at 30 June 2012	<u>-</u>	<u>-</u>	<u>1,082</u>	<u>1,082</u>
Additions	11,869,832	317,286	57,582	12,244,700
Disposals	-	-	-	-
Depreciation expense	-	(11,027)	(7,978)	(19,005)
Balance at 30 June 2013	<u><u>11,869,832</u></u>	<u><u>306,259</u></u>	<u><u>50,686</u></u>	<u><u>12,226,777</u></u>

**MALABAR COAL LIMITED AND CONTROLLED ENTITIES**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 11: INTANGIBLE ASSETS**

	30 June 2013	30 June 2012
	\$	\$
NON-CURRENT:		
Water allocation licences	2,550,000	-
	<u>2,550,000</u>	<u>-</u>
Balance at the beginning of the year	-	-
Additions	2,550,000	-
Disposals	-	-
Amortisation charge	-	-
Impairment losses	-	-
Balance at the end of the year	<u>2,550,000</u>	<u>-</u>

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

**NOTE 12: CAPITALISED EXPLORATION AND EVALUATION COSTS**

Capitalised exploration and evaluation cost consist of:

Mining information	751,585	436,711
Exploration licence	27,700,438	12,556,220
Exploration & evaluation expenditures	3,393,331	587,338
	<u>31,845,354</u>	<u>13,580,269</u>

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

Opening balance	13,580,269	-
Mining information – increase in participants interest	314,874	436,711
Exploration licence - Increase in participants interest and revaluation of licence	15,144,218	12,382,530
Expenditures incurred during the period	2,805,993	587,306
	<u>31,845,354</u>	<u>13,580,269</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13: TRADE AND OTHER PAYABLES**

	30 June 2013	30 June 2012
	\$	\$
CURRENT:		
Trade creditors	252,966	259,653
Other creditors	282,575	5,901
	<u>535,541</u>	<u>265,554</u>
NON-CURRENT:		
Other creditors	6,823	4,324
Loan payable Spur Hill Agricultural to Spur Hill Joint Venture (1)	10,111,890	578,621
	<u>10,118,713</u>	<u>582,945</u>

(1) As at 30 June 2013, one of the Company's subsidiaries, Spur Hill Agricultural Pty Ltd, had borrowed \$14,412,932 from the Spur Hill Joint Venture to purchase land and options.

The Malabar Group has a 29.84% interest in the Spur Hill Joint Venture with the right to acquire up to 80% interest. The remaining 70.16% interest in the Spur Hill Joint Venture is held by a third party external to the Group, Spur Hill Unit Trust. In accordance with AASB 11: Joint Arrangements, the Group has incorporated the Joint Venture's assets and liabilities in proportion to its ownership interest in the Joint Venture. The loan payable disclosed above represents the loan payable by Spur Hill Agricultural to the Spur Hill Joint Venture after elimination on consolidation of the portion of the loan that relates to Malabar Group's 29.84% interest in the Joint Venture.

**NOTE 14: BORROWINGS**

	30 June 2013	30 June 2012
	\$	\$
NON-CURRENT:		
Revolving bill facility	3,475,000	-
	<u>3,475,000</u>	<u>-</u>

On 19 September 2012, \$3,475,000 was drawn down from a \$5,350,000 revolving bill facility with the National Australia Bank to fund the land acquisition that was settled on that date. This bill facility has an expiry date of 31 August 2015.

On 6 June 2013 this revolving bill facility was increased to \$6,200,000 to fund land acquisitions that settle in July and August 2013. This bill facility has an expiry date of 31 August 2015. Refer to Note 26: Capital and Leasing Commitments and Note 28: Events after the Reporting Period.

Security on the facility consists of general security agreements, real property mortgages and water allocation licence mortgage over the assets of the subsidiary company Spur Hill Agriculture Pty Ltd. Malabar Coal Limited has guaranteed and indemnified the facility.

**NOTE 15: DIVIDENDS**

No dividend has been paid during the year ended 30 June 2013, and none is proposed.

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**NOTE 16: EARNINGS PER SHARE**

	<b>2013</b>	<b>2012</b>
	<b>Cents</b>	<b>Cents</b>
<b>(a) Basic earnings per share</b>		
From continuing operations attributable to the ordinary equity holders of the company	(1.23)	(1.51)
	(1.23)	(1.51)
Total basic earnings per share attributable to the ordinary equity holders of the company	(1.23)	(1.51)
<b>(b) Diluted earnings per share</b>		
From continuing operations attributable to the ordinary equity holders of the company	(1.23)	(1.51)
	(1.23)	(1.51)
Total diluted earnings per share attributable to the ordinary equity holders of the company	(1.23)	(1.51)
<b>(c) Reconciliation of earnings used in calculating earnings per share</b>		
	<b>\$</b>	<b>\$</b>
<i>Basic earnings per share</i>		
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share	(639,972)	(255,473)
	(639,972)	(255,473)
<i>Diluted earnings per share</i>		
Loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	(639,972)	(255,473)
	(639,972)	(255,473)
<b>(d) Weighted average number of shares used as the denominator</b>		
	<b>#</b>	<b>#</b>
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	52,129,243	16,923,361
Adjustments for calculation of diluted earnings per share:		
- Options	-	-
	-	-
<i>Weighted average number of ordinary shares and potential ordinary share used as the denominator in calculating diluted earnings per share</i>	52,129,243	16,923,361

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**NOTE 17: ISSUED CAPITAL**

	<b>30 June 2013</b>	<b>30 June 2012</b>
	<b>\$</b>	<b>\$</b>
85,000,000 fully paid ordinary shares (2012: 17,850,000)	54,317,581	16,230,002
20,000,000 fully paid converting preference shares	-	20,000,000
	54,317,581	36,230,002

**a. Ordinary Shares**

Ordinary shares participate in dividends and the proceeds on winding-up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Ordinary shares have no par value, and the company does not have a limited amount of authorised share capital.

