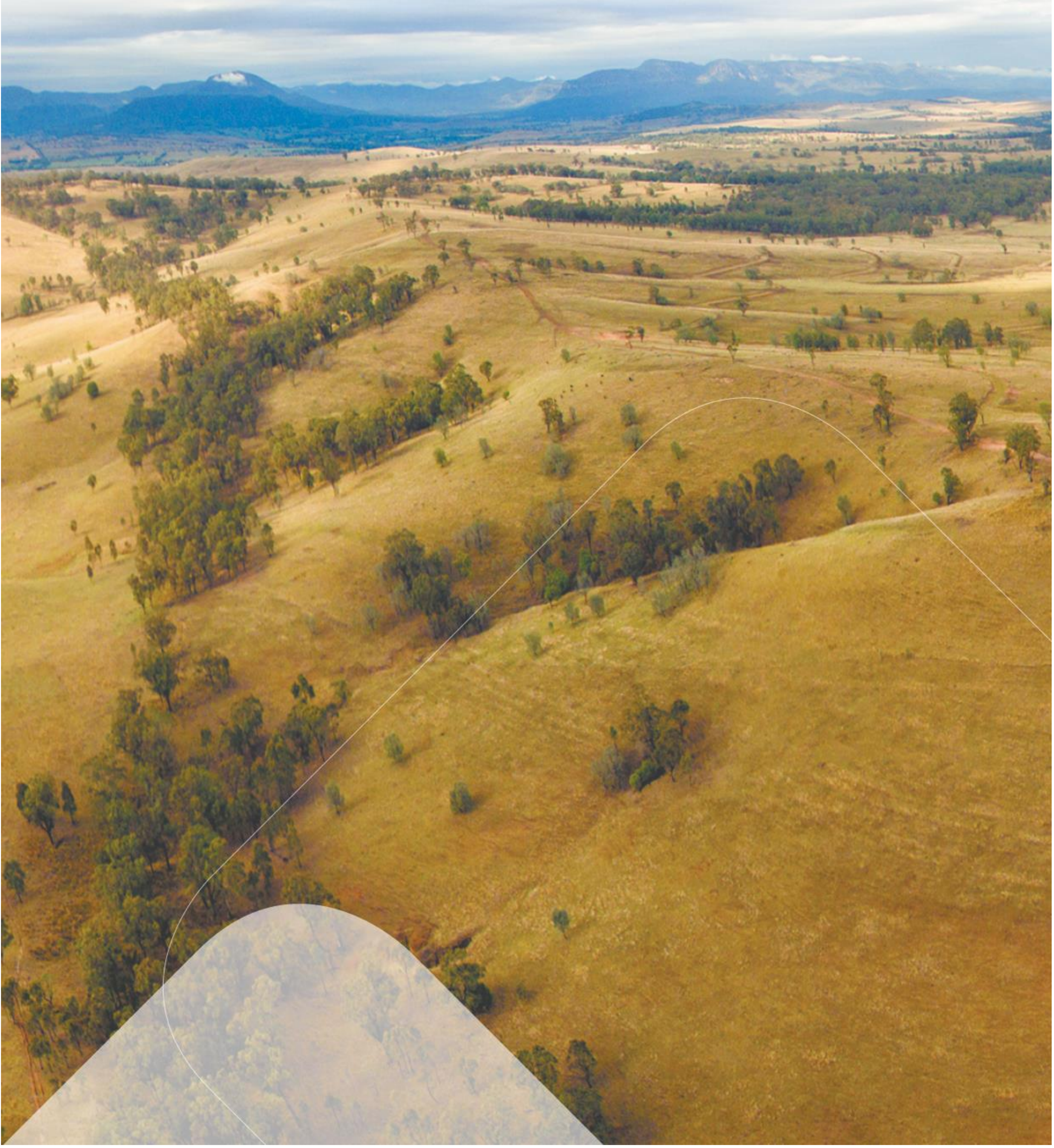
MALABAR COAL LIMITED

Annual Financial Report for year ended 30 June 2018



MALABAR COAL LIMITED
AND CONTROLLED ENTITIES
ABN 29 151 691 468

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2018

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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 2018.

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	(Resigned 30 June 2018)
Brian Beem	Non-Executive Director	(Appointed 30 June 2018)

Principal Activities

The principal activities of the Group during the financial year were:

- Advancing the development of the Spur Hill Underground Coking Coal Project (Spur Hill Project) on Exploration Licence 7429 ('EL 7429') in the Upper Hunter Valley region of New South Wales;
- Acquisition of the neighbouring Drayton Mine and Maxwell Project;
- Continuing the rehabilitation of the old Drayton open cut mine;
- Advancing the development of the Maxwell Underground Project (Maxwell Project) on Exploration Licence 5460 ('EL 5460');
- Advancing the development of the Maxwell Solar Project; and
- The issue of Redeemable Converting Shares (RCS) to raise $80 million.

Spur Hill Project

Location and overview

The Spur Hill Project is an underground coal development project in the upper Hunter Valley region of New South Wales focusing on the production of soft coking coal and export thermal coal products. The relevant tenement is EL 7429.

Malabar has secured long-term access agreements with a number of landowners on EL 7429, the result of which is that approximately 80% of the proposed underground mine is either beneath land owned by Malabar or beneath land subject to long-term access agreements. Malabar maintains regular dialogue with landholders on EL 7429 as part of its community consultation plan.

The boundary of the tenement is approximately three kilometres east of Denman and 15 kilometres south-west of Muswellbrook.

The Spur Hill Project is within the upper Hunter Valley coal corridor which contains a number of operating coal mines and development projects.

DIRECTORS' REPORT (continued)

Principal activities (continued)

The Spur Hill Project will be developed only as an underground longwall mining operation and does not involve open cut mining. As such, the Spur Hill Project:

(a) minimises the effect on visual amenity and the landscape in comparison to an open cut mine;

(b) leaves no final hole or void at the conclusion of activities;

(c) avoids the widespread noise emissions and impacts commonly associated with an open cut mine;

(d) avoids the widespread air quality and dust concerns associated with an open cut mine, namely blasting and removal and dumping of overburden required at open cut mines; and

(e) existing agricultural and other commercial activities above and surrounding the Spur Hill Project can continue to operate during its development.

JORC Resources

The Spur Hill Project has total JORC Mineral Resources of 626Mt (100% basis), comprising two resource blocks. The Western Zone contains 514Mt of Resources, including 394Mt of Indicated Mineral Resources, and covers the majority of the tenement. This resource is between 60 metres and 590 metres deep and demonstrates characteristics favourable to longwall mining. The Eastern Zone contains 112Mt of Inferred Mineral Resource. It is located on the eastern flank of the tenement and is between 20 metres and 320 metres below the surface.

Table 2: Coal Resources within EL7429

Project Area	Indicated (Mt)	Inferred (Mt)	Total (Mt)
Western Zone (EL 7429)	394.4	119.2	**513.6**
Eastern Zone (EL 7429)	-	112.3	**112.3**
Total	**394.4**	**231.5**	**625.9**
Note: The Resources Estimate has been prepared in accordance with JORC Code 2012 by Geological and Mining Services Australia Pty Ltd.			

Acquisition of Drayton Mine and Maxwell Project

Location and overview

On 5 May 2017, Malabar announced that it had entered into an agreement to acquire Anglo American's 88.17% interest in the Drayton Mine and the Maxwell Project (the **Acquisition**). This was followed in September 2017 by Malabar's entry into further agreements to acquire the remaining interests in the Drayton Mine and the Maxwell Project from vendors including MCH, NCE, Hyundai, and Daesung (together with Anglo American, the **Vendors**). Completion of the acquisitions occurred on 26 February 2018, and which time Malabar took full ownership of the assets.

The key terms of the Acquisition are as follows:

(a) At settlement, all of the Vendors' interests (being 100%) in the Drayton Mine and the Maxwell Project were acquired by Malabar, including all land, mining leases, infrastructure, and other assets, as well as the indirect interest in Port Waratah Coal Services.

(b) A royalty payment of $0.50/t is payable to the vendors on the first 50 million tonnes of coal produced from the Spur Hill Project or the Maxwell Project.

