MALABAR COAL LIMITED
AND CONTROLLED ENTITIES

ABN 29 151 691 468

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2017

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DIRECTORS' REPORT

Your directors present their report, together with the consolidated financial statements of Malabar Coal Limited ('the Company' or 'Malabar') and its controlled entities ('the Group') for the year ended 30 June 2017.

Directors

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

Wayne Seabrook	Non-Executive Chairman	
Anthony (Tony) Galligan	Non-Executive 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)

Principal Activities

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

Key Project activities during the year included advancing development activities through the environmental permitting process, further resource definition, ongoing community consultation, continuing environmental and engineering studies.

On 31 August 2016, the Company announced a $2 million fully underwritten capital raise via a 1 for 8 non-renounceable entitlement offer (see ASX Releases dated 31 August 2016).

In addition, the company announced on the same date an intention to apply to ASX for the removal of Malabar from the official list of ASX, subject to shareholder approval. The decision to de-list has been made by the directors of the Company having regard to the limited liquidity of Malabar (with approximately 234 shareholders), the lack of interest in Malabar from brokers (largely due to conditions in the coal industry) and the costs of maintaining Malabar's listing. 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.

Malabar remains fully committed to progressing the development of the Spur Hill Underground Coking Coal Project.

Shareholders are not compelled to sell their shares, they can remain shareholders of un-listed Malabar Coal. Subject to regulatory requirements, Malabar has provided a sale facility that allows shareholders the ability to sell their shares, within ASIC limits, without brokerage.

On May 11 2017, Malabar announced that it has entered into an agreement with Anglo American plc ("Anglo") to purchase Anglo's 88.17% interest in the Drayton mine assets in New South Wales. Anglo ceased operations at the Drayton mine in 2016.

The Drayton assets include infrastructure suitable for use by Malabar Coal's Spur Hill Underground Coking Coal Project (Spur Hill). This includes a coal preparation plant, coal stockpiling facilities, a rail loop, administration offices, workshops and other services that will significantly reduce the capital cost required to bring Spur Hill into production.

Malabar will purchase the subsidiary companies holding Anglo's interest in Drayton. Malabar assumes Anglo's bonding and environmental obligations. The transaction remains subject to several conditions precedent. Malabar's total funding requirement to the middle of 2019 is approximately $80 to $85 million, including rehabilitation bonding, rehabilitation costs and operational costs. Malabar will fund the acquisition via an underwritten rights issue to Malabar's shareholders to raise approximately $76 million supplemented by a debt facility. Malabar has received commitments for the full amount of the rights issue from existing major shareholders. More details on the rights issue and the transaction will be sent to shareholders in due course.

The existing major shareholders have provided loans to Malabar totalling $3.2 million to fund the short term working capital requirements. It is expected that these loans will be repaid as part of the rights issue.

Operating and Financial Review

The consolidated loss after tax for the year ended 30 June 2017 of the Group amounted to $1,812,572 (30 June 2016: $1,538,338).

Review of Operations

Malabar's primary focus is on the development of the Project.

<u>Project Approvals</u>
The Project has successfully achieved a number of project approval milestones including:

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

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

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

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

<u>Mine Design and Infrastructure</u>

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

Malabar has progressed a review of the Project design focussing on capital cost and operating costs for optimisation and improvement. This review is ongoing and will be updated once the purchase of the Drayton mine assets is completed.

<u>Environmental</u>

Environmental studies were undertaken during the year to support the preparation of the EIS and DA include:
- Surface and groundwater assessment;
- Noise assessment;
- Aboriginal cultural heritage assessment; and
- Transport assessment.

Review of Operations (continued)

Resource Definition

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

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

Table 1: Reserves and Resources as at November 2013

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

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

During the year field work consisted of four core and four open holes. Information obtained included seam structure, coal 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.

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

Review of Operations (continued)

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.

Financial Position

The net assets of the Group have increased by $137,779 during the financial year, from $30,188,586 at 30 June 2016 to $30,326,365 at 30 June 2017.

The Group's cash position increased from $1,175,754 at 30 June 2016 to $1,973,936 at 30 June 2017. During the period, the Company raised $2.0 million in share capital and borrowed $3.2 million from its key major shareholders to fund the ongoing operations of Malabar Coal and the Spur Hill tenement as well the initial $1.0 million deposit and transaction costs associated with the executed purchase agreement for the Drayton leases.

Expenditure on the Spur Hill Project during the financial period, which was sole funded by Malabar, totalled $1,755,625.

Significant Changes in the state of affairs

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

Dividends

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

Events after the Financial Year End

Malabar Coal announced in May 2017 that it had entered into an agreement to acquire Anglo American's 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.

There are also potential underground resources on EL5460 that will be evaluated as part of the resources controlled by Malabar Coal.

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

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

At the date of this report, all of the conditions precedent required to complete this transaction have not been achieved.

While the Board continues to investigate its options for the financing of the Drayton acquisition, key Malabar Coal shareholders have provided binding commitments to fully participate in an equity raising of $76.2M to support the purchase of the Drayton assets as well as to underwrite any shortfall in the equity raising from other shareholders.

Events after the Financial Year End (continued)

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.

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

Future Developments, Prospects and Business Strategies

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

The timing of the submission of the EIS and DA is under assessment while Malabar assesses data from the latest exploration program undertaken in land owned by Malabar, that was finalised in 2016. However, the agreement to purchase EL5460, the timing and submission of any EIS and DA for either or both of the Spur Hill EL or EL5460 is under review. The directors note that the approval process for new coal mines has become politicised in New South Wales. Nonetheless the Board is comfortable that the underground commitment at Spur Hill and EL5460 mitigates the key concerns of dust and visual amenity.

Importantly, Malabar has proposed conditions to be applied to EL5460 to enshrine underground only development and the relinquishment of the part of EL5460 that is beneath and south of the Golden Highway.

The Board believes the Company to be relatively well placed financially with key shareholder support (as evidenced by the underwritten entitlement offers of $76.2M to support the purchase of the Drayton leases). 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. At the appropriate juncture, Malabar may seek a strategic partner for the Project as is common in Australian coal development projects.