**Movements in ordinary share capital during the year:**

<b>Date</b>	<b>Details</b>	<b>Note</b>	<b>#</b>	<b>Issue Price</b>	<b>\$</b>
1 July 2012	Opening balance		17,850,000		16,230,002
4 October 2012	Share based payment	(i)	340,000	\$1.00	340,000
23 January 2013	Share based payment	(ii)	192,822	\$1.62	312,372
26 March 2013	Share split	(iii)	22,617,157	-	-
26 March 2013	Conversion of CPS	(iv)	24,000,021	\$0.83	20,000,000
26 March 2013	Shares issued	(v)	20,000,000	\$1.00	20,000,000
	Less: Transaction costs arising on share issue				(2,564,793)
30 June 2013	Closing balance		85,000,000		54,317,581

- (i) On 4 October 2012 the Company issued 340,000 shares to Ironstone Capital Partners Pty Ltd for annual management services provided in accordance with the Shareholders Agreement.
- (ii) On 23 January 2013 the Company issued 192,822 shares to Ironstone Capital Partners Pty Ltd for management services provided in accordance with the Shareholders Agreement for the period 5 October 2012 to 23 January 2013.
- (iii) On 7 February 2013, the holders of shares of Malabar Coal approved the subdivision of all of the issued shares in the company from 18,382,822 shares to 40,999,979 shares, subject to the successful capital raising. As a result, 22,617,157 shares were issued on 26 March 2013.
- (iv) On 2 May 2012, the company issued 20,000,000 converting preference shares at \$1.00 each to sophisticated and/or professional investors. Pursuant to the terms of the CPS, these converted into ordinary shares in the company on the date the company's listing was confirmed by the ASX, by dividing the conversion value of \$1.20 by the final price per share under the offer.
- (v) On 26 March 2013, \$20,000,000 was raised from a fully underwritten initial public offering in Malabar Coal, effectively listing the Group on the Australian Securities Exchange.

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**NOTE 17: ISSUED CAPITAL (continued)**

	30 June 2013	30 June 2012
	\$	\$
<b>b. Converting Preference Shares</b>		
At the beginning of the reporting period	20,000,000	-
Issue of 20,000,000 fully paid converting preference shares	-	20,000,000
Conversion of preference shares to ordinary shares	(20,000,000)	-
At the end of the reporting period	<u>-</u>	<u>20,000,000</u>

On 2 May 2012 the company issued 20,000,000 converting preference shares at \$1 each to the sophisticated investors and/or professional investors.

The converting preference shares did not pay a dividend and were converted to ordinary shares in the company on the date on which the ASX confirmed Company's listing, 26 March 2013. Pursuant to the terms of the CPS, the number of Shares in the Company into which each CPS converted at that time was determined by dividing the conversion value of \$1.20 (being the issue price for each CPS of \$1.00 multiplied by 120%) by the final price per Share under the offer.

**c. Options**

- (i) For information relating to the Malabar Coal Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 22: Share-based Payments.
- (ii) For information relating to share options issued to key management personnel during the financial year, refer to Note 5.

**d. Capital Management**

Management controls the capital of the Group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

**NOTE 18: RESERVES**

	30 June 2013	30 June 2012
	\$	\$
<i>Share based payments reserve</i>		
Balance at 1 July	332,569	-
Share-based payments – employee share options	37,820	-
Share-based payments – management fee prior to IPO	-	332,569
Transfer to Share Capital upon issue of shares	(332,569)	-
Balance at 30 June	<u>37,820</u>	<u>332,569</u>

The share based payments reserve is used to recognise:

- The grant date fair value of options issued to employees and contractors but not exercised.
- Share based payments made to Ironstone Capital under the Shareholders Agreement.



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**NOTE 19: CONTROLLED ENTITIES**

**a. Controlled Entities**

	<b>Owned directly or indirectly</b>	<b>Owned directly or indirectly</b>
Listed below are companies which are subsidiaries of Malabar Coal Limited. All of the subsidiaries are incorporated in Australia.	<b>2013</b>	<b>2012</b>
Spur Hill No. 2 Pty Ltd (SH2)	100%	100%
Spur Hill Management Pty Ltd (SHMgt)	80%	80%
Spur Hill Marketing Pty Ltd (SHMkt)	80%	80%
Spur Hill Agricultural Pty Ltd (SHA)	80%	80%

Malabar Coal Limited acquired control of SH2, SHMgt and SHMkt on 15 July 2011 while control of SHA was acquired on 26 April 2012.

**NOTE 20: JOINT OPERATION**

On 8 July 2011, Spur Hill No. 2 Pty Ltd (SH2) entered into an 'Acquisition and Exploration Farm-in Agreement for the Spur Hill Project' (Farm-in Agreement) and an 'Amended and Restated Joint Venture Agreement' (JV Agreement) with Spur Hill U.T. Pty Ltd (SHUT) in relation to the Spur Hill Project (the Project).

The Project is a proposed coal mine development in the Hunter Valley in New South Wales based in the area of the Tenement.

Under the Farm-in Agreement, Malabar has the right, but no obligation, to increase its Project interest from 29.84% (as at 30 June 2013) to 80%. This is achieved by funding up to a further \$44 million of Project expenditure and making milestone and call option payments to SHUT totaling \$40 million.

