# MALABAR COAL LIMITED
# AND CONTROLLED ENTITIES

**ABN 29 151 691 468**

# FINANCIAL REPORT
# FOR THE YEAR ENDED
# 30 JUNE 2015

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



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## CHAIRMAN'S REPORT

Dear Fellow Shareholder

It is my pleasure to present Malabar Coal's 2015 Annual Report on behalf of Malabar Coal's Board and management team. Despite poor coal markets our strategy remains gaining approval and developing the Spur Hill Underground Coking Coal Project ('Project').

It is our view that high quality coal, such as that from our Project, will be in strong demand as the market improves. The Project feasibility indicates that it will produce high quality coal at competitive operating costs.

Key Project activities during the 2015 financial year included:

- renewing the tenure of EL 7429;
- exploration activities
- achieving environmental permitting milestones;
- continuing environmental studies;
- ongoing community consultation;
- engineering studies, and;
- land transactions of strategic importance to the Project.

During September 2015 we announced the restructure of the Spur Hill Joint Venture. The restructure is a significant benefit as Malabar's stake in the Project increases from c.38% to100%. This restructure is beneficial for Malabar as 100% Project ownership will assist the financing for the Project.

A $6 million underwritten entitlement offer was completed in October 2015 to fund the initial Joint Venture restructure payment of $3 million and provide ongoing capital to Malabar. It was pleasing that the funding was strongly supported by shareholders as Malabar received applications for c. 78% of the Entitlement Offer.

Malabar maintains strong ties with its local community through ongoing engagement with residents, employment of local staff and contractors, and regular meetings with key community stakeholders. Five Spur Hill Community Consultative Committee ('CCC') meetings were held during the year.

Malabar also plays an active community role through financial contributions to local initiatives including; aged care, education, emergency services, tourism developments, and local sporting and community organisations.

**Outlook**

During the 2016 financial year we look forward to advancing the Project through:

- finalising and submitting the EIS and DA
- ongoing exploration
- ongoing engineering
- advancing longer term Project funding

While Malabar Coal's share price has suffered as a result of low coal prices, in the longer term Malabar Coal's shareholders will benefit as the Project advances and coal markets improve.

The Company will continue to assess growth opportunities during this interim period of low coal prices.

We thank Shareholders for their continued support and look forward to reporting further progress during the year ahead.

Wayne Seabrook

Chairman

20 October 2015

## 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 2015.

### Directors

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

| | | |
|---|---|---|
| Wayne Seabrook | Non-Executive Chairman | |
| Graeme Booth | Managing Director | (Appointed 29 August 2014) |
| Hans Mende | Non-Executive Director | |
| Andrew (Andy) Plummer | Non-Executive Director | |
| Simon Keyser | Non-Executive Director | |
| Anthony (Tony) Galligan | Non-Executive Director | |
| Nicole Hollows | Alternate to Hans Mende | (Appointed 19 August 2014) |
| Grant Polwarth | Alternate to Hans Mende | (Resigned 19 August 2014) |

### Principal Activities

The principal activity of the Group during the financial year was the development of the Project on Exploration Licence 7429 ('EL 7429') in the Upper 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 and low ash export thermal coal products from its underground mining operations.

Key Project activities during the year included:

- renewing the tenure of EL 7429;
- achieving environmental permitting milestones;
- ongoing community consultation;
- continuing environmental and engineering studies;
- exploration activities; and,
- executing land transactions of strategic importance to the Project.

On 15 September 2015 the Company announced a restructure of the Spur Hill Joint Venture and a $6 million fully underwritten capital raise via a 15 for 17 non-renounceable entitlement offer (see ASX Releases dated 15 September 2015). The directors believe that the restructure of the Spur Hill Joint Venture is significantly beneficial for Malabar as it increases Malabar's stake in the Spur Hill Underground Coking Coal Project ("Project") from 38.27% (as at 30 June 2015) to 100%. Further details are set out in the 'Events after the Financial Year End' section of this Directors' Report.

There were no significant changes in the nature of the Group's principal activities during the year, other than the restructure of the Spur Hill Joint Venture and the $6 million underwritten entitlement offer announced after the year end as noted above.

### Operating and Financial Review

The consolidated loss after tax for the year ended 30 June 2015 of the Group amounted to $32,020,484 (30 June 2014: $1,278,183), after eliminating non-controlling equity interests. The loss for the period includes an impairment charge of $32,973,694 in relation to the impairment of capitalised exploration and evaluation expenditure, land and buildings and water access licences recognised during the period. This entire impairment charge was previously reported in the Company's half year accounts released to the ASX on 13 March 2015.

### Review of Operations

Malabar's primary focus is on the development of the Project. Malabar will acquire 100% ownership of the Project on completion of the restructure of the Spur Hill Joint Venture. The primary activities conducted on the Project during the year ended 30 June 2015 are outlined below:

<u>Exploration Licence Renewal</u>
During the financial year EL 7429 (the tenement for the Project) was renewed in full for a further five years with an expiry date of 18 December 2019.

**DIRECTORS' REPORT (continued)**

**Review of Operations (continued)**

Project Approvals
The Project has successfully achieved a number of project approval milestones including:

- ***Gateway Certificate***
  The Project was the first new coal project in NSW to lodge a Gateway Application and the first project to receive a Gateway Certificate.

- ***EPBC Referral***
  The Project submitted its EPBC referral to the federal Department of the Environment at the end of the previous financial year. The referral was subsequently determined on 7 July 2014 as a 'controlled action' with water being the relevant controlling provision.

- ***Preliminary Environmental Assessment and receipt of Environmental Assessment Requirements***
  The Project lodged its Preliminary Environmental Assessment ('PEA') towards the end of the previous financial year. The NSW Department of Planning & Environment subsequently issued its Environmental Assessment Requirements ('EARs') on 23 July 2014. The EARs determine the scope for the preparation of the Environmental Impact Statement (EIS) and take into account the conditions attached to the Gateway Certificate, the EPBC referral determination and input from federal and state agencies, and the local shire council. Malabar is comfortable with the EARs which are consistent with our expectations.

- ***Mining Lease Applications submitted***
  Mining Lease Applications ('MLAs') were submitted during the financial year for the Project covering the proposed underground mining area. The approval process for the MLAs runs in parallel with the assessment of the EIS and Development Application ('DA'). A mining lease will only be granted once development consent is obtained.

Mine Design and Infrastructure

During the financial year, Malabar advanced studies to support the EIS including:
- Transport options and design;
- Underground mine layout and scheduling;
- Coal handling and preparation facilities; and
- Mine surface infrastructure.

In the later part of the financial year, Malabar commenced a review of the Project design as associated capital cost and operating costs for optimisation and improvement. This review is ongoing.

Environmental
Environmental studies undertaken during the year to support the preparation of the EIS and DA include:
- Surface and groundwater assessments;
- Geomorphology assessment;
- Noise assessment;
- Air quality assessment;
- Subsidence assessment;
- Aboriginal cultural heritage assessment;
- Non-Aboriginal cultural heritage assessment;
- Aquatic fauna assessment;
- Terrestrial flora and fauna assessment;
- Transport assessment;
- Soils and agricultural impact assessments; and
- Social impact assessment.

## Review of Operations (continued)

Resource Definition

Total Resources for the Spur Hill Project are approximately 625.9 million tonnes including 394.4 million tonnes of Indicated Resources. Please see the ASX Release dated 11 November 2013[1] and Table 1 below.

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

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

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

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

During the year field work consisted of drilling two further boreholes to gather geological and groundwater data and further field mapping and coal analyses.

[1] The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

**Review of Operations (continued)**

Strategic Land Transactions for Transport Corridor
During the financial year, the Project executed a number of land tenure transactions. These provide a transport corridor from the mine's surface infrastructure to the main rail line.

Community and Landholder Consultation
Five Spur Hill Community Consultative Committee ('CCC') meetings were held during the financial year. The CCC meetings are chaired by an independent Chairperson appointed by the NSW Minister for Resources & Energy. Further CCC meetings will be held at regular intervals on an ongoing basis. In addition, Malabar produces and distributes Community Information Newsletters on an ongoing and regular basis.

A Community Information Session was also held on the EL during the financial year. It was well attended by the local community with a number of subject specialists and senior company executives on hand to answer questions.

In addition, senior Malabar management regularly engages with the community including attending and sponsoring community and sporting events.

Malabar maintains regular dialogue with Landholders on the EL. Access agreements with Landowners are in place covering the proposed underground mining area as set out in the MLAs.

**Financial Position**

The net assets of the Group have decreased by $34,299,521 during the financial year, from $52,171,590 at 30 June 2014 to $17,872,069 at 30 June 2015 primarily due to the impairment charge previously reported in the Company's half year accounts released to the ASX on 13 March 2015. The Group's cash position reduced from $6,194,615 at 30 June 2014 to $1,502,468 at 30 June 2015, predominantly due to the investment in exploration and evaluation activities. The cash position of the Group will increase when the $6m underwritten entitlement offer (announced on the 15 September 2015) completes.

