

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

**Interim Financial Report
For the half-year ended 31 December 2017**

The information contained in this report is to be read in conjunction with Malabar Coal Limited's 2017 Annual Report and any announcements made to the market by Malabar Coal Limited during the half-year period ending 31 December 2017.

**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 2017.

Directors

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

Wayne Seabrook	Non-Executive Chairman
Anthony (Tony) Galligan	Non-Executive Independent Director
Brian Clifford	Non-Executive Director

Operating Results

The consolidated loss after tax for the half-year ended 31 December 2017 of the Group amounted to \$1,494,253 (31 December 2016: \$559,965).

Review of Operations

Malabar's primary focus is on the development of the Spur Hill Project (Project) and completing the acquisition of Drayton assets, that was successfully completed on 26 February 2018.

Project Approvals

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

- Gateway Certificate
- EPBC Referral and 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
- Mining Lease Applications submitted. 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

The Company advanced studies in relation to the review and design of mine surface infrastructure and underground mine layouts. Further exploration utilising 2D Seismic is planned within the next 12 months. This work will be designed to confirm the seam structure between existing boreholes.

During the financial period, Malabar advanced studies to support the Environmental Impact Statement ('EIS') in particular Surface and Groundwater assessments.

Malabar has progressed a review of the Project design focussing on capital cost and operating costs for optimisation and improvement.

Malabar remains fully committed to developing the Spur Hill Underground Coking Coal Project.

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DIRECTORS' REPORT

Review of Operations (continued)

Purchase of Drayton Coal Assets

Malabar Coal announced in May 2017 that it had entered into an agreement to acquire Anglo American's ("Anglo") 88.17% interest in the Drayton mine and EL5460 which are near Muswellbrook, New South Wales. Anglo ceased operations at the Drayton mine in 2016. These tenements adjoin Malabar's Spur Hill underground coking coal project and have significant existing infrastructure suitable for use by Malabar, including a coal preparation plant, coal stockpiling facilities, rail loop, administration offices, workshops and other facilities. These assets will significantly reduce the capital cost to bring Spur Hill into production.

As part of the acquisition, Malabar assumes all of Anglo's bonding and environmental obligations for the Drayton mine.

In September 2017, agreement was reached with the other Drayton Joint Venture participants and they will tag along with Anglo American in selling their interests in the Drayton Joint Venture, on the same terms and conditions as Anglo sale that will result in Malabar Coal owning 100% of the Drayton mine and EL5460.

In December 2017, the NSW Government announced that it approved the renewal of the Exploration Licence 5460 for the Maxwell Coal Project (formerly known as the Drayton South project). The renewal of the Exploration Licence is not an approval to build a mine, but a step in the process to determine whether or not a mine is feasible.

Renewal of Maxwell Coal Project's exploration licence will now enable commencement of a process to determine whether an underground mine can be developed.

On 26th February 2018, all the conditions precedent for the purchase of Drayton assets were met, and completion of the transaction was achieved.

While the Board continues to investigate its options for the long-term financing of the Drayton assets, key Malabar Coal shareholders have provided binding commitments to fully participate in a converting share equity raising of \$80 million to support the purchase of the Drayton assets as well as to underwrite any shortfall in the converting share offer to all other shareholders. At the date of this report, the key shareholders had transferred to Malabar Coal their converting share entitlements that amount to \$64.3 million that will allow Malabar Coal to complete the acquisition of the Drayton assets.

On 13 March 2018, the prospectus for the retail portion of the converting share entitlement offer was lodged with ASIC. The prospectus is for a non-renounceable pro rata entitlement offer of 80 new converting shares for every 81 existing ordinary shares at 45 cents per share, that unless redeemed by 28 February 2019, will convert into ordinary shares at that date.

These funds will be used to provide a cash backed bank guarantee for rehabilitation bonding required for the Drayton mine and the remainder of the equity raised will provide sufficient working capital for the next two years of operations, including the commencement of rehabilitation activities on the Drayton mine and preparation and evaluation of Environmental Impact and Pre-Feasibility Studies for Malabar Coal's Spur Hill EL and EL5460.

Community and Landholder Consultation

Two 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.

