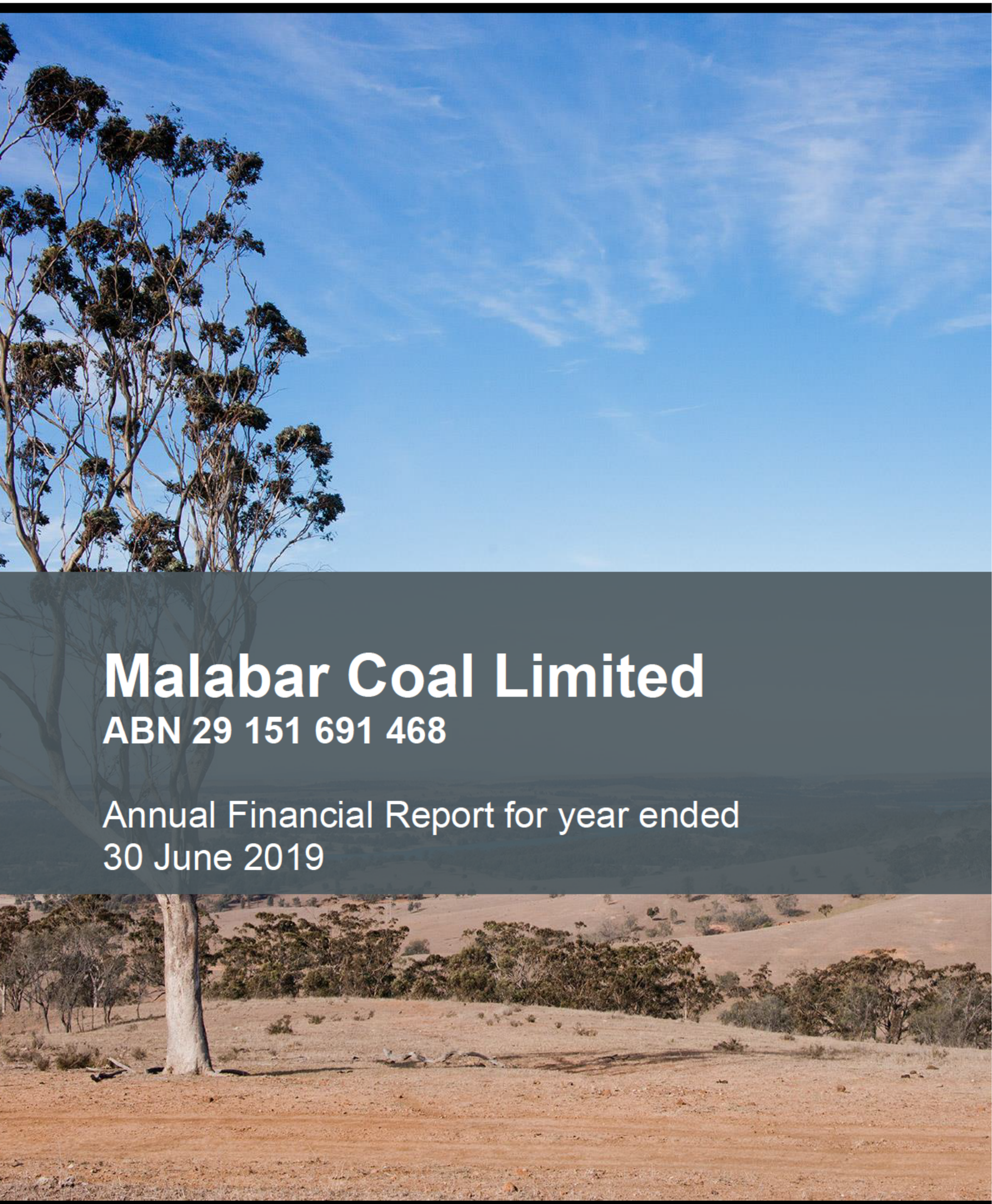
MALABAR COAL



Malabar Coal Limited

ABN 29 151 691 468

Annual Financial Report for year ended
30 June 2019

CONTENTS

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 2019.

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 Beem	Non-Executive Director

PRINCIPAL ACTIVITIES

During the period the key activities for Malabar included:

- Advancing the Maxwell Underground Project ("Maxwell Project");
- Rehabilitation of the Drayton Open-Cut Mine that ceased operation under previous ownership;
- Progressing the Maxwell Solar Project ("Maxwell Solar Project");
- Entered into guarantee facilities and off-take arrangement with future customers;
- Completed a $50 million selective capital reduction; and
- Increased existing financing facilities by $9 million.

REVIEW OF OPERATIONS

Maxwell Project

The Maxwell Project ("Project") is a proposed underground coal mining operation located south-southwest of Muswellbrook in the Hunter Valley region of New South Wales. Malabar's EIS and DA proposes an underground mining operation operating for a period of approximately 26 years and extracting up to 8 million tonnes per annum (Mtpa) of run-of-mine (ROM) coal. At least 75% of the coal produced by the Project would be capable of being used in the making of steel (coking coals). The balance would be export thermal coal suitable for the new generation High Efficiency, Low Emissions power generators.

During the period Malabar made substantial progress on this 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;
- Receiving the Gateway Certificate for the Maxwell Project; and
- Preparing the EIS and Development Application.

DIRECTORS' REPORT

JORC Resources

The Maxwell Project has significant coal resources within EL 5460:

Table 1: Coal resources within EL 5460

	Measured (Mt)	Indicated (Mt)	Measured and indicated (Mt)	Inferred (Mt)	Total
Within mine plan area	251	20	**271**	3	**274**
Outside mine plan area	179	220	**399**	97	**496**
Total	**430**	**240**	**670**	**100**	**770**
Note: The Resources Estimate has been prepared in accordance with JORC Code 2012 by McElroy Bryan Geological Services Pty Ltd.					