Malabar's principal asset is its participating interest in the Project. Expenditure on the Project during the financial period, which was sole funded by Malabar, totalled $4,391,989. This expenditure increased Malabar's participating interest in the Project by 2.51%, from 35.76% at 30 June 2014, to 38.27% as at 30 June 2015. On completion of the restructure of the Spur Hill Joint Venture transaction (announced on the 15 September 2015) Malabar's ownership in the Project will increase to 100%.

The current coal market environment has negatively impacted the Malabar share price. The Board does not believe that the currently depressed share price reflects the longer term value of the Project. Nonetheless, the directors prudently and responsibly determined that the Group should undertake a comprehensive review of impairment across its assets. Non-cash provisions for impairment of land and buildings and water access licences (which are strategically associated with the Project) totalling $11,571,848 were taken at half-year. In addition a non-cash provision for impairment of $21,401,846 was taken against the carrying value of capitalised exploration and evaluation during the same period. In future periods these provisions may be reduced or reversed as the fundamental value of the Project is recognised by the market, particularly as Malabar ownership of the Project will increase to 100% when the restructure of the Spur Hill Joint Venture transaction completes.

On 18 June 2015 the maturity date of the revolving bill facility with the National Australia Bank was extended from 28 February 2016 to 28 February 2018.

**Significant Changes in the state of affairs**

There were no significant changes in the state of affairs during the financial year.

**Dividends**

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

**Events after the Financial Year End**

On 15 September 2015 Malabar announced (see ASX releases dated 15 September 2015) a:

1. The restructure of the Spur Hill Joint Venture; and
2. A $6 million fully underwritten entitlement offer

<u>Restructure of the Spur Hill Joint Venture</u>

- On paying $3 million to our Joint Venture partner, Malabar will increase its stake in the Project from 38.27% (as at 30 June 2015) to 100%.
- Malabar will also make a series of deferred payments totalling $13m on defined milestones and grant a 1.75% royalty on coal sales to our JV partner.

This restructure is beneficial for Malabar as 100% Project ownership will assist the financing for the Project.

<u>$6 million fully underwritten entitlement offer</u>

- Malabar is undertaking a $6m fully underwritten equity capital raising via a 15 for 17 non-renounceable entitlement offer.
- The entitlement offer is fully underwritten by four shareholders and is a clear demonstration of support for the Company and the Project.

Other than the above, no other matter of circumstance has arisen since 30 June 2015 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 material business risks which relate to the development of the Project are the timing of the permitting process, the coal price outlook, and the nature and form of the longer term funding required for the Project development.

The timing of the submission of the EIS and DA is under assessment while Malabar completes the restructure of the Spur Hill Joint Venture and the associated capital raise. The directors note that the approval process for new coal mines has become politicised in New South Wales. Nonetheless the Board is comfortable that the underground nature of our Project mitigates the key concerns of dust and visual amenity which are material considerations for open cut operations.

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

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

**DIRECTORS' REPORT (continued)**

**Information on the Directors (as at date of Report)**

| **Wayne Seabrook** | B.Eng (Chem - 1st Hons) |
|---|---|
| **Role** | Non-Executive Chairman |
| **Experience** | 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, & 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 arranging Board performance evaluation.<br><br>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. |
| **Special Responsibilities** | Member of Occupational Health, Safety & Environment Committee and Audit Committee |
| **Interest in Shares and Options (direct and indirect)** | Ordinary Shares – 5,285,853 |
| **Former directorships held in previous three years** | Titan Energy Services Ltd – Non-Executive Director appointed 28 March 2011, ceased 18 October 2012 |

| **Graeme Booth** | B.Com, CA |
|---|---|
| **Role** | Managing Director |
| **Experience** | Graeme has more than 20 years of finance, commercial and resource sector experience obtained in Australia, USA, Hong Kong, UK and South Africa. Graeme has held senior investment banking positions within ABN Amro Bank and RBS. Appointed as Managing Director at these institutions Graeme headed the Strategic Equity Solutions team which originated bespoke equity linked financing transactions with corporates in Asia. Prior to joining Malabar, Graeme was Group CFO for a US based coal producer and developer of coal export terminals. As Managing Director, Graeme is also responsible for shareholder communication.<br><br>Graeme holds a Bachelor of Commerce (Cum Laude) and a Postgraduate Diploma in Accounting from the University of Natal and is a Chartered Accountant, having completed his articles at Deloitte. |
| **Special Responsibilities** | Nil |
| **Interest in Shares and Options (direct and indirect)** | Ordinary Shares – 50,000<br>Options – 1,250,000 options over Ordinary Shares |
| **Former directorships held in previous three years** | Nil |

**DIRECTORS' REPORT (continued)**

**Information on the Directors (continued)**

| | |
|---|---|
| **Hans Mende** | MBA |
| **Role** | Non-Executive Director |
| **Experience** | 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 non-executive director of White Energy Limited. |
| **Special Responsibilities** | Nil |
| **Interest in Shares and Options (direct and indirect)** | Ordinary Shares – 10,859,789 |
| **Former directorships held in previous three years** | Whitehaven Coal Ltd – Non-executive Director appointed 3 May 2007, ceased 2 July 2012<br>MMX Mineracao – Non-executive Director appointed 28 April 2006, ceased 23 September 2013 |

| | |
|---|---|
| **Andy Plummer** | BSc Mining Eng |
| **Role** | Non-Executive Director |
| **Experience** | 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. |
| **Special Responsibilities** | Chairman of the Nominations & Remuneration Committee and member of Occupational Health, Safety & Environment Committee |
| **Interest in Shares and Options (direct and indirect)** | Ordinary Shares – 9,313,757 |
| **Former directorships held in previous three years** | Whitehaven Coal Ltd – Executive Director appointed 17 October 2008, ceased 3 May 2012<br>King Island Scheelite Ltd – Non-executive Director appointed 1 March 2006, ceased 24 October 2012 |

**Information on the Directors (continued)**

| **Simon Keyser** | B.Bus, CA |
|---|---|
| **Role** | Non-Executive Director |
| **Experience** | 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 and Ironstone Capital Partners Pty Ltd.<br><br>Simon holds a Bachelor of Business from the Queensland University of Technology, Graduate Diploma from FINSIA and is a Chartered Accountant. |
| **Special Responsibilities** | Chairman of the Audit Committee and member of the Nominations & Remuneration Committee |
| **Interest in Shares and Options (direct and indirect)** | Ordinary Shares – 4,281,743 |
| **Former directorships held in previous three years** | Titan Energy Services Ltd – Non-executive Director appointed 28 March 2011, ceased 3 September 2014. |

| **Tony Galligan** | BSc (Geology) |
|---|---|
| **Role** | Non-Executive Director |
| **Experience** | 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.<br><br>Tony holds a Bachelor of Science (Geology) from the University of Queensland. |
| **Special Responsibilities** | Chairman of the Occupational Health, Safety & Environment Committee. |
| **Interest in Shares and Options (direct and indirect)** | Options – 200,000 options over Ordinary Shares |
| **Former directorships held in previous three years** | Nil |

**DIRECTORS' REPORT (continued)**

**Information on the Directors (continued)**

| **Nicole Hollows** | B Bus, Grad Dip (Dist) Adv Acctg, Grad Dip (Dist) CSP, PMD76 HBS, FAICD, CA |
|---|---|
| **Role** | Alternate to Hans Mende |
| **Experience** | Nicole was appointed in February 2014 by the AMCI Group as Managing Director for its Australian and South East Asia operations. AMCI has global trading, shipping and mining investments. She is also a member of the Queensland University of Technology, CEO Strategy Group for the School of Business and advisory Committee of the SE Queensland branch of the Salvation Army. Nicole has over 20 years' experience, directly and indirectly in the resources sector, including 13 years in Macarthur Coal Limited and related entities as CFO and CEO where she developed a global business network amongst international joint venture partners, customers and shareholders.<br><br>Nicole holds a Bachelor of Business and Graduate Diploma in Advanced Accounting from the Queensland University of Technology, Graduate Diplomas from CSP, FAICD, a Program Management Development 76 from Harvard Business School and is a Chartered Accountant. |
| **Special Responsibilities** | Nil |
| **Interest in Shares and Options (direct and indirect)** | Nil |
| **Former directorships held in previous three years** | Macarthur Coal Limited – CEO and Managing Director appointed January 2007, ceased October 2011 |

**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).

**DIRECTORS' REPORT (continued)**

## Meetings of Directors

During the financial year, there were 17 meetings of directors (including committees of directors). Attendances by each director during the year were as follows:

| | Directors' Meetings | | Audit Committee | | Health and Safety Committee | |
|---|---|---|---|---|---|---|
| | **Number eligible to attend** | **Number attended** | **Number eligible to attend** | **Number attended** | **Number eligible to attend** | **Number attended** |
| Wayne Seabrook | 11 | 11 | 2 | 2 | 3 | 3 |
| Graeme Booth | 9 | 9 | - | - | - | - |
| Hans Mende | 11 | - | - | - | - | - |
| Andy Plummer | 11 | 9 | - | - | 3 | 1 |
| Simon Keyser | 11 | 10 | 2 | 2 | - | - |
| Anthony Galligan | 11 | 9 | - | - | 3 | 3 |
| Nicole Hollows (Alternate for Hans Mende) | 10 | 9 | - | - | - | - |
| Grant Polwarth (Alternate for Hans Mende) | 1 | - | - | - | - | - |

## Indemnifying Officers or Auditor

During or since the end of the financial year, the Group paid insurance premiums of $46,761 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:

| Grant Date | Vesting Date | Date of Expiry | Exercise Price | Number under Option |
|---|---|---|---|---|
| 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 |
| 28 November 2014 | 28 November 2015 | 28 November 2018 | $0.30 | 316,666 |
| 28 November 2014 | 28 November 2016 | 28 November 2018 | $0.30 | 316,667 |
| 28 November 2014 | 28 November 2017 | 28 November 2018 | $0.30 | 316,667 |
| | | | | 2,025,000 |

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 18.