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.

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DIRECTORS' REPORT

Resource Definition

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

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

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

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DIRECTORS' REPORT

Financial Position

The net assets of the Group have decreased by \$1,494,253 during the half year, from \$30,326,365 at 30 June 2017 to \$28,833,146 at 31 December 2017.

The Group's cash position decreased from \$1,973,936 at 30 June 2017 to \$1,402,635 at 31 December 2017. During the period, the Company borrowed \$1.5 million from key major shareholders to fund the ongoing development of the Spur Hill Project, pre-completion costs incurred for the Drayton acquisition and the ongoing business of the Company, that will be offset against the funds to be raised in the upcoming equity raising.

Malabar's principal asset is its interest in the Project. Expenditure on the Project during the half year period, which was sole funded by Malabar, totalled \$633,135.

Future Developments, Prospects and Business Strategies

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

The timing of the submission of the EIS and DA for the Spur Hill Project is under assessment while Malabar assesses data from the latest exploration program undertaken on land owned by Malabar as well as the scheduled 2D Seismic program scheduled for the second half of the 2018 Financial Year.

As well, once the acquisition of the Drayton assets is completed in 2018, Malabar will commence activities to integrate the assets acquired into the Malabar management process and to commence initial EIS and DA studies on the Maxwell Coal Project.

The Board believes the Company to be relatively well placed financially with as a result of the current fund raising process in relation to the Drayton acquisition. At the appropriate juncture, Malabar may seek a strategic partner for the Project as is common in Australian coal development projects.

Events after the Financial Period End

Other than the above and matters described in Note 18 of the financial statements, no other matter of circumstance has arisen since 31 December 2017 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.

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 2017.

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



Wayne Seabrook

Chairman

Sydney, 15 March 2018

**Malabar Coal Limited
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COMPETENT PERSON'S STATEMENTS

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

The information in this Report that relates to JORC Mineral Reserves for the Spur Hill Underground Coking Coal Project is based on a Reserves Estimate that has been prepared by Mr Jeremy Busfield, Principal Mining Consultant of MineCraft Consulting Pty Ltd. Mr Busfield holds a Bachelor of Mining Engineering degree from the University of Queensland, is a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy (AusIMM) and is a Registered Professional Engineer of Queensland (Mining) (RPEQ 10285). Mr Busfield has worked in various planning, operational and consulting roles for the underground coal industry for 29 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 half-year ended 31 December 2017, 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.

This declaration is in respect of Malabar Coal Limited and the entities it controlled during the period.

PKF HACKETTS

PKF HACKETTS AUDIT



LIAM MURPHY
PARTNER

BRISBANE
DATE: 15 MARCH 2018

**Malabar Coal Limited
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	Note	Consolidated Group	
		31 December 2017	31 December 2016
		\$	\$
Revenue from continuing operations			
Interest income		724	3,052
Other income		74,413	63,297
Expenses			
Share based payments – employee share options	13	(1,035)	(4,053)
Legal and professional fees		(222,068)	(117,392)
Consultants		(823,763)	(102,887)
Finance costs		(317,394)	(160,886)
Employee benefits expense		(3,821)	(39,444)
Directors' fees		(41,179)	(125,657)
Other expenses		(160,130)	(75,995)
Profit (loss) before income tax		<u>(1,494,253)</u>	<u>(559,965)</u>
Income tax expense		-	-
Profit (loss) for the period	2	<u>(1,494,253)</u>	<u>(559,965)</u>
Other comprehensive income			
		-	-
Total comprehensive income for the period		<u>(1,494,253)</u>	<u>(559,965)</u>
Profit (loss) attributable to:			
- Members of the parent entity		<u>(1,494,253)</u>	<u>(559,965)</u>
		<u>(1,494,253)</u>	<u>(559,965)</u>
Total comprehensive income attributable to:			
- Members of the parent entity		<u>(1,494,253)</u>	<u>(559,965)</u>
		<u>(1,494,253)</u>	<u>(559,965)</u>
Earnings per share			
From continuing operations:			
- basic earnings per share (cents)		(0.83)	(0.31)
- diluted earnings per share (cents)		(0.83)	(0.31)

The accompanying notes form part of these financial statements.