DIRECTORS' REPORT (continued)

Principal activities (continued)

(c) At settlement, Malabar assumed all bonding, rehabilitation and environmental obligations, including provision of a replacement security deposit for the consolidated security deposits held in respect of the Drayton Mine and the Maxwell Project.

(d) Arrangements being entered into in relation to the existing port and rail agreements.

Drayton Mine

The Drayton Mine was, until recently, an open cut export coal mine operation, using a dragline, trucks and excavators, in the New South Wales Hunter Valley. It has historically produced up to approximately five million tonnes of coal per year. Coal mining commenced at the Drayton Mine in 1983. The Vendors ceased mining activities at the Drayton Mine in 2016.

The Acquisition provides substantial existing infrastructure ("Maxwell Infrastructure") suitable for use by the Spur Hill Project and the Maxwell Project, including a coal preparation plant, coal stockpiling facilities, a rail loop, administration offices, workshops and other services. The Directors also expect the capital cost required to bring the Spur Hill and Maxwell Projects into production will be significantly reduced as a result of the Acquisition.

The Directors believe that by using the existing Maxwell Infrastructure arising from the Acquisition, Malabar will be able to achieve efficiencies and reduce the impact of its operations on the local community, neighbours and the environment. It is also Malabar's intention to place reject stone and rock from washing underground coal from the Spur Hill Project and the Maxwell Project into open cut voids remaining at the Drayton Mine, subject to regulatory approval. The Directors believe this will substantially improve the final rehabilitated landforms at the Drayton Mine.

The Maxwell Project

The Maxwell Project is located on EL 5460 which was owned by the Drayton South JV. Under the ownership of the Vendors, the Drayton South Project was proposed as an open cut extension of the Drayton Mine. The open cut mining plan was rejected by the PAC, given concerns raised by various stakeholders and the Vendors announced they would no longer be pursuing the development of an open cut mine.

On 8 December 2017, the New South Wales Department of Planning and Environment renewed EL 5460 with a condition imposed that restricts exploration activities for underground mining purposes only. The renewal gives Malabar the opportunity to develop and submit a proposal for a vastly different, underground-only mine on the site (renamed the Maxwell Project). In addition, that portion of EL 5460 which lies to the South of the Golden Highway has been voluntarily relinquished. Following completion of the Acquisition, Malabar commenced detailed technical studies to evaluate the development of the Spur Hill Project and the Maxwell Project. Malabar remains committed to underground mining methods for both the Spur Hill Project and the Maxwell Project.

In addition, the New South Wales Government has created a State Environmental Planning Policy that prohibits open cut mining within EL 5460. This provides an additional layer of certainty for the community.

DIRECTORS' REPORT (continued)

Principal activities (continued)

JORC Resources

The Maxwell Project has significant coal resources, as set out in the table below.

Table 1: Coal resources within EL 5460

	Measured (Mt)	Indicated (Mt)	Measured and indicated (Mt)	Inferred (Mt)	Total
Drayton South1	490.6	182.3	**672.9**	83.2	**756.1**
Note: The Resources Estimate has been prepared in accordance with JORC Code 2012 by Geological and Mining Services Australia Pty Ltd.					

Operating and Financial Review

The consolidated loss after tax for the year ended 30 June 2018 of the Group amounted to $777,794 (30 June 2017: $1,812,572).

Review of Operations

Spur Hill Project

Malabar remains fully committed to developing the Spur Hill Project. During the financial period, Malabar advanced studies to support the preparation of approval applications for the Spur Hill Project.

Given the location of the recently acquired Maxwell Infrastructure the Company is reviewing the Spur Hill's underground mine layout and the substantially reduced surface infrastructure that will required on the Spur Hill EL. Early conclusions from this work indicates that due to the proximity of the Maxwell Project (EL5460) to the Maxwell Infrastructure, then the initial Development Application (DA) will be for an underground mine within EL5460. Whilst this DA is being assessed Malabar will continue to enhance the geological understanding of the zone where EL5460 meets Spur Hill (EL 7429) to optimise the development of Spur Hill. This strategy ensures the shortest time to full employment and first underground coal, and a long project life as additional reserves are brought into production from Spur Hill.

Further exploration utilising 2D Seismic is planned within the next 12 months.

Maxwell Infrastructure and Drayton Mine

The Maxwell Infrastructure including the coal preparation plant, coal stockpiling facilities, a rail loop, administration offices, workshops and other services were kept on care and maintenance.

The rehabilitation of the Drayton open cut mine is progressing well and Malabar forecasts that it will meet its rehabilitation requirements for the 2018 calendar year.

DIRECTORS' REPORT (continued)

Review of Operations (continued)

Subsequent to year end, Malabar has advanced the development of the Maxwell Project. See "**Events after the Financial Year End".**

Maxwell Solar Project

Malabar recently announced its intention to develop a solar power farm on a portion of the old Drayton open cut mine. The project will have an installed capacity of about 25MW and provide more than 50 jobs during construction. Operating at capacity the Maxwell Solar Project could provide power to more than 10,000 homes. The Project is expected to cost in excess of $30 million, which will require the submission of a request for a State Significant Development to the DP&E.

Malabar will commence the approval process in the near future.

Issue of redeemable converting shares

Malabar successfully completed the entitlement offer, lodged with ASIC on 13 March 2018 to raise approximately $80 million. The issue and allotment of 177,777,896 shares was completed on 19 April 2018.

The offer to existing shareholders included participation in 80 for 81 pro-rata non-renounceable issue of redeemable converting shares at 45c per share, that unless redeemed by 28 February 2019, will convert into ordinary shares at that date.

These funds are being used to provide funding of mine planning, development costs and rehabilitation bonding to the NSW government.

Community and Landholder Consultation

Following the acquisition of the Maxwell assets, Malabar now participates in three Community Consultative Committees ('CCC's), namely the:

1. Spur Hill Underground Coking Coal Project CCC;
2. Maxwell Infrastructure CCC; and
3. Drayton Mine & Mt Arthur Coal Joint Rail Loading Facility CCC.

Eight CCC meetings were held during the financial year. Further CCC meetings will be held at regular intervals on an ongoing basis.

Malabar maintains regular dialogue with Landholders on all tenements. Access agreements with Landowners are in place covering the majority of the proposed Spur Hill underground mining area.

DIRECTORS' REPORT (continued)

Community and Landholder Consultation (continued)

In addition to above, consultation and engagement with community in relation to the project has included, but not limited to:

- Keeping the community informed of key Project milestones and Malabar's intentions through notices in the local media;
- Distribution of community newsletters providing Project updates to local residents and other stakeholders and placement of the newsletters on the Malabar website;
- Conducting a social impact assessment scoping survey across June and July 2018;
- Creation of a dedicated website and phone line to provide Project information to interested parties;
- Active, ongoing consultation with lessees and near neighbours proximal to the Project through meetings, property visits (by arrangement), phone calls and emails;
- Commencement of the Aboriginal Cultural Heritage Assessment consultation process in June 2018;
- Ongoing engagement and briefings with Muswellbrook Shire Council and Singleton Council;
- Ongoing consultation with industry groups and private enterprise within the Hunter region;
- Ongoing consultation with surrounding mining and power generation companies.

Senior Malabar management regularly engages with the community by attending and sponsoring community and sporting events. Over the past 5 years Malabar has contributed financially to the community, including a total of $40,768 donated in this financial year to the following:

- Denman & District Westpac Rescue Helicopter
- Denman Junior Cricket
- St Joseph's Primary School Denman
- Denman Public School
- Singleton Business Chamber
- Denman Sandy Hollow Junior Rugby League Club
- Upper Hunter Education Fund Inc.
- Muswellbrook Polocrosse Club
- Upper Hunter Show Inc.
- Merton Living
- Lions Club of Denman Inc.
- Denman Rugby League Football Club

Financial Position

The net assets of the Group have increased by $79,788,091 during the financial year, from $30,326,365 at 30 June 2017 to $110,114,456 at 30 June 2018.

The Group's cash position increased from $1,973,936 at 30 June 2017 to $30,011,994 at 30 June 2018.