Drayton Mine Rehabilitation

Malabar formally took control of the former Drayton Open-Cut Mine on 26 February 2018 and commenced rehabilitation in March 2018. Rehabilitation completed to date exceeded 92.8 hectares.

Maxwell Solar Project

During the period Malabar made substantial progress on this project, including:

- Submitting a Scoping Report to the NSW Department of Planning, Industry and Environment (DPIE);
- Receiving the Planning Secretary's Environmental Assessment Requirements; and
- Preparing the EIS and Development Application.

Spur Hill Underground Project

Malabar remains committed to the Spur Hill Underground Coking Coal Project. In the current reporting period, the following activities were performed:

- 2D seismic surveys;
- Monitoring in relation to the environment and water;
- On-going engineering work in relation to the integration with the Maxwell Project.

JORC Resources

Table 2: Coal Resources within EL7429

Project Area	**Indicated (Mt)**	**Inferred (Mt)**	**Total (Mt)**
Western Zone (EL 7429)	394	119	**513**
Eastern Zone (EL 7429)	-	112	**112**
Total	**394**	**231**	**625**
Note: The Resources Estimate has been prepared in accordance with JORC Code 2012 by Geological and Mining Services Australia Pty Ltd.			

DIRECTORS' REPORT

Agricultural Properties

Malabar continues to enhance and support its agricultural properties including the Merton Vineyard. We are very proud of the results of the Merton Vineyard which provides grapes to a number of well-known wine-makers in the Hunter Valley, and importantly to the Small Forest winemaker that operates from our on-site winery and cellar door, (see www.smallforest.com.au).

Bonding Facility

On 4 September 2018 Malabar entered into a financial agreement ("Facility") for USD $55 million (AUD $78,425,780 as at 30 June 2019) 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 entered into an option agreement for a long-term coal off-take arrangement 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.

Selective Capital Reduction

In accordance with the Prospectus issued by Malabar on 13 March 2018 and the resolutions passed by Malabar's shareholders at the 2018 annual general meeting and subsequent meeting of Redeemable Converting Shares (RCS) holders on 29 November 2018, Malabar has proceeded with the selective capital reduction of RCS. This has resulted in a return of capital and cancellation of 101,010,098 of the RCS on issue in Malabar on a pro rata basis for consideration of $0.495 per RCS.

In accordance with the terms of issue of the RCS, the balance of the RCS converted into fully paid Ordinary Shares in Malabar on a one for one basis on 28 February 2019.

Share options / Share-based payments

950,000 share options were exercised at an exercise price of $0.28 during the period which resulted in an increase of share capital of $266,000 and an issuance of 950,000 fully paid Ordinary Shares.

All options previously granted under the 2013 employee share option plan have either been exercised or have expired which concludes the 2013 share option plan. Refer to note 20 for additional details.

Malabar introduced a new Long-Term Incentive Plan (LTIP) during the year. The Plan allows the Board to grant to Awards to employees which provides the employee the opportunity to acquire shares in the Company to assist with:

- attracting, motivating and retaining employees;
- incentivising employees to grow the Company and share in its financial success;
- delivering rewards to employees for individual and Company performance; and
- allowing employees, the opportunity to become Shareholders.

The Plan allows the Board to exercise its discretion to adjust or clawback Awards, or Shares allocated following exercise of an Award, to ensure that no unfair benefit is obtained by the Participant.

No Awards were offered to any employees under the new scheme during the period.

Borrowings

Malabar increased its borrowings with a $9 million facility during the year to $16.14 million. The Group's real property is used as security for this facility. These funds will be used to provide funding for progressing the company's projects and rehabilitation works.

DIRECTORS' REPORT

Community and Landholder Consultation

Malabar participates in three Community Consultative Committees ('CCC's), namely the:

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

A total of twelve CCC meetings were held during the financial year. These meetings provided an opportunity for the community to be engaged on our environmental performance and community sponsorship and also provided updates on our key projects. Further CCC meetings will be held at regular intervals on an ongoing basis.

Malabar maintains regular dialogue with landholders on all tenements. Malabar owns all the freehold land above the proposed underground mining activities of the Maxwell Project and has access agreements with landowners covering the majority of the proposed Spur Hill underground mining area.

In addition to above, consultation and engagement with community in relation to the Maxwell 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;
- Community information sessions providing the local community with an opportunity to discuss the Maxwell Project with Malabar's senior management and its specialists preparing the EIS studies;
- Conducting a social impact assessment that involved workshops, meetings and phone interviews with community, local councils, service providers, and stakeholders;
- Creation of a dedicated website and phone line to provide project information to interested parties;
- Active, ongoing consultation with lessees and neighbours to the project;
- Consultation with registered Aboriginal parties regarding the project including meetings, public notices, written and verbal correspondence and archaeological survey attendance;
- Ongoing engagement and briefings with Muswellbrook Shire Council and Singleton Shire Council;
- Ongoing consultation with industry groups and private enterprise within the Hunter region;
- Ongoing consultation and briefings with NSW State Government agencies and government ministers;
- Ongoing consultation with surrounding mining and power generation companies.

Over the past 6 years Malabar has contributed financially to the community to the following:

- Wanaruah Aboriginal Land Council
- Denman Junior Cricket
- Upper Hunter Riding for Disabled Association
- Denman Public School
- Muswellbrook Public School
- Denman Sandy Hollow Junior Rugby League Club
- St Heliers Heavy Horse Field Day Inc
- Upper Hunter Education Fund Inc.
- Wildlife Aid - Upper Hunter Valley
- Upper Hunter Show Inc.
- Lauren Browne sponsorship
- North Rothbury RFS
- Denman Rugby League Football Club

DIRECTORS' REPORT

ENVIRONMENTAL ISSUES

The Group's operations are subject to significant environmental regulation under the laws of the Commonwealth and NSW State.

Malabar takes its compliance and environmental obligations very seriously and is committed to assessing and managing the risks associated with its operations.