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Note	Consolidated 31 December 2017	30 June 2017
		\$	\$
Cash and cash equivalents		1,402,635	1,973,936
Trade and other receivables		208,474	302,834
Other assets	5	58,625	80,675
TOTAL CURRENT ASSETS		<u>1,669,734</u>	<u>2,357,445</u>
NON-CURRENT ASSETS			
Property, plant and equipment	6	10,509,554	10,516,833
Intangible assets	7	2,965,600	2,965,600
Capitalised exploration and evaluation costs	8	33,612,124	32,978,988
Other assets	5	1,361,074	1,095,686
TOTAL NON-CURRENT ASSETS		<u>48,448,352</u>	<u>47,557,107</u>
TOTAL ASSETS		<u><u>50,118,086</u></u>	<u><u>49,914,552</u></u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	9	506,725	478,042
Provisions		40,625	35,123
Borrowings	11	11,118,589	9,456,022
TOTAL CURRENT LIABILITIES		<u>11,665,939</u>	<u>9,969,187</u>
NON-CURRENT LIABILITIES			
Provision for Deferred Consideration	10	9,619,000	9,619,000
TOTAL NON-CURRENT LIABILITIES		<u>9,619,000</u>	<u>9,619,000</u>
TOTAL LIABILITIES		<u>21,284,939</u>	<u>19,588,187</u>
NET ASSETS		<u><u>28,833,147</u></u>	<u><u>30,326,365</u></u>
EQUITY			
Issued capital	12	62,185,206	62,185,206
Reserves	13	7,932,488	7,931,453
Retained earnings (accumulated losses)		(41,284,547)	(39,790,294)
Parent interest		28,833,147	30,326,365
Non-controlling interest		-	-
TOTAL EQUITY		<u><u>28,833,147</u></u>	<u><u>30,326,365</u></u>

The accompanying notes form part of these financial statements.

**Malabar Coal Limited
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

Consolidated Group	Ordinary Share Capital	Reserves	Retained Earnings (Accumulated Losses)	Total Parent Entity Interest	Total Non- controlling Interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2016	60,242,961	8,185,097	(38,239,472)	30,188,586	-	30,188,586
Comprehensive income						
Profit (loss) for the period	-	-	(559,965)	(559,965)	-	(559,965)
Total comprehensive income for the half year	-	-	(559,965)	(559,965)	-	(559,965)
Transactions with owners, in their capacity as owners, and other transfers						
Shares issued during the period	1,946,404	-	-	1,946,404	-	1,946,404
Shared based payments	-	4,053	-	4,053	-	4,053
Other reserves recognised after restructure	-	(249)	-	(249)	-	(249)
Total transactions with owners and other transfers	1,946,404	3,804	-	1,950,208	-	1,950,208
Balance at 31 December 2016	62,189,365	8,188,901	(38,799,437)	31,578,829	-	31,578,829
Balance at 1 July 2017	62,185,206	7,931,453	(39,790,294)	30,326,365	-	30,326,365
Comprehensive income						
Profit (loss) for the period	-	-	(1,494,253)	(1,494,253)	-	(1,494,253)
Minority interest recognised after restructure	-	-	-	-	-	-
Total comprehensive income for the half year	-	-	(1,494,253)	(1,494,253)	-	(1,494,253)
Transactions with owners, in their capacity as owners, and other transfers						
Shares issued during the period	-	-	-	-	-	-
Shared based payments – employee share options	-	1,035	-	1,035	-	1,035
Other reserves recognised after restructure	-	-	-	-	-	-
Total transactions with owners and other transfers	-	1,035	-	1,035	-	1,035
Balance at 31 December 2017	62,185,206	7,932,488	(41,284,547)	28,833,147	-	28,833,147

The accompanying notes form part of these financial statements.