During the period, the Company raised $80 million in share capital and increased its borrowings by $940,000 to $7.14 million to provide funding of mine planning, development costs and rehabilitation bonding to the NSW government.

Significant Changes in the state of affairs

Refer to Principal activities for details on changes in state of affairs.

DIRECTORS' REPORT (continued)

Dividends

There were no dividends paid to members during the current or prior financial years.

Events after the Financial Year End

Subsequent to year end, the Company has made substantial progress in advancing the Maxwell Underground Project ("Maxwell Project"), including:

- Submitting a Scoping Report to the NSW Department of Planning and Environment for the Maxwell Underground Project;
- Applying for a Gateway Certificate for the Maxwell Project;
- Submitting a project application to the Commonwealth under the EPBC Act;
- Receiving the Planning Secretary's Environmental Assessment Requirements;
- Announced intention to develop a c. 25MW solar farm on the old Drayton open cut site adjacent to the Maxwell Underground Project, and;
- Negotiating a bond guarantee and off-take arrangement with a future customer.

Maxwell Underground Project Approval Progress

Malabar commenced the formal planning process for the Maxwell Underground Project with the submission of a Scoping Report to the NSW Department of Planning and Environment (DP&E).

The Scoping Report provides details of the Project and reinforces that the mine will be "underground-only", producing high quality coals with at least 75% capable of being used in the making of steel (coking coals). The balance (c. 25%) would be export thermal coals suitable for the new generation High Efficiency, Low Emissions ("HELE") power generators.

The Scoping Report is available on the DP&E's website: http://www.majorprojects.planning.nsw.gov.au/page/

In response to the Scoping Report the DP&E issued the Planning Secretary's Environmental Assessment Requirements, ("SEARs"), on 3rd September 2018 to Malabar.

The SEARs set out the requirements for the preparation of the Environmental Impact Statement, ("EIS"), for the Maxwell Project.

Malabar has also applied to NSW Gateway Panel for a Gateway Certificate for the Maxwell Project. The role of the Gateway Panel is to assess the agricultural impacts of State significant mining proposals located on Strategic Agricultural Land before a Development Application is lodged.

At the same time, Malabar submitted a referral to the Commonwealth Government as required under the EPBC Act.

Malabar expects to be able to lodge its EIS and Development Application in the first quarter of 2019.

DIRECTORS' REPORT (continued)

Events after the Financial Year End (continued)

Bond guarantee

On 4 September 2018 Malabar entered into a financial agreement ("Facility") for USD 55m (A$76m*) for the next 3 years. The purpose of the Facility is to provide bonds, guarantees, and financial assurances including the provision of guarantees to the NSW Government. The Facility is expected to be replaced when the financing for construction of the Maxwell Project is arranged. The Facility is secured over all the assets of the Maxwell Project and Maxwell Infrastructure.

Malabar has also commenced securing long-term coal off-take arrangements for up to 25% of production on market-based terms. These arrangements include pre–payments to Malabar of USD 80 million when the mining lease is granted for the Maxwell Project.

Malabar intends undertaking a pro rata buyback of a portion of the New Converting Shares issued in March 2018 consistent with the prospectus for the issue.

Environmental Issues

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

DIRECTORS' REPORT (continued)

Information on the Directors as at date of Report

Wayne Seabrook	B.Eng (Chem - 1st Hons)
Role	Non-Executive Chairman
Experience	Wayne has more than 30 years of resources sector and corporate finance experience. He 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. was. 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; General Manager Infrastructure with Whitehaven Coal, 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 Beem	BA, Political Economy (Princeton University)
Role	Non-Executive Director
Experience	Brian has more than 16 years of global resources investment and corporate finance experience. Brian worked on numerous transactions in the resources sector while working as investment banker at Merrill Lynch and a principal investor at First Reserve Corporation, a U.S. based energy private equity firm. For the last 12 years Brian has held senior positions at the AMCI Group, a privately held global resources investor. During his time at AMCI Brian has led numerous investments in the Australian coal sector, including Felix Resources, Whitehaven Coal, AMCI Australia and Fitzroy Resources. Brian currently serves on the boards of Conuma Coal Resources Ltd, Fitzroy QLD Resources Ltd and AMCI Investments Pty Ltd, amongst others.
Date of appointment	30 June 2018
Special Responsibilities	Member of Audit Committee

DIRECTORS' REPORT (continued)

Meetings of Directors

During the financial year, there were 8 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	8	8	2	2	1	1
Anthony Galligan	8	8	-	-	1	1
Brian Beem	1	1	-	-	-	-
Resigned Directors						
Brian Clifford	8	5	2	2	1	1

Indemnifying Officers or Auditor

During or since the end of the financial year, the Group paid insurance premiums of $65,273 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	$0.28	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 26.

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.

DIRECTORS' REPORT (continued)

Proceedings on Behalf of Company

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

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

Non-audit Services

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 16.

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

Wayne Seabrook
Director
Dated: 25 September 2018

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 Resources for the Maxwell Project is based on information compiled by Ms Cheryl Lynn Holz. Ms Cheryl Lynn Holz is a geologist and employee of Xenith Consulting Pty Ltd, an independent consultancy providing engineering, environment, project management and construction management services to clients operating in the mining, infrastructure, energy and environment markets. Ms Cheryl Lynn Holz is a Member of The Australasian Institute of Mining and Metallurgy. She has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which she 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. Ms Cheryl Lynn Holz consents to the inclusion in this Report of the matters based on her information 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 2018, 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

25 SEPTEMBER 2018
BRISBANE

PKF Hacketts Audit
ABN 33 873 151 348

Level 6, 10 Eagle Street, Brisbane QLD 4000
GPO Box 1568, Brisbane QLD 4001
p +61 7 3839 9733
f +61 7 3832 1407

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Note	30 June 2018	30 June 2017
		$	$
Revenue from continuing operations			
Interest income		645,328	5,867
Agistment income		43,273	60,000
Share in profits of associates	15	1,262,738	-
Other income	3	1,127,767	180,455
Total income		3,079,106	246,322
Expenses			
Share-based payments – employee share options	23	2,070	8,106
Legal and professional fees		720,715	527,503
Consultants		2,145,425	659,659
Finance costs	3	820,673	373,336
Employee benefits expense		39,755	105,817
Directors fees		115,000	189,158
Other expenses		13,262	195,315
Total expenses		3,856,900	2,058,894
Profit (loss) before income tax		(777,794)	(1,812,572)
Income tax expense	4	-	-
Profit (loss) for the period		(777,794)	(1,812,572)
Other comprehensive income		-	-
Total comprehensive income for the period		(777,794)	(1,812,572)
Profit (loss) attributable to members of the parent entity		(777,794)	(1,812,572)
Total comprehensive income attributable to members of the parent entity		**(777,794)**	**(1,812,572)**
Earnings per share			
From continuing operations:			
- Basic earnings per share (cents)	22	($0.36)	($1.03)
- Diluted earnings per share (cents)	22	($0.36)	($1.03)

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 2018

	Note	30 June 2018 $	30 June 2017 $
ASSETS			
Current Assets			
Cash and cash equivalents	8	30,011,994	1,973,936
Financial Assets	9	56,434,501	-
Trade and other receivables	10	3,685,662	302,834
Other assets	11	748,212	80,675
Total Current Assets		90,880,369	2,357,445
Non-Current Assets			
Property, plant and equipment	12	36,020,946	10,516,833
Intangible assets	13	3,400,600	2,965,600
Capitalised exploration and evaluation costs	14	34,706,791	32,978,988
Investments in associates	15	15,901,138	-
Other assets	11	95,686	1,095,686
Total Non-Current Assets		90,125,161	47,557,107
Total Assets		181,005,530	49,914,552
LIABILITIES			
Current Liabilities			
Trade and other payables	16	5,536,021	478,042
Provisions	18	9,737,938	35,123
Borrowings	19	7,140,000	9,456,022
Total Current Liabilities		22,413,959	9,969,187
Non-Current Liabilities			
Provisions	18	48,477,115	9,619,000
Total Non-Current Liabilities		48,477,115	9,619,000
Total Liabilities		70,891,074	19,588,187
Net Assets		**110,114,456**	**30,326,365**
EQUITY			
Share capital	21	142,749,021	62,185,206
Reserves	23	7,933,523	7,931,453
Retained earnings (accumulated losses)		(40,568,088)	(39,790,294)
Total Equity		**110,114,456**	**30,326,365**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Share Capital $	Reserves $	Retained Earnings (Accumulated Losses) $	Total $
Balance as at 1 July 2016		60,242,961	8,185,097	(38,239,472)	30,188,586
Total comprehensive income for the period		-	-	(1,812,572)	(1,812,572)
Transactions with owners in their capacity as owners:					
Share-based payments – employee share options	23	-	8,106	-	8,106
Transfer of expired options from reserves to retained earnings	23		(261,750)	261,750	-
Shares issued	21	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**

