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

**Interim Financial Report  
For the half-year ended 31 December 2013**

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

The information contained in this report is to be read in conjunction with Malabar Coal Limited's 2013 Annual Report and any announcements made to the market by Malabar Coal Limited during the half-year period ending 31 December 2013.

Malabar Coal Limited  
and Controlled Entities  
ABN 29 151 691 468

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated group, consisting of Malabar Coal Limited ('the Company' or 'Malabar') and its controlled entities ('the Group') for the half-year ended 31 December 2013.

**Directors**

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

Wayne Seabrook	Executive Chairman	
Hans Mende	Non-Executive Director	
Andrew (Andy) Plummer	Non-Executive Director	
Simon Keyser	Non-Executive Director	
Anthony (Tony) Galligan	Non-Executive Director	
Grant Polwarth	Alternate to Hans Mende	(Appointed 30 January 2014)

**Operating Results**

The consolidated loss after tax for the half-year ended 31 December 2013 of the Group amounted to \$574,775 (31 December 2012: \$240,409), after the elimination of non-controlling equity interests.

**Review of Operations**

Malabar Coal Limited's primary focus is on the development of the Spur Hill Underground Coking Coal Project (the 'Project'), of which it has the right to acquire up to 80%. The primary activities conducted on the Project during the six months to 31 December 2013 are outlined below:

Resource Definition

In the first quarter of this financial year Malabar completed the final 4 drill holes of its 26 hole resource definition drilling program. Together with the necessary technical, engineering and other studies this enabled the Project to upgrade its JORC Resource Estimate and to announce its maiden JORC Reserves Estimate in November 2013. Please see the ASX Release dated 11 November 2013<sup>1</sup> and Table 1 overleaf.

The Probable Reserves Estimate of 91 million tonnes was calculated for the Whynot and Bowfield seams, which are two of the seams targeted for initial mining. Concurrently with the release of the maiden Reserves Estimate, the Resources Estimate was updated to 626 million tonnes. Of particular importance was the increase in Indicated Resources from 334 million tonnes to 394 million tonnes, which reflects increased geological confidence.

Further exploration and technical studies are expected to progressively convert an increasing proportion of the remaining Resources to Reserves.

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<sup>1</sup> 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.

**Malabar Coal Limited  
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DIRECTORS' REPORT (CONTINUED)

Review of Operations (continued)

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

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

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

Environmental and Project Approvals

Following completion of Coal Resource and Reserve Estimates, sufficient environmental and engineering studies and the release of the Gateway criteria by the NSW government in October 2013, the Spur Hill Joint Venture lodged a Gateway Application for the Project in December 2013.

The Gateway Application is supported by:

- an Agricultural Impact Assessment;
- a Subsidence Assessment;
- a Groundwater Assessment; and
- an Agricultural Resource (Soil) Assessment.

DIRECTORS' REPORT (CONTINUED)

**Review of Operations (continued)**

The Project was the first new coal project in NSW to lodge a Gateway Application, demonstrating that Malabar is progressing the Project approvals as quickly as the applicable regulatory framework allows.

Environmental baseline studies advanced during the six months include:

- Surface water monitoring;
- Ambient noise monitoring;
- Ground water monitoring;
- Aboriginal cultural heritage surveys;
- Flora and fauna surveys;
- Transport surveys; and
- Soils and agricultural land capability studies.

Mine Design and Infrastructure

During the six months to 31 December 2013, Malabar completed pre-feasibility studies to support the Reserve Estimate and the Gateway Application, including:

- Underground mine design and scheduling;
- Design and costing for coal handling and preparation facilities; and
- Design of mine surface infrastructure.

Strategic Land Purchases

Three additional strategic land acquisitions were completed during the first quarter of the financial year through Malabar's 80% owned subsidiary Spur Hill Agricultural Pty Ltd. Ownership of these properties assists in locating the Project's surface infrastructure and overall Project development.

**Financial Position**

The net assets of the Group have decreased by \$559,537 during the financial year, from \$53,404,880 at 30 June 2013 to \$52,845,343 at 31 December 2013. The Group's cash position reduced from \$17,831,143 at 30 June 2013 to \$8,982,458 at 31 December 2013, predominantly due to the completion of three strategic land acquisitions (including the acquisition of water licence allocations) and the investment in exploration and evaluation expenditure during the period.