**NOTE 21: CASH FLOW INFORMATION**

	<b>30 June 2013</b>	<b>30 June 2012</b>
	<b>\$</b>	<b>\$</b>
<b>Reconciliation of Cash Flow from Operations with Profit (loss) after Income Tax</b>		
Profit (loss) after income tax	(695,090)	(255,473)
Cash flows excluded from profit attributable to operating activities:		
– Share based payments	357,623	332,569
– Depreciation	11,027	-
– Borrowing expense	49,337	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
– (increase)/decrease in trade and other receivables	(909)	(99,382)
– (increase)/decrease in other assets	(700,426)	(19,795)
– increase/(decrease) in trade payables and accruals	276,812	265,554
Cash flow from operations	(701,626)	223,473

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**NOTE 22: SHARE-BASED PAYMENTS – EMPLOYEE SHARE OPTIONS**

(i) Share options were granted to employees under the Malabar Coal Limited executive share option plan to take up ordinary shares at an exercise price of \$1.50 each. The options are exercisable on or before 31 May 2017.

(ii) Options granted to key management personnel are as follows:

	Grant Date	Expiry Date	Number
<b>Directors</b>			
Tony Galligan	22 March 2013	22 March 2017	200,000
<b>Other KMP</b>			
Peter Doyle	22 March 2013	22 March 2017	250,000
Graeme Booth	31 May 2013	31 May 2017	500,000
Bill Dean	31 May 2013	31 May 2017	125,000
			1,075,000

These options vest over a 4-year period with one third vesting each anniversary of the grant date. Further details of these options are provided in the directors' report. The options are issued for no consideration and hold no voting or dividend rights. The options are not transferable. During the financial year, no options vested with key management personnel.

(iii) The company established the Malabar Coal Limited Executive Share Option Plan on 23 January 2013 as a long-term incentive scheme to recognise and retain talent and to motivate executives to strive for group performance. At its sole discretion senior employees are invited by the Board to apply for the options. No payment is required for the grant of the options under the plan. The options carry no entitlements to voting rights or dividends of the Group. The options are not transferable. The number available to be granted is determined by the Board.

If the participant ceases employment due to resignation, dismissal for cause or poor performance all options previously granted to the participant will lapse on the date of cessation of employment, unless the Board determines otherwise. If the participant ceases employment for any other reason, then vested options may be exercised in the 90 day period after cessation, after which those vested options will lapse. All other options retain their original vesting date although the Board may, in its discretion, pro rata the participant's options at cessation or accelerate the vesting of the participant's options.

A summary of the movements of all company options issues is as follows:

	Number	Weighted Average Exercise Price
<b>Options outstanding as at 30 June 2012</b>	-	-
Granted	1,075,000	\$1.50
Forfeited	-	-
Exercised	-	-
Expired	-	-
<b>Options outstanding as at 30 June 2013</b>	1,075,000	\$1.50
Options exercisable as at 30 June 2013	-	-
Options exercisable as at 30 June 2012	-	-

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**NOTE 22: SHARE-BASED PAYMENTS – EMPLOYEE SHARE OPTIONS (continued)**

The weighted average remaining contractual life of options outstanding at year-end was 3.84 years. The exercise price of outstanding shares at the end of the reporting period was \$1.50.

The weighted average fair value of options granted during the year was \$0.244. These values were calculated using the Black-Scholes option pricing model applying the following inputs:

Expected dividends:	-
Weighted average exercise price:	\$1.50
Weighted average life of the option:	3.84 years
Expected share price volatility:	72.794%
Risk-free interest rate:	2.84% & 3.17%

Due to the Company's relatively short history of share transaction future volatility has been determined by reference to similar listed entities.

The life of the options has been taken to be the full period of time from grant date to expiry date as there is no past history.

The risk free interest rates used are the 5 year Treasury Bond rates.

**NOTE 23: OPERATING SEGMENT**

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

**NOTE 24: RELATED PARTY TRANSACTIONS**

**Related Parties**

**a. The Group's main related parties are as follows:**

*i. Entities exercising control over the Group*

The ultimate holding entity, which exercises control over the Group is Malabar Coal Limited.

*ii. Key management personnel*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

*iii. Entities subject to significant influence by the Group*

An entity which has power to participate in the financial and operating policy decisions of an entity, but does not have control over the policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

*iv. Other related parties*

Other related parties include entities controlled by the ultimate holding company and entities over which key management personnel exercise significant influence.

**MALABAR COAL LIMITED AND CONTROLLED ENTITIES**  
**ABN 29 151 691 468**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**NOTE 24: RELATED PARTY TRANSACTIONS (continued)**

**b. Transactions with related parties**

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

*i) Relationship with Ironstone Capital*

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 established Malabar for the purpose of acquiring an interest in the Project.

*Investment Management agreement prior to IPO*

Ironstone Capital had an investment management agreement with each of the pre-IPO ordinary shareholders in Malabar. Under the agreement, Ironstone Capital was responsible for managing the investment on behalf of the shareholders in return for an annual investment management fee and a performance fee. The Company paid Ironstone Capital an Investment Management Fee of 1,188,375 (post sub-division) shares under the Shareholders Agreement (Company) in two separate tranches pre-IPO. The investment management arrangements were terminated upon the IPO of Malabar in March 2013.