	Note	Share Capital $	Reserves $	Retained Earnings (Accumulated Losses) $	Total $
Balance as at 1 July 2017		**62,185,206**	**7,931,453**	**(39,790,294)**	**30,326,365**
Total comprehensive income for the period		-	-	(777,794)	(777,794)
Transactions with owners in their capacity as owners:					
Share-based payments – employee share options	23	-	2,070	-	2,070
Shares issued	21	80,563,815	-	-	80,563,815
Transactions with non-controlling interest		-	-	-	-
Balance at 30 June 2018		**142,749,021**	**7,933,523**	**(40,568,088)**	**110,114,456**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	30 June 2018	30 June 2017
		$	**$**
Cash flows from operating activities			
Receipts from customers		318,170	240,455
Payment to suppliers and employees		(5,919,027)	(2,043,302)
Interest received		221,683	5,867
Interest paid		(310,787)	(314,712)
R&D incentive		-	383,846
Net cash (used in)/provided by operating activities	25	(5,689,961)	(1,727,846)
Cash flows from investing activities			
Proceeds /(Payments) on purchase of Drayton tenements		16,769,289	(1,000,000)
Payments for investment in short term deposits		(56,434,501)	-
Payments for property, plant and equipment		(1,255,359)	(13,598)
Payments for exploration expenditure		(3,917,803)	(1,602,618)
Proceeds from investment in associate		1,263,600	-
Net cash (used in)/provided by investing activities		(43,574,774)	(2,616,216)
Cash flows from financing activities			
(Repayment) / Proceeds from borrowings from related parties	19	(3,256,022)	3,200,000
Proceeds from borrowings		940,000	-
Proceeds from shares issued	21(b)	79,618,815	1,942,244
Net cash (used in)/provided by financing activities		77,302,793	5,142,244
Net increase (decrease) in cash held		28,038,058	798,182
Cash and cash equivalents at beginning of financial period		1,973,936	1,175,754
Cash and cash equivalents at the end of financial period	8	**30,011,994**	**1,973,936**

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 25 September 2018 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 2018, the Group made a loss before tax of $777,794 (2017: $1,812,572). Cash outflows from operating and exploration-related investing activities during the same period were $9,607,764 (2017: $3,330,464) with closing cash on hand of $30,011,994 (2017: $1,973,936).

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 24.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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. Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Investment in associates and joint ventures (continued)

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with AASB 5. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture.

When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of AASB 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group’s investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with AASB 139. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Investment in associates and joint ventures (continued)

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

d. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Income Tax (continued)

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

e. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Property, Plant and Equipment (continued)

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.

f. 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*.

g. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. 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.

i. 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) 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)

i. Financial Instruments (continued)

(ii) 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.

(iii) 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.

(iv) 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Financial Instruments (continued)

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.

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 considering 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.

j. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and subsequent measurement (continued)

j. Impairment of Assets (continued)

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.

k. Employee Benefits

Short-term employee benefits

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

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

Retirement benefit obligations

Defined contribution superannuation benefits

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

Equity-settled compensation

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and subsequent measurement (continued)

l. Provisions

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

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

Mine rehabilitation

Provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. The nature of rehabilitation activities includes dismantling and removing operating facilities, re-contouring and top soiling the mine, and restoration, reclamation and revegetation of affected areas. Provision has been made for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cash flows.

The obligation to rehabilitate arises at the commencement of the mining project and/or when the environment is disturbed at the mining location. At this point, the provision is recognised as a liability with a corresponding asset included in mining property and development assets. Additional disturbances or changes in the rehabilitation costs are reflected in the present value of the rehabilitation provision, with a corresponding change in the cost of the associated asset. In the event the restoration provision is reduced, the cost of the related asset is reduced by an amount not exceeding its carrying value.

The unwinding of the effect of discounting the provision is recorded as a finance cost in the consolidated statement of comprehensive income. The carrying amount capitalised as a part of capitalised exploration and evaluation costs is depreciated over the useful life of the related asset.

The amount of the provision relating to rehabilitation of environmental disturbance caused by on-going production and extraction activities is recognised in the consolidated statement of comprehensive income as incurred.

m. Cash and Cash Equivalents

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

n. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after considering 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Revenue and Other Income (continued)

Interest revenue is recognised using the effective interest rate method.

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

o. Trade and Other Receivables

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

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

p. Trade and Other Payables

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

q. Goods and Services Tax (GST)

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

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

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

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Critical Accounting Estimates and Judgements (continued)

Key estimates (continued)

(ii) Rehabilitation provision

Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provisions at balance date represent management's best estimate of the present value of the future rehabilitation costs required to rehabilitate the Drayton Mine.

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 Redeemable Converting Share issue in April 2018 fully taken up by current shareholders). Consistent with the fiduciary responsibilities of the Board the Group is investigating medium and longer-term financing options for the Projects development. At the appropriate juncture, Malabar may seek a strategic partner for the Projects 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 Maxwell and Spur Hill Projects 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 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 resource statements and operating and capital cost estimates.

Key judgements (continued)

(i) *Exploration and evaluation expenditure (continued)*

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

(ii) *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

- 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 July 2019).

  When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

  The main changes introduced by the new Standard are as follows:

  - recognition of a right-of-use asset and lease liability for all leases (excluding short-term leases with a lease term 12 months or less of tenure and leases relating to low-value assets);
  - depreciation of right-of-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
  - inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
  - application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
  - inclusion of additional disclosure requirements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u. New Accounting Standards for Application in Future Periods (continued)

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

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

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 2018	30 June 2017
	$	$
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	86,993,056	1,960,571
Non-current assets	32,825,995	46,848,338
TOTAL ASSETS	119,819,051	48,808,909
LIABILITIES		
Current liabilities	302,407	3,639,668
Non-current liabilities	5,891,000	9,619,000
TOTAL LIABILITIES	6,193,407	13,258,668
EQUITY		
Issued capital	142,748,978	62,185,164
Reserve	45,064	42,994
Retained earnings/ (accumulated losses)	(29,168,398)	(26,677,916)
TOTAL EQUITY	113,625,644	35,550,242
STATEMENT OF COMPREHENSIVE INCOME		
Total profit/(loss)	(2,490,482)	(1,730,807)
Total comprehensive income	(2,490,482)	(1,730,807)

Guarantees

Refer to Note 19: Borrowings.

Contingent liabilities

Malabar Coal Limited has certain contingent liabilities as at 30 June 2018. Refer to Note 30.

Contractual commitments

Malabar Coal Limited has certain lease commitments as at 30 June 2018. Refer to Note 29.

NOTE 3: LOSS FOR THE YEAR

	30 June 2018	30 June 2017
	$	$
Loss before income tax from continuing operations includes the following:		
Wayleave income	827,431	-
Other revenue	300,336	180,455
Other income	1,127,767	180,455
Depreciation [(1)]	68,248	-
Facility fees [(2)]	509,886	129,842
Interest expense	310,787	243,494
Finance costs	820,673	373,336

(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.

(2) Facility fees were incurred for the establishment of a facility to cover the environmental bond Malabar was required to maintain as part of the Drayton acquisition.

