Malabar Coal Limited
and controlled entities
ABN 29 151 691 468

Interim Financial Report
For the half-year ended 31 December 2016

The information contained in this report is to be read in conjunction with Malabar Coal Limited's 2016 Annual Report and any announcements made to the market by Malabar Coal Limited during the half-year period ending 31 December 2016.

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 2016.

Directors

Subsequent to the end of the half-year, Malabar voluntarily de-listed from the ASX in January 2017. Since that date, the board has sought to reduce administration costs generally including halving the size of the board and reducing the remuneration paid to the remaining 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	(Appointed 26 January 2017)
Hans Mende	Non-Executive Director	(Resigned 26 January 2017)
Andrew (Andy) Plummer	Non-Executive Director	(Resigned 26 January 2017)
Simon Keyser	Non-Executive Director	(Resigned 26 January 2017)
Ian Morgan	Non-Executive Director	(Resigned 26 January 2017)

Hence there are now three non-executive directors with Tony Galligan being 'independent'. Annual Directors' fees have also so reduced from c. $55,000 to $30,000 per director.

Operating Results

The consolidated loss after tax for the half-year ended 31 December 2016 of the Group amounted to $559,965 (31 December 2015: $653,227, after the elimination of non-controlling equity interests).

Review of Operations

On 31 August 2016 the Company announced a $2 million fully underwritten capital raise via a 1 for 8 non-renounceable entitlement offer. The institutional Entitlement Offer was completed on 1 September 2016 raising approximately $1.42 million. Furthermore, eligible retail shareholders applied for approximately $1.36 million in New Shares, or 13.6 million New Shares equivalent to approximately 234% of the total Retail Entitlement Offer. The Entitlement was limited to raising approximately $2 million in New Shares. Give the over-subscription received under the top-up facility, approximately $0.78 million of the $0.99 million received through the facility was refunded to shareholders.

In addition, the company announced on the same date an intention to de-list from the official list of the ASX. The voluntary de-listing process was completed on 20th January 2017 after being approved at the Annual General Meeting in November 2016 with 100% of those voting, voting in favour. The decision to de-list was made by the directors of the Company having regard to the limited liquidity of Malabar, the lack of interest from brokers and the costs of maintaining Malabar's listing.

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

Malabar will also continue to assess value-enhancing opportunities including potential acquisitions.

Malabar Coal Limited's primary focus is on the development of the Project, of which it has 100% ownership. The primary activities conducted on the Project other than the significant effort expended on the JV restructure and the entitlement offer during the six months to 31 December 2016 are outlined below:

<u>Community and Landholder Consultation</u>

The Company places an emphasis on regular interactions with all stakeholders in the community in accordance with its Community Consultation Plan.

Review of Operations (continued)

Community and Landholder Consultation (Continued)

The tenth Community Consultative Committee ('CCC') meetings for the Project was held during the period. Further CCC meetings will be held at regular intervals on an ongoing basis.

In addition, senior Company executives continually interact with the community on an informal basis through various activities including attending and sponsoring sporting and community events.

Malabar secured long-term access agreements with a number of landowners on the exploration licence. As a result, approximately 80% of the foot-print of the proposed underground mine is either land owned by the company or is under long term access agreement. Malabar maintains regular dialogue with landholders on the Exploration Licence in accordance with our Community Consultation Plan.

Environmental and Project Approvals

Malabar continued to advance studies in connection with the Environmental Impact Statement ('EIS') in particular Surface and Groundwater assessments.

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.

Resource Definition

A drilling program took place in the northern area of EL7429, on property owned by Malabar Coal Limited, between 28 April and 23 June 2016.

There were 4 core and 4 open holes drilled during the program. The holes were to the Whynot seam, targeted in the area where mining is expected to commence. The information obtained included seam structure, core quality and geotechnical base data.

One of the holes was also used to measure stress values (magnitude and direction) within the strata. This data will provide for the refinement of the longwall layout.

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*

Financial Position

The net assets of the Group have increased by $1,390,243 during the half year, from $30,188,586 at 30 June 2016 to $31,578,829 at 31 December 2016.

The Group's cash position decreased from $1,175,754 at 30 June 2016 to $785,057 at 31 December 2016. During the period, the Company raised $2 million to fund the ongoing development of the Spur Hill Underground Coking Coal Project, and the ongoing business of the Company.

Malabar's principal asset is its interest in the Project. Expenditure on the Project during the financial period, which was sole funded by Malabar, totalled $1,138,143.