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 \$7,971,527. This expenditure increased Malabar's participating interest in the Project by 4.55%, from 29.84% at 30 June 2013, to 34.39% as at 31 December 2013.

During the period, the Group fully drew down its \$6,200,000 revolving bill facility with the National Australia Bank, in order to part finance the strategic land acquisitions that occurred during the period.

**Future Developments, Prospects and Business Strategies**

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

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

Malabar Coal Limited  
and Controlled Entities  
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DIRECTORS' REPORT (CONTINUED)

**Future Developments, Prospects and Business Strategies (continued)**

On 3 October 2013 the NSW Government released the Gateway criteria in regard to its Strategic Regional Land Use Plans. The Government also announced the formation of the Gateway Panel and timelines for assessment of applications. The permitting progress for the Project had been delayed prior to these announcements. The release of the Gateway criteria removed an element of uncertainty with respect to the timing of the overall permitting process for the Project. As mentioned earlier the Spur Hill Joint Venture lodged a Gateway Application for the Project in December 2013, thereby becoming the first new coal project in NSW to lodge a Gateway Application. The Group looks forward to the issuance of the Gateway Certificate around the end of the March 2014 quarter and thereafter the subsequent lodgement of the EIS and DA once the EIS studies are complete.

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

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

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 7 for the half-year ended 31 December 2013.

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



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**Wayne Seabrook**

Director

Sydney, 27 February 2014

Malabar Coal Limited  
and Controlled Entities  
ABN 29 151 691 468

COMPETENT PERSON'S STATEMENTS

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

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

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

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2013, there have been:

- a) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) No contraventions of any applicable code of professional conduct in relation to the review.



**LAWLER HACKETTS AUDIT**



**Liam Murphy**  
**Partner**

Brisbane, 27 February 2014

Lawler Hacketts Audit  
ABN 33 873 151 348

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated Group	
		31 December 2013	31 December 2012
		\$	\$
<b>Revenue from continuing operations</b>			
Interest income		210,916	252,395
Other income		23,954	21,808
<b>Expenses</b>			
Share based payments - management fees prior to IPO		-	(270,793)
Share based payments – employee share options		(80,623)	-
Legal and professional fees		(82,184)	(52,522)
Consultants		(75,845)	(111,383)
Finance costs		(197,237)	(78,206)
Employee benefits expense		(84,835)	-
Directors fees		(142,072)	-
Option fee expense		(131,045)	-
Other expenses		(81,189)	(13,683)
<b>Profit (loss) before income tax</b>		<u>(640,160)</u>	<u>(252,384)</u>
Income tax expense		-	-
<b>Profit (loss) for the period</b>	2	<u>(640,160)</u>	<u>(252,384)</u>
<b>Other comprehensive income</b>			
		-	-
<b>Total comprehensive income for the period</b>		<u>(640,160)</u>	<u>(252,384)</u>
Profit (loss) attributable to:			
- Members of the parent entity		(574,775)	(240,409)
- Non-controlling interest		(65,385)	(11,975)
		<u>(640,160)</u>	<u>(252,384)</u>
Total comprehensive income attributable to:			
- Members of the parent entity		(574,775)	(240,409)
- Non-controlling interest		(65,385)	(11,975)
		<u>(640,160)</u>	<u>(252,384)</u>
<b>Earnings per share</b>			
From continuing operations:			
- basic earnings per share (cents)		(0.68)	(1.33)
- diluted earnings per share (cents)		(0.68)	(1.33)

The accompanying notes form part of these financial statements.