NOTE 4: INCOME TAX

	30 June 2018	30 June 2017
	$	$
(a) Numerical reconciliation of income tax expense / (income) to prima facie tax payable:		
Total profit/(loss) before income tax	(777,794)	(1,812,572)
Tax at the Australian tax rate of 27.5% (2017: 27.5%)	(213,893)	(498,457)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Add/(less) permanent differences – R&D expenditure	-	127,527
Add/(less) permanent differences – Non-deductibles	459,650	81,176
	245,757	(289,754)
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	-	-
Tax benefit of losses not recognised	(1,494,084)	289,754
Franked dividend received from associate	(541,543)	-
Capital gain arising under tax consolidation	1,789,870	-
Income tax expense	-	-

NOTE 4: INCOME TAX (CONTINUED)

	30 June 2018	30 June 2017
	$	$
(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	4,506,680	3,447,647
Property, plant and equipment	86,060	457,333
Other	225,112	105,487
Total deferred tax liabilities	4,817,852	4,010,467
Set-off of deferred tax liabilities pursuant to set-off provisions	(4,817,852)	(4,010,467)
Net deferred tax liabilities	-	-
(d) Deferred tax assets:		
The balance comprises temporary differences attributable to:		
Tax losses	8,956,823	8,283,067
Other	-	19,363
Business capital costs	83,872	25,533
Total deferred tax assets	9,040,695	8,327,963
Set-off of deferred tax assets pursuant to set-off provisions	(4,817,852)	(4,010,467)
Unrecognised deferred tax assets	(4,222,843)	(4,317,496)
Net deferred tax assets	-	-

NOTE 4: INCOME TAX (CONTINUED)

	30 June 2018	30 June 2017
	$	$
(e) Tax losses:		
Unused tax losses for which no deferred tax asset has been recognised	32,570,265	30,120,243
Potential tax effect at 27.5%	8,956,823	8,283,067

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: OPERATING SEGMENTS

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

NOTE 6: 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 2018 $	30 June 2017 $
Short-term employee benefits	901,180	678,786
Post-employment benefits	31,200	13,016
Total KMP compensation	932,380	691,802

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.

NOTE 7: AUDITORS' REMUNERATION

	30 June 2018 $	30 June 2017 $
Remuneration of the auditor for:		
– Audit and review of the financial statements	89,500	60,000

NOTE 8: CASH AND CASH EQUIVALENTS

Cash at bank and on hand	30,011,994	1,973,936
	30,011,994	1,973,936

Cash is invested in term deposits, yielding a return between 2% - 3%.

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	30,011,994	1,973,936

NOTE 9: FINANCIAL ASSETS

Short term deposit	56,434,501	-

The "Short-term deposit" is held as security for bank facilities so is not available to finance the Group's day-to-day operations and has therefore been excluded from cash and cash equivalents for the purposes of the statement of cash flows.

NOTE 10: TRADE AND OTHER RECEIVABLES

	30 June 2018 $	30 June 2017 $
CURRENT:		
Trade receivables	188,388	54,230
Wayleave income receivable	1,234,557	-
Port and rail costs recoverable	1,316,162	-
Other receivables	946,555	111,104
R&D tax incentive receivable	-	137,500
	3,685,662	302,834

The average credit period on trade receivables is 30 days. No interest is charged on overdue amounts. The Company has reviewed receivables and doesn't believe a provision for doubtful debts is required as all amounts due are expected to be recovered. The 30 June 2018 amount includes one-off amounts in relation to the Drayton acquisition which took an average of 90 days to collect.

NOTE 11: OTHER ASSETS

	30 June 2018	30 June 2017
	$	$
CURRENT:		
Prepaid interest and borrowing costs	227,175	80,675
Prepayments	521,037	-
	748,212	80,675
NON-CURRENT:		
Deposit for Purchase of Drayton Leases	-	1,000,000
Security bond	95,686	95,686
	95,686	1,095,686

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Note	30 June 2018	30 June 2017
		$	$
Land - at cost		32,562,316	19,046,606
Less: impairment (1)		(9,407,066)	(9,407,066)
Total land		23,155,250	9,639,540
Buildings - at cost		2,276,073	2,276,073
Less: accumulated depreciation		(181,003)	(158,781)
Less: impairment (1)		(1,421,282)	(1,421,282)
Total buildings		673,788	696,010
Total land and buildings		23,829,038	10,335,550
Plant and Equipment		12,413,745	357,097
Less: accumulated depreciation		(221,837)	(175,814)
		12,191,908	181,283
Total property, plant and equipment		36,020,946	10,516,833

(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 12: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 2016	9,639,540	707,213	212,243	10,558,996
Additions	-	10,934	2,160	13,094
Disposals	-	-	-	-
Depreciation expense	-	(22,137)	(33,120)	(55,257)
Impairment expenses	-	-	-	-
Balance at 30 June 2017	9,639,540	696,010	181,283	10,516,833
Additions	13,515,710	-	12,056,651	25,572,361
Disposals	-	-	-	-
Depreciation expense	-	(22,222)	(46,026)	(68,248)
Impairment expenses	-	-	-	-
Balance at 30 June 2018	**23,155,250**	**673,788**	**12,191,908**	**36,020,946**

NOTE 13: INTANGIBLE ASSETS

	Note	30 June 2018	30 June 2017
		$	$
NON-CURRENT:			
Water allocation licenses		3,400,600	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 14: CAPITALISED EXPLORATION AND EVALUATION COSTS

For Spur Hill and Maxwell Project		30 June 2018	30 June 2017
		$	$
Capitalised exploration and evaluation cost consist of:			
Mining information		1,732,848	963,848
Exploration licences		37,543,905	36,774,905
Exploration & evaluation expenditures		14,375,675	10,567,872
Reserves & resources acquired	17	4,486,000	8,214,000
Impairment		(21,401,846)	(21,401,846)
R&D tax incentive (Note 1(r))		(2,029,791)	(2,139,791)
		34,706,791	32,978,988

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

Opening balance		32,978,988	31,320,609
Mining information		769,000	-
Exploration licences		769,000	-
Exploration & evaluation expenditures incurred during the year		3,807,803	1,755,624
Reserves & resources acquired – change in measurement (1)	17	(3,728,000)	-
R&D tax incentive reversed/ (recognised) during the year (Note 1 (r))		110,000	(97,245)
		34,706,791	32,978,988

(1) The acquisition of 100% of the Spur Hill Project was 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 18 for additional details.

On 26 February 2018 the Group acquired the Drayton Mine and Maxwell Project. This acquisition led to a change in estimate in relation to the timing of the Spur Hill mine becoming operational and therefore it was no longer reasonable to account for deferred consideration of the royalty payments. The deferred consideration was reversed with a contra decrease in the Spur Hill Reserves & resources acquired.

NOTE 15: INVESTMENTS IN ASSOCIATES

Name of associate	Principal activity	Place of incorporation	Proportion of ownership interest 30 June 2018 $	30 June 2017 $
Newcastle Coal Shippers Pty Ltd ('NCS')	Investment in Port Waratah Coal Services ('PWCS')	Australia	20%	-

NOTE 15: INVESTMENTS IN ASSOCIATES (CONTINUED)

	Note	30 June 2018 $	30 June 2017 $
Investment in Newcastle Coal Shippers	17	15,902,000	-
Profits attributable post acquisition		1,262,738	-
Less dividends received		(1,263,600)	-
Carrying amount of investment		15,901,138	-

Investments in associates are accounted for using the equity method.

NOTE 16: TRADE AND OTHER PAYABLES

		30 June 2018 $	30 June 2017 $
CURRENT:			
Trade creditors		1,345,011	381,890
Other creditors		191,010	96,152
Deferred consideration	17(c)	4,000,000	-
		5,536,021	478,042

The average credit period on trade purchases is 14 days. The Company has financial risk management policies in place to ensure all payables are paid within agreed credit terms.

The deferred consideration relates to the Drayton mine acquisition and will be settled in the 2019 financial year.

NOTE 17: FAIR VALUE MEASUREMENTS

Measurement

The Group measures and recognises its obligations for deferred consideration arising from the acquisitions 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.

NOTE 17: FAIR VALUE MEASUREMENTS (CONTINUED)

Measurement (continued)

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.