**Malabar Coal Limited
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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED
31 DECEMBER 2017**

	Consolidated Group	
	31 December 2017	31 December 2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	74,413	63,297
Payments to suppliers and employees	(1,252,165)	(1,081,954)
Interest received	724	3,052
Finance costs	(132,778)	(314,281)
Net cash (used in)/provided by operating activities	<u>(1,309,806)</u>	<u>(1,329,886)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for deposit on purchase of Drayton tenements	(134,239)	-
Payments for exploration expenditures	(605,146)	(993,617)
Payment for acquisition of asset	(22,110)	(13,598)
Net cash (used in)/provided by investing activities	<u>(761,495)</u>	<u>(1,007,215)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings from related parties	1,500,000	-
Proceeds from shares issued	-	1,946,404
Net cash (used in)/provided by financing activities	<u>1,500,000</u>	<u>1,946,404</u>
Net increase / (decrease) in cash held	(571,301)	(390,697)
Cash and cash equivalents at beginning of period	1,973,936	1,175,754
Cash and cash equivalents at end of period	<u>1,402,635</u>	<u>785,057</u>

The accompanying notes form part of these financial statements.

**Malabar Coal Limited
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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

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 15 March 2018 by the directors of the Company.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

These general purpose interim financial statements for half-year reporting period ended 31 December 2017 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 2017, 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 2017 annual financial report for the financial year ended 30 June 2017.

c) Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the 30 June 2017 annual report.

i. Going concern principle

The financial statements have been prepared on a going concern basis that presumes the realisation of assets and the discharge of liabilities in the normal course of operations for the foreseeable future.

During the six months ended 31 December 2017, the Group made a loss before tax of \$1,494,253 (2016: \$559,965). Cash outflows from operating and exploration-related investing activities during the same period were \$2,071,301 (2016: \$2,337,101) with closing cash on hand of \$1,402,635. Given the current level of cash on hand and forecast cash outflows over the next 12 months, the Group's ability to continue a normal course of business on a going concern basis is therefore dependent upon its ability to raise additional capital through existing shareholders or new strategic investors. The directors are confident the consolidated entity is a going concern and will be able to pay its debts as and when they fall due and payable (as evidenced by the full underwritten entitlement offers of \$80 million in February 2018). Malabar may seek a strategic partner for the Project as is common in Australian coal development projects.

These financial statements do not give effect to any adjustments which could be necessary should the company be unable to continue as a going concern and therefore be required to realise its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

ii. Exploration and evaluation expenditure

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NOTE 2: LOSS FOR THE PERIOD

	Consolidated Group	
	31 December 2017	31 December 2016
	\$	\$
The following expense items are relevant in explaining the financial performance for the interim period:		
Share based payments – employee share options	1,035	4,053
Consultant fees	823,763	102,887
Depreciation	27,990	27,772
Finance costs	317,394	160,886

NOTE 3: DIVIDENDS

No dividend has been paid during the half-year ended 31 December 2017, 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 2017	30 June 2017
	\$	\$
CURRENT:		
Prepaid finance costs	58,624	80,675
	58,624	80,675
NON-CURRENT:		
Security deposits	226,835	95,686
Drayton acquisition deposit	1,134,239	1,000,000
	1,361,074	1,095,686

**Malabar Coal Limited
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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	
	31 December 2017	30 June 2017
	\$	\$
Land - at cost	19,046,606	19,046,606
Less: provision for impairment ⁽¹⁾	(9,407,066)	(9,407,066)
Total land	<u>9,639,540</u>	<u>9,639,540</u>
Buildings - at cost	2,276,073	2,265,139
Less: provision for impairment ⁽¹⁾	(1,421,282)	(1,421,282)
Plus: additions	-	10,934
Less: accumulated depreciation	(169,893)	(158,782)
Total buildings	<u>684,898</u>	<u>696,009</u>
Total land and buildings	<u>10,324,438</u>	<u>10,335,549</u>
Plant and equipment	357,097	354,937
Plus: additions	20,710	2,160
Less: accumulated depreciation	(192,691)	(175,813)
	<u>185,116</u>	<u>181,284</u>
	<u>10,509,554</u>	<u>10,516,833</u>

- ⁽¹⁾ An impairment charge of \$10,828,348 was recognised during the 2015 financial year to adjust the value of these properties to their rural valuation, which was supported by an external valuation obtained by management. Management considers these values have not changed materially since the rural valuation took place.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