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

During the year Ironstone Capital has seconded its staff to the Group to assist in activities relating to the Project including land acquisitions, exploration programmes, environmental studies and infrastructure development as well as corporate activities for the Company. Ironstone Capital is paid at a rate of \$225 per hour for work conducted by its executives. During the financial year ended 30 June 2013, a total of \$32,246 was paid by Malabar to Ironstone Capital and \$245,258 was paid by Spur Hill Management Pty Ltd (the Project) to Ironstone Capital for the period prior to the IPO. Post-IPO, a total of \$14,262 was paid by Malabar to Ironstone Capital and \$13,411 was paid by the Project to Ironstone Capital.

*ii) Other Related Party Transactions*

During the financial year ended 30 June 2013, Malabar paid XLX Pty Ltd ('XLX') \$14,800 under a lease agreement for office space on Level 25, 259 George Street, Sydney and \$78,036 under the subsequent 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 \$11,148 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 entered into an appointment letter with the Chairman which includes a consultancy arrangement 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 financial year ended 30 June 2013, total payments of \$42,500 (post-IPO) have been made under this agreement.

**c. Transactions with Key Management Personnel**

- Refer to Note 5.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 25: FINANCIAL RISK MANAGEMENT**

The Group's financial instruments consist mainly of cash at banks, accounts receivable and payable and borrowings. The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	30 June 2013 \$	30 June 2012 \$
<b>Financial assets</b>			
Cash and cash equivalents	7	17,831,143	22,425,110
Trade and other receivables	8	187,990	99,383
<b>Total financial assets</b>		18,019,133	22,524,493
<b>Financial liabilities</b>			
Trade and other payables	13	10,654,254	848,499
Borrowings	14	3,475,000	-
<b>Total financial liabilities</b>		14,129,254	848,499

**Financial Risk Management Policies**

The Audit Committee has been delegated responsibility by the Board of Directors for, among other issues, monitoring and managing financial risk exposures of the Group. The Audit Committee monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to counterparty credit risk, liquidity risk and interest rate risk.

The Group's overall risk management strategy seeks to meet its financial requirements, while minimising potential adverse effects on financial performance. It includes the review of the use of credit risk policies and future cash flow requirements.

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk.

**a) Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for regular monitoring of exposures against such limits and monitoring of the financial stability of significant counterparties), ensuring to the extent possible, that counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating, or in entities that the company has otherwise cleared as being financially sound.

*Credit risk exposures*

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position. Credit risk also arises through the provision of financial guarantees, as approved at board level, given the parties securing the liabilities of certain subsidiaries.

Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality.

Credit risk related to balances with banks and other financial institutions is managed by the Group in accordance with the policy of only investing surplus cash with major financial institutions.

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**NOTE 25: FINANCIAL RISK MANAGEMENT (continued)**

Such policy requires that surplus funds are only invested with counterparties with a Standard & Poor's rating of at least A-. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard & Poor's counterparty credit ratings.

	Note	30 June 2013 \$	30 June 2012 \$
Cash and cash equivalents:			
– A- to AA- rated	7	17,831,143	22,425,110

**b) Liquidity risk.**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group considers liquidity risk as immaterial as the company has sufficient cash funding to meet its obligations as they fall due. This risk is also managed by regular review of future period cash flows and operational activity budgets.

**c) Market risk**

*Interest rate risk*

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

The Group's exposure to interest rate risk is summarised in the table below:

	Floating Interest Rate	Fixed Interest maturing in:			Total	Weighted Average Interest rate
		1 year or less	Over 1 year, less than 5	Non Interest bearing		
<b>2013</b>						
<b>Financial assets</b>						
Cash at bank	7,930,621	-	-	10	7,930,631	2.75%
Term deposits	-	9,900,512	-	-	9,900,512	4.04%
Receivables	-	-	-	217,246	217,246	0.00%
<b>Financial Liabilities</b>						
Payables	3,475,000	-	-	10,651,045	14,126,045	4.90%
<b>2012</b>						
<b>Financial assets</b>						
Cash at bank	18,425,100	-	-	10	18,425,110	3.50%
Term deposits	-	4,000,000	-	-	4,000,000	5.13%
Receivables	-	-	-	99,383	99,383	0.00%
<b>Financial Liabilities</b>						
Payables	-	-	-	848,499	848,499	0.00%

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 25: FINANCIAL RISK MANAGEMENT (continued)**

*Sensitivity analysis*

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how the company's (loss)/profit reported at the end of the reporting period would have been affected by interest rate movements that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Carrying Value \$	+1 % interest rate \$	-1 % interest rate \$
<b>30 June 2013</b>			
Interest bearing cash	7,930,621	79,306	(79,306)
<b>30 June 2012</b>			
Interest bearing cash	18,425,100	184,251	(184,251)

**Net Fair Values of financial assets and liabilities**

The carrying amounts of all financial assets and financial liabilities approximate their net fair values.

**NOTE 26: CAPITAL AND LEASING COMMITMENTS**

	30 June 2013 \$	30 June 2012 \$
<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	133,777	78,036
– between 12 months and 5 years	457,066	535,104
– later than 5 years	-	55,740
	590,843	668,880

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.

**b. Capital Commitments**

Commitments on the reporting date but not recognised as liability:

Property	(1)	-	13,300,000
Property	(2)	2,025,000	-
Property	(3)	3,675,000	-
Property	(4)	1,575,000	-
		7,275,000	13,300,000

(1) On 29 June 2012, Spur Hill Agricultural Pty Ltd (SHA) entered into a contract to purchase a property related to the Project for a total consideration of \$14,000,000. A deposit of \$700,000 was paid on that date and recorded under the Other Current Asset account on the statement of financial position as at 30 June 2012. The settlement date for the property was 19 September 2012, at which time \$13,300,000 was paid to acquire the property.