Environmental Issues

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

Information on the Directors as at date of Report

Wayne Seabrook	B.Eng (Chem - 1st Hons)
Role	Non-Executive Chairman
Experience	Wayne has more than 30 years of resources sector and corporate finance experience. He has broad project development experience from previous roles with Alcoa, Macraes Mining, Minproc Engineers, & Barclay-Mowlem. Wayne has also held senior corporate finance roles with Macquarie Bank, Challenger and Wilson HTM. He has managed transactions for many coal companies including; Felix Resources, Whitehaven Coal, Excel Coal, Cleveland-Cliffs, and AMCI. Wayne was a founding director of ASX-listed Apollo Gas Ltd and ASX-listed Titan Energy Services Ltd. He is a director of XLX Pty Ltd and Ironstone Capital Partners Pty Ltd. As Non-Executive Chairman Wayne is responsible for leadership of the Board, for efficient organisation and conduct of the Board's function and the briefing of all Directors in relation to issues arising at Board meetings. As Chairperson, Wayne is also responsible for arranging Board performance evaluation. Wayne holds a Bachelor of Engineering (Chemistry – 1st Hons) from the University of Canterbury, New Zealand and a Graduate Diploma from FINSIA. He is a fellow of FINSIA and a member of AUSIMM.
Special Responsibilities	Member of Occupational Health, Safety & Environment Committee and Audit Committee

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

DIRECTORS' REPORT (continued)

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

Brian Clifford	Dip. Bus., MBA, MAICD
Role	Non-Executive Director
Experience	Brian is the Managing Director of AMCI Investments Pty Ltd which is responsible for AMCI's Australian and South East Asia operations, acquisitions, divestments and joint venture project interest. Brian also holds several separate directorships within the AMCI portfolio which include; greenfield projects, operating asset and joint ventures. Brian was previously the General Manager of the AMCI's coal trading desk. Brian has over 15 years of mining related experience, including 10 years with BHP Billiton across a number geographies, commodities and markets including marketing manager for BHP's Carbon Steel Materials desk in Pittsburgh and senior operational positions in the coal and diamonds industries.
Appointment Date	26 January 2017
Special Responsibilities	Nil

Information on the Directors who Resigned during the year

Hans Mende	MBA
Role	Non-Executive Director
Experience	Hans has been President of AMCI since he co-founded the company in 1986. Prior to founding AMCI, Hans was with the Thyssen Group, in various senior executive positions including President of Thyssen Carbometal Inc. from 1968 to 1986. Hans has served as a Director of Alpha Natural Resources (Inc) USA (ANR) and as Chairman of the Board of Directors of ANR Holdings from 2003 to 2005. Hans is currently a Non-Executive Director of White Energy Limited.
Resignation Date	26 January 2017
Special Responsibilities	Nil

DIRECTORS' REPORT (continued)

Information on the Directors who Resigned during the year (continued)

Andy Plummer	BSc Mining Eng
Role	Non-Executive Director
Experience	Andy has over 35 years' experience in the investment banking and mining industries. He holds a BSc Mining Engineering from the Colorado School of Mines, USA. He was most recently an Executive Director of Whitehaven Coal Limited and King Island Scheelite Limited and prior to that was an Executive Director of Excel Coal Limited. During his tenure at both Whitehaven and Excel he was responsible for business development activities. He has worked in the Australian banking and finance industry since 1985 with Eureka Capital Partners, Resource Finance Corporation and Westpac. Prior to that, he was employed in a variety of management and technical positions with ARCO Coal, Utah International and Consolidation Coal.
Resignation Date	26 January 2017
Special Responsibilities	Chairman of the Nominations & Remuneration Committee and member of Occupational Health, Safety & Environment Committee

Ian Morgan	BBus, MComLaw, Grad Dip App Fin, CA, ACIS, ACSA, MAICD, F Fin
Role	Non-Executive Director
Experience	Ian has over 30 years of experience in accounting and corporate administration. He provides secretarial and advisory services to a range of companies, and is company secretary of other publicly listed companies. Ian holds a Bachelor of Business from the NSW Institute of Technology (now University of Technology, Sydney), a Master of Commercial Law from Macquarie University, and a Graduate Diploma of Applied Finance and Investment from the Securities Institute of Australia (now FINSIA). He is an Associate Member of the Institute of Chartered Accountants in Australia, an Associate Member of Chartered Secretaries Australia, a Member of the Australian Institute of Company Directors, and a Fellow of the Financial Services Institute of Australasia (FINSIA).
Resignation Date	26 January 2017
Special Responsibilities	Company Secretary

DIRECTORS' REPORT (continued)

Information on the Directors who Resigned during the year (continued)

Simon Keyser	B.Bus, CA
Role	Non-Executive Director
Experience	Simon has over 20 years of finance sector experience, specialising in the resources and energy sectors. Simon held senior investment banking positions with Chase Securities (now J.P. Morgan Chase) and was head of Wilson HTM's corporate finance division. Simon has managed transactions for many coal and energy companies including Felix Resources, Excel Coal, Whitehaven Coal, Austral Coal and Arrow Energy. Simon is currently a director of XLX Pty Ltd and Ironstone Capital Partners Pty Ltd. Simon holds a Bachelor of Business from the Queensland University of Technology, Graduate Diploma from FINSIA and is a Chartered Accountant.
Resignation Date	26 January 2017
Special Responsibilities	Chairman of the Audit Committee and member of the Nominations & Remuneration Committee.

DIRECTORS' REPORT (continued)

Meetings of Directors

During the financial year, there were 9 meetings of directors (including committees of directors). Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee		Health and Safety Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Current Directors						
Wayne Seabrook	11	10	2	2	2	2
Brian Clifford	3	3	-	-	1	1
Anthony Galligan	11	11	-	-	2	2
Resigned Directors						
Hans Mende	8	7	-	-	-	-
Brian Clifford (as alternate for Hans Mende)	8	7	-	-	-	-
Andy Plummer	8	7	-	-	-	-
Ian Morgan	8	8	-	-	-	-
Simon Keyser	8	8	2	2	-	-

Indemnifying Officers or Auditor

During or since the end of the financial year, the Group paid insurance premiums of $54,445 Insurance to insure directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

Options

Unissued ordinary shares

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Date options granted	Expiry date	Exercise price	Number under option
28 November 2014	28 November 2018	$0.30	950,000

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

No options were granted to the directors or any of the five highest remunerated officers of the company during or since the end of the financial year.

Additional terms and conditions relating to the options are detailed in Note 22.

Shares issued on the exercise of options

No ordinary shares were issued during or since the end of the financial year on the exercise of options.

Proceedings on Behalf of Company

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

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

Non-audit Services

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 15.