**DIRECTORS' REPORT (continued)**

**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.

**Non-audit Services**

There were no non-audit services provided by the auditor during the financial year.

**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 21 for the year ended 30 June 2015.

## 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.
- 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. However, remuneration consultants were not utilised during the year. 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:

| | **Fees including Superannuation** |
|---|---|
| Chairman | $50,000 |
| Non-executive director | $50,000 |

Additional fees are payable for 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.

## REMUNERATION REPORT (AUDITED) (continued)

### Performance-based Remuneration

KPIs are set annually, with a certain level of consultation with KMP. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs 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 is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses awarded depending on the number and deemed difficulty of the KPIs achieved and the prevailing equity and coal market conditions. (No bonuses have been paid for the year ended 30 June 2015). 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 bases 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 2015), and the second being the issue of options to directors and executives to encourage the alignment of personal and shareholder interests.

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.

| | | Proportions of Elements of Remuneration Related to Performance | | | Proportions of Elements of Remuneration Not Related to Performance | |
|---|---|---|---|---|---|---|
| | Position Held as at 30 June 2015 and any Change during the Year | Non-salary Cash-based Incentives | Shares/ Units | Options/ Rights | Fixed Salary/ Fees | Total |
| | | % | % | % | % | % |
| ***Group KMP*** | | | | | | |
| Graeme Booth | Managing Director from 29 August 2014<br>CFO from 7 May 2013 | - | - | 7 | 93 | 100 |
| Bill Dean | Engineering Manager | - | - | 3 | 97 | 100 |
| Ian Morgan | Company Secretary | - | - | - | 100 | 100 |

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

The employment terms and conditions of KMP are formalised in contracts of employment in the case of 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:

| Group KMP | Contract Duration | Notice Period | Termination Payments |
|---|---|---|---|
| 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.<br>In certain circumstances Malabar may be required to pay 6 months salary in lieu of notice or a severance payment of 6 months salary.<br>Employee options issued 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 | Employee options issued 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 |

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

No changes in directors or executives have taken place subsequent to year end.

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

**Remuneration Details for the Year Ended 30 June 2015**

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. Such amounts have been calculated in accordance with Australian Auditing Standards.

**Table of Benefits and Payments for the Year Ended 30 June 2015**

| | Commence-ment Date | Financial Year | Salary and Directors Fees [1] | Cash Bonus [2] | Termination Payment | Consultancy Fees [3] | Post-employment Benefits Super [4] | Share Based Payments Options [5] | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | $ | $ | $ | $ | $ | $ | $ |
| ***Directors*** | | | | | | | | | |
| **Wayne Seabrook** Chairman | 24/06/2011 | 2015 | 61,246 | - | - | 138,750 | - | - | 199,996 |
| | | 2014 | 70,000 | - | - | 243,439 | - | - | 313,439 |
| **Graeme Booth**[6,8] Managing Director | 7/05/2013 | 2015 | 308,581 | - | - | - | 29,315 | 23,548 | 361,444 |
| | | 2014 | 247,140 | - | - | - | 22,860 | 23,895 | 293,895 |
| **Hans Mende** Non-Executive director | 22/03/2012 | 2015 | 50,000 | - | - | - | - | - | 50,000 |
| | | 2014 | 50,000 | - | - | - | - | - | 50,000 |
| **Andy Plummer** Non-Executive director | 23/11/2012 | 2015 | 55,000 | - | - | - | - | - | 55,000 |
| | | 2014 | 55,000 | - | - | - | - | - | 55,000 |
| **Simon Keyser** Non-Executive director | 24/06/2011 | 2015 | 56,250 | - | - | - | - | - | 56,250 |
| | | 2014 | 56,250 | - | - | - | - | - | 56,250 |
| **Tony Galligan** Non-Executive director | 23/01/2013 | 2015 | 53,099 | - | - | - | 1,901 | 21,713 | 76,713 |
| | | 2014 | 53,150 | - | - | - | 1,850 | 48,635 | 103,635 |
| **Nicole Hollows** Alternate to Hans Mende | 19/08/2014 | 2015 | - | - | - | - | - | - | - |
| | | 2014 | - | - | - | - | - | - | - |
| ***Other KMP*** | | | | | | | | | |
| **Bill Dean**[8] Engineering Manager | 19/03/2013 | 2015 | 186,853 | - | - | - | 15,947 | 6,099 | 208,899 |
| | | 2014 | 175,288 | - | - | - | 15,163 | 5,974 | 196,425 |
| **Ian Morgan** Company Secretary | 8/11/2012 | 2015 | - | - | - | 35,498 | - | - | 35,498 |
| | | 2014 | - | - | - | 30,268 | - | - | 30,268 |
| **Peter Doyle**[7, 8] Manager Special Projects | 28/03/2013 | 2015 | 64,488 | - | - | - | 6,126 | 27,142 | 97,757 |
| | | 2014 | 179,539 | - | 92,939 | - | 22,322 | 60,795 | 355,595 |
| ***Total KMP*** | | **2015** | **835,517** | **-** | **-** | **174,248** | **53,289** | **78,502** | **1,141,556** |
| | | 2014 | 886,367 | - | 92,939 | 273,707 | 62,195 | 139,299 | 1,454,507 |

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

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.
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 continued the consultancy arrangement with the Chairman whereby he (or his associated entity) is paid a consulting fee of $2,500 per day for any work done for the Company which is not related to his role as Chairman. During the first 2 months of the 2015 financial year Wayne Seabrook performed, in addition to his Chairman role, a Chief Executive Officer function.
Ian Morgan: The Company has continued with the 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 9.50% 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: Graeme Booth was appointed Managing Director and CEO of Malabar Coal Limited on 29 August 2014. Prior to that date Graeme was CFO of Malabar Coal Limited, having being appointed to that position on 7 May 2013.
Note 7: Peter Doyle was appointed Manager Special Projects of Malabar Coal Limited on 31 January 2014 and ceased employment on 2 February 2015. Prior to being appointed Manager Special Projects, Peter was CEO of Malabar Coal Limited and Project Director of Spur Hill Management Pty Ltd, having being appointed to that position on 28 March 2013.
Note 8: Amounts disclosed for these KMP represent the total contracted amount. However, the actual salaries and superannuation expense to the Group is based on the percentage of remuneration charged to 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 [1] | Non-Executive Director | 200,000 | - | 200,000 |
| Graeme Booth [2] | Managing Director | 500,000 | 750,000 | 1,250,000 |
| Bill Dean [3] | Engineering Manager | 125,000 | 200,000 | 325,000 |
| Peter Doyle [4] | Manager Special Projects | 250,000 | - | 250,000 |
| **Total** | | **1,075,000** | **950,000** | **2,025,000** |

Note 1: Option issue as per letter of appointment as non-executive director of Malabar (subject to the terms of the ESOP)
Note 2: Opening balance of 500,000 options relate to the offer for employment as CFO of Malabar (subject to the terms of the ESOP). An additional 750,000 options were issued as per letter of employment as Managing Director of Malabar (subject to terms of the ESOP)
Note 3: Opening balance of 125,000 Option issue relate to the letter of offer for employment as engineering manager of Spur Hill (subject to the terms of the ESOP). An additional 200,000 options were issued in November 2014 (subject terms of the ESOP)
Note 4: Option issue as per letter of appointment as CEO of Malabar (subject to the terms of the ESOP). Peter ceased employment on 2 February 2015.

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

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

### 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:

| 30 June 2015 | 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 |
|---|---|---|---|---|---|
| **Directors**[1] | | | | | |
| W R Seabrook | 2,844,948 | - | - | 2,440,905 | 5,285,853 |
| H J Mende | 9,859,789 | - | - | 1,000,000 | 10,859,789 |
| A Plummer | 6,374,684 | - | - | 2,939,073 | 9,313,757 |
| S J Keyser | 2,802,448 | - | - | 1,479,295 | 4,281,743 |
| T Galligan | - | - | - | - | - |
| **Other KMP** | | | | | |
| G Booth | 50,000 | - | - | - | 50,000 |
| B Dean | - | - | - | - | - |
| I Morgan | - | - | - | - | - |

Note 1: Acquisition of shares by Directors or their related entities as disclosed in the relevant ASX notices during the 2015 Financial Year.

### Other Equity-related KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above relating to options, rights and shareholdings.