The Directors are not aware of any environmental law that is not currently being complied with.

FINANCIAL POSITION

The net assets of the Group have decreased by $47,696,657 during the financial year, from $110,114,456 at 30 June 2018 to $62,417,799 at 30 June 2019. This was predominately due to the share buy-back during the year of $49,999,998.

The Group's cash position decreased from $30,011,994 at 30 June 2018 to $13,059,144 at 30 June 2019.

Malabar increased its borrowings with a $9 million facility during the year to $16.14 million. The Group's real property is used as security for this facility. These funds will be used to provide funding for progressing the company's projects and rehabilitation works.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

DIVIDENDS

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

EVENTS AFTER THE FINANCIAL YEAR END

Maxwell Project

The Environmental Impact Statement (EIS) for the Maxwell Project was submitted to the NSW Government and released to the public on 14 August 2019 and was on public display until 24 September 2019.

Performance Rights

In terms of the Long-Term Incentive Share Plan that was approved by the Board in June 2019, Malabar awarded 1,300,000 performance rights ("Rights") to key management. The Rights were granted at zero cost and included vesting conditions attached to each individual offer. On vesting, the Right can then be exercised. The holder will be allocated one ordinary share for each Right that is vested and exercised.

Grant date	Vesting	Expiry date	Number of Rights
29 July 2019	Subject to achieving specific Project milestones	29 July 2029	500,000
2 September 2019		2 September 2029	800,000
Total			**1,300,000**

Other than the matters mentioned above, there are no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group.

DIRECTORS' REPORT

INFORMATION ON DIRECTORS AT DATE OF THIS REPORT

WAYNE SEABROOK

EXECUTIVE CHAIRMAN

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.

Other Committees:

Member of Occupational Health, Safety & Environment Committee and Audit Committee

BRIAN BEEM JR

NON-EXECUTIVE DIRECTOR

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.

Brian holds a Bachelor of Arts (Political Economy) from Princeton University, USA.

Other Committees:

Member of Audit Committee

TONY GALLIGAN

NON-EXECUTIVE DIRECTOR

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.

Other Committees:

Chairman of the Occupational Health, Safety & Environment Committee.

DIRECTORS' REPORT

MEETINGS OF DIRECTORS

During the financial year, there were 10 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	10	10	2	2	2	2
Anthony Galligan	9	9	-	-	2	2
Brian Beem	10	10	2	2	-	-

INDEMNIFYING OFFICERS OR AUDITOR

During or since the end of the financial year, the Group paid insurance premiums of $69,205 to insure directors and company officers 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.

PROCEEDINGS ON BEHALF OF COMPANY

A number of former employees of the previous owners of Drayton Mine have issued subpoenas or claims in relation to workers compensation against the Group. The Group has not raised any provisions for these as it believes any adverse outcomes would not be material based on the information currently available to the Group.

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 11.

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

Wayne Seabrook
Director
Dated: 26 September 2019

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 Karel Patino. Ms Patino is a geologist and employee of MBGS, an independent consultancy providing engineering, environment, project management and construction management services to clients operating in the mining, infrastructure, energy and environment markets. Ms Patino 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 Patino 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 2019, 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 BRISBANE AUDIT

LIAM MURPHY
PARTNER

26 SEPTEMBER 2019
BRISBANE

PKF Brisbane Audit
ABN 33 873 151 348

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Note	30 June 2019	30 June 2018
		$	$
Revenue from continuing operations			
Interest income		1,236,255	645,328
Wayleave income		1,613,092	827,431
Share in profits of associates	23.3	2,729,151	1,262,738
Other income	4	712,137	343,609
Total income		6,290,635	3,079,106
Expenses			
Share-based payments – employee share options	20	-	2,070
Legal and professional fees		261,733	720,715
Consultants		82,121	2,145,425
Finance costs	4	1,797,642	820,673
Employee benefits expense		23,866	39,755
Directors fees		115,000	115,000
Depreciation		1,276,662	-
Other expenses		696,270	13,262
Total expenses		4,253,294	3,856,900
Profit (loss) before income tax		2,037,341	(777,794)
Income tax expense	7		-
Profit (loss) for the period		**2,037,341**	**(777,794)**
Other comprehensive income			**-**
Total comprehensive income for the period		**2,037,341**	**(777,794)**
Profit (loss) attributable to members of the parent entity		**2,037,341**	**(777,794)**
Total comprehensive income attributable to members of the parent entity		**2,037,341**	**(777,794)**
Earnings per share			
From continuing operations:			
- Basic earnings per share (cents)	21	$0.66	($0.36)
- Diluted earnings per share (cents)	21	$0.66	($0.36)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	30 June 2019 $	30 June 2018 $
ASSETS			
Current Assets			
Cash and cash equivalents	8	13,059,144	30,011,994
Financial Assets	9	12,131,149	56,434,501
Trade and other receivables	11	1,441,199	3,685,662
Other assets	12	710,715	748,212
Total Current Assets		27,342,207	90,880,369
Non-Current Assets			
Property, plant and equipment	13	34,933,620	36,020,946
Intangible assets	14	3,400,600	3,400,600
Capitalised exploration and evaluation costs	15	46,208,387	34,706,791
Investments in associates	23.3	16,087,890	15,901,138
Other assets	12	95,686	95,686
Total Non-Current Assets		100,726,183	90,125,161
Total Assets		**128,068,390**	**181,005,530**
LIABILITIES			
Current Liabilities			
Trade and other payables	16	3,254,790	5,536,021
Provisions	17	8,974,854	9,737,938
Borrowings	18	16,140,000	7,140,000
Total Current Liabilities		28,369,644	22,413,959
Non-Current Liabilities			
Provisions	17	37,280,947	48,477,115
Total Non-Current Liabilities		37,280,947	48,477,115
Total Liabilities		**65,650,591**	**70,891,074**
Net Assets		**62,417,799**	**110,114,456**
EQUITY			
Share capital	19	93,060,087	142,749,021
Reserves	22	7,888,459	7,933,523
Retained earnings (accumulated losses)		(38,530,747)	(40,568,088)
Total Equity		**62,417,799**	**110,114,456**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	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		-	2,070	-	2,070
Shares issued	19(a)	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**
Balance as at 1 July 2018		**142,749,021**	**7,933,523**	**(40,568,088)**	**110,114,456**
Total comprehensive income for the period		-	-	2,037,341	2,037,341
Transactions with owners in their capacity as owners:					
Share buy-back	19(b)	(49,999,998)	-	-	(49,999,998)
Share options exercised	20	266,000	-	-	266,000
Reserves transferred to issued capital upon exercise of options		45,064	(45,064)	-	-
Balance at 30 June 2019		**93,060,087**	**7,888,459**	**(38,530,747)**	**62,417,799**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Note	30 June 2019	30 June 2018
		$	$
Cash flows from operating activities			
Receipts from customers		5,431,202	318,170
Payment to suppliers and employees		(13,215,670)	(5,919,027)
Interest received		1,193,346	221,683
Interest paid		(782,550)	(310,787)
Net cash used in operating activities	10	(7,373,672)	(5,689,961)
Cash flows from investing activities			
(Payments)/ Proceeds on purchase of Drayton tenements		(4,000,000)	16,769,289
Proceeds/(Payments) for investment in short term deposits		44,303,352	(56,434,501)
Payments for property, plant and equipment		(189,336)	(1,255,359)
Payments for exploration expenditure	15	(11,501,596)	(3,917,803)
Dividend received from investment in associate	23.3	2,542,400	1,263,600
Net cash provided/ (used in) by investing activities		31,154,820	(43,574,774)
Cash flows from financing activities			
Payment of related party loans	18	-	(3,256,022)
Proceeds from borrowings	18	9,000,000	940,000
(Payment)/ Proceeds from shares bought back /issued	19(b)	(49,999,998)	79,618,815
Proceeds from options exercised	19(a)	266,000	-
Net cash (used in)/provided by financing activities		(40,733,998)	77,302,793
Net increase (decrease) in cash held		(16,952,850)	28,038,058
Cash and cash equivalents at beginning of financial period		30,011,994	1,973,936
Cash and cash equivalents at the end of financial period	8	**13,059,144**	**30,011,994**