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

Wayne Seabrook
Director
Dated: 19 September 2017

Competent Person's Statement

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

The information in this Report that relates to JORC Mineral Reserves for the Spur Hill Underground Coking Coal Project is based on a Reserves Estimate that has been prepared by Mr Jeremy Busfield, Principal Mining Consultant of MineCraft Consulting Pty Ltd. Mr Busfield holds a Bachelor of Mining Engineering degree from the University of Queensland, is a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy (AusIMM) and is a Registered Professional Engineer of Queensland (Mining) (RPEQ 10285). Mr Busfield has worked in various planning, operational and consulting roles for the underground coal industry for 28 years and as such qualifies as Competent Person under the JORC Code 2012. The relationship between the Estimator and the Project owner is that of independent consultant. Mr Busfield consents to the inclusion in this Report of the matters based on his information and in the form and context in which it appears.

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017, there have been:

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

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

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

PKF Hacketts

PKF HACKETTS AUDIT

LIAM MURPHY
PARTNER

19 SEPTEMBER 2017
BRISBANE

MALABAR COAL LIMITED
AND CONTROLLED ENTITIES
ABN 29 151 691 468

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Note	30 June 2017	30 June 2016
		$	$
Revenue from continuing operations			
Interest income		5,867	32,326
Agistment income		60,000	60,000
Other income		180,455	229,148
Total income		246,322	321,474
Expenses			
Share-based payments – employee share options		8,106	41,016
Legal and professional fees		527,503	425,963
Consultants		659,659	395,054
Finance costs	3	373,336	340,794
Employee benefits expense		105,817	121,282
Directors fees		189,158	269,346
Other expenses		195,315	266,357
Total expenses		2,058,894	1,859,812
Profit (loss) before income tax		(1,812,572)	(1,538,338)
Income tax expense	4	-	-
Profit (loss) for the period		(1,812,572)	(1,538,338)
Other comprehensive income		-	-
Total comprehensive income for the period		(1,812,572)	(1,538,338)
Profit (loss) attributable to members of the parent entity		(1,812,572)	(1,538,338)
Total comprehensive income attributable to members of the parent entity		(1,812,572)	(1,538,338)

The accompanying notes form part of these financial statements.

MALABAR COAL LIMITED
AND CONTROLLED ENTITIES
ABN 29 151 691 468

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	30 June 2017 $	30 June 2016 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	1,973,936	1,175,754
Trade and other receivables	8	302,834	557,540
Other assets	9	80,675	83,276
Total Current Assets		2,357,445	1,816,570
Non-Current Assets			
Property, plant and equipment	10	10,516,833	10,558,997
Intangible assets	11	2,965,600	2,965,600
Capitalised exploration and evaluation costs	12	32,978,988	31,320,609
Other assets	9	1,095,686	95,686
Total Non-Current Assets		47,557,107	44,940,892
Total Assets		49,914,552	46,757,462
LIABILITIES			
Current Liabilities			
Trade and other payables	13	478,042	724,528
Provisions	15	35,123	25,348
Borrowings	16	9,456,022	-
Total Current Liabilities		9,969,187	749,876
Non-Current Liabilities			
Provision for Deferred Consideration	14	9,619,000	9,619,000
Borrowings	16	-	6,200,000
Total Non-Current Liabilities		9,619,000	15,819,000
Total Liabilities		19,588,187	16,568,876
Net Assets		**30,326,365**	**30,188,586**
EQUITY			
Share capital	18	62,185,206	60,242,961
Reserves	19	7,931,453	8,185,097
Retained earnings (accumulated losses)		(39,790,294)	(38,239,472)
Parent interest		30,326,365	30,188,586
Non-controlling interest		-	-
Total Equity		**30,326,365**	**30,188,586**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Note	Ordinary Share Capital $	Reserves $	Retained Earnings (Accumulated Losses) $	Parent Interest $	Non-controlling Interest $	Total $
Balance as at 1 July 2015		54,317,581	255,622	(34,194,112)	20,379,091	(2,507,022)	17,872,069
Total comprehensive income for the period		-	-	(1,538,338)	(1,538,338)	-	(1,538,338)
Transactions with owners in their capacity as owners:							
Share-based payments – employee share options	19	-	41,016	-	41,016	-	41,016
Capital reserve	19		7,888,459		7,888,459		7,888,459
Shares issued	18	5,925,380	-	-	5,925,380	-	5,925,980
Transactions with non-controlling interest		-	-	(2,507,022)[1]	(2,507,022)	2,507,022	-
Balance at 30 June 2016		60,242,961	8,185,097	(38,239,472)	30,188,586	-	30,188,586

	Note	Ordinary Share Capital $	Reserves $	Retained Earnings (Accumulated Losses) $	Parent Interest $	Non-controlling Interest $	Total $
Balance as at 1 July 2016		60,242,961	8,185,097	(38,239,472)	30,188,586	-	30,188,586
Total comprehensive income for the period		-	-	(1,812,572)	(1,812,572)	-	(1,812,572)
Transactions with owners in their capacity as owners:							
Share-based payments – employee share options	19	-	8,106	-	8,106	-	8,106
Transfer of expired options from reserves to retained earnings	19	-	(261,750)	261,750	-	-	-
Capital reserve	19		-		-		-
Shares issued	18	1,942,245	-	-	1,942,245	-	1,942,245
Transactions with non-controlling interest		-	-	-	-	-	-
Balance at 30 June 2017		62,185,206	7,931,453	(39,790,294)	30,326,365	-	30,326,365

[1]On 15 September 2015 The Company announced it had entered into legally binding agreements to restructure the Spur Hill Joint Venture ("JV") by increasing its stake in the Project to 100% (from 38.27% as at 30 June 2015). Approval for the transaction was received from the NSW Minister for Resources and Energy in December 2015 and the transaction completed accordingly.

Prior to the restructure, the Group recognised non-controlling interests in subsidiary's net assets and attributed their share of profit or loss as a component of other comprehensive income. These non-controlling interests were disclosed separately within the equity section of the statement of financial position and statement of comprehensive income. Upon completion of the transaction, the minority interest held as at 30 June 2016 of $2,507,022 was eliminated and allocated to the total equity attributable to equity holders of the parent entity.

The accompanying notes form part of these financial statements.