### Other Transactions with KMP and/or their Related Parties

There were no other transactions conducted between the Group and KMP or their related parties, other than those disclosed above relating to equity and compensation, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

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

------------------------------
**Graeme Booth**
**Director**
Dated: 24 September 2015

**Competent Person's Statement**

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

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

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2015, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF HACKETTS

**PKF HACKETTS AUDIT**

**Liam Murphy**
**Partner**

Brisbane, 24 September 2015

PKF Hacketts Audit
ABN 33 873 151 348

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2015

| | Note | 30 June 2015 | 30 June 2014 |
|---|---|---|---|
| | | $ | $ |
| **Revenue from continuing operations** | | | |
| Interest income | | 101,153 | 315,222 |
| Agistment income | | 60,000 | 60,000 |
| Other income | | 89,858 | 3,982 |
| Total income | | 251,011 | 379,204 |
| **Expenses** | | | |
| Share-based payments – employee share options | | 78,503 | 139,299 |
| Legal and professional fees | | 311,265 | 316,193 |
| Consultants | | 281,709 | 185,017 |
| Finance costs | | 365,356 | 374,945 |
| Employee benefits expense | | 172,785 | 172,357 |
| Directors fees | | 275,596 | 286,013 |
| Option fee expense | | - | 131,044 |
| Impairment | 3 | 32,973,694 | - |
| Other expenses | | 170,127 | 146,925 |
| Total expenses | | 34,629,035 | 1,751,793 |
| Profit (loss) before income tax | | (34,378,024) | (1,372,589) |
| Income tax expense | 4 | - | - |
| **Profit (loss) for the period** | | (34,378,024) | (1,372,589) |
| **Other comprehensive income** | | - | - |
| **Total comprehensive income for the period** | | (34,378,024) | (1,372,589) |
| Profit (loss) attributable to: | | | |
| • Members of the parent entity | | (32,020,484) | (1,278,183) |
| • Non-controlling interest | | (2,357,540) | (94,406) |
| | | (34,378,024) | (1,372,589) |
| Total comprehensive income attributable to: | | | |
| • Members of the parent entity | | (32,020,484) | (1,278,183) |
| • Non-controlling interest | | (2,357,540) | (94,406) |
| | | (34,378,024) | (1,372,589) |

| | Note | 30 June 2015 | 30 June 2014 |
|---|---|---|---|
| **Earnings per share** | | | |
| From continuing operations: | | | |
| – basic earnings per share (cents) | 16 | (37.67) | (1.50) |
| – diluted earnings per share (cents) | 16 | (37.67) | (1.50) |

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2015

| | Note | 30 June 2015<br>$ | 30 June 2014<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 7 | 1,502,468 | 6,194,615 |
| Trade and other receivables | 8 | 505,401 | 895,291 |
| Other assets | 9 | 91,484 | 78,381 |
| Total Current Assets | | 2,099,353 | 7,168,287 |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 10 | 10,527,903 | 21,247,354 |
| Capitalised exploration and evaluation costs | 12 | 21,031,761 | 39,260,564 |
| Intangible assets | 11 | 2,965,600 | 3,709,100 |
| Other assets | 9 | 36,619 | 37,793 |
| Total Non-Current Assets | | 34,561,883 | 64,254,811 |
| **Total Assets** | | 36,661,236 | 71,423,098 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 13 | 298,898 | 482,143 |
| Total Current Liabilities | | 298,898 | 482,143 |
| **Non-Current Liabilities** | | | |
| Trade and other payables | 13 | 12,290,269 | 12,569,365 |
| Borrowings | 14 | 6,200,000 | 6,200,000 |
| Total Non-Current Liabilities | | 18,490,269 | 18,769,365 |
| **Total Liabilities** | | 18,789,167 | 19,251,508 |
| **Net Assets** | | **17,872,069** | **52,171,590** |
| **EQUITY** | | | |
| Share capital | 17 | 54,317,581 | 54,317,581 |
| Reserves | 18 | 255,622 | 177,119 |
| Retained earnings (accumulated losses) | | (34,194,112) | (2,173,628) |
| Parent interest | | 20,379,091 | 52,321,072 |
| Non-controlling interest | | (2,507,022) | (149,482) |
| **Total Equity** | | **17,872,069** | **52,171,590** |

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2015

| | Note | Ordinary Share Capital $ | Reserves $ | Retained Earnings (Accumulated Losses) $ | Parent Interest $ | Non-controlling Interest $ | Total $ |
|---|---|---|---|---|---|---|---|
| Balance as at 1 July 2013 | | 54,317,581 | 37,820 | (895,445) | 53,459,956 | (55,076) | 53,404,880 |
| Total comprehensive income for the period | | - | - | (1,278,183) | (1,278,183) | (94,406) | (1,372,589) |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Share-based payments – employee share options | 18 | - | 139,299 | - | 139,299 | - | 139,299 |
| **Balance at 30 June 2014** | | 54,317,581 | 177,119 | (2,173,628) | 52,321,072 | (149,482) | 52,171,590 |

| | Note | Ordinary Share Capital $ | Reserves $ | Retained Earnings (Accumulated Losses) $ | Parent Interest $ | Non-controlling Interest $ | Total $ |
|---|---|---|---|---|---|---|---|
| Balance as at 1 July 2014 | | 54,317,581 | 177,119 | (2,173,628) | 52,321,072 | (149,482) | 52,171,590 |
| Total comprehensive income for the period | | - | - | (32,020,484) | (32,020,484) | (2,357,540) | (34,378,024) |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Share-based payments – employee share options | 18 | - | 78,503 | - | 78,503 | - | 78,503 |
| **Balance at 30 June 2015** | | 54,317,581 | 255,622 | (34,194,112) | 20,379,091 | (2,507,022) | 17,872,069 |

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 2015

| | Note | 30 June 2015<br>$<br>Inflows / (Outflows) | 30 June 2014<br>$<br>Inflows / (Outflows) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 147,218 | 74,027 |
| Payment to suppliers and employees | | (1,363,864) | (1,843,768) |
| Interest received | | 101,153 | 315,222 |
| Finance costs | | (368,460) | (378,751) |
| R&D incentive | | 1,248,814 | - |
| **Net cash (used in)/provided by operating activities** | 21 | (235,139) | (1,833,270) |
| **Cash flows from investing activities** | | | |
| Payments for additions of property, plant and equipment | | (134,617) | (6,359,517) |
| Payments for additions of intangible assets | | - | (1,159,100) |
| Proceeds from disposal of property, plant and equipment | | 18,320 | - |
| Payments for exploration expenditure | | (4,340,711) | (5,009,641) |
| **Net cash (used in)/provided by investing activities** | | (4,457,008) | (12,528,258) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | - | 2,725,000 |
| **Net cash (used in)/provided by financing activities** | | - | 2,725,000 |
| Net increase (decrease) in cash held | | (4,692,147) | (11,636,528) |
| Cash and cash equivalents at beginning of financial period | | 6,194,615 | 17,831,143 |
| **Cash and cash equivalents at the end of financial period** | 7 | 1,502,468 | 6,194,615 |

The accompanying notes form part of these financial statements.

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 24 September 2015 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 the Corporations Act 2001, Australian Accounting Standards, and Interpretations of the Australian Accounting Standards Board (AASB) and comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

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 all of the assets, liabilities and results of the parent (Malabar Coal Limited) and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 19.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

**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

**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:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| 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.

## 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.

**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.

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.

**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.

**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.

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

**j. Interests in Joint Arrangements**

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

Separate joint venture entities providing joint venturers with an interest to net assets are classified as a “joint venture” and accounted for using the equity method.

Joint operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Group’s interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the consolidated financial statements.

Gains and losses resulting from sales to a joint operation are recognised to the extent of the other parties’ interests. When the Group makes purchases from a joint operation, it does not recognise its share of the gains and losses from the joint arrangement until it resells those goods/assets to a third party.

Details of the Group’s interests in joint arrangements are provided in Note 20.

**k. Employee Benefits**

**Short-term employee benefits**

Provision is made for the Group’s obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group’s obligations for short-term employee benefits such as wages, salaries and annual leave are recognised as a part of current trade and other payables in the statement of financial position.

**Retirement benefit obligations**

*Defined contribution superannuation benefits*

All employees of the Group receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution (currently 9.50% of the employee’s average ordinary salary) to the employee’s superannuation fund of choice. All contributions in respect of employees’ defined contribution entitlements are recognised as an expense when they become payable. The Group’s obligation with respect to employees’ defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group’s statement of financial position.

**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.

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

**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 and other short-term highly liquid investments with original maturities of 3 months or less.

**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.

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

**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.

**s. R&D Tax Incentives**

The Group has adopted the capital approach to accounting for R&D tax incentives received or receivable, pursuant to AASB 120 Accounting for Government Grants and Disclosure of Government Assistance. Under this approach, the incentive is recorded directly in the statement of financial position against the underlying asset to which the incentive relates.