NOTE 6: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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:

	Freehold Land	Buildings	Plant and Equipment	Total
	\$	\$	\$	\$
Consolidated Group:				
Balance at 1 July 2016	9,639,540	707,212	212,244	10,558,997
Additions	-	10,934	2,160	13,599
Disposals	-	-	-	-
Depreciation expense	-	(22,137)	(33,120)	(55,762)
Balance at 30 June 2017	9,639,540	696,009	181,284	10,516,834
Additions	-	-	22,110	20,170
Disposals	-	-	(1,400)	-
Depreciation expense	-	(11,109)	(16,878)	(27,987)
Balance at 31 December 2017	9,639,540	684,898	185,116	10,509,554

NOTE 7: INTANGIBLE ASSETS

	Consolidated Group	
	31 December 2017	30 June 2017
	\$	\$
NON-CURRENT:		
Water allocation licences	3,709,100	3,709,100
Less: provision for impairment ⁽¹⁾	(743,500)	(743,500)
	<u>2,965,600</u>	<u>2,965,600</u>

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

- ⁽¹⁾ During the 2015 Financial Year, the Group obtained an external valuation of the water licences. Due to market conditions, directors determined it prudent to adjust the carrying values of these intangibles to reflect their current market values. As a result, an impairment charge of \$743,500 was recognised. Management considers these values have not changed materially since the external valuation took place.

**Malabar Coal Limited
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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

NOTE 8: CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

	Note	Consolidated Group	
		31 December 2017	30 June 2017
		\$	\$
Capitalised exploration and evaluation costs consist of:			
Mining information		963,848	963,848
Exploration license		36,774,905	36,774,905
Exploration & evaluation expenditures		11,201,008	10,567,872
Reserves & resources acquired ⁽¹⁾	10	8,214,000	8,214,000
Provision for impairment of E&E		(21,401,846)	(21,401,846)
R&D tax incentive		(2,139,791)	(2,139,791)
		33,612,124	32,978,989

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

Opening balance		32,978,989	31,320,609
Exploration licence – increase in participants interest and revaluation of licence		-	-
Expenditures incurred during the period		633,135	1,755,625
Reserves & resources acquired ⁽¹⁾		-	-
R&D tax incentive recognised during the period		-	(97,245)
		33,612,124	32,978,989

⁽¹⁾ The transaction for the acquisition of 100% of the Project completed on 24 December 2015. An independent external party was engaged to value the acquired assets and liabilities on a fair value basis in accordance with AASB 13 and to assess the purchase price allocation taking into account the structure of the transaction and the Joint Venture. Refer to note 10 for additional details.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

NOTE 9: TRADE AND OTHER PAYABLES

	31 December 2017	30 June 2017
	\$	\$
CURRENT:		
Trade creditors	386,440	381,890
Other creditors	120,285	96,152
	506,725	478,042

NOTE 10: PROVISION FOR DEFERRED CONSIDERATION

On 24 December 2015, the Company acquired control of Spur Hill Unit Trust Pty Ltd, the trustee for Spur Hill Unit Trust ("SHUT"). SHUT held the remaining interest in the Spur Hill JV not held by the Company. The Company engaged an external party to value the acquired assets and liabilities on a fair value basis as at the date of acquisition in accordance with AASB 13. Management are of the opinion that these values have not changed materially since the acquisition date.

	\$	\$
Deferred Milestone Payment	5,691,000	5,691,000
Future royalties payable	3,728,000	3,728,000
Participating interest option	200,000	200,000
	9,691,000	9,691,000

NOTE 11: BORROWINGS

	\$	\$
CURRENT:		
Loans from Related Parties	4,918,589	3,256,022
Revolving Bill Facility	6,200,000	6,200,000
	11,118,589	9,456,022

Security on the facility consists of general security agreements, real property mortgages and water allocation license mortgage over the assets of the subsidiary company Spur Hill Agriculture Pty Ltd. The facility had an expiry date of 28 February 2018. Malabar Coal Limited has guaranteed and indemnified the facility. Subsequent to 31 December 2017, the facility was renewed for a two year term and increased to \$7,140,000 as part of financing package to purchase the Drayton assets.