MALABAR COAL LIMITED
AND CONTROLLED ENTITIES
ABN 29 151 691 468

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Note	30 June 2017 $ Inflows / (Outflows)	30 June 2016 $ Inflows / (Outflows)
Cash flows from operating activities			
Receipts from customers		240,455	283,978
Payment to suppliers and employees		(2,043,302)	(1,313,678)
Interest received		5,867	32,326
Finance costs		(314,712)	(332,586)
R&D incentive		383,846	396,487
Net cash (used in)/provided by operating activities	21	(1,727,846)	(933,473)
Cash flows from investing activities			
Payments for deposit on purchase of Drayton tenements		(1,000,000)	(20,000)
Payments for property, plant and equipment		(13,598)	-
Payments for exploration expenditure		(1,602,618)	(2,160,621)
Payment for acquisition of asset	14	-	(3,138,000)
Net cash (used in)/provided by investing activities		(2,616,216)	(5,318,621)
Cash flows from financing activities			
Proceeds from borrowings from related parties	16	3,200,000	-
Proceeds from shares issued	18	1,942,244	5,925,380
Net cash (used in)/provided by financing activities		5,142,244	5,925,380
Net increase (decrease) in cash held		798,182	(326,714)
Cash and cash equivalents at beginning of financial period		1,175,754	1,502,468
Cash and cash equivalents at the end of financial period	7	1,973,936	1,175,754

The accompanying notes form part of these financial statements.

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

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

The financial statements were authorised for issue on 14 September 2017 by the Directors of the company.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards, and Interpretations of the Australian Accounting Standards Board (AASB) and comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

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

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 year ended 30 June 2017, the Group made a loss before tax of $1,812,572 (2016: $1,538,338). Cash outflows from operating and exploration-related investing activities during the same period were $3,960,632 (2016: $3,094,094) with closing cash on hand of $1,973,936 (2016: $1,175,754). As at 30 June 2017, the Group also had a net current asset deficiency of $7,611,742 (2016: $1,066,694 net current asset surplus).

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 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 proposed underwritten entitlement offers of $76.2 million that is currently being prepared to underwrite the acquisition of the Drayton assets and provide sufficient working capital for the next 2 years of operation. Malabar may also 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.

a. **Principles of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Malabar Coal Limited) and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 20.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Principles of Consolidation (continued)

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.

b. Business Combinations

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

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

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

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

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

c. Income Tax

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

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

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

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

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Income Tax (continued)

taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

d. Property, Plant and Equipment

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

Plant and Equipment

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

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

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

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

Depreciation

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

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Exploration and Development Expenditure

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

Exploration licences are recognised in accordance with AASB 3: *Business Combinations*.

f. Leases

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

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

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

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

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

g. Intangible assets other than Goodwill

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Financial Instruments

Recognition and initial measurement

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

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

Classification and subsequent measurement

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

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

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

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

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

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

(ii) *Loans and receivables*

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Financial Instruments (continued)

(iii) *Held-to-maturity investments*

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

(iv) *Available-for-sale investments*

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

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

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

(v) *Financial liabilities*

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

Preferred shares

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

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

Impairment

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Financial Instruments (continued)

Impairment (continued)

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

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

Derecognition

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

i. Impairment of Assets

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

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

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

j. Employee Benefits

Short-term employee benefits

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Employee Benefits (continued)

Retirement benefit obligations

Defined contribution superannuation benefits

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

Equity-settled compensation

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

k. Provisions

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

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

l. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks and other short-term highly liquid investments with original maturities of 3 months or less.

m. Revenue and Other Income

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

Interest revenue is recognised using the effective interest rate method.

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

n. Trade and Other Receivables

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Trade and Other Payables

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

p. Goods and Services Tax (GST)

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

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

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

q. Comparative Figures

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

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

r. R&D Tax Incentives

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

s. Fair Value of Liabilities

Fair value is the price the Group would pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

The fair values of liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs).

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Critical Accounting Estimates and Judgements

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

Key estimates

(i) Impairment - general

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

Key judgements

(i) Exploration and evaluation expenditure

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

In the current market environment the directors are cognisant of the funding challenges being faced by the junior resources and coal sector. The directors believe the Group to be well placed with key shareholder support (as evidenced by the fully underwritten $2m capital raising announced on 31 August 2016). Consistent with the fiduciary responsibilities of the Board the Group is investigating medium and longer term financing options for the Project development. At the appropriate juncture, Malabar may seek a strategic partner for the Project as is common in Australian coal development projects.

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Critical Accounting Estimates and Judgements (continued)

(i) 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.

u. New Accounting Standards for Application in Future Periods

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

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

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

- AASB 15: *Revenue from Contracts with Customers* (applicable for annual reporting periods commencing on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15).

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

- AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 2019). Although the directors anticipate that the adoption of AASB 16 may have an impact on the Group's financial statements it is impractical at this stage to provide a reasonable estimate of such impact.

NOTE 2: PARENT ENTITY INFORMATION

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

	30 June 2017 $	30 June 2016 $
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	1,960,571	1,128,619
Non-current assets	46,848,338	43,963,399
TOTAL ASSETS	48,808,909	45,092,018
LIABILITIES		
Current liabilities	3,639,668	142,320
Non-current liabilities	9,619,000	9,619,000
TOTAL LIABILITIES	13,258,668	9,761,320
EQUITY		
Issued capital	62,185,164	60,242,919
Reserve	42,994	296,638
Retained earnings/(accumulated losses)	(26,677,916)	(25,208,859)
TOTAL EQUITY	35,550,242	35,330,698
STATEMENT OF COMPREHENSIVE INCOME		
Total profit/(loss)	(1,730,807)	(1,319,566)
Total comprehensive income	(1,730,807)	(1,319,566)

Guarantees
Refer to Note 16: Borrowings.

Contingent liabilities
Malabar Coal Limited has certain contingent liabilities as at 30 June 2017. Refer to Note 26.

Contractual commitments
Malabar Coal Limited has certain operating lease commitments as at 30 June 2017. Refer to Note 25.

NOTE 3: LOSS FOR THE YEAR

	30 June 2017	30 June 2016
	$	$
Loss before income tax from continuing operations includes the following specific expenses:		
Depreciation[1]	-	-
Facility fees	129,842	130,993
Interest expense	243,494	209,801
Finance costs	**373,336**	**340,794**

(1) The depreciation on items of plant and equipment used in the exploration and evaluation activities is capitalised as consistent with the entity's other exploration and evaluation expenditure.