**t. 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.

**Key judgements**

*(i) Exploration and evaluation expenditure*

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

In the current market environment the directors are cognisant of the funding challenges being faced by the junior resources and coal sector. The directors believe the Group to be well placed with key shareholder support anticipated to be forthcoming when funding is required, as evidenced by the fully underwritten $6m capital raising announced on 15 September 2015. Consistent with the fiduciary responsibilities of the Board the Group is investigating longer term financing options for the Project development. At the appropriate juncture, Malabar may seek a strategic partner for the Project as is common in Australian coal development projects.

Recognising the growing level of uncertainty around future funding requirements as at 31 December 2014 the directors authorised the recognition of an impairment charge for its capitalised exploration and evaluation expenditure of $21,401,846, effectively adjusting the carrying value to a recoverable amount of $21,036,761 (30 June 2014: $39,260,564). In future periods these provisions may be reversed or reduced as the fundamental value of the project is recognised by the market, particularly as Malabar's ownership of the project will increase to 100% when the restructure of the Spur Hill Joint Venture transaction completes.

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

The recoverable amount of capitalised exploration and evaluation expenditure was determined using life-of-mine value in use calculations, which was appropriately discounted to reflect the current stage of Project development and prevailing risk factors and thereafter adjusted for the current percentage interest in the Project.

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

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

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

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

- AASB 2015: *Revenue from Contracts with Customers* (applicable for annual reporting periods commencing on or after 1 January 2017).

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

**v. New and Amended Accounting Policies Adopted by the Group**

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2014:

- *AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial*

The adoption of AASB 2013-3 had a small impact on the impairment. Other than that, the adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

**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 2015 $ | 30 June 2014 $ |
|---|---|---|
| **STATEMENT OF FINANCIAL POSITION** | | |
| ASSETS | | |
| Current assets | 1,520,321 | 6,291,730 |
| Non-current assets | 50,721,002 | 47,092,097 |
| TOTAL ASSETS | 52,241,323 | 53,383,827 |
| LIABILITIES | | |
| Current liabilities | 155,567 | 287,813 |
| Non-current liabilities | - | - |
| TOTAL LIABILITIES | 155,567 | 287,813 |
| EQUITY | | |
| Issued capital | 54,317,581 | 54,317,581 |
| Reserve | 255,622 | 177,119 |
| Retained earnings/(accumulated losses) | (2,487,447) | (1,398,686) |
| TOTAL EQUITY | 52,085,756 | 53,096,014 |
| | | |
| **STATEMENT OF COMPREHENSIVE INCOME** | | |
| Total profit/(loss) | (1,088,760) | (748,700) |
| Total comprehensive income | (1,088,760) | (748,700) |

**Guarantees**
Refer to Note 14: Borrowings.

**Contingent liabilities**
Malabar Coal Limited has certain contingent liabilities as at 30 June 2015. Refer to Note 27.

**Contractual commitments**
Malabar Coal Limited has certain operating lease commitments as at 30 June 2015. Refer to Note 26.

**NOTE 3: LOSS FOR THE YEAR**

| | 30 June 2015 $ | 30 June 2014 $ |
|---|---|---|
| Profit before income tax from continuing operations includes the following specific expenses: | | |
| Share based payments – employee share options | 78,503 | 139,299 |
| Consultant fees | 281,709 | 185,017 |
| Depreciation | 66,177 | 79,362 |
| Impairment(1) | 32,973,694 | - |
| Finance costs | 365,356 | 374,945 |
| Interest expense | 234,518 | 229,306 |
| Loss on disposal of assets | - | 10,046 |

**NOTE 3: LOSS FOR THE YEAR (continued)**

The Group assesses whether there are indicators that assets, or group of assets, may be impaired at each reporting date. The following impairment indicators were identified at year end:

- Carrying value of capitalised exploration and evaluation expenditure may exceed its value in use.
- The excess of the Group's net asset book value over its market capitalisation.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made. Total impairment charges recognised in the Consolidated Statement of Comprehensive Income for the year were as follows:

| | 30 June 2015<br>$ | 30 June 2014<br>$ |
|---|---|---|
| Land and buildings | 10,828,348 | - |
| Intangible assets (water access licenses) | 743,500 | - |
| Capitalised exploration and evaluation expenditure | 21,401,846 | - |
| **Impairment charge** | 32,973,694 | - |

**Land and buildings**

An impairment charge of $10,828,348 was recognised during the period to adjust the value of these properties down to their rural valuation amount less costs of disposal, resulting in these assets being written down to their recoverable amount of $10,367,654. This was supported by an external valuation obtained by management during the period. Given market values were determined by an independent valuer based on observable market data, the fair value is classified as a level 2 fair value.

**Intangible assets (water access licenses)**

During the period, the Group obtained an external valuation of the water licences. Due to the current market conditions, directors determined it prudent to adjust the carrying values of these intangibles to reflect their current market values less costs of disposal. As a result, an impairment charge of $743,500 was recognised during the period, and these assets were written down to their recoverable amount of $2,965,600. Given market values were determined by an independent valuer based on observable market data, the fair value is classified as a level 2 fair value.

**Capitalised exploration and evaluation expenditure**

During the year ended 30 June 2015, Malabar recognised an impairment charge for its capitalised exploration and evaluation expenditure of $21,401,846 effectively adjusting the carrying value to a recoverable amount of $21,428,248.

The recoverable amount of capitalised exploration and evaluation expenditure was determined using life-of-mine value in use calculations, which was then appropriately discounted to reflect the current stage of Project development and prevailing risk factors and thereafter adjusted for the current percentage interest in the Project.

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

The nominal post-tax discount rate applied to cash flow projections was 10% (30 June 2014: 10%).

**NOTE 4: INCOME TAX**

| | 30 June 2015 | 30 June 2014 |
|---|---|---|
| | $ | $ |
| **(a) Numerical reconciliation of income tax expense / (income) to prima facie tax payable:** | | |
| Total profit/(loss) before income tax | (34,378,024) | (1,372,589) |
| Tax at the Australian tax rate of 30% (2014 - 30%) | (10,313,407) | (411,777) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Add/(less) permanent differences – R&D expenditure | | |
| Add/(less) permanent differences – Non-deductibles | 1,303 | 255 |
| | (10,312,104) | (411,521) |
| Net adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised and temporary differences recognised | | |
| Temporary differences not brought to account | 8,979,256 | 411,521 |
| Tax benefit of losses not recognised | 1,322,848 | |
| (Over)/under provision of tax in prior years | - | - |
| Income tax expense | - | - |
| **(b) The components of income tax expense** | | |
| Current tax expense/(benefit) | - | - |
| Deferred tax expense | - | - |
| Adjustments for current tax of prior periods | - | - |
| Total income tax expense | - | - |
| **(c) Deferred Tax Liabilities** | | |
| **The balance comprises temporary differences attributable to:** | | |
| Exploration expenditure | 3,428,533 | 3,669,411 |
| Total deferred tax liabilities | 3,428,533 | 3,669,411 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | (3,428,533) | (3,669,411) |
| Net deferred tax liabilities | - | - |
| **(d) Deferred tax assets:** | | |
| **The balance comprises temporary differences attributable to:** | | |
| Tax losses | 6,309,322 | 4,603,564 |
| Property, plant and equipment | 3,471,555 | - |
| Business capital costs | 504,410 | 706,977 |
| Total deferred tax assets | 10,285,287 | 5,310,541 |

**NOTE 4: INCOME TAX (continued)**

| | 30 June 2015<br>$ | 30 June 2014<br>$ |
|---|---|---|
| Set-off of deferred tax assets pursuant to set-off provisions | (3,428,533) | (5,310,541) |
| Unrecognised deferred tax assets | (6,856,754) | - |
| Net deferred tax assets | - | - |
| **(e) Tax losses:** | | |
| Unused tax losses for which no deferred tax asset has been recognised | 21,031,073 | 15,345,212 |
| | 21,031,073 | 15,345,212 |
| Potential tax effect at 30% | 6,309,322 | 4,603,564 |

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**

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 2015.

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

| | 30 June 2015<br>$ | 30 June 2014<br>$ |
|---|---|---|
| Short-term employee benefits | 1,009,765 | 1,160,074 |
| Post-employment benefits | 53,289 | 62,195 |
| CEO termination payment | - | 92,939 |
| Share-based payments | 78,502 | 139,299 |
| Total KMP compensation | 1,141,556 | 1,454,507 |

**Short-term employee benefits**

These amounts include fees and benefits paid to the non-executive Chair and non-executive directors as well as all salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and other KMP.

**Post-employment benefits**

These amounts are the current-year's estimated cost of providing for the Group's superannuation contributions made during the year.

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

### Other long-term benefits

These amounts represent long service leave benefits accruing during the year, long-term disability benefits and deferred bonus payments.

### Share-based payments

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, rights and shares granted on grant date.

Further information in relation to KMP remuneration can be found in the directors' report.