Spur Hill Unit Trust

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	At acquisition Purchase consideration $	Fair value $
Purchase consideration			
- Up-front cash payment		3,000,000	3,000,000
- Transaction costs		138,000	138,000
- Deferred milestone payments		5,691,000	5,691,000
- Future royalties payable on coal sales from the Spur Hill Project (2)		3,728,000	-
- Participating interest option		200,000	200,000
Total deferred consideration	17.b. i	**9,619,000**	**5,891,000**
Total purchase consideration		**12,757,000**	**9,029,000**
		Allocation to Assets Acquired	**Allocation to Assets Acquired**
- Exploration Licence 7429 (Spur Hill)	14	8,214,000	4,486,000
Total Reserves and resources		**8,214,000**	**4,486,000**
Receivable (1)		4,543,000	4,543,000
Total assets acquired		**12,757,000**	**9,029,000**

(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 17: FAIR VALUE MEASUREMENTS (CONTINUED)

(2) On 26 February 2018 the Group acquired the Drayton Mine and Maxwell Project. This acquisition led to change in estimate in relation to the timing of the Spur Hill mine becoming operational and therefore it was no longer reasonable to account for deferred consideration of the royalty payments. The present value of the deferred consideration and relating Spur Hill asset were decreased by $3,728,000. Refer to Maxwell Project Fair value section for more information.

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 from Spur Hill (EL7429), pegged at 1.75%. The sales-based vendor royalty and milestone-based payments form part of the purchase price as contingent consideration liabilities.

The fair value of the contingent consideration was originally recognised at $9.619 million using discounted cash flow methodology and historical coal prices. Following the Drayton acquisition the Group no longer considered it reasonable to calculate the deferred consideration on the royalty payments and reversed this amount against the original Spur Hill exploration assets.

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 SHUT transaction and the Spur Hill Joint Venture.

c. Reconciliation of Recurring Level 3 Fair Value Measurements

Contingent Consideration Arising from Acquisition of SHUT Pty Ltd		**30 June 2018 $**	**30 June 2017 $**
Balance at the beginning of the year		9,619,000	9,619,000
Movements during the year			
Vendor Royalties		(3,728,000)	-
Balance at the end of the year	18	5,891,000	9,619,000

NOTE 17: FAIR VALUE MEASUREMENTS (CONTINUED)

Drayton Mine and Maxwell Project (Maxwell)

On the 26 of February 2018 Malabar Coal concluded a transaction to acquire the Drayton Mine and the Maxwell Project from various vendors. A purchase consideration consisted out of $3 in cash as well as deferred consideration based on future coal production. Malabar took responsibility for all bonding, rehabilitation and environmental obligations in relation to the Drayton Mine and the Maxwell Project.

An independent external party was engaged to provide an estimate of the assets acquired and liabilities assumed as a result of the transaction. Malabar has concluded that this was an acquisition of assets rather than a business combination due to the fact that the mine was non-operational and had no mining lease. A summary of the purchase price allocation, which has been included in the accounts and accepted as the fair value as at 30 June 2018.

The Sale and Purchase Agreement contains the following payment terms:

- $3 payment in cash to vendors;
- A payment to vendors of $0.50/t of the first 50 million tonnes of coal produced from the Maxwell and /or Spur Hill Project, and;
- Malabar is to pay over any dividends received directly or indirectly from; (a) its investment in Newcastle Coal Shippers, and, (b) Wayleave income to a combined cap of $4 million;

The purchase price allocation at acquisition was calculated at the following market value.

Assets acquired and liabilities recognised at date of acquisition:

Current assets	**$**
Cash and cash equivalents	16,000,000
Non-current assets	
Property, plant and equipment	26,290,000
Investments	15,902,000
Total assets	58,192,000
Current liabilities	
Deferred consideration	(4,000,000)
Non-current liabilities	
Provisions	(54,192,000)
Total liabilities	(58,192,000)
Net	-

NOTE 17: FAIR VALUE MEASUREMENTS (CONTINUED)

Drayton Mine and Maxwell Project (continued)

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

It has been determined that the acquisition of Maxwell 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.

The market value has been accepted as the fair value as at 30 June 2018.

The following valuations techniques were used in calculating the market value of the assets:

- Property, plant and equipment – fair values were determined using a combination of external independent valuations or the use of discounted cash flow models;
- Investment in associate – calculated using earnings before tax, depreciation and amortisation (EBITDA) multiple approach of the indirect investment in NCS;
- Deferred consideration – as per contract value agreed in sale and purchase agreement;
- Provisions – calculated using a discounted cashflow model.

NOTE 18: PROVISIONS

CURRENT:	Employee entitlements $	Other provisions [1] $	Deferred consideration[2] $	Total $
Balance as at 1 July 2016	25,348	-	-	25,348
Additional provisions recognised	9,775	-	-	9,775
Reduction based on payments during the year	-	-	-	-
Balance as at 30 June 2017	35,123	-	-	35,123
Opening balance 1 July 2017	35,123	-	-	35,123
Additional provisions recognised	20,815	9,682,000	-	9,702,815
Reduction based on payments during the year	-	-	-	-
Closing as at 30 June 2018	55,938	9,682,000	-	9,737,938

NOTE 18: PROVISIONS (CONTINUED)

NON-CURRENT:

	Employee entitlements $	Other provisions [1] $	Deferred Consideration[2] $	Total $
Balance as at 1 July 2016	-	-	9,619,000	9,619,000
Additional provisions recognised	-	-	-	-
Balance as at 30 June 2017	-	-	9,619,000	9,619,000
Opening balance 1 July 2017	-	-	9,619,000	9,619,000
Additional provisions recognised	-	54,192,000	-	54,192,000
Reduction based on payments during the year	-	(1,923,885)	-	(1,923,885)
Reduction due to change in measurement	-	-	(3,728,000)	(3,728,000)
Reallocation to current	-	(9,682,000)	-	(9,682,000)
Closing	-	42,586,115	5,891,000	48,477,115

The provision for employee entitlements represents annual leave accrued. A long service leave levy is paid monthly to the Coal LSL Board in relation to employees working on the mine site therefore, no long service leave accrual is required. Management has assessed the calculation for long service leave for non-mine site employees and determined that no provision is required at this stage due to amount being immaterial.

[1] Other provisions represents the present value, discounted at 8% of the future outflow of economic benefits that will be required to settle the Company's obligations in relation to a variety of items including bonding, rehabilitation, and commercial matters.

[2] As a consequence of the Drayton acquisition a change in estimate in relation to the deferred consideration for the SHUT acquisition was determined. It was no longer reasonable to estimate the royalties payable on the SHUT acquisition and that amount was therefore written back to the original exploration asset value of the Spur Hill Resources and Reserves.

NOTE 19: BORROWINGS

	30 June 2018 $	30 June 2017 $
CURRENT:		
Loans from Related Parties	-	3,256,022
Revolving bill facility	7,140,000	6,200,000
	7,140,000	9,456,022

During the 2017 financial year, Malabar Coal Limited entered into working capital loan facility by borrowing funds from a number of its shareholders. The unsecured facility was $3,200,000 with an interest rate of 9% per annum. Wayne Seabrook, who is currently a Director of Malabar Coal Limited, loaned $100,000 plus interest owing of $1,751. The facility and interest payable were fully repaid during the year by issuance of redeemable converting shares.

NOTE 19: BORROWINGS (CONTINUED)

The Group has a revolving bill facility of $7,140,000, and a bank guarantee facility of $65,500,000. As part of its bank facilities a bank guarantee is in place to provide bonds, guarantees, and financial assurances including the provision of guarantees to the NSW Government. The security of the which comprises; a general security of up to $65.5 million over all the assets of Malabar and its guarantors, mortgages over all real property holdings and water licences, and, security over project bank accounts.

NOTE 20: DIVIDENDS

No dividend has been paid during the year ended 30 June 2018 ($nil: 2017), and none is proposed.