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**Malabar Coal Limited  
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ABN 29 151 691 468**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2013**

		<b>Consolidated Group</b>	
	<b>Note</b>	<b>31 December 2013</b>	<b>30 June 2013</b>
		<b>\$</b>	<b>\$</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		8,982,458	17,831,143
Trade and other receivables		113,268	187,990
Other assets	5	256,088	2,873,473
<b>TOTAL CURRENT ASSETS</b>		<u>9,351,814</u>	<u>20,892,606</u>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables			
Property, plant and equipment	6	21,116,541	12,226,777
Intangible assets	7	3,709,100	2,550,000
Capitalised exploration and evaluation costs	8	37,957,654	31,845,354
Other assets	5	22,358	19,397
<b>TOTAL NON-CURRENT ASSETS</b>		<u>62,805,653</u>	<u>46,641,528</u>
<b>TOTAL ASSETS</b>		<u><u>72,157,467</u></u>	<u><u>67,534,134</u></u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	372,021	535,541
<b>TOTAL CURRENT LIABILITIES</b>		<u>372,021</u>	<u>535,541</u>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	9	12,740,103	10,118,713
Borrowings	10	6,200,000	3,475,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>18,940,103</u>	<u>13,593,713</u>
<b>TOTAL LIABILITIES</b>		<u>19,312,124</u>	<u>14,129,254</u>
<b>NET ASSETS</b>		<u><u>52,845,343</u></u>	<u><u>53,404,880</u></u>
<b>EQUITY</b>			
Issued capital	11	54,317,581	54,317,581
Reserves		118,443	37,820
Retained earnings (accumulated losses)		(1,470,220)	(895,445)
Parent interest		52,965,804	53,459,956
Non-controlling interest		(120,461)	(55,076)
<b>TOTAL EQUITY</b>		<u><u>52,845,343</u></u>	<u><u>53,404,880</u></u>

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Malabar Coal Limited  
and Controlled Entities  
ABN 29 151 691 468

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER 2013

Consolidated Group	Ordinary Share Capital	Reserves	Retained Earnings (Accumulated Losses)	Total Parent Entity Interest	Total Non- controlling Interest	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2012</b>	36,230,002	332,569	(255,473)	36,307,098	42	36,307,140
<b>Comprehensive income</b>						
Profit (loss) for the period	-	-	(240,409)	(240,409)	(11,975)	(252,384)
Other comprehensive income for the period	-	-	-	-	-	-
<b>Total comprehensive income for the half year</b>	-	-	(240,409)	(240,409)	(11,975)	(252,384)
<b>Transactions with owners, in their capacity as owners, and other transfers</b>						
Shares issued during the period	340,000	(332,569)	-	7,431	-	7,431
Shared based payments	-	263,362	-	263,362	-	263,362
<b>Total transactions with owners and other transfers</b>	340,000	(69,207)	-	270,793	-	270,793
<b>Balance at 31 December 2012</b>	36,570,002	263,362	(495,882)	36,337,482	(11,933)	36,325,549
<b>Balance at 1 July 2013</b>	54,317,581	37,820	(895,445)	53,459,956	(55,076)	53,404,880
<b>Comprehensive income</b>						
Profit (loss) for the period	-	-	(574,775)	(574,775)	(65,385)	(640,160)
Other comprehensive income for the period	-	-	-	-	-	-
<b>Total comprehensive income for the half year</b>	-	-	(574,775)	(574,775)	(65,385)	(640,160)
<b>Transactions with owners, in their capacity as owners, and other transfers</b>						
Shares issued during the period	-	-	-	-	-	-
Shared based payments	-	80,623	-	80,623	-	80,623
<b>Total transactions with owners and other transfers</b>	-	80,623	-	80,623	-	80,623
<b>Balance at 31 December 2013</b>	54,317,581	118,443	(1,470,220)	52,965,804	(120,461)	52,845,343

The accompanying notes form part of these financial statements.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED  
31 DECEMBER 2013**

	<b>Consolidated Group</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	35,200	21,808
Payments to suppliers and employees	(545,864)	(694,984)
Interest received	210,916	252,395
Finance costs	(378,752)	(78,206)
Net cash (used in)/provided by operating activities	<u>(678,500)</u>	<u>(498,987)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for additions of property, plant and equipment	(6,229,905)	(14,012,710)
Payments for additions of intangible assets	(1,159,100)	-
Pre-payments of land acquisitions	-	(2,243,577)
Payments for options of land acquisitions	-	(420,001)
Payments for exploration expenditures	(3,506,180)	(4,827,530)
Net cash (used in)/provided by investing activities	<u>(10,895,185)</u>	<u>(21,503,818)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	<u>2,725,000</u>	<u>3,475,000</u>
Net cash (used in)/provided by financing activities	<u>2,725,000</u>	<u>3,475,000</u>
Net decrease in cash held	(8,848,685)	(18,527,805)
Cash and cash equivalents at beginning of period	<u>17,831,143</u>	<u>22,425,110</u>
Cash and cash equivalents at end of period	<u><u>8,982,458</u></u>	<u><u>3,897,305</u></u>

The accompanying notes form part of these financial statements.