NOTE 12: EQUITY SECURITIES ISSUED

Issues of ordinary share capital during the half-year:

Date	Details	Number of fully paid ordinary shares	\$
01 July 2016	Opening Balance	180,000,000	62,185,206
31 December 2017	Balance	180,000,000	62,185,206

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

NOTE 13: RESERVES

	31 December 2017 \$	30 June 2017 \$
Share based payment reserve		
Opening Balance	42,994	296,638
Share based payments – employee share options	1,035	8,106
Transferred to retained earnings upon expiration of unexercised option	-	(261,750)
Closing Balance	44,029	42,994
Capital Reserves	7,888,459	7,888,459
Total Reserves	7,932,488	7,931,453

NOTE 14: RELATED PARTY TRANSACTIONS

a. Transactions with related parties

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

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

Ironstone Capital Partners Pty Ltd ('Ironstone Capital') is a boutique corporate advisory business owned by two of the Directors – Wayne Seabrook and Simon Keyser. Ironstone Capital provides consulting services to the Project and the Company in connection with project development and corporate activities. Ironstone Capital is paid at market related rates or less for work conducted by its executives. During the period ended 31 December 2017, a total net payment of \$33,200 was paid by Malabar to Ironstone Capital.

ii) Other Related Party Transactions

During the period ended 31 December 2017, Malabar paid XLX Pty Ltd ('XLX') \$57,875 under the current lease agreement for office space on Level 26, 259 George Street, Sydney. 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. This arrangement ended on 30 November 2017, when Malabar took over the lease for the office at 259 George Street, Sydney.

The Company has continued the consultancy arrangement with the Chairman whereby he (or his associated entity) is paid a consulting fee of \$2,500 per day for any work done for the Company which is not related to his role as Chairman. In the period ended 31 December 2017, total net payments of \$173,283 have been made under this agreement.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

NOTE 14: RELATED PARTY TRANSACTIONS (Continued)

During the 2016 Financial year, the Company entered into an arrangement with Simon Keyser, who resigned as Director of Malabar on 26 January 2017, whereby he (or his associated entity) is paid a consulting fee of \$2,500 per day of any work done for the company not related to his role as director. In the period ended 31 December 2017, total net payments of \$38,281 have been made under this arrangement.

NOTE 15: CAPITAL AND LEASING COMMITMENTS

	Consolidated Group	
	31 December 2017	30 June 2017
	\$	\$
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	275,450	165,208
– between 12 months and 5 years	945,284	100,000
– later than 5 years	-	-
	1,220,734	265,208

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.

NOTE 16: CONTINGENT LIABILITIES AND CONTINGENCIES

There have been no changes to the contingent liabilities disclosed in the latest annual report.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

NOTE 17: INTEREST IN SUBSIDIARIES

Information about Principal Subsidiaries

Set out below are the Group's subsidiaries at 31 December 2017. 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		At 31	
		December 2017	At 30 June 2017	December 2017	At 30 June 2017
Spur Hill No.2 Pty Ltd	Australia	100%	100%	0%	0%
Spur Hill Agricultural Pty Ltd	Australia	100%	100%	0%	0%
Spur Hill Management Pty Ltd	Australia	100%	100%	0%	0%
Spur Hill Marketing Pty Ltd	Australia	100%	100%	0%	0%
Spur Hill U.T. Pty Ltd (1)	Australia	100%	100%	0%	0%

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.

NOTE 18: EVENTS AFTER THE END OF THE INTERIM PERIOD

Other than the following, the directors are not aware of any significant events since the end of the interim period:

Key Malabar Coal shareholders have provided binding commitments to fully participate in a converting share equity raising of \$80 million to support the purchase of the Drayton assets as well as to underwrite any shortfall in the equity raising from other shareholders.

On 14 February 2018, these shareholders had transferred to Malabar Coal their converting share entitlements that amount to \$64.3 million to enable the Company to complete the acquisition of the Drayton assets. On 14 March 2018, the Company issued the corresponding amount of 142,973,300 converting shares at \$0.45 per share to the key shareholders.