(2) On 13 July 2012, SHA entered into a contract to purchase a property related to the Project for a total consideration of \$2,700,000. A deposit of \$675,000 was paid on that date and recorded under the Other Current Asset account on the statement of financial position as at 30 June 2013. The settlement date for the property was 15 July 2013, at which time \$2,025,000 was paid to acquire the property.

**MALABAR COAL LIMITED AND CONTROLLED ENTITIES**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 26: CAPITAL AND LEASING COMMITMENTS (continued)**

- (3) On 10 August 2012, SHA entered into a contract to purchase a property related to the Project for a total consideration of \$4,900,000. A deposit of \$1,225,000 was paid on that date and recorded under the Other Current Asset account on the statement of financial position as at 30 June 2013. The settlement date for the property was 12 August 2013, at which time \$3,675,000 was paid to acquire the property.
- (4) On 23 November 2012, SHA entered into interdependent put and call option deeds in respect of land related to the Project and an agricultural business conducted on the land for a total consideration of \$1,875,000. An option fee of \$300,000 was paid on that date and recorded under the Other Current Asset account on the statement of financial position as at 30 June 2013. The settlement date for the property was 16 August 2013, at which time \$1,575,000 was paid to acquire the property.

**NOTE 27: CONTINGENT LIABILITIES AND CONTINGENCIES**

	<b>Consolidated Group</b>	
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Estimates of the potential financial effect of contingent liabilities that may become payable:		
<i>Project Related</i>		
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	2,500,000
ii. submission of an environmental assessment for the Project;	2,500,000	2,500,000
iii. completion of a detailed feasibility study into the development of the Project;	2,500,000	2,500,000
iv. grant of a Mining Lease.	2,500,000	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 for the CEO upon the grant of a Mining Lease per employment contract. Refer remuneration report.	1,000,000	1,000,000
c. Payment to landholder in Note 26 b. (4) upon the grant of a Mining Lease per contract of purchase.	600,000	-
<b>Contingent Liabilities</b>	<b>11,600,000</b>	<b>11,000,000</b>



**MALABAR COAL LIMITED AND CONTROLLED ENTITIES**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**NOTE 27: CONTINGENT LIABILITIES AND CONTINGENCIES (continued)**

**Contingencies**

1. One of the subsidiary companies in the Group, Spur Hill Agricultural Pty Ltd, has granted a call option to a party with whom the Group is a participant in the Project Joint Venture. Under the terms of the call option the other party may exercise a right to acquire shares in Spur Hill Agricultural Pty Ltd for nominal consideration so that its shareholding proportion in Spur Hill Agricultural Pty Ltd matches its participating interest in the Project joint venture. Should the call option be exercised Spur Hill Agricultural Pty Ltd may no longer be ultimately controlled by Malabar and no longer be included in the Malabar Group.
  2. As part of the Farm in Agreement in relation to the Project, the Group paid \$1 for a call option granting the Group the right to acquire a 15% participating interest in the Project. The exercise price for the call option is calculated as follows:
    - a. \$2 million per percentage Participating Interest in the event that there is no Eastern Development<sup>1</sup> included in the Mining Lease (or if not granted, the Mining Lease Application) on or before the time of exercise of the Call Option; or
    - b. \$3 million per percentage Participating Interest in the event that there is an Eastern Development<sup>1</sup> included in the Mining Lease on or before the time of exercise of the Call Option.
- (1) As set out in the Prospectus Malabar only intends to apply for a Mining Lease for the Underground Resource Area which would exclude the Eastern Development.

**NOTE 28: EVENTS AFTER THE REPORTING PERIOD**

The Group, via its subsidiary Spur Hill Agricultural Pty Ltd (SHA) has settled on 3 contracted property purchases (see Note 26 b.) in July and August 2013 and in each case has drawn down on the revolving bill facility (see Note 14: Borrowings) to part finance the property acquisitions:

Property	Settlement Date	Total Purchase Price	Option/Deposit paid in period ending 30 June 2013	Balance paid on Settlement Date	Funds drawn down on revolving bill facility
		\$	\$	\$	\$
1	15 July 2013	2,700,000	675,000	2,025,000	425,000
2	12 August 2013	4,900,000	1,225,000	3,675,000	1,450,000
3	16 August 2013	1,875,000	300,000	1,575,000	850,000

In addition, following further due diligence, the Group elected not to exercise a call option to purchase another property with a total purchase price of \$2,100,000. In the period ending 30 June 2013 the Group had paid a non-refundable call option premium of \$120,000. This option premium will be expensed in the period ending 30 June 2014.

Other than the above, no other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

- a. The Group's operations in future financial years, or
- b. The results of those operations in future financial years, or
- c. The Group's state of affairs in future financial years.

**MALABAR COAL LIMITED AND CONTROLLED ENTITIES  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**NOTE 29: COMPANY DETAILS**

The registered office and principal place of business of the Company as at 30 June 2013 was:

LEVEL 1, 12 CREEK STREET  
BRISBANE QLD 4000  
Tel.: 07 3169 2370

On 16 July 2013 the registered office and principal place of business of the Company was changed to:

LEVEL 26, 259 GEORGE STREET  
SYDNEY NSW 2000  
Tel.: 02 8248 1272

**MALABAR COAL LIMITED AND CONTROLLED ENTITIES**  
**ABN 151 691 468**

**DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of Malabar Coal Limited, the directors of the company declare that:

1. the financial statements and notes, as set out on pages 19 to 56, are in accordance with the *Corporations Act 2001* and:
  - a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
  - b. give a true and fair view of the financial position as at 30 June 2013 and of the performance for the year ended on that date of the consolidated group;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. the directors have been given the declarations required by s295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.