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED 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 26 September 2019 by the Directors of the company.

1. Summary of Significant Accounting Policies

a. 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 in the notes 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.

b. 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 2019, the Group made a profit before tax of $2,037,341 (loss in 2018: $777,794). Cash outflows from operating and exploration-related investing activities during the same period were $18,875,268 (2018: $9,607,764) with closing cash on hand of $13,059,144 (2018: $30,011,994). At 30 June 2019, the Group had a net current asset deficiency of $1,027,437 (2018: $68,466,410 net current asset surplus). The Directors monitor the cashflow as part of the capital management process; and are confident the Group is a going concern and will be able to pay its debts as and when they fall due. The Group will be sourcing financing in the near future to fund the development of the Maxwell Project.

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.

c. Significant accounting estimates and judgements

The preparation of the financial statements in conformity with Australian Accounting Standards requires the use of certain significant 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.

Estimates and judgements material to this report can be found in the following notes:

15. Capitalised exploration and evaluation expenditure
17. Provisions
18. Borrowings

1. Summary of Significant Accounting Policies

d. 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.

2. New and amended standards adopted by the Group

The Group has considered the implications of new or amended Accounting Standards which have become applicable for the current financial reporting period. No retrospective adjustments were required as a result of changes in accounting policies and adoption the following standards:

- *AASB 9: Financial Instruments, and*
- *AASB 15: Revenue from Contracts with Customers – refer to Note 4 for detail on policy*

The following table represents the classification and measurement of financial assets and financial liabilities under AASB 9 and AASB 139 at the date of initial application, 1 July 2018. No changes in carrying amounts were required as a result of the change in accounting policy.

	Financial instrument category	
	AASB 139 Original	**AASB 9 New**
Financial assets		
Current and non-current		
Cash and cash equivalents	Loans and receivables (amortised cost)	Financial assets at amortised cost
Financial assets	Held-to-maturity investments	Financial assets at amortised cost
Trade and other receivables	Loans and receivables (amortised cost)	Financial assets at amortised cost
Financial liabilities		
Current and non-current		
	AASB 139 Original	**AASB 9 New**
Trade and other payables	Amortised cost	Financial liabilities at amortised cost
Borrowings	Amortised cost	Financial liabilities at amortised cost

The amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss have not been reclassified and there were no financial assets or financial liabilities which the Group has elected to designate as at fair value through profit or loss at the date of initial application of AASB 9.

2. New and amended standards adopted by the Group (continued)

The Group reviewed and assessed the existing financial assets on 1 July 2018. The assessment was undertaken to test the impairment of these financial assets using reasonable and supportable information that is available to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at 1 July 2017 and 1 July 2018. The assessment was performed without undue cost or effort in accordance with AASB 9. No loss allowance was recorded in relation to the financial assets held during the 30 June 2018 or 30 June 2019 period.

3. Impact of standards issued but not yet applied by the Group

AASB 16: Leases (issued February 2016) will supersede the existing lease accounting requirements in AASB 117: Leases and the related Interpretations. It introduces a single lessee accounting model by eliminating the current requirement to distinguish leases as either operating leases or finance leases depending on the transfer of risks and rewards of ownership. The key requirements of AASB 16 are summarised as follows:

- recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months 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, instead accounting for all components as a lease;
- inclusion of additional disclosure requirements; and
- accounting for lessors will not significantly change.

AASB 16 will affect primarily the accounting for the Group’s operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $648,381. The Group is currently assessing to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group’s profit, financial position and classification of cash flows.

The Standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the Standard before its effective date.