## NOTE 6: AUDITORS' REMUNERATION

| | 30 June 2015<br>$ | 30 June 2014<br>$ |
|---|---|---|
| Remuneration of the auditor for: | | |
| – Audit and review of the financial statements | 58,600 | 56,600 |
| – Taxation compliance services | - | 1,200 |

## NOTE 7: CASH AND CASH EQUIVALENTS

| | | |
|---|---|---|
| Cash at bank and on hand | 1,502,468 | 681,217 |
| Short-term bank deposits | - | 5,513,398 |
| | 1,502,468 | 6,194,615 |

The effective interest rate on short-term bank deposits was 2.85% (2014: 3.46%); these deposits had an average maturity of 90 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 | 1,502,468 | 6,194,615 |
| | 1,502,468 | 6,194,615 |

**NOTE 8: TRADE AND OTHER RECEIVABLES**

| CURRENT: | 30 June 2015<br>$ | 30 June 2014<br>$ |
|---|---|---|
| Trade receivables | 70,248 | 59,129 |
| Other receivables | 38,666 | 89,475 |
| R&D tax incentive receivable | 396,487 | 746,687 |
| | 505,401 | 895,291 |

**NOTE 9: OTHER ASSETS**

| | | |
|---|---|---|
| CURRENT: | | |
| Other assets | 91,484 | 78,381 |
| | 91,484 | 78,381 |
| NON-CURRENT: | | |
| Other assets | 36,619 | 37,793 |
| | 36,619 | 37,793 |

## NOTE 10: PROPERTY, PLANT AND EQUIPMENT

| | Note | 30 June 2015 $ | 30 June 2014 $ |
|---|---|---|---|
| Land - at cost | | 19,046,606 | 19,046,606 |
| Less: impairment | 3 | (9,407,066) | - |
| Total land | | 9,639,540 | 19,046,606 |
| | | | |
| Buildings - at cost | | 2,264,092 | 2,169,149 |
| Less: accumulated depreciation | | (114,696) | (73,198) |
| Less: impairment | 3 | (1,421,282) | - |
| Total buildings | | 728,114 | 2,095,951 |
| Total land and buildings | | 10,367,654 | 21,142,557 |
| | | | |
| Plant and Equipment | | 210,298 | 130,167 |
| Less: accumulated depreciation | | (50,049) | (25,370) |
| | | 160,249 | 104,797 |
| Total property, plant and equipment | | 10,527,903 | 21,247,354 |

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 $ |
|---|---|---|---|---|
| **Consolidated Group:** | | | | |
| Balance at 1 July 2013 | 11,869,832 | 306,259 | 50,686 | 12,226,777 |
| Additions | 7,176,774 | 1,851,863 | 85,398 | 9,114,035 |
| Disposals | - | - | (14,096) | (14,096) |
| Depreciation expense | - | (62,171) | (17,191) | (79,362) |
| Balance at 30 June 2014 | 19,046,606 | 2,095,951 | 104,797 | 21,247,354 |
| Additions | - | 94,943 | 88,381 | 183,324 |
| Disposals | - | - | (8,250) | (8,250) |
| Depreciation expense | - | (41,498) | (24,679) | (66,177) |
| Impairment expenses | (9,407,066) | (1,421,282) | - | (10,828,348) |
| Balance at 30 June 2015 | 9,639,540 | 728,114 | 160,249 | 10,527,903 |

**NOTE 11: INTANGIBLE ASSETS**

| | Note | 30 June 2015<br>$ | 30 June 2014<br>$ |
|---|---|---|---|
| NON-CURRENT: | | | |
| Water allocation licences | | 2,965,600 | 3,709,100 |
| | | 2,965,600 | 3,709,100 |
| | | | |
| Balance at the beginning of the year | | 3,709,100 | 2,550,000 |
| Additions | | - | 1,159,100 |
| Impairment losses | 3 | (743,500) | - |
| Balance at the end of the year | | 2,965,600 | 3,709,100 |

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

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

| | Note | 30 June 2015<br>$ | 30 June 2014<br>$ |
|---|---|---|---|
| Capitalised exploration and evaluation cost consist of: | | | |
| Mining information | | 963,848 | 900,632 |
| Exploration licence | | 35,175,262 | 33,141,943 |
| Exploration & evaluation expenditures | | 7,939,798 | 5,964,676 |
| Impairment | 3 | (21,401,846) | - |
| R&D tax incentive (Note 1(s)) | | (1,645,301) | (746,687) |
| | | 21,031,761 | 39,260,564 |

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

| | Note | 30 June 2015<br>$ | 30 June 2014<br>$ |
|---|---|---|---|
| Opening balance | | 39,260,564 | 31,845,354 |
| Mining information – Increase in participants interest | | 63,216 | 149,048 |
| Exploration licence - Increase in participants interest and revaluation of licence | | 2,033,319 | 5,441,504 |
| Expenditures incurred during the year | | 1,975,122 | 2,571,345 |
| R&D tax incentive recognised during the year (Note 1 (s)) | | (898,614) | (746,687) |
| Recognition of provision for impairment | 3 | (21,401,846) | - |
| | | 21,031,761 | 39,260,564 |

**NOTE 13: TRADE AND OTHER PAYABLES**

| | | 30 June 2015 | 30 June 2014 |
|---|---|---|---|
| | | $ | $ |
| CURRENT: | | | |
| Trade creditors | | 103,654 | 409,435 |
| Other creditors | | 195,244 | 72,708 |
| | | 298,898 | 482,143 |
| NON-CURRENT: | | | |
| Other creditors | | 8,509 | 8,007 |
| Loan payable Spur Hill Agricultural to Spur Hill Joint Venture | (1) | 12,281,760 | 12,561,358 |
| | | 12,290,269 | 12,569,365 |

(1) As at 30 June 2015, one of the Company's subsidiaries, Spur Hill Agricultural Pty Ltd, had borrowed $19,895,692 from the Spur Hill Joint Venture to finance operating activities.

The Malabar Group has a 38.27% interest in the Spur Hill Joint Venture with the right to acquire up to 80% interest. The remaining 61.73% interest in the Spur Hill Joint Venture 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 38.27% interest in the Joint Venture.

**NOTE 14: BORROWINGS**

| | 30 June 2015 | 30 June 2014 |
|---|---|---|
| | $ | $ |
| NON-CURRENT: | | |
| Revolving bill facility | 6,200,000 | 6,200,000 |
| | 6,200,000 | 6,200,000 |

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

**NOTE 15: DIVIDENDS**

No dividend has been paid during the year ended 30 June 2015, and none is proposed.

## NOTE 16: EARNINGS PER SHARE

| | 2015 | 2014 |
|---|---|---|
| | Cents | Cents |
| **(a) Basic earnings per share** | | |
| From continuing operations attributable to the ordinary equity holders of the company | (37.67) | (1.50) |
| Total basic earnings per share attributable to the ordinary equity holders of the company | (37.67) | (1.50) |
| **(b) Diluted earnings per share** | | |
| From continuing operations attributable to the ordinary equity holders of the company | (37.67) | (1.50) |
| Total diluted earnings per share attributable to the ordinary equity holders of the company | (37.67) | (1.50) |

**(c) Reconciliation of earnings used in calculating earnings per share**

| | $ | $ |
|---|---|---|
| *Basic earnings per share* | | |
| Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share | (32,020,484) | (1,278,183) |
| *Diluted earnings per share* | | |
| Loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share | (32,020,484) | (1,278,183) |

**(d) Weighted average number of shares used as the denominator**

| | # | # |
|---|---|---|
| *Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share* | 85,000,000 | 85,000,000 |
| Adjustments for calculation of diluted earnings per share: | | |
| - Options | - | - |
| *Weighted average number of ordinary shares and potential ordinary share used as the denominator in calculating diluted earnings per share* | 85,000,000 | 85,000,000 |

## NOTE 17: ISSUED CAPITAL

| | 30 June 2015 | 30 June 2014 |
|---|---|---|
| | $ | $ |
| 85,000,000 fully paid ordinary shares (2014: 85,000,000) | 54,317,581 | 54,317,581 |
| | 54,317,581 | 54,317,581 |

### 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:**

| Date | Details | Note | # | Issue Price | $ |
|---|---|---|---|---|---|
| 1 July 2014 | Opening balance | | 85,000,000 | | 54,317,581 |
| 30 June 2015 | Closing balance | | 85,000,000 | | 54,317,581 |

### b. 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 22.

### c. 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

| *Share based payments reserve* | 30 June 2015 | 30 June 2014 |
|---|---|---|
| | $ | $ |
| Balance at 1 July | 177,119 | 37,820 |
| Share based payments – employee share options | 78,503 | 139,299 |
| Balance at 30 June | 255,622 | 177,119 |

The share based payments reserve is used to recognise:

- The grant date fair value of options issued to employees and contractors but not exercised.

## NOTE 19: CONTROLLED ENTITIES

| a. **Controlled Entities** | Owned directly or indirectly | Owned directly or indirectly |
|---|---|---|
| Listed below are companies which are subsidiaries of Malabar Coal Limited. All of the subsidiaries are incorporated in Australia and the investments are in ordinary shares. | **2015** | **2014** |
| 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)[1] | 80% | 80% |

[1] Refer to Note 27 for details on the call option granted by SHA.