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**Wayne Seabrook, Director**

Dated: 27 September 2013

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

We have audited the accompanying 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 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

The Directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF MALABAR COAL LIMITED  
(Continued)**

*Independence*

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

*Opinion*

In our opinion:

- a) the financial report of Malabar Coal Limited and its controlled entities is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the remuneration report included in pages 12 to 16 of the Directors' Report for the year ended 30 June 2013. The Directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the remuneration report of Malabar Coal Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.



**LAWLER HACKETTS AUDIT**



**Liam Murphy**  
**Partner**

Brisbane, 27 September 2013

**MALABAR COAL LIMITED  
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**CORPORATE GOVERNANCE STATEMENT**

The Board has adopted corporate governance policies and practices consistent with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Principles and Recommendations 2nd Edition") where considered appropriate for a company of the company's size and stage of development.

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the period that Malabar Coal Limited has been a listed entity for the financial year ended 30<sup>th</sup> June 2013.

The Company's corporate governance policies can be obtained from the Company's website at [www.malabarcoal.com.au](http://www.malabarcoal.com.au).

<b>ASX Principles/Recommendations</b>	<b>Compliance</b>	<b>MBC Corporate Governance Charter Reference</b> <a href="http://www.malabarcoal.com.au">http://www.malabarcoal.com.au</a>	<b>Disclosure Requirement for Non Compliance</b>
<b>Principle 1</b>			
Principle 1 – Lay solid foundations for management and oversight. Companies should establish and disclose the respective roles and responsibilities of board and management.			
Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. Box 1.1 Content of a director's letter upon appointment	Comply	SECTION A. 1	Not Applicable
Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.	Comply	SECTION F. 3	Not Applicable
Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.	Comply		Not Applicable
<b>Principle 2</b>			
Principle 2 – Structure the board to add value. Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.	Comply	SECTION A. 1	Not Applicable

**MALABAR COAL LIMITED  
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**CORPORATE GOVERNANCE STATEMENT**

<b>ASX Principles/Recommendations</b>	<b>Compliance</b>	<b>MBC Corporate Governance Charter Reference</b> <a href="http://www.malabarcoal.com.au">http://www.malabarcoal.com.au</a>	<b>Disclosure Requirement for Non Compliance</b>
Recommendation 2.1: A majority of the board should be independent directors.  Box 2.1: Relationships affecting independent status.	Does not comply	SECTION A. 1 (c)	The Board considers that the current composition of the Board is appropriate for the Company's size and stage of development. A greater proportion of independent directors will be introduced on to the Board in due course.
Recommendation 2.2: The chair should be an independent director.	Does not comply	SECTION A. 1 (c)	The Board considers that Wayne Seabrook is the most appropriate candidate for chairmanship due to his experience, background and skills.
Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.	Comply	SECTION A. 1 (c)	Not Applicable
Recommendation 2.4: The board should establish a nomination committee.	Comply	SECTION F	Not Applicable
Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Comply	SECTION F	Not Applicable
Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.	Comply		Not Applicable
<b>Principle 3</b>			
Principle 3 – Promote ethical and responsible decision-making. Companies should actively promote ethical and responsible decision-making.			

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**CORPORATE GOVERNANCE STATEMENT**

<b>ASX Principles/Recommendations</b>	<b>Compliance</b>	<b>MBC Corporate Governance Charter Reference</b> <a href="http://www.malabarcoal.com.au">http://www.malabarcoal.com.au</a>	<b>Disclosure Requirement for Non Compliance</b>
<p>Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:</p> <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the company's integrity</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> <li>• Box 3.1: Suggestions for the content of a code of conduct</li> </ul>	Comply	SECTION A. 5	Not Applicable
<p>Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.</p> <p>Box 3.2: Suggestions for the content of a diversity policy.</p>	Comply	SECTION I	Not Applicable
<p>Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.</p>	Comply	SECTION I. 4	Not Applicable
<p>Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.</p>	Comply	SECTION I. 4	Not Applicable



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**CORPORATE GOVERNANCE STATEMENT**

<b>ASX Principles/Recommendations</b>	<b>Compliance</b>	<b>MBC Corporate Governance Charter Reference <a href="http://www.malabarcoal.com.au">http://www.malabarcoal.com.au</a></b>	<b>Disclosure Requirement for Non Compliance</b>
Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.	Comply		Not Applicable
<b>Principle 4</b>			
Principle 4 – Safeguard integrity in financial reporting Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.			
Recommendation 4.1: The board should establish an audit committee.	Comply	SECTION D	Not Applicable
Recommendation 4.2: The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists only of non-executive directors</li> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair, who is not chair of the board</li> <li>• has at least three members.</li> </ul>	Does not comply	SECTION D. 1	The Board considers that maintaining two (2) audit committee members, instead of three (3), is appropriate for the Company's size. The company secretary and representatives of the auditors may be invited to form part of the Audit Committee from time to time.
Recommendation 4.3: The audit committee should have a formal charter.	Comply	SECTION D	Not Applicable
Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.	Comply		Not Applicable
<b>Principle 5</b>			
Principle 5 – Make timely and balanced disclosure. Companies should promote timely and balanced disclosure of all material matters concerning the company.			