4. Profit /(Loss) for the year

	30 June 2019	30 June 2018
	$	$
Loss before income tax from continuing operations includes the following:		
Auditors remuneration	89,500	89,500
Facility fees [(1)]	1,015,092	509,886
Interest expense	782,550	310,787
Finance costs	1,797,642	820,673

[(1)] 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.

ACCOUNTING POLICY

Revenue

The core principle of AASB 15, *Revenue from Contracts with Customers* is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

a) Identify the contract(s) with a customer;

b) Identify the performance obligations in the contract;

c) Determine the transaction price;

d) Allocate the transaction price to the performance obligations in the contract; and

e) Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognised as control is passed, either over time or at a point in time.

Revenue generated by the group is disaggregated as follows:

- Revenue recognised over time
- Revenue recognised at a point in time

Wayleave income (Over time)

The Group leases out a section of the Antienne rail spur on a per tonne hauled basis. Revenue and a contra receivable are recognised as the service is provided. The group's right to consideration is deemed unconditional at this time as only the passage of time is required before payment of that consideration is due. There is no significant financing component to this transaction, normal credit terms for this transaction is 10 days.

Other income (Point in time)

Agricultural sales

The Group enters into short-term contracts with customers for the sale of fruit. The performance obligation is the delivery and acceptance of fruit, which is when the customer obtains control of it. Revenue is therefore recognised at a point in time; upon delivery. No rebates or volume discounts are provided to customers. Financing for this transaction is spread over 7 months. This is not deemed to be a significant financing period and no financing adjustment is made.

Sale of assets

The Group sells assets no longer required for operations. The customer obtains control of the asset when delivery occurs which is when the revenue is recognised. There is no financing component to this transaction, payment is due on delivery of the asset.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

5. Operating Segments

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

6. Dividends paid

No dividends have been paid or proposed during the period (2018: $0).

7. Income Tax

	30 June 2019	30 June 2018
	$	$
a) Numerical reconciliation of income tax expense / (income) to prima facie tax payable:		
Total profit/(loss) before income tax	**2,037,341**	**(777,794)**
Tax at the Australian tax rate of 27.5% (2018: 27.5%)	560,269	(213,893)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Add/(less) permanent differences – Non-deductibles	331,224	459,650
	891,493	**245,757**
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)
Deferred tax assets not recognised	198,107	-
Franked dividend received from associate	(1,089,600)	(541,543)
Capital gain arising under tax consolidation	-	1,789,870
Income tax expense	-	-

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	-	-

7. Income tax (continued)

	30 June 2019	30 June 2018
	$	**$**
c) Deferred Tax Liabilities:		
The balance comprises temporary differences attributable to:		
Exploration expenditure	7,792,175	4,506,680
Property, plant and equipment	48,778	86,060
Other	252,477	225,112
Total deferred tax liabilities	**8,093,430**	**4,817,852**
Set-off of deferred tax liabilities pursuant to set-off provisions	**(8,093,430)**	**(4,817,852)**
Net deferred tax liabilities	**-**	**-**
d) Deferred tax assets:		
The balance comprises temporary differences attributable to:		
Tax losses	15,892,397	8,956,823
Other	-	-
Business capital costs	60,550	83,872
Total deferred tax assets	**15,952,947**	**9,040,695**
Set-off of deferred tax assets pursuant to set-off provisions	(8,093,430)	(4,817,852)
Unrecognised deferred tax assets	(7,859,517)	(4,222,843)
Net deferred tax assets	-	-
e) Tax losses:		
Unused tax losses for which no deferred tax asset has been recognised	**57,790,536**	**32,570,265**
Potential tax effect at 27.5%	**15,892,397**	**8,956,823**

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.

7. Income tax (continued)

ACCOUNTING POLICY

Current 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 tax

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.

8. Cash and Cash Equivalents

	30 June 2019	30 June 2018
	$	$
Cash at bank and on hand	13,059,144	30,011,994
	13,059,144	**30,011,994**

Cash was invested in term deposits, yielding an average return of approximately 2.5%.

ACCOUNTING POLICY

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.

9. Financial Assets

Short term deposits	**12,131,149**	**56,434,501**

Financial assets represent short term deposits with original maturity dates of greater than 3 months.

ACCOUNTING POLICY

Financial assets are recognised when the Group becomes a party to the contractual provisions to the instrument (i.e. trade date accounting is adopted).

10. Cash Flow information

a) Reconciliation of Cash Flow from Operations with Profit / (loss) after Income Tax	30 June 2019 $	30 June 2018 $
Profit (loss) after income tax	2,037,341	(777,794)
Cash flows excluded from profit attributable to operating activities:		
Share based payments	-	2,070
Share issue in lieu of payment for services provided	-	945,000
Depreciation and amortisation	1,276,662	68,248
Share in profits of associates	(2,729,151)	(1,262,738)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
Decrease/(increase) in trade and other receivables	2,244,463	(3,152,117)
Decrease/(increase) in other assets	37,497	(667,537)
(Decrease)/increase/ in trade and other payables	1,718,768	2,449,477
(Decrease)/increase/ in provisions	(11,959,252)	(3,441,070)
Increase in accrued interest	-	146,500
Cash flow from operations	**(7,373,672)**	**(5,689,961)**

b) Changes in liabilities arising from financing activities

			Non-cash flow				
	1 July 2018	**Cash Flow**	**Acquisition**	**Foreign exchange movements**	**Fair value changes**	**Re-classification**	**30 June 2019**
Short term borrowings	7,140,000	9,000,000	-	-	-	-	16,140,000
Lease liabilities	-	-	-	-	-	-	-
Contingent consideration	-	-	-	-	-	-	-
Total	**7,140,000**	**9,000,000**	**-**	**-**	**-**	**-**	**16,140,000**

11. Trade and Other Receivables

	30 June 2019	30 June 2018
	$	$
CURRENT:		
Trade receivables	294,846	188,388
Wayleave income receivable	-	1,234,557
Port and rail costs recoverable	761,511	1,316,162
Other receivables	384,842	946,555
	1,441,199	**3,685,662**

The average credit period on trade receivables is 30 days. No interest is charged on overdue amounts. The Group has reviewed receivables based on the simplified approach and doesn't believe an assessed loss needs to be recorded.