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 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 halve of the 2017 Financial Year.

The Board believes the Company to be relatively well placed financially with key shareholder support (as evidenced by the full underwritten entitlement offers of $6 million and $2 million in September 2015 and August 2016 respectively). In addition, and consistent with the fiduciary responsibilities of the Board, the Group is investigating medium and longer term financing options for the Project development. Malabar acquiring 100% ownership of the Project is advantageous for future Project funding. At the appropriate juncture, Malabar may seek a strategic partner for the Project as is common in Australian coal development projects.

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

As an un-listed public company, Malabar is currently assessing and reducing other administrative and corporate costs where appropriate.

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 2016.

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

Wayne Seabrook

Chairman

Sydney, 23 February 2017

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 2016, 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.

PKF HACKETTS

PKF HACKETTS AUDIT

Liam Murphy
Partner

Brisbane, 23 February 2017

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Malabar Coal Limited
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Note	Consolidated Group	
		31 December 2016	31 December 2015
		$	$
Revenue from continuing operations			
Interest income		3,052	13,452
Other income		63,297	78,144
Expenses			
Share based payments – employee share options	13	(4,053)	(20,508)
Legal and professional fees		(117,392)	(115,994)
Consultants		(102,887)	(128,057)
Finance costs		(160,886)	(175,501)
Employee benefits expense		(39,444)	(62,515)
Directors' fees		(125,657)	(134,673)
Other expenses		(75,995)	(107,575)
Profit (loss) before income tax		(559,965)	(653,227)
Income tax expense		-	-
Profit (loss) for the period	2	(559,965)	(653,227)
Other comprehensive income		-	-
Total comprehensive income for the period		(559,965)	(653,227)
Profit (loss) attributable to:			
- Members of the parent entity		(559, 965)	(653,227)
- Non-controlling interest		-	-
		(559, 965)	(653,227)
Total comprehensive income attributable to:			
- Members of the parent entity		(559, 965)	(653,227)
- Non-controlling interest		-	-
		(559, 965)	(653,227)
Earnings per share			
From continuing operations:			
– basic earnings per share (cents)		(0.31)	(0.53)
– diluted earnings per share (cents)		(0.31)	(0.53)

The accompanying notes form part of these financial statements.

Malabar Coal Limited
and Controlled Entities
ABN 29 151 691 468

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

		Consolidated Group	
	Note	31 December 2016	30 June 2016
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		785,057	1,175,754
Trade and other receivables		639,248	557,540
Other assets	5	236,671	83,276
TOTAL CURRENT ASSETS		1,660,976	1,816,570
NON-CURRENT ASSETS			
Property, plant and equipment	6	10,544,823	10,558,997
Intangible assets	7	2,965,600	2,965,600
Capitalised exploration and evaluation costs	8	32,341,998	31,320,609
Other assets	5	95,686	95,686
TOTAL NON-CURRENT ASSETS		45,948,107	44,940,892
TOTAL ASSETS		47,609,083	46,757,462
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	9	211,254	749,876
TOTAL CURRENT LIABILITIES		211,254	749,876
NON-CURRENT LIABILITIES			
Provision for Deferred Consideration	10	9,619,000	9,619,000
Borrowings	11	6,200,000	6,200,000
TOTAL NON-CURRENT LIABILITIES		15,819,000	15,819,000
TOTAL LIABILITIES		16,030,254	16,568,876
NET ASSETS		31,578,829	30,188,586
EQUITY			
Issued capital	12	62,189,365	60,242,961
Reserves	13	8,188,901	8,185,097
Retained earnings (accumulated losses)		(38,799,437)	(38,239,472)
Parent interest		31,578,829	30,188,586
Non-controlling interest		-	-
TOTAL EQUITY		31,578,829	30,188,586

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 2016

Consolidated Group	Ordinary Share Capital	Reserves	Retained Earnings (Accumulated Losses)	Total Parent Entity Interest	Total Non-controlling Interest	Total
	$	$	$	$	$	$
Balance at 1 July 2015	54,317,581	255,622	(34,194,112)	20,379,091	(2,507,022)	17,872,069
Comprehensive income						
Profit (loss) for the period	-	-	(653,227)	(653,227)		(653,227)
Minority interest recognised after restructure	-	-	(2,507,022)	(2,507,022)	2,507,022	-
Total comprehensive income for the half year	-	-	(3,160,249)	(3,160,249)	2,507,022	(653,227)
Transactions with owners, in their capacity as owners, and other transfers						
Shares issued during the period	5,925,380	-	-	5,925,380	-	5,925,380
Shared based payments	-	20,508	-	20,508	-	20,508
Other reserves recognised after restructure	-	7,888,459	-	7,888,459	-	7,888,459
Total transactions with owners and other transfers	5,925,380	7,908,967	-	13,834,347	-	13,834,347
Balance at 31 December 2015	60,242,961	8,164,589	(37,354,361)	31,053,189	-	31,053,189
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)
Minority interest recognised after restructure	-	-	-	-	-	-
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