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**CORPORATE GOVERNANCE STATEMENT**

<b>ASX Principles/Recommendations</b>	<b>Compliance</b>	<b>MBC Corporate Governance Charter Reference <a href="http://www.malabarcoal.com.au">http://www.malabarcoal.com.au</a></b>	<b>Disclosure Requirement for Non Compliance</b>
Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. Box 5.1: Continuous disclosure policies	Comply	SECTION H. 11	Not Applicable
Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.	Comply		Not Applicable
<b>Principle 6</b>			
Principle 6 – Respect the rights of shareholders. Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.			
Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. Box 6.1: Using electronic communications effectively	Comply	SECTION H. 11	Not Applicable
Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.	Comply		Not Applicable
<b>Principle 7</b>			
Principle 7 – Recognise and manage risk Companies should establish a sound system of risk oversight and management and internal control.			

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**CORPORATE GOVERNANCE STATEMENT**

<b>ASX Principles/Recommendations</b>	<b>Compliance</b>	<b>MBC Corporate Governance Charter Reference</b> <a href="http://www.malabarcoal.com.au">http://www.malabarcoal.com.au</a>	<b>Disclosure Requirement for Non Compliance</b>
Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Comply	SECTION E. 4	Not Applicable
Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Comply	SECTION E	Not Applicable
Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Comply	SECTION D. 4	Not Applicable
Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.	Comply		Not Applicable
<b>Principle 8</b>			
Principle 8 – Remunerate fairly and responsibly. Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.			

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**CORPORATE GOVERNANCE STATEMENT**

<b>ASX Principles/Recommendations</b>	<b>Compliance</b>	<b>MBC Corporate Governance Charter Reference</b> <a href="http://www.malabarcoal.com.au">http://www.malabarcoal.com.au</a>	<b>Disclosure Requirement for Non Compliance</b>
<ul style="list-style-type: none"> <li>• Recommendation 8.1: The board should establish a remuneration committee.</li> </ul>	Comply	SECTION F	Not Applicable
<p>Recommendation 8.2: The remuneration committee should be structured so that it:</p> <ul style="list-style-type: none"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair</li> <li>• has at least three members.</li> </ul>	Does not comply	SECTION F. 1	The Board considers that maintaining two (2) remuneration committee members, instead of three (3), and not having majority of independent directors or an independent chairman, is appropriate for the Company's size and stage of development. In due course, one or more independent directors will be appointed to chair the remuneration committee.
<ul style="list-style-type: none"> <li>• Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.</li> <li>• Box 8.1: Guidelines for executive remuneration packages</li> <li>• Box 8.2: Guidelines for non-executive director remuneration</li> </ul>	Comply	SECTION F. 3	Not Applicable
<ul style="list-style-type: none"> <li>• Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.</li> </ul>	Comply		Not Applicable

**MALABAR COAL LIMITED  
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**SHAREHOLDER INFORMATION**

At 10 October 2013 issued capital was 85,000,000 ordinary fully paid shares held by 382 holders.

At a general meeting on a show of hands, each shareholder present in person or by proxy has one vote and on a poll each shareholder present in person or by proxy has one vote for each share.

*Table of Quoted Shares, Shares subject to Escrow and Total Issued Capital*

Share Description	Number of Shares
Un-escrowed shares	57,089,273
Shares subject to 24 months Voluntary escrow from 28th March 2013	10,468,421
Quoted Shares	67,557,694
Shares subject to 24 months ASX Mandatory escrow from 28th March 2013	17,442,306
Total Number of Ordinary Shares in Issue	<b>85,000,000</b>

*20 Largest Holders of Ordinary Shares (includes Shares subject to Escrow) and their Holdings at 10 October 2013*

Rank	Name	Number of Shares	% of Issued Capital
1	BRISBANE INVESTMENTS II LTD	9,859,789	11.60%
2	BRISBANE INVESTMENTS I LTD	8,059,789	9.48%
3	WESTBROOK COAL PTY LTD	5,660,684	6.66%
4	IRONSTONE CAPITAL PARTNERS PTY LTD	5,483,590	6.45%
5	J P MORGAN NOMINEES AUSTRALIA LIMITED	5,073,323	5.97%
6	NATIONAL NOMINEES LIMITED	3,700,977	4.35%
7	HELM COAL PTY LTD	3,568,547	4.20%
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,407,175	4.01%
9	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	3,400,243	4.00%
10	WESTMARK INVESTMENTS PTY LTD	2,467,342	2.90%
10	MAST CAPITAL PTY LTD	2,467,342	2.90%
11	INVIA CUSTODIAN PTY LIMITED	2,274,668	2.68%
12	D.H. QUILLEN PROPERTIES LLC	2,030,416	2.39%
13	CITICORP NOMINEES PTY LIMITED	1,800,000	2.12%
14	MR MICHAEL JACK QUILLEN	1,573,573	1.85%
15	BNP PARIBAS NOMS PTY LTD	1,334,360	1.57%
16	MRS DEBORAH HUMPHREYS QUILLEN	1,200,000	1.41%
17	MOAT INVESTMENTS PTY LTD	979,834	1.15%
18	RANAMOK PTY LTD	714,000	0.84%
19	BODA INVESTMENTS PTY LTD	510,000	0.60%
20	MR SEAN PATRICK MARTIN & MR LIAM PAUL MARTIN	489,917	0.58%
20	MISS RASHI TULSHYAN	489,917	0.58%
<b>Top 20 holders of ORDINARY SHARES (TOTAL)</b>		<b>66,545,486</b>	<b>78.29%</b>
<b>Balance of Register</b>		<b>18,454,514</b>	<b>21.71%</b>
<b>Grand TOTAL</b>		<b>85,000,000</b>	<b>100.00%</b>