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ABN 29 151 691 468**

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

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

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

The financial statements were authorised for issue on 27 February 2014 by the directors of the Company.

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

**a) Basis of preparation**

These general purpose interim financial statements for the half-year reporting period ended 31 December 2013 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Malabar Coal Limited and its controlled entities (referred to as the Consolidated Group or the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2013, together with any public announcements made during the following half-year.

**b) Accounting Policies**

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2013 annual financial report for the financial year ended 30 June 2013, except for any impact of the Standards and Interpretations described below.

At 30 June 2013, the Group determined the accounting policy for the treatment of stamp duty, and decided it should be capitalised to exploration and evaluation costs. As a result, stamp duty of \$418,190 previously expensed at 31 December 2012 has been subsequently capitalised, and comparative information has been amended accordingly.

**c) Critical Accounting Estimates and Judgments**

The critical estimates and judgments are consistent with those applied and disclosed in the 30 June 2013 annual report.

**d) New and Revised Accounting Requirements Applicable to the Current Half-year Reporting Period**

A number of new and revised accounting standard requirements became mandatory for the first time for the half-year period ended 31 December 2013:

- AASB 10: *Consolidated Financial Statements*;
- AASB 127: *Separate Financial Statements (August 2011)*;
- AASB 11: *Joint Arrangements*;
- AASB 128: *Investments in Associates and Joint Ventures (August 2011)*;
- AASB 12: *Disclosure of Interests in Other Entities*;
- AASB 2011-7: *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*;
- AASB 2012-10: *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*.
- AASB 13: *Fair Value Measurement*; and
- AASB 2011-8: *Amendments to Australian Accounting Standards arising from AASB 13*.

These standards became mandatorily applicable from 1 January 2013 and became applicable to the Group for the first time in the current half-year reporting period 1 July 2013 to 31 December 2013. The Group has adopted all of the new and revised Standards and Interpretations that are relevant to its operations and effective for the current half year. Adoption has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-years.

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

**e) 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 (including any structured entities). 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 15.

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.

**f) 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 16.

Malabar Coal Limited  
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ABN 29 151 691 468

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

**NOTE 2: LOSS FOR THE PERIOD**

	Consolidated Group	
	31 December 2013	31 December 2012
	\$	\$
The following expense items are relevant in explaining the financial performance for the interim period:		
Share based payments – management fee prior to IPO	-	270,793
Share based payments – employee share options	80,623	-
Consultant fees	75,845	111,383
Depreciation	10,138	-
Finance costs	197,237	78,206
Loss in disposal of assets	11,246	-

**NOTE 3: DIVIDENDS**

No dividend has been paid during the half-year ended 31 December 2013, and none is proposed.

**NOTE 4: OPERATING SEGMENT**

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

**NOTE 5: OTHER ASSETS**

	31 December 2013	30 June 2013
	\$	\$
	CURRENT:	
Prepayment on purchases of land	-	1,936,888
Call options acquired	-	468,075
Stamp duty prepaid	-	397,187
Prepayments	256,088	71,323
	256,088	2,873,473
NON-CURRENT:		
Security deposits	22,358	19,397
	22,358	19,397

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

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

	<b>Consolidated Group</b>	
	<b>31 December 2013</b>	<b>30 June 2013</b>
	<b>\$</b>	<b>\$</b>
Land - at cost	19,046,606	11,869,832
Total land	<u>19,046,606</u>	<u>11,869,832</u>
Buildings - at cost	1,999,772	317,286
Less: accumulated depreciation	(19,361)	(11,027)
Total buildings	<u>1,980,411</u>	<u>306,259</u>
Total land and buildings	<u>21,027,017</u>	<u>12,176,091</u>
Plant and equipment	104,756	58,664
Less: accumulated depreciation	(15,232)	(7,978)
	<u>89,524</u>	<u>50,686</u>
	<u>21,116,541</u>	<u>12,226,777</u>