NOTE 4: INCOME TAX

	30 June 2017	30 June 2016
	$	$
(a) Numerical reconciliation of income tax expense / (income) to prima facie tax payable:		
Total profit/(loss) before income tax	(1,812,572)	(1,538,338)
Tax at the Australian tax rate of 27.5% (2016: 28.5%)	(498,457)	(438,426)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Add/(less) permanent differences – R&D expenditure	127,527	253,075
Add/(less) permanent differences – Non-deductibles	81,176	545
	(289,754)	(184,806)
Net adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised and temporary differences recognised		
Temporary differences not brought to account	-	(260,521)
Tax benefit of losses not recognised	289,754	-
(Over)/under provision of tax in prior years	-	-
Tax cost uplift on formation of tax consolidated group	-	(3,428,533)
Tax cost reduction on formation of tax consolidated group	-	3,873,860
Income tax expense	-	-

NOTE 4: INCOME TAX (continued)

	30 June 2017	30 June 2016
	$	$
(b) The components of income tax expense		
Current tax expense/(benefit)	$	$
Deferred tax expense	-	-
Adjustments for current tax of prior periods	-	-
Total income tax expense	-	-
(c) Deferred Tax Liabilities		
The balance comprises temporary differences attributable to:		
Exploration expenditure	3,447,647	2,348,695
Loan to Spur Hill Agricultural	-	983,013
Property, plant and equipment – Spur Hill Agricultural	457,333	447,358
Other	105,487	111,515
Total deferred tax liabilities	4,010,467	3,890,581
Set-off of deferred tax liabilities pursuant to set-off provisions	(4,010,467)	(3,890,581)
Net deferred tax liabilities	-	-
(d) Deferred tax assets:		
The balance comprises temporary differences attributable to:		
Tax losses	8,283,067	7,891,639
Property, plant and equipment	-	-
Other	19,363	4,813
Business capital costs	25,533	380,126
Total deferred tax assets	8,327,963	8,276,578
Set-off of deferred tax assets pursuant to set-off provisions	(4,010,467)	(3,890,581)
Unrecognised deferred tax assets	(4,317,496)	(4,385,997)
Net deferred tax assets	-	-
(e) Tax losses:		
Unused tax losses for which no deferred tax asset has been recognised	30,120,243	27,689,961
	30,120,243	27,689,961
Potential tax effect at 27.5%	8,283,067	7,891,639

Unused losses which have not been recognised as an asset, will only be obtained if:
(i) the economic entity derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;
(ii) the economic entity continues to comply with the conditions for deductibility imposed by the law; and
(iii) no changes in tax legislation adversely affect the economic entity in realising the losses.

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

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

	30 June 2017	30 June 2016
	$	$
Short-term employee benefits	678,786	893,080
Post-employment benefits	13,016	38,629
Share-based payments	-	31,552
Total KMP compensation	691,802	963,261

Short-term employee benefits

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

Post-employment benefits

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

Other long-term benefits

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

Share-based payments

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

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

NOTE 6: AUDITORS' REMUNERATION

	30 June 2017	30 June 2016
	$	$
Remuneration of the auditor for:		
– Audit and review of the financial statements	60,000	60,000

NOTE 7: CASH AND CASH EQUIVALENTS

Cash at bank and on hand	1,973,936	1,175,754
	1,973,936	1,175,754

Reconciliation of cash

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

Cash and cash equivalents	1,973,936	1,175,754
	1,973,936	1,175,754

NOTE 8: TRADE AND OTHER RECEIVABLES

CURRENT:	30 June 2017 $	30 June 2016 $
Trade receivables	54,230	46,196
Other receivables	111,104	111,752
R&D tax incentive receivable	137,500	399,592
	302,834	557,540

NOTE 9: OTHER ASSETS

	30 June 2017 $	30 June 2016 $
CURRENT:		
Other assets	80,675	83,276
	80,675	83,276
NON-CURRENT:		
Deposit for Purchase of Drayton Leases	1,000,000	-
Security bond	95,686	95,686
	1,095,686	95,686

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	Note	30 June 2017 $	30 June 2016 $
Land - at cost		19,046,606	19,046,606
Less: 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
Plus: additions		10,934	1,047
Less: accumulated depreciation		(158,782)	(136,644)
Less: impairment (1)		(1,421,282)	(1,421,282)
Total buildings		696,009	707,213
Total land and buildings		10,335,549	10,346,753
Plant and Equipment		354,937	210,817
Plus: additions		2,160	144,120
Less: accumulated depreciation		(175,813)	(142,693)
		181,284	212,244
Total property, plant and equipment		10,516,833	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.

NOTE 10: 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 year:

	Freehold Land	Buildings	Plant and Equipment	Total
	$	$	$	$
Consolidated Group:				
Balance at 1 July 2015	9,639,540	728,114	108,992	10,476,646
Additions		1,047	144,120	145,167
Disposals	-	-	-	-
Depreciation expense	-	(21,948)	(40,868)	(62,816)
Impairment expenses	-	-	-	-
Balance at 30 June 2016	9,639,540	707,213	212,244	10,558,997
Additions	-	10,934	2,160	13,599
Disposals	-	-	-	-
Depreciation expense	-	(22,137)	(33,120)	(55,762)
Impairment expenses	-	-	-	-
Balance at 30 June 2017	9,639,540	696,010	181,284	10,516,834

NOTE 11: INTANGIBLE ASSETS

	Note	30 June 2017	30 June 2016
		$	$
NON-CURRENT:			
Water allocation licences		2,965,600	2,965,600
		2,965,600	2,965,600

These particular water allocation licences are issued as "continuing" and as such have an indefinite useful life. The licenses have been assessed for impairment against the current market value of water access licenses in the Hunter Valley Region.

NOTE 12: CAPITALISED EXPLORATION AND EVALUATION COSTS

		30 June 2017	30 June 2016
		$	$
Capitalised exploration and evaluation cost consist of:			
Mining information		963,848	963,848
Exploration licence		36,774,905	36,774,905
Exploration & evaluation expenditures		10,567,872	8,812,247
Reserves & resources acquired (1)	14	8,214,000	8,214,000
Impairment		(21,401,846)	(21,401,846)
R&D tax incentive (Note 1(r))		(2,139,791)	(2,042,545)
		32,978,988	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 year		1,755,625	872,449
Reserves & resources acquired (1)	14	-	8,214,000
R&D tax incentive recognised during the year (Note 1 (r))		(97,245)	(397,244)
		32,978,989	31,320,609

(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 asset 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 14 for additional details.