These funds will be used to provide cash-backed bank guarantees for rehabilitation bonding for the Drayton mine and working capital including the rehabilitation of the Drayton open cut and preparation of an Environmental Impact Statement and Development Application, and feasibility studies for Malabar Coal's proposed underground operations.

On 26th February 2018, all the conditions precedent for the purchase of Drayton assets were met, and completion of the transaction was achieved.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

NOTE 18: EVENTS AFTER THE END OF THE INTERIM PERIOD RESERVES (continued)

On 13 March 2018, the prospectus for the converting share entitlement offer was lodged with ASIC. The prospectus is for a non-renounceable pro rata entitlement offer of 80 new converting shares for every 81 existing ordinary shares at 45 cents per share, that unless redeemed by 28 February 2019, will convert into ordinary shares at that date.

As at the date of this report, the below figures are provisional and represent management's best estimate of the proforma balance sheet after taking into account the acquisition of the Drayton assets:

	31 December 2017	Pro-forma Anglo Acquisition	Restated
	\$		
Current assets			
Cash and cash equivalents	1,402,635	33,960,587	35,363,222
Trade and other receivables	208,473	-	208,473
Other Assets	58,624	-	58,624
Total current assets	1,669,732	33,960,587	35,630,319
Non-current assets			
Exploration and evaluation	33,612,124	-	33,612,124
Intangible Assets	2,965,600	-	2,965,600
Property, plant & equipment	10,509,553	24,978,097	35,487,650 (1)
Other Assets	1,361,074	55,295,761	56,656,835
Total non-current assets	48,448,351	80,273,858	128,722,209
Total assets	50,118,083	114,234,445	164,352,528
Current liabilities			
Trade and other payables	506,723	-	506,723
Borrowings	11,118,589	(11,118,589)	- (2)
Provisions	40,625	2,477,167	2,517,792 (3)
Total current liabilities	11,665,937	(8,641,422)	3,024,515
Non Current liabilities			
Liability for Deferred Consideration	9,619,000	-	9,619,000
Borrowings	-	7,140,000	7,140,000 (2)
Provisions	-	34,930,133	34,930,133 (3)
Non Current liabilities	9,619,000	42,070,133	51,689,133
Total liabilities	21,284,937	33,428,711	54,713,648
Net assets	28,833,146	80,805,734	109,638,880
Equity			
Ordinary Shares	62,185,206	945,000	63,130,206 (4)
New Converting Shares	-	79,860,734	79,860,734 (5)
Reserves	7,931,453	-	7,931,453
Retained earnings	-	-	-
Current profit/(loss)	(41,283,513)	-	(41,283,513)
Total equity	28,833,146	80,805,734	109,638,880

- (1) Property, plant and equipment value represents that land, infrastructure and plant acquired from Anglo.
- (2) Shareholders loans of \$4.9 million repaid from proceeds of fund raising. NAB Bill facility increased from \$6.2 million to \$7.14 million for a 2 year facility.
- (3) Provisions for rehabilitaton for Drayton and royalties payable to the Vendors.
- (4) Relates to shares issued to Ironstone Capital as part of the consideration for the advisory fees associated with the development and delivery of the Drayton acquisition. The remainder of the fee was paid in cash.
- (5) Net proceeds after new converting share equity raising less costs associated with this fund raising.

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DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 8 to 21 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: *Interim Financial Reporting*; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date and
2. Having regard to the matters referred to in Note 1, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Wayne Seabrook

Director

Sydney, 15 March 2018

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Malabar Coal Limited (“the company”), which comprises the consolidated statement of financial position as at 31 December 2017, 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 of the consolidated entity, comprising the company and the entities it controlled at the half-year’s end or from time to time during the financial half-year.

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 is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity’s financial position as at 31 December 2017 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*.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. In accordance with the *Corporations Act 2001*, we have given the directors’ of the company a written Auditor’s Independence 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 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations*

2001. As the auditor of Malabar Coal Limited and its controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

PKF HACKETTS

PKF HACKETTS AUDIT



LIAM MURPHY
PARTNER

BRISBANE
DATE: 15 MARCH 2018