NOTE 21: ISSUED CAPITAL

	30 June 2018	30 June 2017
Issued share capital consists out of the following:	**$**	**$**
182,100,000 fully paid ordinary shares (2017: 180,000,000)	63,130,206	62,185,206
177,777,896 fully paid redeemable convertible shares (2017: nil)	79,618,815	-
	142,749,021	62,185,206

a) Movements in ordinary share capital during the year:

Date	Details	Note	#	Issue Price $	$
1 July 2017	Opening balance		180,000,000		62,185,206
1 May 2018	Ordinary shares issued (net of costs)		2,100,000	0.45	945,000
30 June 2018	Closing balance		182,100,000		63,130,206

b) Movements in redeemable converting shares during the year:

1 July 2017	Opening balance		-		-
19 April 2018	Redeemable converting shares issued (net of costs)		177,777,896	0.45	79,618,815
30 June 2018	Closing balance		177,777,896		79,618,815

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 21: ISSUED CAPITAL (CONTINUED)

b. Redeemable convertible shares

On 19 April 2018 the Company completed an entitlement offer of 80 New Converting Shares for every 81 Existing Ordinary Shares held at $0.45 per share to raise $80 million. 177,777,896 shares were issued.

Unless redeemed or cancelled, in accordance with their terms, each converting share will convert into one fully paid share in Malabar on 28 February 2019. Malabar may redeem any or all of the Converting Shares at any time prior to their automatic conversion to Ordinary Shares by paying the holder $0.495 per Converting Share (which redemption rate represents a 10% premium on the issue price of the Converting Share).

Redeemable convertible 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 redeemable converting share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

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

c. Options

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 26 Share Based Payments.

d. 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 22: EARNINGS PER SHARE

	2018 Cents	2017 Cents
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	(0.36)	(1.03)
Total basic earnings per share attributable to the ordinary equity holders of the company	(0.36)	(1.03)
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	(0.36)	(1.03)
Total diluted earnings per share attributable to the ordinary equity holders of the company	(0.36)	(1.03)

(c) Reconciliation of earnings used in calculating earnings per share	**2018** **$**	**2017** **$**
Basic earnings per share		
Loss attributable to the ordinary equity holders of the company used in calculating basic earnings per share	(777,794)	(1,812,572)
Diluted earnings per share		
Loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	(777,794)	(1,812,572)

(d) Weighted average number of shares used as the denominator	**#**	**#**
Weighted average number of ordinary and convertible redeemable shares used as the denominator in calculating basic earnings per share	215,413,722	176,164,384
Adjustments for calculation of diluted earnings per share:	-	-
Weighted average number of ordinary, convertible redeemable shares and potential ordinary share used as the denominator in calculating diluted earnings per share	215,413,722	176,164,384

NOTE 23: RESERVES

	30 June 2018	30 June 2017
	$	$
Share based payments reserve [(1)]		
Opening Balance	42,994	296,638
Share based payments – employee share options	2,070	8,106
Transferred to retained earnings upon expiration of unexercised options	-	(261,750)
Closing Balance	45,064	42,994
Capital Reserves [(2)]	7,888,459	7,888,459
Total Reserves	7,933,523	7,931,453

[(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 17).

NOTE 24: CONTROLLED ENTITIES

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

	Owned directly or indirectly	
	2018	2017
Spur Hill No. 2 Pty Ltd (SH2)	100%	100%
Spur Hill Management Pty Ltd (SHMgt)	100%	100%
Spur Hill Agricultural Pty Ltd (SHA)	100%	100%
Spur Hill Marketing Pty Ltd (SHMkt)	100%	100%
Maxwell Ventures Pty Ltd	100%	-
Maxwell Ventures (Management) Pty Ltd	100%	-
Maxwell Coal (Sales) Pty Ltd	100%	-
Drayton Coal Shipping Pty Ltd	100%	-
Faramax No.2 Pty Ltd	100%	-
Malabar Coal (Drayton) Pty Ltd	100%	-
Malabar Coal (Maxwell) Pty Ltd	100%	-
Malabar Coal (Maxwell Management) Pty Ltd	100%	-
Malabar Coal (Drayton) No.2 Pty Ltd	100%	-
Malabar Coal (Drayton) No.3 Pty Ltd	100%	-

NOTE 25: CASH FLOW INFORMATION

	30 June 2018	30 June 2017
	$	$
a) Reconciliation of Cash Flow from Operations with Profit / (loss) after Income Tax		
Profit (loss) after income tax	(777,794)	(1,812,572)
Cash flows excluded from profit attributable to operating activities:		
– Share based payments	2,070	8,106
– Borrowing expense	-	2,603
– Share issue in lieu of payment for services provided	945,000	-
- Depreciation and amortisation	68,248	-
- Share in profits of associates	(1,262,738)	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
– (increase)/decrease in trade and other receivables	(3,152,117)	254,706
– (increase)/decrease in other assets	(667,537)	-
– increase/(decrease) in trade payables and accruals	(991,593)	(236,711)
– increase/(decrease) in accrued interest	146,500	56,022
Cash flow from operations	(5,689,961)	(1,727,846)

b) Changes in liabilities arising from financing activities

			Non-cash flow				
	1 July 2017	Cash Flow	Acquisition	Foreign exchange movements	Fair value changes	Re-classification	30 June 2018
Short term borrowings	9,456,022	(2,316,022)	-	-	-	-	7,140,000
Long term borrowings	-	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-	-
Contingent consideration	-	-	-	-	-	-	-
Total	**9,456,022**	**(2,316,022)**	**-**	**-**	**-**	**-**	**7,140,000**

NOTE 26: 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) expired on the 31st of May 2017 without being exercised.

The second group of options (950,000 options) are exercisable on or before 28 November 2018.

As at 30 June 2018 no options have been exercised.

(ii) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year were $2,070 (2017: $8,106).

During the financial year **Nil** options vested with key management personnel (2017: NIL)

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

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

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

	Number	**Weighted Average Exercise Price**
Options outstanding as at 30 June 2017	950,000	$0.28
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	-	-
Options outstanding as at 30 June 2018	950,000	$0.28
Options exercisable as at 30 June 2018	950,000	$0.28
Options exercisable as at 30 June 2017	633,333	$0.28

The weighted average remaining contractual life of options outstanding at year-end was 5 months. The exercise price of outstanding shares at the end of the reporting period was $0.28.

No options were granted during the period.

NOTE 27: RELATED PARTY TRANSACTIONS

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.

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 Spur Hill and Maxwell Projects

Ironstone Capital Partners Pty Ltd '(Ironstone Capital') is a boutique corporate advisory business partially owned by a current Director – Wayne Seabrook. 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 2018, a total of $529,396 (2017: $69,509) was paid by Malabar to Ironstone Capital.

Malabar also issued 2,100,000 ordinary shares on the 1st of May 2018 to Ironstone Capital in lieu of payment for services provided by Ironstone Capital on the Drayton acquisition that was completed on the 26th of February 2018.

ii) Other Related Party Transactions

During the financial year ended 30 June 2018, Malabar paid XLX Pty Ltd ('XLX') $93,539 under the previous lease agreement for office space on Level 26, 259 George Street, Sydney. The XLX lease expired in December 2017, ending the sub-lease arrangement between XLX and Malabar.

The lease agreement was charged on a pass-through cost basis from XLX to Malabar.

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 2018, total payments of $395,002 (2017: $266,767) have been made under this agreement.

NOTE 27: RELATED PARTY TRANSACTIONS (CONTINUED)

c. Working Capital Loan Facility

During the 2017 financial year, Malabar Coal Limited entered into working capital loan facility by borrowing funds from a number of its shareholders. The unsecured facility was $3,200,000 with an interest rate of 9% per annum. Wayne Seabrook, who is currently a Director of Malabar Coal Limited, loaned $100,000 plus interest owing of $1,751. The facility and interest payable were fully repaid during the year by issuance of redeemable converting shares.

d. Transactions with Key Management Personnel

Refer top Note 6.

NOTE 28: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of cash at banks, financial assets, accounts receivable and payable, deferred consideration 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 2018 $	30 June 2017 $
Financial assets			
Cash and cash equivalents	8	30,011,994	1,973,936
Financial assets	9	56,434,501	-
Trade and other receivables	10	3,685,662	165,334
Total financial assets		90,132,157	2,139,270
Financial liabilities			
Trade and other payables	16	5,536,021	478,042
Liability for Deferred Consideration	18	5,891,000	9,619,000
Borrowings	19	7,140,000	9,456,022
Total financial liabilities		18,567,021	19,553,064

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.