The aging of receivables and allowance for expected credit losses provided are as follows:

	Expected credit loss	Carrying amount 30 June 2019	Allowance for expected credit losses
		$	$
Not overdue	0%	1,441,199	-
0 – 3 months	0%	-	-
		1,441,199	-

ACCOUNTING POLICY

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

12. Other Assets

	30 June 2019	30 June 2018
	$	$
CURRENT:		
Prepaid interest and borrowing costs	42,909	227,175
Prepayments	667,806	521,037
	710,715	**748,212**
NON-CURRENT:		
Security bond	**95,686**	**95,686**

13. Property, plant and equipment

	Freehold Land	Buildings	Subtotal Land & Buildings	Plant and Equipment	Total
	$	$	$	$	$
At Cost					
Cost	32,562,316	2,276,073	34,838,389	12,413,745	47,252,134
Impairment	(9,407,066)	(1,421,282)	(10,828,348)	-	(10,828,348)
Accumulated depreciation	-	(181,003)	(181,003)	(221,837)	(402,840)
Balance at 30 June 2018	**23,155,250**	**673,788**	**23,829,038**	**12,191,908**	**36,020,946**
Cost	32,562,316	2,276,073	34,838,389	12,578,797	47,417,186
Impairment	(9,407,066)	(1,421,282)	(10,828,348)	-	(10,828,348)
Accumulated depreciation	-	(203,303)	(203,303)	(1,451,915)	(1,655,218)
Balance at 30 June 2019	**23,155,250**	**651,488**	**23,806,738**	**11,126,882**	**34,933,620**

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	Subtotal Land & Buildings	Plant and Equipment	Total
	$	$	$	$	$
Consolidated Group:					
Balance at 1 July 2017	9,639,540	696,010	10,335,550	181,283	10,516,833
Additions	13,515,710	-	13,515,710	12,056,651	25,572,361
Disposals	-	-	-	-	-
Depreciation expense	-	(22,222)	(22,222)	(46,026)	(68,248)
Impairment expenses	-	-	-	-	-
Balance at 30 June 2018	**23,155,250**	**673,788**	**23,829,038**	**12,191,908**	**36,020,946**
Additions	-	-	-	197,663	197,663
Disposals	-	-	-	(8,327)	(8,327)
Depreciation expense	-	(22,300)	(22,300)	(1,254,362)	(1,276,662)
Impairment expenses	-	-	-	-	-
Balance at 30 June 2019	**23,155,250**	**651,488**	**23,806,738**	**11,126,882**	**34,933,620**

13. Property, plant and equipment (continued)

ACCOUNTING POLICY

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.

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.

Depreciation rates:

Buildings and improvements	2.5% - 5%
Plant & 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.

14. Intangible Assets

	Note	30 June 2019	30 June 2018
		$	$
NON-CURRENT:			
Water allocation licenses		**3,400,600**	**3,400,600**

ACCOUNTING POLICY

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.

15. Capitalised exploration and evaluation costs

For Spur Hill and Maxwell Projects	30 June 2019	30 June 2018
	$	$
Capitalised exploration and evaluation cost consist of:		
Mining information	1,732,848	1,732,848
Exploration licences	37,543,905	37,543,905
Exploration & evaluation expenditures	25,877,271	14,375,675
Reserves & resources acquired	4,486,000	4,486,000
Impairment	(21,401,846)	(21,401,846)
R&D tax incentive	(2,029,791)	(2,029,791)
	46,208,387	**34,706,791**

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

For Spur Hill and Maxwell Projects	30 June 2019	30 June 2018
	$	$
Opening balance	34,706,791	32,978,988
Mining information	-	769,000
Exploration licences	-	769,000
Exploration & evaluation expenditures incurred during the year	11,501,596	3,807,803
Reserves & resources acquired – change in estimate	-	(3,728,000)
R&D tax incentive reversed/ (recognised) during the year	-	110,000
	46,208,387	**34,706,791**

ACCOUNTING POLICY

Exploration and evaluation expenditure

Exploration and evaluation expenditure are 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.

R&D tax incentive

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.

15. Capitalised exploration and evaluation costs (continued)

KEY ESTIMATES AND JUDGEMENTS

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 respons bilities 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.

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.

16. Trade and Other Payables

	30 June 2019 $	30 June 2018 $
CURRENT:		
Trade creditors	2,808,185	1,345,011
Other creditors	446,605	191,010
Deferred consideration	-	4,000,000
	3,254,790	**5,536,021**

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.

ACCOUNTING POLICY

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.

17. Provisions

CURRENT:	Employee entitlements $	Other provisions [1] $	Deferred consideration $	Total $
Balance as at 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	-	-	-	-
Balance as at 30 June 2018	**55,938**	**9,682,000**	**-**	**9,737,938**
Opening balance 1 July 2018	55,938	9,682,000	-	9,737,938
Additional provisions recognised	101,228	-	-	101,228
Payments during the year	(10,012)	(12,050,468)	-	(12,060,480)
Reallocation from Non-current	-	11,196,168	-	11,196,168
Closing as at 30 June 2019	**147,154**	**8,827,700**	**-**	**8,974,854**

NON-CURRENT:

	Employee entitlements $	Other provisions [1] $	Deferred Consideration $	Total $
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 30 June 2018	**-**	**42,586,115**	**5,891,000**	**48,477,115**
Opening balance 1 July 2018	-	42,586,115	5,891,000	48,477,115
Additional provisions recognised	-	-	-	-
Payments during the year	-	-	-	-
Reallocation to current	-	(11,196,168)	-	(11,196,168)
Closing 30 June 2019	**-**	**31,389,947**	**5,891,000**	**37,280,947**

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.