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 2016

	Consolidated Group	
	31 December 2016	**31 December 2015**
	$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	63,297	78,143
Payments to suppliers and employees	(1,081,954)	(297,872)
Interest received	3,052	13,452
Finance costs	(314,281)	(331,939)
Net cash (used in)/provided by operating activities	(1,329,886)	(538,216)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for additions of property, plant and equipment	-	-
Payments for exploration expenditures	(993,617)	(1,151,188)
Payment for acquisition of asset	(13,598)	(3,138,000)
Net cash (used in)/provided by investing activities	(1,007,215)	(4,289,188)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from shares issued	1,946,404	5,925,380
Net cash (used in)/provided by financing activities	1,946,404	5,925,380
Net increase / (decrease) in cash held	(390,697)	1,097,976
Cash and cash equivalents at beginning of period	1,175,754	1,502,468
Cash and cash equivalents at end of period	785,057	2,600,444

The accompanying notes form part of these financial statements.

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 23 February 2017 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 2016 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 2016, 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 2016 annual financial report for the financial year ended 30 June 2016.

c) Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the 30 June 2016 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 2016, the Group made a loss before tax of $559,965 (2015: $653,227). Cash outflows from operating and exploration-related investing activities during the same period were $2,337,101 (2015: $4,827,404) with closing cash on hand of $785,057. 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 of being able to secure additional funding and believe 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 $6 million and $2 million in September 2015 and August 2016 respectively). 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.

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 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iii. *Borrowings*

Management has reviewed the terms and conditions of its credit facilities. Where a facility is classified as non-current, management has determined that the Group is in compliance with the relevant terms and conditions of the facility. Where the agreement contains terms that give the bank an element of discretion to review and change the terms and conditions of the agreement, management is of the opinion that, based on conditions existing at balance date and up to the date of the directors' declaration, in all material aspects it retains a right to defer settlement of the liability for at least twelve months after the reporting period.

NOTE 2: LOSS FOR THE PERIOD

	Consolidated Group	
	31 December 2016	**31 December 2015**
	$	**$**
The following expense items are relevant in explaining the financial performance for the interim period:		
Share based payments – employee share options	4,053	20,508
Consultant fees	102,887	128,057
Depreciation	27,772	20,812
Finance costs	160,886	175,501

NOTE 3: DIVIDENDS

No dividend has been paid during the half-year ended 31 December 2016, 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 2016	**30 June 2016**
	$	**$**
CURRENT:		
Prepaid finance costs	236,671	83,276
	236,671	83,276
NON-CURRENT:		
Security deposits	95,686	95,686
	95,686	95,686

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	
	31 December 2016	30 June 2016
	$	$
Land - at cost	19,046,606	19,046,606
Less: provision for impairment[(1)]	(9,407,066)	(9,407,066)
Total land	9,639,540	9,639,540
Buildings - at cost	2,265,139	2,264,092
Less: provision for impairment[(1)]	(1,421,282)	(1,421,282)
Plus: additions	10,933	1,047
Less: accumulated depreciation	(147,672)	(136,644)
Total buildings	707,118	707,213
Total land and buildings	10,346,658	10,346,753
Plant and equipment	350,526	257,663
Plus: additions	2,665	92,863
Less: accumulated depreciation	(155,026)	(138,282)
	198,165	212,244
	10,544,823	10,558,997

(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.

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 2015	9,639,540	728,114	160,249	10,527,903
Additions	-	1,047	92,863	93,910
Disposals	-	-	-	-
Depreciation expense	-	(21,948)	(40,868)	(62,816)
Balance at 30 June 2016	9,639,540	707,213	212,244	10,558,997
Additions	-	10,933	2,665	13,598
Disposals	-	-	-	-
Depreciation expense	-	(11,028)	(16,744)	(27,772)
Balance at 31 December 2016	9,639,540	707,118	198,165	10,544,823

NOTE 7: INTANGIBLE ASSETS

	Consolidated Group	
	31 December 2016	30 June 2016
	$	$
NON-CURRENT:		
Water allocation licences	3,709,100	3,709,100
Less: provision for impairment[1]	(743,500)	(743,500)
	2,965,600	2,965,600

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.