NOTE 28: FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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 2018	30 June 2017
		$	$
Cash and cash equivalents:			
– A- to AA- rated	8	30,011,994	1,973,936

a) 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.

NOTE 28: FINANCIAL RISK MANAGEMENT (CONTINUED)

b) 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
2018						
Financial assets						
Cash at bank	30,011,994	-	-	-	30,011,994	2.5%
Financial assets	56,434,501				56,434,501	2.5%
Financial Liabilities						
Borrowings	7,140,000	-	-	-	7,140,000	4.2%
2017						
Financial assets						
Cash at bank	1,973,936	-	-	-	1,973,936	1.1%
Financial Liabilities						
Borrowings	6,200,000	3,256,022	-	-	9,456,022	6.1%

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 2018			
Interest bearing cash	30,011,994	300,119	(300,119)
Financial assets	56,434,501	564,345	(564,345)
Borrowings	7,140,000	(71,400)	71,400
30 June 2017			
Interest bearing cash	1,973,936	19,739	(19,739)
Borrowings	6,200,000	(62,000)	62,000

NOTE 28: FINANCIAL RISK MANAGEMENT (CONTINUED)

Net Fair Values of financial assets and liabilities

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

NOTE 29: LEASE COMMITMENTS

	30 June 2018 $	30 June 2017 $
a. Operating Lease Commitments		
Payable – minimum lease payments:		
- not later than 12 months	270,139	165,208
- between 12 months and 5 years	633,377	100,000
- later than 5 years	-	-
	903,516	265,208

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.

b. Capital Commitments

The Group had no capital commitments for property, plant and equipment as at 30 June 2018 (2017: $nil).

NOTE 30: CONTINGENT LIABILITIES AND CONTINGENCIES

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

Project Related – Spur Hill

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 $5,891,000 (Refer to note 17). The underlying contingent obligations comprising the deferred consideration are set out as follows:

Milestone payments to the vendors

1. $500,000 on the later of:
   - Submission of the Environmental Assessment in relation to the Spur Hill Project; or
   - September 2016
2. $1million on the later of:
   - 80Million tonnes of Proven Reserves being established for the Spur Hill Project; or
   - September 2017
3. $500,000 on receipt of Environmental Approval for the Spur Hill Project;
4. $1million on the grant of the Mining Lease for the Spur Hill Project; and
5. On Financial Close (unconditional financing arrangements in place for Spur Hill Project construction), $13 million less any payments already made under 1-4 above.

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

Participating Option

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

  Then the vendors have the right to exercise an option to obtain a 'Participating interest %' of the Spur Hill 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 Spur Hill Project as at 31 July 2022)/$70m) x 80%).

Note: As at 30 June 2018, Malabar's cumulative spend on the Spur Hill Project exceeds $60.2 million.

	Consolidated Group	
	2018	**2017**
	$	**$**
a. Bonus payment for Peter Doyle upon the grant of a Mining Lease for the Spur Hill Project per employment contract.	500,000	500,000
b. Payment to a prior landholder upon the grant of a Mining Lease for the Spur Hill Project per contract of purchase.	600,000	600,000
Contingent Liabilities	1,100,000	1,100,000

Note 30: CONTINGENT LIABILITIES AND CONTINGENCIES (CONTINUED)

Project related – Drayton Mine and Maxwell Project

Deferred consideration on the Drayton Mine and Maxwell Project acquisition includes an agreement to pay a royalty of $0.50/t of the first 50 million tonnes of coal produced from either the Maxwell Project or Spur Hill Project.

As discussed in note 19, the Group has as part of its bank facilities a bank guarantee in place to provide bonds, guarantees, and financial assurances including the provision of guarantees to the NSW Government. The security of the which comprises; a general security of up to $65.5 million over all the assets of the Group and its guarantors, mortgages over all real property holdings and water licences, and, security over project accounts. The amount of any contingency is uncertain by its nature and due to the long-term nature of the arrangement.

Land Access Agreements for the Spur Hill Project

On 7 October 2016 Malabar secured long term access agreements (LTLA) with a number of landowners on the Spur Hill exploration licence. As a result, approximately 80% of the foot-print of the proposed Spur Hill underground mine is either land owned by the company or is under LTLAs. Upon signing the LTLAs, upfront payments 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 from the Spur Hill Project. The underlying obligations, contingent on Malabar proceeding with the various stages of the Spur Hill Project, 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 Spur Hill Project, the Company must pay the Landowners the Planning Application Payment. The total amount payable is approximately $250,000.

Put option one

Landowners may require Malabar to purchase their property at rural value plus a put option premium. The premium will vary depending on the area of the property within the Spur Hill 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 coal from the Spur Hill Project. Exercising the option terminates the right to receive mining compensation.

Put option two

Landowners may require Malabar to purchase their property at t rural value plus a put option premium, less total mining compensation paid from the date of the contract and 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 from the Spur Hill Project 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 31: EVENTS AFTER THE REPORTING PERIOD

Subsequent to year end, the Company has made substantial progress in advancing the Maxwell Underground Project ("Maxwell Underground Project"), including:

- Submitting a Scoping Report to the NSW Department of Planning and Environment for the Maxwell Underground Project;
- Applying for a Gateway Certificate for the Maxwell Underground Project;
- Submitting a project application to the Commonwealth under the EPBC Act;
- Receiving the Planning Secretary's Environmental Assessment Requirements;
- Announced intention to develop a c. 25MW solar farm on the old Drayton open cut site adjacent to the Maxwell Underground Project, and;
- Negotiating a bond guarantee and off-take arrangement with a future customer.

Maxwell Underground Project Approval Progress

Malabar commenced the formal planning process for the Maxwell Underground Project with the submission of a Scoping Report to the NSW Department of Planning and Environment (DP&E).

The Scoping Report provides details of the Maxwell Underground Project and reinforces that the mine will be "underground-only", producing high quality coals with at least 75% capable of being used in the making of steel (coking coals). The balance (c. 25%) would be export thermal coals suitable for the new generation High Efficiency, Low Emissions ("HELE") power generators.

The Scoping Report is available on the DP&E's website: http://www.majorprojects.planning.nsw.gov.au/page/

In response to the Scoping Report the DP&E issued the Planning Secretary's Environmental Assessment Requirements, ("SEARs"), on 3rd September 2018 to Malabar.

The SEARs set out the requirements for the preparation of the Environmental Impact Statement, ("EIS"), for the Maxwell Underground Project.

Malabar has also applied to NSW Gateway Panel for a Gateway Certificate for the Maxwell Underground Project. The role of the Gateway Panel is to assess the agricultural impacts of State significant mining proposals located on Strategic Agricultural Land before a Development Application is lodged.

At the same time, Malabar submitted a referral to the Commonwealth Government as required under the EPBC Act.

Malabar expects to be able to lodge its EIS and Development Application in the first quarter of 2019.

NOTE 31: EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

Bond guarantee

On 4 September 2018 Malabar entered into a financial agreement ("Facility") for USD 55m (A$76m*) for the next 3 years. The purpose of the Facility is to provide bonds, guarantees, and financial assurances including the provision of guarantees to the NSW Government. The Facility is expected to be replaced when the financing for construction of the Maxwell Project is arranged. The Facility is secured over all the assets of the Maxwell Project and Maxwell Infrastructure.

Malabar has also commenced securing long-term coal off-take arrangements for up to 25% of production on market-based terms. These arrangements include pre–payments to Malabar of USD 80 million when the mining lease is granted for the Maxwell Project.

Malabar intends undertaking a pro rata buyback of a portion of the New Converting Shares issued in March 2018 consistent with the prospectus for the issue.

Other than what's being noted above, no other matter of circumstance has arisen since 30 June 2018 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 32: COMPANY DETAILS

The registered office and principal place of business of the Company as at 30 June 2018 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 17 to 65, 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 2018 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.

Wayne Seabrook
Director

Dated: 25 September 2018

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 2018, 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 2018 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

PKF Hacketts Audit
ABN 33 873 151 348

Level 6, 10 Eagle Street, Brisbane QLD 4000
GPO Box 1568, Brisbane QLD 4001
p +61 7 3839 9733
f +61 7 3832 1407

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

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

25 SEPTEMBER 2018
BRISBANE

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