17. Provisions (continued)

ACCOUNTING POLICY

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 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.

KEY ESTIMATES AND JUDGEMENTS

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.

18. Borrowings

	30 June 2019 $	30 June 2018 $
CURRENT:		
Revolving bill facility	16,140,000	7,140,000
	16,140,000	**7,140,000**

The Group has revolving bill facilities of $16,140,000 which are secured by the real property of the Group.

During the period Malabar cancelled it's $65.5 million bank facility and entered into a three-year facility agreement with a third party for USD $55 million. This facility is used to provide bonds, guarantees, financial assurances and the provision of guarantees to the NSW Government. The facility is secured over all the assets of the Maxwell Project and Maxwell Infrastructure. As at 30 June 2019, AUD $67,334,031 of the facility has been utilised as a guarantee and has been included in the contingent liabilities note.

18. Borrowings (continued)

ACCOUNTING POLICY

Borrowings are recognised when the Group becomes a party to the contractual provisions to the instrument. These are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

KEY ESTIMATES AND JUDGEMENTS

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.

19. Issued Capital

	30 June 2019	30 June 2018
Issued share capital consists out of the following:	**$**	**$**
259,817,798 fully paid ordinary shares (2018: 182,100,000)	93,060,087	63,130,206
Zero fully paid redeemable convertible shares (2017: 177,777,896)	-	79,618,815
	93,060,087	**142,749,021**

a) Movements in ordinary share capital during the year:

Date	Details	Note	#	Issue Price $	$
1 July 2018	Opening balance		182,100,000		63,130,206
27 November 2018	Options exercised		950,000	0.28	266,000
27 November 2018	Options reserve transferred		-	-	45,064
28 February 2019	Redeemable converting shares convert to ordinary shares		76,767,798		29,618,817
30 June 2019	Closing balance		**259,817,798**		**93,060,087**

b) Movements in redeemable converting shares during the year:

Date	Details	Note	#	Issue Price $	$
1 July 2018	Opening balance		177,777,896		79,618,815
17 December 2018	Share buy-back		(101,010,098)	0.495	(49,999,998)
28 February 2019	RCS convert to ordinary shares		(76,767,798)		(29,618,817)
30 June 2019	Closing balance		-		-

19. Issued Capital (continued)

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.

On 28 February 2019 76,767,798 Redeemable Convertible Shares were converted on a one-for-one basis into fully paid-up Ordinary shares.

b) Redeemable convertible shares

Redeemable convertible shares (RCS) 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.

A selective capital reduction of 101,010,098 shares was done on 17 December 2018 for $0.495 per RCS. The balance of RCS was converted into fully paid ordinary shares on 28 February 2019 on a one-for-one basis.

c) Options

For information relating to the Company's 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 20 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.

The Group is required to maintain liquidity above $1.5 million in relation to their capital requirements with respect to their facility agreements.

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.

20. Share based payments – employee share options

a) Summary of Share Options

Share Options	Number	Grant Date	Expiry Date	Exercise Price	Fair Value at Grant Date
Tranche A, B, C	950,000	28/11/2014	28/11/2018	$0.28	$0.047

20. Share based payments – employee share options

b) Movement of Share Options during the year

	30 June 2019		30 June 2018	
	Options	Average weighted price	Options	Average weighted price
Options outstanding opening balance	950,000	$0.28	950,000	$0.28
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	(950,000)	$0.28	-	-
Expired	-	-	-	-
Options outstanding closing balance	**-**	**-**	**950,000**	**$0.28**

950,000 options were exercised into fully paid ordinary shares on 27 November 2018 at $0.28. As at 30 June 2019 there are no more options exercisable under the Executive Share Option Plan dated 23 January 2013.

Expenses related to share-based payments were fully expensed during the year ended 30 June 2018.

ACCOUNTING POLICY

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.

21. Earnings per share

Basic earnings per share (EPS)		**2019**	**2018**
Net Income/(loss) attributable to ordinary shareholders			
Net Income (loss) attributable to ordinary shareholders	($)	**2,037,341**	**(777,794)**
Weighted average number of ordinary shares [(1)]			
Issued ordinary shares at 1 July	#	359,877,896	180,000,000
Effect of share issues during the period		556,986	35,413,722
Effect of share buy-back during the period		(53,964,301)	-
Weighted average number of ordinary shares at 30 June		**306,470,581**	**215,413,722**
Basic EPS attributable to ordinary shareholders	**(cents)**	**0.66**	**(0.36)**

21. Earnings per share (continued)

The calculation for basic earnings per share is based on the loss attributable to ordinary shareholders for the period and the weighted average number of ordinary shares outstanding.

Diluted earnings per share (EPS)		**2019**	**2018**
Net Income/(loss) attributable to ordinary shareholders (diluted)			
Net Income /(loss) attributable to ordinary shareholders (diluted)	($)	**2,037,341**	**(777,794)**
Weighted average number of ordinary shares (diluted) [1]			
Weighted average number of ordinary shares (basic)	#	306,470,581	215,413,722
Effect of share options exercised		-	-
Weighted average number of ordinary shares at 30 June (diluted)		**306,470,581**	**215,413,722**
Diluted EPS attributable to ordinary shareholders	**(cents)**	**0.66**	**(0.36)**

The calculation for diluted earnings per share is based on the loss attributable to ordinary shareholders for the period and the weighted average number of ordinary shares outstanding adjusted for the diluting impact of potential equity instruments.

[1] Ordinary shares include the Redeemable Converting Shares as these had the same rights as Ordinary shares.

22. Reserves

	30 June 2019	**30 June 2018**
	$	**$**
Share based payments reserve [1]		
Opening Balance	45,064	42,994
Share based payments – employee share options	-	2,070
Reserves transferred to issued capital upon exercise of options	(45,064)	-
Closing Balance	**-**	**45,064**
Capital Reserves	7,888,459	7,888,459
Total Reserves	**7,888,459**	**7,933,523**

[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.