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: INTEREST IN JOINT ARRANGEMENTS

### a. Information about Principal Joint Arrangements

Set out below are the joint arrangements of the Group as at 30 June 2015, which in the opinion of the directors are material to the Group:

| Name of Joint Arrangement | Classification of Joint Arrangement | Place of Business/ Country of Incorporation | Proportion of Ownership Interest/ Participating Share | | Measurement at Equity Method or Fair Value |
|---|---|---|---|---|---|
| | | | As at 30 June 2015 | As at 30 June 2014 | |
| Spur Hill Joint Venture | Joint operation | Australia | 38.27% | 35.76% | Fair value method |

Spur Hill Joint Venture is a joint arrangement between the Group and another party. The respective parties have entered into a Farm In Agreement for the Spur Hill Joint Venture which allows the Group to progressively increase its participating interest to 80% through a combination of sole funding, milestone and call option payments. The Group may accelerate its acquisition of its participating interest at any time by pre-paying the sole funding and milestone payments. The purpose of the Spur Hill Joint Venture is to develop and operate the Spur Hill Underground Coking Coal Project on EL7429.

**NOTE 20: INTEREST IN JOINT ARRANGEMENTS (CONTINUED)**

**b. Summarised Financial Information of the Joint Operation**

Set out below is the summarised financial information of the joint operation that is material to the Group. The joint operation is accounted for using the fair value method.

Spur Hill Joint Venture has the same financial year-end as the Group.

| | Spur Hill Joint Venture | |
|---|---|---|
| **Summarised Financial Position** | **As at 30 June 2015** | **As at 30 June 2014** |
| | **$** | **$** |
| Cash and cash equivalents | 6,055 | 21,944 |
| Other current assets | 46,475 | 110,385 |
| TOTAL CURRENT ASSETS | 52,530 | 132,329 |
| Capitalised exploration and evaluation costs | 24,816,859 | 20,749,713 |
| Property, plant and equipment | 115,484 | 138,161 |
| Loan to Spur Hill Agricultural Pty Ltd | 19,895,692 | 19,553,794 |
| Other non-current assets | 95,929 | 105,686 |
| TOTAL NON-CURRENT ASSETS | 44,923,964 | 40,547,354 |
| Other current liabilities | 243,360 | 592,379 |
| TOTAL CURRENT LIABILITIES | 243,360 | 592,379 |
| Other non-current liabilities | 20,000 | 20,000 |
| TOTAL NON-CURRENT LIABILITIES | 20,000 | 20,000 |
| NET ASSETS | 44,713,134 | 40,067,304 |
| Group’s share of net assets (%) | 38.27 | 35.76 |
| Group’s share of net assets ($) | 17,111,716 | 14,328,067 |

**Summarised Financial Performance**

**Spur Hill Joint Venture**

All expenditure is capitalised to form additional equity in the Spur Hill Joint Venture as per the Farm In Agreement. As such there are no reportable items of revenue or expenditure for this period or any historical periods.

Unless otherwise stated, the above summarised financial information reflects the amounts as presented in the individual Australian-Accounting-Standards financial statements of the joint operation.

**NOTE 20: INTEREST IN JOINT ARRANGEMENTS (CONTINUED)**

The following is a reconciliation of the above summarised financial information to the carrying amounts of the Group's interests in the assets, liabilities, revenues and expenses of the joint operation accounted for using the fair value method:

| | Spur Hill Joint Venture | |
|---|---|---|
| | **Year Ended 30 June 2015** | **Year Ended 30 June 2014** |
| | **$** | **$** |
| Group's share of net assets – opening | 14,328,067 | 8,787,160 |
| Group's share of profit or loss | - | - |
| Group's share of other comprehensive income | - | - |
| Group's increase in share of net assets | 2,783,649 | 5,540,907 |
| Group's share of net assets – closing | 17,111,716 | 14,328,067 |

**NOTE 21: CASH FLOW INFORMATION**

| | **30 June 2015** | **30 June 2014** |
|---|---|---|
| | **$** | **$** |
| **Reconciliation of Cash Flow from Operations with Profit (loss) after Income Tax** | | |
| Profit (loss) after income tax | (34,378,024) | (1,372,589) |
| Cash flows excluded from profit attributable to operating activities: | | |
| – Share based payments | 78,503 | 139,300 |
| – Option fee expense | - | 131,044 |
| – Impairment | 32,973,694 | - |
| – Borrowing expense | (3,103) | (3,807) |
| – Non-Operating Expenditure | - | 29,812 |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries: | | |
| – (increase)/decrease in trade and other receivables | 786,377 | (794,999) |
| – (increase)/decrease in other assets | 490,660 | 76,097 |
| – increase/(decrease) in trade payables and accruals | (183,246) | (38,128) |
| Cash flow from operations | (235,139) | (1,833,270) |

## 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 1,075,000 ordinary shares at an exercise price of $1.50 each and 950,000 ordinary shares at an exercise price of $0.30 each. The first group of options are exercisable on or before 31 May 2017. The second group of options are exercisable on or before 28 November 2018.

(ii) Options held by key management personnel are as follows:

| | Grant Date | Expiry Date | Number |
|---|---|---|---|
| **Directors** | | | |
| Tony Galligan | 22 March 2013 | 22 March 2017 | 200,000 |
| **Other KMP** | | | |
| Peter Doyle | 22 March 2013 | 22 March 2017 | 250,000 |
| Graeme Booth | 31 May 2013 | 31 May 2017 | 500,000 |
| Graeme Booth | 28 November 2014 | 28 November 2018 | 750,000 |
| Bill Dean | 31 May 2013 | 31 May 2017 | 125,000 |
| Bill Dean | 28 November 2014 | 28 November 2018 | 200,000 |
| | | | 2,025,000 |

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 358,334 options vested with key management personnel (2014: 358,333).

(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 |
|---|---|---|
| **Options outstanding as at 30 June 2014** | 1,075,000 | $1.50 |
| Granted | 950,000 | $0.30 |
| Forfeited | - | - |
| Exercised | - | - |
| Expired | - | - |
| **Options outstanding as at 30 June 2015** | 2,025,000 | $0.94 |
| Options exercisable as at 30 June 2015 | 716,667 | $1.50 |
| Options exercisable as at 30 June 2014 | 358,333 | $1.50 |

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

The weighted average remaining contractual life of options outstanding at year-end was 2.58 years. The exercise price of outstanding shares at the end of the reporting period was $0.94.

These values were calculated using the Black-Scholes option pricing model applying the following inputs:

| | |
|---|---|
| Expected dividends: | - |
| Weighted average exercise price: | $0.94 |
| Weighted average life of the option: | 2.58 years |
| Expected share price volatility: | 94.902% |
| Risk-free interest rate: | 2.30% |

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 parent entity within 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 have joint control.

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

Ironstone Capital Partners Pty Ltd '(Ironstone Capital') is a boutique corporate advisory business owned by two of the Directors – Wayne Seabrook and Simon Keyser. Ironstone Capital provides consulting services to the Project and the Company in connection with project development and corporate activities. Ironstone Capital is paid at market related rates or less for work conducted by its executives. During the financial year ended 30 June 2015, totals of $12,984 were paid by Malabar to Ironstone Capital.

*ii) Other Related Party Transactions*

During the financial year ended 30 June 2015, Malabar paid XLX Pty Ltd ('XLX') $142,374 under the current lease agreement for office space on Level 26, 259 George Street, Sydney. The current lease agreement between Malabar and XLX for office space on Level 26, 259 George Street amounts to $11,865 per month. The lease agreement is charged on a pass through cost basis from XLX to Malabar and the monthly rental is subsequently split 80/20 between the Project and Malabar. XLX is part-owned by Malabar Directors Wayne Seabrook, Simon Keyser and Andy Plummer.

The Company has continued the consultancy arrangement with the Chairman whereby he (or his associated entity) is paid a consulting fee of $2,500 per day for any work done for the Company which is not related to his role as Chairman. In the financial year ended 30 June 2015, total payments of $138,750 have been made under this agreement.

**c. Transactions with Key Management Personnel**

- Refer to Note 5.

## 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 2015<br>$ | 30 June 2014<br>$ |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 7 | 1,502,468 | 6,194,615 |
| Trade and other receivables | 8 | 108,914 | 895,291 |
| **Total financial assets** | | 1,611,382 | 7,089,906 |
| **Financial liabilities** | | | |
| Trade and other payables | 13 | 12,589,167 | 13,051,508 |
| Borrowings | 14 | 6,200,000 | 6,200,000 |
| **Total financial liabilities** | | 18,789,167 | 19,251,508 |

### 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.

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

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.