NOTE 13: TRADE AND OTHER PAYABLES

	30 June 2017	30 June 2016
	$	$
CURRENT:		
Trade creditors	381,890	548,510
Other creditors	96,152	176,018
	478,042	724,528

NOTE 14: FAIR VALUE MEASUREMENTS

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 was determined that the acquisition of SHUT represented an asset acquisition and not a business combination. The cost of the transaction was measured at the fair value of the consideration transferred. Once the cost of the transaction was determined, it was allocated to the individual assets acquired based on their relative fair values as per below:

	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	14.b.i	**9,619,000**
Total purchase consideration		**12,757,000**
		Allocation to Assets Acquired
- Exploration Licence	12	8,214,000
Total Reserves and resources		**8,214,000**
Receivable [1]		4,543,000
Total assets acquired		**12,757,000**

[1] The Receivable of $4,543,000, eliminated on consolidation, 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: FAIR VALUE MEASUREMENTS (continued)

The Group measures and recognises its obligations for deferred consideration arising from the acquisition of SHUT at fair value on a recurring basis after initial recognition.

The Group does not subsequently measure any liabilities at fair value on a non-recurring basis.

a. Fair Value Hierarchy

AASB 13: *Fair Value Measurement* requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

b. Valuation Techniques and Unobservable Inputs Used to Measure Level 3 Fair Values

i. Contingent consideration arising from acquisition of Spur Hill Unit Trust Pty Ltd, the trustee of Spur Hill Unit Trust ("SHUT")

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

In acquiring SHUT Pty Ltd, the Group made a $3 million up front cash payment and incurred a contingent consideration liability in the form of milestone payments amounting to a maximum of $13 million in nominal terms. Additionally, the vendors are entitled to royalty based on coal sales, pegged at 1.75%. The sales-based vendor royalty and milestone-based payments form part of the purchase price as contingent consideration liabilities.

The underlying contingent obligations comprising the deferred consideration are set out as follows:

Milestone payments to the vendors

1. $0.5m on the later of:
   - Submission of the Environmental Assessment; or
   - September 2016
2. $1m on the later of:
   - 80Mt of Proven Reserves being established; or
   - September 2017
3. $0.5m on receipt of Environmental Approval
4. $1m on the grant of the Mining Lease; and
5. On Financial Close (unconditional financing arrangements in place for Project construction), $13m less any payments already made under 1-4 above.

Royalty 1.75% royalty on all coal sales from the Project.

NOTE 14: FAIR VALUE MEASUREMENTS (continued)

Participating Option

- If, by 31 July 2022, Malabar has not either
  1. Spent a total of $70m on the Project (including expenditure to-date) ('Minimum Spend'); or
  2. Achieved Financial Close on the Project,

  Then the vendors have the right to exercise an option to obtain a 'Participating interest %' of the Project ('Option') (whereupon the Royalty would terminate).
- This Option terminates immediately if either the Minimum Spend or Financial Close is achieved prior to 31 July 2022.
- 'Participating interest%' = 100 – ((actual cumulative expenditure on Project as at 31 July 2022)/$70m) x 80%).

Note: As at 30 June 2017, Malabar's cumulative spend on the Project exceeds $57.4 m.

The fair value of the contingent consideration (2017: $9.619 million) is measured using a discounted cash flow methodology and determined by average weighted semi-soft coking and export thermal coal prices based on the last 5 years of historical coal data.

The discount rate used is based on the Group's weighted average cost of capital adjusted for additional risk as to whether coal prices will recover enough for undeveloped coal projects to raise the required capital for them to proceed.

The following table provides quantitative information regarding the significant unobservable inputs, the ranges of those inputs and the relationships of unobservable inputs to the fair value measurement:

Significant Unobservable Inputs Used	Range of Unobservable Inputs Used	Estimated Sensitivity of Fair Value Measurement to Changes in Unobservable Inputs
Long term semi-soft coking coal spot prices (US$/t)	91	Based on analysis of broker forecasts at the valuation date as the basis for the project coal prices.
Long term thermal coal spot prices (US$/t)	64	Based on analysis of broker forecasts at the valuation date as the basis for the project coal prices.
Long term USD foreign exchange forecast (AUD/USD)	0.743	Based on long term forecast from Bloomberg.
Weighted Average Cost of Capital (WACC)	20.50%	Discount rate was determined to be in line with the overall WACC adopted for the business and implied by the transaction consideration.
Vendor royalty payments discount rate	19.50%	WACC adopted for the business less 1%. This is to reflect that the total royalty will not be subject to all the operational risks of the business, but rather mainly the price risk and production component.

NOTE 14: FAIR VALUE MEASUREMENTS (continued)

Deferred milestone payments discount rate	2.76%	Discount rate in line with the risk that is applicable to the majority of the milestone payments. The majority of the milestone payments are not subject to the same risk as Malabar, as the risk around their non-occurrence is purely regulatory and not based upon the coal market.
Financial close - probability adjustment (Participating interest option)	70%	More than three quarters of costs have already been incurred, this increases the likelihood that the option will terminate before it is capable of being exercised.

Valuation processes

Malabar engaged an independent external party to value the acquired assets and liabilities in accordance with AASB 13 taking into account the structure of the transaction and the Joint Venture.

There has been no change in the valuation technique used to measure the fair value of the contingent consideration liability since the parent entity acquired SHUT Pty Ltd.

There were no significant interrelationships between the unobservable inputs that could materially affect the fair value of the contingent consideration.

c. **Reconciliation of Recurring Level 3 Fair Value Measurements**

Contingent Consideration Arising from Acquisition of SHUT Pty Ltd	**30 June 2017** $	**30 June 2016** $
Balance at the beginning of the year	9,619,000	-
Additions during the year		
Vendor Royalties	-	3,728,000
Deferred Milestone Payments	-	5,691,000
Participating Interest Option	-	200,000
Gains/(losses) recognised in profit or loss during the year	-	-
Settlements during the year	-	-
Balance at the end of the year	9,619,000	9,619,000

NOTE 15: PROVISIONS

	30 June 2017 $	**30 June 2016** $
CURRENT:		
Employee entitlements	35,123	25,348
	35,123	25,348

NOTE 16: BORROWINGS

	30 June 2017	30 June 2016
	$	$
CURRENT:		
Loans from Related Parties	3,256,022	
Revolving bill facility	6,200,000	-
	9,456,022	-
NON-CURRENT:		
Revolving bill facility	-	6,200,000
	-	6,200,000

Security on the revolving bill 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.

During the year, Malabar Coal Limited entered into working capital loan facility with a number of its shareholders, including Wayne Seabrook, who is currently a Director of Malabar Coal Limited for a total facility value of $3,200,000. This facility expires on or before 30th April 2018. The facility has an interest rate of 9% per annum and any interest owing will be paid on the repayment date of the facility.