NOTE 8: CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

		Consolidated Group	
	Note	31 December 2016	30 June 2016
		$	$
Capitalised exploration and evaluation costs consist of:			
Mining information		963,848	963,848
Exploration license		36,774,905	36,774,905
Exploration & evaluation expenditures		9,833,636	8,812,247
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		(2,042,545)	(2,042,545)
		32,341,998	31,320,609

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

Opening balance	31,320,609	21,031,761
Exploration licence – increase in participants interest and revaluation of licence	-	1,599,643
Expenditures incurred during the period	1,021,389	872,449
Reserves & resources acquired [1]	-	8,214,000
R&D tax incentive recognised during the period	-	(397,244)
	32,341,998	31,320,609

NOTE 8: CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE (continued)

(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.

NOTE 9: TRADE AND OTHER PAYABLES

	Consolidated Group	
	31 December 2016	**30 June 2016**
	$	**$**
CURRENT:		
Trade creditors	101,692	696,795
Other creditors	109,562	53,117
	211,254	749,876

NOTE 10: FAIR VALUE OF 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.

It has been determined that the acquisition of SHUT represents an asset acquisition and not a business combination. Therefore, individual assets and liabilities acquired have been recognised at fair value in accordance with AASB 13 Fair Value Measurement.

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 and to assess the purchase price allocation taking into account the structure of the transaction and the Joint Venture as set out below. Management are of the opinion that these values have not changed materially since the acquisition date.

	Note	Fair Value $
Purchase consideration:		
– Up front cash payment		3,000,000
– Transaction costs		138,000
– Deferred milestone payments		5,691,000
– Future royalties payable on coal sales from the Project		3,728,000
– Participating interest option		200,000
Total deferred consideration(2)		**9,619,000**
Total purchase consideration		**12,757,000**
Assets acquired:		
– Exploration Licence		8,214,000
Total reserves and resources	8	**8,214,000**
Receivable(1)		4,543,000
Total assets acquired		**12,757,000**

NOTE 10: FAIR VALUE OF DEFERRED CONSIDERATION (continued)

(1) The Receivable of $4.543m represents the fair value of the loan payable to Spur Hill Unit Trust by Spur Hill Agricultural at the time of acquisition when considering the net assets of Spur Hill Agricultural. The remainder of the face value of the loan, being $7,888,459, has been treated as a loan not repayable in the foreseeable future ('quasi-equity'), and has been transferred to a Capital Reserve (Refer to note 13 for additional details).

(2) Refer to note 16 for additional details.

NOTE 11: BORROWINGS

	Consolidated Group	
	31 December 2016	**30 June 2016**
	$	**$**
NON-CURRENT:		
Revolving Bill Facility	6,200,000	6,200,000
	6,200,000	6,200,000

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

NOTE 12: EQUITY SECURITIES ISSUED

Issues of ordinary share capital during the half-year:

Date	**Details**	**Number of fully paid ordinary shares**	**Issue Price $**	**$**
30 June 2016	Balance	160,000,000		60,242,961
23 September 2016	Shares issued	20,000,000	0.10	2,000,000
	Capital raising costs			(53,596)
31 December 2016	Balance	180,000,000		62,189,365

NOTE 13: RESERVES

	31 December 2016	**30 June 2016**
	$	**$**
Share based payment reserve[1]		
Opening Balance	296,638	255,622
Share based payments – employee share options	4,053	41,016
Closing Balance	300,691	296,638
Capital Reserves[2]	7,888,210	7,888,459
Total Reserves	8,188,901	8,185,097

NOTE 13: RESERVES (continued)

(1) The share based payments reserve is used to recognise the grant date fair value of options issued to employees and contractors but not exercised.

(2) The Receivable of $4.543m represents the fair value of the loan payable to Spur Hill Unit Trust by Spur Hill Agricultural at the time of acquisition when considering the net assets of Spur Hill Agricultural. The remainder of the face value of the loan, being $7,888,459, has been treated as a loan not repayable in the foreseeable future ('quasi-equity'), and has been transferred to a Capital Reserve.