a. **Movements in Carrying Amounts**

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

	<b>Freehold Land</b>	<b>Buildings</b>	<b>Plant and Equipment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consolidated Group:</b>				
Balance at 1 July 2012	-	-	1,082	1,082
Additions	11,869,832	317,286	57,582	12,244,700
Disposals	-	-	-	-
Depreciation expense	-	(11,027)	(7,978)	(19,005)
Balance at 30 June 2013	<u>11,869,832</u>	<u>306,259</u>	<u>50,686</u>	<u>12,226,777</u>
Additions	7,176,774	1,682,486	60,188	8,919,448
Disposals	-	-	(14,096)	(14,096)
Depreciation expense	-	(8,334)	(7,254)	(15,588)
Balance at 31 December 2013	<u>19,046,606</u>	<u>1,980,411</u>	<u>89,524</u>	<u>21,116,541</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

**NOTE 7: INTANGIBLE ASSETS**

	Consolidated Group	
	31 December 2013	30 June 2013
	\$	\$
NON-CURRENT:		
Water allocation licences	3,709,100	2,550,000
	<u>3,709,100</u>	<u>2,550,000</u>
Balance at the beginning of the period	2,550,000	-
Additions	1,159,100	2,550,000
Disposals	-	-
Amortisation charge	-	-
Impairment losses	-	-
	<u>3,709,100</u>	<u>2,550,000</u>

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

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

Capitalised exploration and evaluation cost consist of:

Mining information	866,311	751,585
Exploration license	32,156,435	27,700,438
Exploration & evaluation expenditures	4,934,908	3,393,331
	<u>37,957,654</u>	<u>31,845,354</u>

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

Opening balance	31,845,354	13,580,269
Mining information – increase in participants interest	114,726	314,874
Exploration licence – increase in participants interest and revaluation of licence	4,455,997	15,144,218
Expenditures incurred during the period	1,541,577	2,805,993
	<u>37,957,654</u>	<u>31,845,354</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

**NOTE 9: TRADE AND OTHER PAYABLES**

	<b>Consolidated Group</b>	
	<b>31 December 2013</b>	<b>30 June 2013</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT:</b>		
Trade creditors	169,604	258,063
Other creditors	202,417	277,478
	372,021	535,541
<b>NON-CURRENT:</b>		
Other creditors	7,734	6,823
Loan payable Spur Hill Agricultural to Spur Hill Joint Venture (1)	12,732,369	10,111,890
	12,740,103	10,118,713

(1) As at 31 December 2013, one of the Company's subsidiaries, Spur Hill Agricultural Pty Ltd, had borrowed \$19,408,288 from the Spur Hill Joint Venture, primarily to purchase land and options.

The Malabar Group has a 34.39% interest in the Spur Hill Joint venture with the right to acquire up to 80% interest. The remaining 65.61% 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 34.39% interest in the Joint Venture. Refer Note 16.

**NOTE 10: BORROWINGS**

**NON-CURRENT:**

Revolving Bill Facility	6,200,000	3,475,000
	6,200,000	3,475,000

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

On 6 June 2013 this revolving bill facility was increased to \$6,200,000 to fund land acquisitions that settled in July and August 2013. Upon those settlements the bill facility was fully drawn down. This bill facility has an expiry date of 31 August 2015.

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

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Malabar Coal Limited  
and Controlled Entities  
ABN 29 151 691 468

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

**NOTE 11: EQUITY SECURITIES ISSUED**

	31 December 2013	30 June 2013
	\$	\$
Fully paid ordinary shares	54,317,581	54,317,581
	54,317,581	54,317,581

Issues of ordinary share capital during the half-year:

Date	Details	Number of shares	\$
30 June 2013	Balance	85,000,000	54,317,581
	Shares issued	-	-
31 December 2013	Balance	85,000,000	54,317,581

**NOTE 12: RELATED PARTY TRANSACTIONS**

**a. Transactions with related parties**

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

*Relationship with Ironstone Capital*

Ironstone Capital Pty Ltd ('Ironstone Capital') is a boutique corporate advisory business owned by two of the Directors – Wayne Seabrook and Simon Keyser. Ironstone Capital established Malabar for the purpose of acquiring an interest in the Project.