Repayment of the facility is subject to the following condition, that should Malabar Coal Limited undertake an equity placement, it must apply the proceeds of the equity raising to repay this loan as soon as practical after the completion of the equity capital raising.

NOTE 17: DIVIDENDS

No dividend has been paid during the year ended 30 June 2017, and none is proposed

NOTE 18: ISSUED CAPITAL

	30 June 2017	30 June 2016
	$	$
180,000,000 fully paid ordinary shares (2016: 160,000,000)	62,185,206	60,242,961
	62,185,206	60,242,961

a. Ordinary Shares

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

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

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

NOTE 18: ISSUED CAPITAL (continued)

Movements in ordinary share capital during the year:

Date	Details	Note	#	Issue Price $	$
1 July 2016	Opening balance		160,000,000		60,242,961
8 Sep 2016	Shares issued (Net of costs)		20,000,000	0.10	1,942,245
30 June 2017	Closing balance		180,000,000		62,185,206

b. Options

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

c. Capital Management

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

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

There are no externally imposed capital requirements.

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

NOTE 19: RESERVES

	30 June 2017	30 June 2016
	$	$
Share based payments reserve (1)		
Opening Balance	296,638	255,622
Share based payments – employee share options	8,106	41,016
Transferred to retained earnings upon expiration of unexercised options	(261,750)	-
Closing Balance	42,994	296,638
Capital Reserves (2)	7,888,459	7,888,459
Total Reserves	7,931,453	8,185,097

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

(2) The Receivable of $4,543,000 represents the fair value of the loan payable to Spur Hill Unit Trust by Spur Hill Agricultural at the time of acquisition of 100% interest in the Joint Venture, when considering 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 Capital Reserve. (Refer to note 14)

NOTE 20: CONTROLLED ENTITIES

a. Controlled Entities	Owned directly or indirectly	Owned directly or indirectly
Listed below are companies which are subsidiaries of Malabar Coal Limited. All of the subsidiaries are incorporated in Australia and the investments are in ordinary shares.	**2017**	**2016**
Spur Hill No. 2 Pty Ltd (SH2)	100%	100%
Spur Hill Management Pty Ltd (SHMgt)	100%	100%
Spur Hill Marketing Pty Ltd (SHMkt)	100%	100%
Spur Hill Agricultural Pty Ltd (SHA)	100%	100%

The Malabar Group acquired 100% interest in the Spur Hill Joint venture by purchasing Spur Hill U.T. Pty Ltd. Refer to Note 14 for additional details.

NOTE 21: CASH FLOW INFORMATION

	30 June 2017	30 June 2016
	$	$
Reconciliation of Cash Flow from Operations with Profit / (loss) after Income Tax		
Profit (loss) after income tax	(1,812,572)	(1,538,338)
Cash flows excluded from profit attributable to operating activities:		
– Share based payments	8,106	41,016
– Borrowing expense	2,603	8,208
– Reserves adjustment	-	141,190
- Gain on sale of asset	-	(5,170)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
– (increase)/decrease in trade and other receivables	254,706	(49,034)
– (increase)/decrease in other assets	-	17,677
– increase/(decrease) in trade payables and accruals	(236,711)	450,978
– increase/(decrease) in accrued interest	56,022	-
Cash flow from operations	(1,727,846)	(933,473)

NOTE 22: SHARE-BASED PAYMENTS – EMPLOYEE SHARE OPTIONS

(i) Share options were granted to employees under the Malabar Coal Limited executive share option plan to take up 1,075,000 ordinary shares at an exercise price of $1.50 each and 950,000 ordinary shares at an exercise price of $0.30 each. The first group of options (1,075,000 options) were exercisable on or before 31 May 2017 but they expired in the current financial year lapsed as they were out of the money and not exercised by the option holders.

The second group of options are exercisable on or before 28 November 2018.

(ii) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year were $8,106 (2016: $41,016).

During the financial year Nil options vested with key management personnel (2016: 674,998)

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

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

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

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

	Number	Weighted Average Exercise Price
Options outstanding as at 30 June 2016	2,025,000	$0.94
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	1,075,000	$1.50
Options outstanding as at 30 June 2017	950,000	$0.30
Options exercisable as at 30 June 2017	633,333	$0.30
Options exercisable as at 30 June 2016	1,391,667	$1.23

The weighted average remaining contractual life of options outstanding at year-end was 1.41 years. The exercise price of outstanding shares at the end of the reporting period was $0.30.

No options were granted during the period.

NOTE 23: RELATED PARTY TRANSACTIONS

Related Parties

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

i. *Entities exercising control over the Group*

The parent entity within the Group is Malabar Coal Limited.

ii. *Key management personnel*

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

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

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

iv. *Other related parties*

Other related parties include entities controlled by the ultimate holding company and entities over which key management personnel have joint control.

NOTE 23: RELATED PARTY TRANSACTIONS (continued)

b. Transactions with related parties

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

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

Ironstone Capital Partners Pty Ltd '(Ironstone Capital') is a boutique corporate advisory business owned by two of the current and former Directors – Wayne Seabrook and Simon Keyser. Ironstone Capital provides consulting services to the Project and the Company in connection with project development and corporate activities. Ironstone Capital is paid at market related rates or less for work conducted by its executives. During the financial year ended 30 June 2017, totals of $69,509 were paid by Malabar to Ironstone Capital.

ii) Other Related Party Transactions

During the financial year ended 30 June 2017, Malabar paid XLX Pty Ltd ('XLX') $201,944 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 $16,648 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 current and former Malabar Directors Wayne Seabrook, Simon Keyser and Andy Plummer.

The Company has continued the consultancy arrangement with the Chairman whereby he (or his associated entity) is paid a consulting fee of $2,500 per day for any work done for the Company which is not related to his role as Chairman. In the financial year ended 30 June 2017, total payments of $266,767 have been made under this agreement.

During the year the Company entered into a six months' arrangement with Simon Keyser, former Director of Malabar, 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 Director. In the financial year ended 30 June 2017, total payments of $121,797 have been made under this agreement.

c. Working Capital Loan Facility

During the year, Malabar Coal Limited entered into working capital loan facility with a number of its shareholders, including Wayne Seabrook (loaned amount $100,000 plus interest owing of $1,751), who is currently a Director of Malabar Coal Limited for a total facility value of $3,200,000. This facility expires on or before 30th April 2018. The facility has an interest rate of 9% per annum and any interest owing will be paid on the repayment date of the facility. Refer to Note 16 for additional details.

d. Transactions with Key Management Personnel

- Refer to Note 5.