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 2015 | 30 June 2014 |
|---|---|---|---|
| | | $ | $ |
| Cash and cash equivalents: | | | |
| – A- to AA- rated | 7 | 1,502,468 | 6,194,615 |

**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: 1 year or less | Over 1 year, less than 5 | Non Interest bearing | Total | Weighted Average Interest rate |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| **Financial assets** | | | | | | |
| Cash at bank | 1,502,446 | - | - | 22 | 1,502,468 | 1.45% |
| Term deposits | - | - | - | - | - | - |
| Receivables | - | - | - | 108,914 | 108,914 | 0.00% |
| **Financial Liabilities** | | | | | | |
| Payables | 6,200,000 | - | - | 12,533,980 | 18,733,980 | 1.25% |
| **2014** | | | | | | |
| **Financial assets** | | | | | | |
| Cash at bank | 681,207 | - | - | 10 | 681,217 | 2.31% |
| Term deposits | - | 5,513,398 | - | - | 5,513,398 | 3.46% |
| Receivables | - | - | - | 895,291 | 895,291 | 0.00% |
| **Financial Liabilities** | | | | | | |
| Payables | 6,200,000 | - | - | 13,025,603 | 19,225,603 | 1.19% |

**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 |
|---|---|---|---|
| | $ | $ | $ |
| **30 June 2015** | | | |
| Interest bearing cash | 1,502,446 | 15,024 | (15,024) |
| **30 June 2014** | | | |
| Interest bearing cash | 6,194,605 | 61,946 | (61,946) |

**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 2015 | 30 June 2014 |
|---|---|---|
| | $ | $ |
| **a. Operating Lease Commitments** | | |
| Non-cancellable operating leases contracted for but not recognised in the financial statements | | |
| Payable – minimum lease payments: | | |
| – not later than 12 months | 348,069 | 139,128 |
| – between 12 months and 5 years | 519,201 | 436,226 |
| – later than 5 years | - | - |
| | 867,270 | 575,354 |

Operating leases include a non-cancellable property 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. It also includes two $100,000 agreements to lease fee relating to a properties adjacent to the project area which are due on 1 July 2015 and 1 May 2016.

**b. Capital Commitments**

The Group had no capital commitments for property, plant and equipment as at 30 June 2015 and 30 June 2014.

## NOTE 27: CONTINGENT LIABILITIES AND CONTINGENCIES

| | | Consolidated Group | |
|---|---|---|---|
| | | 2015 $ | 2014 $ |
| Estimates of the potential financial effect of contingent liabilities that may become payable: | | | |
| *Project Related* | | | |
| **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 Peter Doyle upon the grant of a Mining Lease per employment contract. | 500,000 | 500,000 |
| **c.** | Payment to landholder upon the grant of a Mining Lease per contract of purchase. | 600,000 | 600,000 |
| **Contingent Liabilities** | | 11,100,000 | 11,100,000 |

Note: The contingent liabilities identified in a. i – iv above will be extinguished on completion of the restructure of the Spur Hill Joint Venture (see Note 28)

**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[1] 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[1] 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: The contingencies identified in 1 and 2 above will be extinguished on completion of the restructure of the Spur Hill Joint Venture (see note 28)

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

On 15 September 2015 Malabar announced (see ASX releases dated 15 September 2015) a:
1. Restructure of the Spur Hill Joint Venture; and
2. A $6 million fully underwritten entitlement offer

<u>Restructure of the Spur Hill Joint Venture</u>
- On paying $3 million to our Joint Venture partner, Malabar will increase its stake in the Project from 38.27% (as at 30 June 2015) to 100%.
- Malabar will also make a series of deferred payments totalling $13m on defined milestones and grant a 1.75% royalty on coal sales to our JV partner.

<u>$6 million fully underwritten entitlement offer</u>
- Malabar is undertaking a $6m fully underwritten equity capital raising via a 15 for 17 non-renounceable entitlement offer.
- The entitlement offer is underwritten by 4 of the key shareholders of Malabar.

Other than the above, no other matter of circumstance has arisen since 30 June 2015 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.

**NOTE 29: COMPANY DETAILS**

The registered office and principal place of business of the Company as at 30 June 2015 was:

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

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Malabar Coal Limited, in the opinion of the directors of the company:

1. the financial statements and notes, as set out on pages 22 to 58, are in accordance with the *Corporations Act 2001* including:

   a. complying 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 the *Corporations Regulations 2001*; and

   b. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date;

2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by s295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

**Graeme Booth, Director**

Dated: 24 September 2015

# 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 2015, 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.

*Independence*

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

PKF Hacketts Audit
ABN 33 873 151 348

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GPO Box 1568, Brisbane QLD 4001
p +61 7 3839 9733
f +61 7 3832 1407

8 East Street, PO Box 862
Rockhampton QLD 4700
p +61 7 4927 2744
f +61 7 4927 4317

*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 2015 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 14 to 19 of the Directors' Report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

PKF HACKETTS

**PKF HACKETTS AUDIT**

**Liam Murphy**
**Partner**

Brisbane, 24 September 2015

## ADDITIONAL SHAREHOLDER INFORMATION

At 15 October 2015 issued capital was 160,000,000 ordinary fully paid shares held by 264 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.

*20 Largest Holders of Ordinary Shares and their Holdings at 15 October 2015.*

| Rank | Name | Number of Shares | % of Issued Capital |
|---|---|---|---|
| 1 | CITICORP NOMINEES PTY LIMITED | 24,688,964 | 15.43 |
| 2 | BRISBANE INVESTMENTS II LTD | 22,806,611 | 14.25 |
| 3 | UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD | 17,069,406 | 10.67 |
| 4 | WESTBROOK COAL PTY LTD | 10,655,406 | 6.66 |
| 5 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 9,998,660 | 6.25 |
| 6 | NATIONAL NOMINEES LIMITED | 6,629,164 | 4.14 |
| 7 | MAST CAPITAL P/L | 6,446,637 | 4.03 |
| 8 | RANAMOK PTY LTD <YUANMI SUPER FUND A/C> | 5,187,903 | 3.24 |
| 9 | HFTT PTY LTD <HAGGARTY FAMILY A/C> | 4,407,817 | 2.75 |
| 10 | STROHM PTY LTD | 4,281,728 | 2.68 |
| 11 | ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C> | 3,788,608 | 2.37 |
| 12 | RANAMOK PTY LTD <PLUMMER FAMILY A/C> | 3,642,393 | 2.28 |
| 13 | INVIA CUSTODIAN PTY LIMITED <AJ &LM DAVIES FAMILY A/C> | 3,535,295 | 2.21 |
| 14 | SKUA INVESTMENTS PTY LTD <THE SCARAMOUCHE EQUITIES A/C> | 2,177,695 | 1.36 |
| 15 | D.H. QUILLEN PROPERTIES LLC | 2,030,416 | 1.27 |
| 16 | BRISBANE INVESTMENTS II | 1,882,353 | 1.18 |
| 17 | SADA SERVICES PTY LIMITED | 1,830,030 | 1.14 |
| 18 | VESADE PTY LTD | 1,688,471 | 1.06 |
| 19 | MR MICHAEL JACK QUILLEN <QUILLEN FAMILY TRUST A/C> | 1,573,573 | 0.98 |
| 20 | LIMITS PTY LIMITED <DUNCAN GAMBLE FAMILY A/C> | 1,315,009 | 0.82 |
| | **Top 20 holders of ORDINARY SHARES (TOTAL)** | **135,636,139** | **84.77** |
| | **Balance of Register** | **24,363,861** | **15.23** |
| | **Grand TOTAL** | **160,000,000** | **100.0** |

*Distribution of Holders and Holdings at 15 October 2015*

| Range | Total Holders | Number of Shares | % of Issued Capital |
|---|---|---|---|
| 100,001 and Over | 86 | 155,212,741 | 97.01% |
| 10,001 to 100,000 | 118 | 4,425,351 | 2.77% |
| 5,001 to 10,000 | 31 | 260,393 | 0.16% |
| 1,001 to 5,000 | 28 | 100,911 | 0.06% |
| 1 to 1,000 | 1 | 604 | 0.00% |
| **Total** | **264** | **160,000,000** | **100.00%** |

The number of shareholders holding less than the marketable parcel of ordinary shares is 35 (share price 7.30 cents each share).

## ADDITIONAL SHAREHOLDER INFORMATION

*Substantial Shareholders at 15 October 2015*

| Name | Number of Shares | % of Issued Capital |
|---|---|---|
| Brisbane Investments I Ltd and Hans Mende | 24,688,964 | 15.43 |
| Brisbane Investments II Ltd and Fritz Kundrun | 24,688,964 | 15.43 |
| Anthony Haggarty, HFTT Pty Ltd & MEM Consultants Pty Ltd | 24,437,295 | 15.27 |
| Andrew Plummer, Ranamok Pty Ltd and Vesade Pty Ltd | 21,174,173 | 13.23 |
| Wayne Seabrook and Westbrook Consultants no. 2 Pty Ltd | 8,423,353 | 5.26 |

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

*Unquoted equity securities*

| | Number on Issue | Number of holders |
|---|---|---|
| Options issued under the Malabar Coal Limited Executive Share Option Plan | 2,025,000 | 4 |

*Securities Exchange Listing*

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

The Company's ASX code for ordinary shares is MBC.

*On-Market Buy Back*

There is no on-market buy-back.

*Corporate Governance Statement*

The Company's Corporate Governance statement for the financial year ended 30 June 2015 is available for members to download and access from http://malabarcoal.com.au/corporate/corporate-governance

## 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 |
| Website: | 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 7100 |
| Website: | www.linkmarketservices.com.au |

***Auditor***

PKF Hacketts Audit

Level 6, 10 Eagle Street

Brisbane QLD 4000

| | |
|---|---|
| Telephone: | +61 7 3839 9733 |
| Facsimile: | +61 7 3832 1407 |
| Website: | www.pkflawler.com.au |