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

During the period Ironstone Capital has seconded its staff to the Group to assist in activities relating to the Project including land acquisitions, exploration programmes, environmental studies and infrastructure development as well as corporate activities for the Company. Ironstone Capital is paid per hour for work conducted by its executives on the Project. During the period ended 31 December 2013, a total of \$25,095 was paid by Spur Hill Management Pty Ltd (the Project) to Ironstone Capital. Ironstone Capital is also paid per hour for work conducted by its executives on the Company and during the period a total of \$40,145 was paid by Malabar Coal Ltd (the Company) to Ironstone Capital.

*Other Related Party Transactions*

During the period ended 31 December 2013, Malabar paid XLX Pty Ltd ('XLX') \$66,888 under a lease agreement for office space on Level 26, 259 George Street, Sydney. This current lease agreement between Malabar and XLX for office space on Level 26, 259 George Street amounts to \$11,148 per month. The lease agreement is charged on a pass through cost basis from XLX to Malabar and the monthly rental is subsequently split 80/20 between the Project and Malabar. XLX is part-owned by Malabar Directors Wayne Seabrook, Simon Keyser and Andy Plummer.

The Company has entered into an appointment letter with the Chairman which includes a consultancy arrangement whereby he (or his associated entity) is paid a consulting fee of \$2,500 per day for any work done for the Company which is not related to his role as Chairman. In the period ended 31 December 2013, total payments of \$89,766 have been made under this agreement.

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Malabar Coal Limited  
and Controlled Entities  
ABN 29 151 691 468

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

**NOTE 13: CAPITAL AND LEASING COMMITMENTS**

	31 December 2013 \$	30 June 2013 \$
<b>a. Operating Lease Commitments</b>		
Non-cancellable operating leases contracted for but not recognised in the financial statements		
Payable – minimum lease payments:		
– not later than 12 months	133,777	133,777
– between 12 months and 5 years	390,177	457,066
– later than 5 years	-	-
	523,954	590,843

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

<b>b. Capital Commitments</b>		
Commitments on the reporting date but not recognised as liability:		
Property (1)	-	2,025,000
Property (2)	-	3,675,000
Property (3)	-	1,575,000
	-	7,275,000

- (1) On 13 July 2012, SHA entered into a contract to purchase a property related to the Project for a total consideration of \$2,700,000. A deposit of \$675,000 was paid on that date and recorded under the Other Current Asset account on the statement of financial position as at 30 June 2013. The settlement date for the property was 15 July 2013, at which time \$2,025,000 was paid to acquire the property.
- (2) On 10 August 2012, SHA entered into a contract to purchase a property related to the Project for a total consideration of \$4,900,000. A deposit of \$1,225,000 was paid on that date and recorded under the Other Current Asset account on the statement of financial position as at 30 June 2013. The settlement date for the property was 12 August 2013, at which time \$3,675,000 was paid to acquire the property.
- (3) On 23 November 2012, SHA entered into interdependent put and call option deeds in respect of land related to the Project and an agricultural business conducted on the land for a total consideration of \$1,875,000. An option fee of \$300,000 was paid on that date and recorded under the Other Current Asset account on the statement of financial position as at 30 June 2013. The settlement date for the property was 16 August 2013, at which time \$1,575,000 was paid to acquire the property.

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Malabar Coal Limited  
and Controlled Entities  
ABN 29 151 691 468

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

**NOTE 14: CONTINGENT LIABILITIES AND CONTINGENCIES**

	<b>Consolidated Group</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2013</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
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 the CEO upon the grant of a Mining Lease per employment contract*.	1,000,000	1,000,000
c. Payment to landholder in Note 13 b. (3) upon the grant of a Mining Lease per contract of purchase.	600,000	600,000
<b>Contingent Liabilities</b>	<b>11,600,000</b>	<b>11,600,000</b>

\*Subsequent to year end, the Chief Executive Officer position was made redundant. As a result, the contract was renegotiated, and the bonus payment was reduced to \$500,000.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

**NOTE 14: CONTINGENT LIABILITIES AND CONTINGENCIES (CONTINUED)**

**Contingencies**

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

**NOTE 15: INTEREST IN SUBSIDIARIES**

**a. Information about Principal Subsidiaries**

Set out below are the Group's subsidiaries at 31 December 2013. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's country of incorporation or registration is also its principal place of business.