**MALABAR COAL LIMITED  
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**SHAREHOLDER INFORMATION (continued)**

*20 Largest Holders of Quoted Shares (excludes Shares subject to ASX Mandatory Escrow) and their Holdings at 10 October 2013*

Rank	Name	Number of Quoted Shares	% of Quoted Shares
1	BRISBANE INVESTMENTS II LTD	6,565,297	9.72%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	5,073,323	7.51%
3	BRISBANE INVESTMENTS I LTD	4,765,297	7.05%
4	NATIONAL NOMINEES LIMITED	3,700,977	5.48%
5	HELM COAL PTY LTD	3,568,547	5.28%
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,407,175	5.04%
7	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	3,400,243	5.03%
8	WESTBROOK COAL PTY LTD	3,003,308	4.45%
9	INVIA CUSTODIAN PTY LIMITED	2,274,668	3.37%
10	D.H. QUILLEN PROPERTIES LLC	2,030,416	3.01%
11	CITICORP NOMINEES PTY LIMITED	1,800,000	2.66%
12	MR MICHAEL JACK QUILLEN	1,573,573	2.33%
13	BNP PARIBAS NOMS PTY LTD	1,334,360	1.98%
14	WESTMARK INVESTMENTS PTY LTD	1,200,364	1.78%
14	MAST CAPITAL PTY LTD	1,200,364	1.78%
15	MRS DEBORAH HUMPHREYS QUILLEN	1,200,000	1.78%
16	MOAT INVESTMENTS PTY LTD	979,834	1.45%
17	RANAMOK PTY LTD	714,000	1.06%
18	BODA INVESTMENTS PTY LTD	510,000	0.75%
19	MR SEAN PATRICK MARTIN & MR LIAM PAUL MARTIN	489,917	0.73%
19	MISS RASHI TULSHYAN	489,917	0.73%
20	CS FOURTH NOMINEES PTY LTD	480,000	0.71%
<b>Top 20 holders of ORDINARY SHARES (Excl. ASX Mandatory Escrow)</b>		<b>49,761,580</b>	<b>73.66%</b>
<b>Balance of Register (Excl. ASX Mandatory Escrow)</b>		<b>17,796,114</b>	<b>26.34%</b>
<b>Grand TOTAL(Excl. ASX Mandatory Escrow)</b>		<b>67,557,694</b>	<b>100.00%</b>

*Distribution of Holders and Holdings at 10 October 2013 (includes Shares subject to Escrow)*

Range	Total Holders	Number of Shares	% of Issued Capital
100,001 and Over	77	77,210,567	90.84%
10,001 to 100,000	193	7,124,024	8.38%
5,001 to 10,000	52	452,806	0.53%
1,001 to 5,000	57	210,929	0.25%
1 to 1,000	3	1,674	0.00%
<b>Total</b>	<b>382</b>	<b>85,000,000</b>	<b>100.00%</b>

The number of shareholders holding less than the marketable parcel of ordinary shares is seven.

**MALABAR COAL LIMITED  
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**SHAREHOLDER INFORMATION (continued)**

*Substantial Shareholders at 10 October 2013 (includes Shares subject to Escrow)(\*)*

Rank	Name	Number of Shares	% of Issued Capital
1	MALABAR COAL LIMITED(**)	27,910,727	32.84%
2	BRISBANE INVESTMENTS II LTD	9,859,789	11.60%
3	BRISBANE INVESTMENTS I LTD	9,859,789	11.60%
4	WESTMARK INV PTY LTD AND IRONSTONE CAPITAL PARTNERS PTY LTD	8,223,538	9.67%
5	MAST CAPITAL PTY LTD AND IRONSTONE CAPITAL PARTNERS PTY LTD	8,223,538	9.67%
6	ANTARES CAPITAL PARTNERS LIMITED	7,000,000	8.24%
7	RANAMOK PTY LTD	6,315,818	7.43%
8	HFTT PTY LTD	6,315,818	7.43%

(\*) - as disclosed in substantial holding notices given to the Company

(\*\*) - Relevant interest in accordance with Corporations Act 2001 section 608(1)(b)& (c) pursuant to escrow deeds

*Unquoted equity securities*

	Number on Issue	Number of holders
Options issued under the Malabar Coal Limited Executive Share Option Plan	1,075,000	4

*Securities Exchange Listing*

The Company's ordinary shares are listed on the Australian Securities Exchange.

*On-Market Buy Back*

There is no on-market buy-back.

*Use of Cash*

The Company has, in the period between admission to the Official List of ASX Limited and the end of the financial year, used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives that were set out in the Replacement Prospectus dated 1 March 2013.

**MALABAR COAL LIMITED  
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ABN 29 151 691 468**

**CORPORATE DIRECTORY**

***Registered Office***

Level 26, 259 George Street  
Sydney NSW 2000

PO Box R864 Royal Exchange NSW 1225

***Principal Place of Business***

Level 26, 259 George Street  
Sydney NSW 2000

PO Box R864 Royal Exchange NSW 1225

Telephone: +61 2 8248 1272  
Facsimile: +61 2 8248 1273  
Email: [admin@malabarcoal.com.au](mailto:admin@malabarcoal.com.au)  
Website: [www.malabarcoal.com.au](http://www.malabarcoal.com.au)

***Share Registry***

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000

Telephone: 1300 554 474 (toll free within Australia)  
+61 2 8280 7111  
Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

***Auditors***

Lawler Hacketts  
Level 3, 549 Queen Street  
Brisbane QLD 4000  
Telephone: +61 7 3839 9733  
Facsimile: +61 7 3832 1407  
Website: [www.lawlerhacketts.com.au](http://www.lawlerhacketts.com.au)