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 2016, a total of $16,280 was paid by Malabar to Ironstone Capital.

ii) Other Related Party Transactions

During the period ended 31 December 2016, Malabar paid XLX Pty Ltd ('XLX') $75,742 under the current lease agreement for office space on Level 26, 259 George Street, Sydney. The current lease agreement between Malabar and XLX for office space on Level 26, 259 George Street amounts to $12,624 per month. The lease agreement is charged on a pass through cost basis from XLX to Malabar and the monthly rental is subsequently split 80/20 between the Project and Malabar. XLX is part-owned by Malabar Directors Wayne Seabrook, Simon Keyser and Andy Plummer.

The Company has continued the consultancy arrangement with the Chairman whereby he (or his associated entity) is paid a consulting fee of $2,500 per day for any work done for the Company which is not related to his role as Chairman. In the period ended 31 December 2016, total payments of $59,641 have been made under this agreement.

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 ended 31 December 2016, total payments of $32,570 have been made under this arrangement.

NOTE 15: CAPITAL AND LEASING COMMITMENTS

	Consolidated Group	
	31 December 2016 $	**30 June 2016 $**
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	243,458	253,992
– between 12 months and 5 years	200,000	265,208
– later than 5 years	-	-
	443,458	519,201

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. The following contingencies have arisen during the current period:

On 7 October 2016 Malabar secured long term access agreements (LTLA) with a number of landowners on the exploration licence. As a result approximately 80% of the foot-print of the proposed underground mine is either land owned by the company or is under long term access agreement. Upon signing the LTLAs, total upfront payments of $299,832 were paid and the Company incurred a contingent consideration liability in the form of pre-planning approval payments and mining compensation based on tonnes extracted. The underlying obligations, contingent on Malabar proceeding with the various stages of the process, are set out as follows:

Planning application payment

Within thirty days after the Company lodges an application for Planning Approval with the relevant Authority in respect of the Project, Spur Hill must pay the Landowner the Planning Application Payment. The total amount payable is estimated to be approximately $250,000.

Put option one

Landowners may require Malabar to purchase the property at the rural value plus a put option premium. The premium will vary depending on the area of the property within the mining lease.

The option is valid from the day after the date on which construction of the mine entry drift commences and the ending on the date which is one year after the commencement of the secondary extraction of the Project. Exercising the option terminates the right to receive mining compensation.

Put option two

Landowners may require Malabar to purchase the property at the rural value plus a put option premium, less total mining compensation paid as at the date of completion of the contract entered into the exercise of put option two.

The option is valid from the day after expiry of put option one and the ending on the day, which is 7 years thereafter. Put option two is an extension of put option one, with a reduced put price. Exercising the option terminates the right to receive mining compensation.

Mining compensation

Malabar is required to pay a total of $1.00 per tonne of coal extracted to landowners who signed an LTLA. The percentage of the dollar per tonne corresponding to each landowner is based on the landholder area within the Mining Lease.

It is not practicable at this stage to provide an estimate of any potential financial outflows relating to the Put options or the mining compensation.

NOTE 17: INTEREST IN SUBSIDIARIES

a. Information about Principal Subsidiaries

Set out below are the Group's subsidiaries at 31 December 2016. 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 2016	At 30 June 2016	At 31 December 2016	At 30 June 2016
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:

- Malabar completed the voluntary de-listing process from the ASX on 20 January 2017. The intention to de-list was announced in August 2016 and was approved at the Annual General Meeting in November 2016 with 100% of those voting, voting in favour.

  Link Market services will continue to serve as the registry for the Company.
- As an unlisted public company, Malabar continues to comply with reporting requirements under the Corporations Law while reducing administration costs. As a result, the board of directors has been restructured and reduced from six directors to three. Andy Plummer, Hans Mende, Simon Keyser and Ian Morgan have resigned as directors. Brian Clifford the Managing Director of AMCI Australia has joined the board. He was previously an alternate director for Hans Mende.

  A separate technical advisory panel has been formed to provide expert technical and strategic advice in regard to the development of the Spur Hill Project and the assessment of opportunities. This panel comprises key shareholders and management.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 8 to 20 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 2016 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, 23 February 2017

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"), which comprises the consolidated statement of financial position as at 31 December 2016, 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 end or from time to time during the period.

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 (including Australian Accounting Interpretations) 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 2016 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.

Independence

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

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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 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 2016 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*.

PKF HACKETTS

PKF HACKETTS AUDIT

Liam Murphy
Partner

Brisbane, 23 February 2017