Name of Subsidiary	Principal Place of Business	Ownership Interest Held by the Group		Proportion of Non-controlling Interests	
		At 31 December 2013	At 30 June 2013	At 31 December 2013	At 30 June 2013
Spur Hill No.2 Pty Ltd	Australia	100%	100%	0%	0%
Spur Hill Agricultural Pty Ltd	Australia	80%	80%	20%	20%
Spur Hill Management Pty Ltd	Australia	80%	80%	20%	20%
Spur Hill Marketing Pty Ltd	Australia	80%	80%	20%	20%

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

Malabar Coal Limited  
and Controlled Entities  
ABN 29 151 691 468

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

**NOTE 16: INTEREST IN JOINT ARRANGEMENTS**

**a. Information about Principal Joint Arrangements**

Set out below are the joint arrangements of the Group as at 31 December 2013, 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 31		
			December 2013	As at 30 June 2013	
Spur Hill Joint Venture	Joint operation	Australia	34.39%	29.84%	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.

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Malabar Coal Limited  
and Controlled Entities  
ABN 29 151 691 468

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

**NOTE 16: 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.

<b>Summarised Financial Position</b>	<b>Spur Hill Joint Venture</b>	
	<b>As at 31 December 2013</b>	<b>As at 30 June 2013</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	44,703	84,638
Other current assets	107,936	257,180
<b>TOTAL CURRENT ASSETS</b>	<b>152,639</b>	<b>341,818</b>
Capitalised exploration and evaluation costs	18,416,715	15,440,544
Property, plant and equipment	154,005	169,849
Loan to Spur Hill Agricultural Pty Ltd	19,408,288	14,412,932
Other non-current assets	65,000	65,000
<b>TOTAL NON-CURRENT ASSETS</b>	<b>38,044,008</b>	<b>30,088,325</b>
Other current liabilities	360,559	964,085
<b>TOTAL CURRENT LIABILITIES</b>	<b>360,559</b>	<b>964,085</b>
Other non-current liabilities	20,000	20,000
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>20,000</b>	<b>20,000</b>
<b>NET ASSETS</b>	<b>37,816,088</b>	<b>29,446,058</b>
Group's share of net assets (%)	34.39	29.84
Group's share of joint ventures' net assets	13,007,699	8,787,160

**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.

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Malabar Coal Limited  
and Controlled Entities  
ABN 29 151 691 468

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

**NOTE 16: INTEREST IN JOINT ARRANGEMENTS (CONTINUED)**

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.

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:

	<b>Spur Hill Joint Venture</b>		
	<b>Half-year Ended 31 December 2013</b>	<b>Half-year Ended 30 June 2013</b>	<b>Half-year Ended 31 December 2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Group's share of net assets – opening	8,787,160	7,116,493	1,212,166
Group's share of profit or loss	-	-	-
Group's share of other comprehensive income	-	-	-
Group's increase in share of net assets	4,220,539	1,670,667	5,904,327
Group's share of net assets – closing	13,007,699	8,787,160	7,116,493

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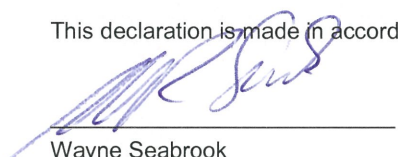
Malabar Coal Limited  
and Controlled Entities  
ABN 29 151 691 468

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 8 to 24 are in accordance with the *Corporations Act 2001*, including:
  - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory reporting requirements; and
  - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



---

Wayne Seabrook  
Director

Brisbane, 27 February 2014

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

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

We have reviewed the accompanying half-year financial report of Malabar Coal Limited ("the Company") and its controlled entities ("the consolidated entity"), which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

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

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Malabar Coal Limited and controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Lawler Hacketts Audit  
ABN 33 873 151 348

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*Independence*

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

*Conclusion*

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

- (a) giving a true and fair view of the consolidated Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



**LAWLER HACKETTS AUDIT**



**Liam Murphy**  
**Partner**

Brisbane, 27 February 2014

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