NOTE 24: FINANCIAL RISK MANAGEMENT

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

	Note	30 June 2017	30 June 2016
		$	$
Financial assets			
Cash and cash equivalents	7	1,973,936	1,175,754
Trade and other receivables	8	165,334	157,948
Total financial assets		2,139,270	1,333,702
Financial liabilities			
Trade and other payables	13	478,042	724,528
Liability for Deferred Consideration	14	9,619,000	9,619,000
Borrowings	16	9,456,022	6,200,000
Total financial liabilities		19,553,064	16,543,528

Financial Risk Management Policies

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

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

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

a) Credit risk

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

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

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

Credit risk exposures

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

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

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

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

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

	Note	30 June 2017	30 June 2016
		$	$
Cash and cash equivalents:			
– A- to AA- rated	7	1,973,936	1,175,754

b) Liquidity risk

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

c) Market risk

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

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

	Floating Interest Rate	Fixed Interest maturing in: 1 year or less	Fixed Interest maturing in: Over 1 year, less than 5	Non Interest bearing	Total	Weighted Average Interest rate
2017						
Financial assets						
Cash at bank	1,973,936	-	-	-	1,973,936	1.1%
Receivables	-	-	-	-	-	-
Financial Liabilities						
Borrowings	6,200,000	3,256,022	-	-	9,456,022	6.1%
2016						
Financial assets						
Cash at bank	1,175,742	-	-	12	1,175,754	1,18%
Receivables	-	-	-	157,948	157,948	0.00%
Financial Liabilities						
Payables	6,200,000	-	-	10,288,958	16,488,958	1.11%

NOTE 24: FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis

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

	Carrying Value	+1 % interest rate	-1 % interest rate
	$	$	$
30 June 2017			
Interest bearing cash	1,973,936	19,739	(19,739)
30 June 2016			
Interest bearing cash	1,175,744	11,757	(11,757)

Net Fair Values of financial assets and liabilities

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

NOTE 25: CAPITAL AND LEASING COMMITMENTS

	30 June 2017	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	165,208	253,992
– between 12 months and 5 years	100,000	265,208
– later than 5 years	-	-
	265,208	519,201

Operating leases include a non-cancellable property lease with a 5-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the lower of the change in the consumer price index (CPI) or 4% per annum. It also includes one $100,000 agreement to lease fee relating to a properties adjacent to the project area which is due on 1 May 2017.

b. Capital Commitments

The Group had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

NOTE 26: CONTINGENT LIABILITIES AND CONTINGENCIES

Estimates of the potential financial effect of contingent liabilities that may become payable:

Project Related

On 24 December 2015 Malabar formally completed the acquisition of SHUT, taking its cumulative interest in the Spur Hill Project to 100%. In acquiring SHUT Pty Ltd, the Group made a $3 million up front cash payment and incurred a contingent consideration liability in the form of milestone payments and a royalty based on coal sales. The underlying contingent obligations comprising the deferred considerations were independently valued at $9,619,000 (Refer to note 14). The underlying contingent obligations comprising the deferred consideration are set out as follows:

Milestone payments to the vendors

1. $0.5m on the later of:
   - Submission of the Environmental Assessment; or
   - September 2016
2. $1m on the later of:
   - 80mt of Proven Reserves being established; or
   - September 2017
3. $0.5m on receipt of Environmental Approval;
4. $1m on the grant of the Mining Lease; and
5. On Financial Close (unconditional financing arrangements in place for Project construction), $13m less any payments already made under 1-4 above.

Royalty

1.75% royalty on all coal sales from the Project.

Participating Option

- If, by 31 July 2022, Malabar has not either
  1. Spent a total of $70m on the Project (including expenditure to-date) ('Minimum Spend'); or
  2. Achieved Financial Close on the Project,

  Then the vendors have the right to exercise an option to obtain a 'Participating interest %' of the Project ('Option') (whereupon the Royalty would terminate).
- This Option terminates immediately if either the Minimum Spend or Financial Close is achieved prior to 31 July 2022.
- 'Participating interest%' = 100 – ((actual cumulative expenditure on Project as at 31 July 2022)/$70m) x 80%).

Note: As at 30 June 2017, Malabar's cumulative spend on the Project exceeds $57.7 m.

	Consolidated Group 2017 $	Consolidated Group 2016 $
a. Bonus payment for Peter Doyle upon the grant of a Mining Lease per employment contract.	500,000	500,000
b. Payment to landholder upon the grant of a Mining Lease per contract of purchase.	600,000	600,000
Contingent Liabilities	1,100,000	1,100,000

NOTE 26: CONTINGENT LIABILITIES AND CONTINGENCIES (continued)

Land Access Agreements

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 27: EVENTS AFTER THE REPORTING PERIOD

Malabar Coal announced in May 2017 that it had entered into an agreement to acquire Anglo American's 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.

There are also potential underground resources on EL5460 that will be evaluated as part of the resources controlled by Malabar Coal.

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

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

At the date of this report, all of the conditions precedent required to complete this transaction have not been achieved.

While the Board continues to investigate its options for the financing of the Drayton acquisition, key Malabar Coal shareholders have provided binding commitments to fully participate in an equity raising of $76.2M to support the purchase of the Drayton assets as well as to underwrite any shortfall in the equity raising from other shareholders. 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.

Other than the above, no other matter of circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

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

NOTE 28: COMPANY DETAILS

The registered office and principal place of business of the Company as at 30 June 2017 was:

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

DIRECTORS' DECLARATION

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

1. the financial statements and notes, as set out on pages 16 to 53, are in accordance with the *Corporations Act 2001* including:
   a. complying with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS) and the *Corporations Regulations 2001*; and
   b. giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date;
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Wayne Seabrook, Director

Dated: 19 September 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MALABAR COAL LIMITED

Opinion

We have audited the accompanying financial report of Malabar Coal Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion, the financial report of Malabar Coal Limited is in accordance with the *Corporations Act 2001*, including:

a) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

b) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

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

Independence

We are independent of the consolidated entity in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the consolidated entity's Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we

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have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Report

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

In preparing the financial report, the Directors are responsible for assessing the consolidated entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using a going concern basis of accounting unless the Directors either intend to liquidate the consolidated entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx. This description forms part of our auditor's report.

PKF HACKETTS

PKF HACKETTS AUDIT

LIAM MURPHY
PARTNER

19 SEPTEMBER 2017
BRISBANE