23. Group Structure

23.1. 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	
	2019	**2018**
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%	100%
Maxwell Ventures (Management) Pty Ltd	100%	100%
Maxwell Coal (Sales) Pty Ltd	100%	100%
Maxwell Solar Pty Ltd	100%	-
Drayton Coal Shipping Pty Ltd	100%	100%
Faramax No.2 Pty Ltd	100%	100%
Malabar Coal (Drayton) Pty Ltd	100%	100%
Malabar Coal (Maxwell) Pty Ltd	100%	100%
Malabar Coal (Maxwell Management) Pty Ltd	100%	100%
Malabar Coal (Drayton) No.2 Pty Ltd	100%	100%
Malabar Coal (Drayton) No.3 Pty Ltd	100%	100%

23. Group Structure (continued)

23.2. Parent entity information

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

	30 June 2019	30 June 2018
	$	**$**
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	63,741,201	86,993,056
Non-current assets	19,164,178	32,825,995
TOTAL ASSETS	**82,905,379**	**119,819,051**
LIABILITIES		
Current liabilities	9,345,136	302,407
Non-current liabilities	5,891,000	5,891,000
TOTAL LIABILITIES	**15,236,136**	**6,193,407**
EQUITY		
Issued capital	93,060,043	142,748,978
Reserve	-	45,064
Retained earnings/ (accumulated losses)	(25,390,800)	(29,168,398)
TOTAL EQUITY	**67,669,243**	**113,625,644**
STATEMENT OF COMPREHENSIVE INCOME		
Total profit/(loss)	**1,109,001**	**(2,490,482)**
Total comprehensive income	**1,109,001**	**(2,490,482)**

Guarantees

Refer to Note 18: Borrowings.

Contractual commitments

Malabar Coal Limited has certain lease commitments as at 30 June 2019. Refer to Note 26.

Contingent liabilities

Malabar Coal Limited has certain contingent liabilities as at 30 June 2019. Refer to Note 27.

ACCOUNTING POLICY

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.

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.

23. Group Structure (continued)

23.3. Investments in Associates

Name of associate	Principal activity	Place of incorporation	Proportion of ownership interest 30 June 2019	Proportion of ownership interest 30 June 2018
Newcastle Coal Shippers Pty Ltd ('NCS')	Investment in Port Waratah Coal Services ('PWCS')	Australia	20%	20%

	Note	30 June 2019	30 June 2018
		$	$
Opening balance		15,901,138	-
Acquisition of interest in associate		-	15,902,000
Profits attributable post acquisition		2,729,152	1,262,738
Less dividends received		(2,542,400)	(1,263,600)
Carrying amount of investment		**16,087,890**	**15,901,138**

ACCOUNTING POLICY

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.

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.

23.4. Related Party Transactions

The Group's main related parties are as follows:

Entities exercising control over the Group

The parent entity within the Group is Malabar Coal Limited.

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.

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.

Other related parties

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

23. Group Structure (continued)

23.4. Related Party Transactions (continued)

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.

Related Party	Nature of services	30 June 2019	30 June 2018
		$	**$**
Ironstone Capital Partners Pty Ltd (Ironstone)	Ironstone is a corporate advisory business partially owned by Wayne Seabrook. Ironstone provides consulting services to the Group in connection with project development and other corporate activities. Ironstone is paid at market related rates or less for work conducted by its executives.	579,765	529,396
	Malabar issued 2,100,000 ordinary shares on 1 May 2018 to Ironstone Capital in lieu of payment for services provided by Ironstone Capital on the Drayton acquisition that was completed in February 2018.	-	945,000
Westbrook Consultants No 2 Company owned by Wayne Seabrook (Chairman)	The Group has continued the consultancy arrangement with the Chairman whereby he (or his associated entity) is paid consulting fees for any work done for the Group which is not related to his role as Chairman.	243,731	395,002
AMCI Euro Holdings B.V (AMCI)	AMCI Euro Holdings is an entity which has common significant shareholders to those in Malabar. During the period AMCI provided a corporate guarantee to a third party on behalf of the Group. An issuance fee of 1% of the guarantee was payable. This transaction is a reasonable in terms of market related activity. As part of these arrangements AMCI will be paid a 1.5% fee solely on tonnage sold under the long-term offtake agreement referred to in the Bonding Facility section in the Directors report.	803,894	-
XLX Pty Ltd (XLX) (entity with common shareholders)	Malabar leased its corporate office from XLX in 2018. The lease agreement expired in December 2017, ending the sub-lease agreement between the parties. The lease agreement was charged on a pass-through cost basis.	-	93,539
		1,627,390	**1,962,937**

23. Group Structure (continued)

23.4. Related Party Transactions (continued)

	30 June 2019	30 June 2018
Key Management Personnel (KMP	**$**	**$**
Short-term employee benefits These amounts include fees and benefits paid to the Chairman, non-executive directors and all salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and other KMP.	1,343,375	947,267
Post-employment benefits These amounts are the current-year's estimated cost of providing for the Group's superannuation contributions made during the year.	50,000	31,200
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.	-	-
Total key management personnel	**1,393,375**	**978,467**

24. Financial instruments

Financial Risk Management Policies

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

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

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

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.

24. Financial Instruments (continued)

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 2019	30 June 2018
		$	$
Cash and cash equivalents	8	13,059,144	30,011,994
Financial assets (short term deposits)	9	12,131,149	56,434,501

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 forecasting.

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:

		Fixed Interest maturing in				
	Floating Interest Rate	1 year or less	Over 1 year, less than 5	Non-Interest bearing	Total	Weighted Average Interest rate
2019						
Financial assets						
Cash at bank	13,059,144	-	-	-	13,059,144	2.5%
Financial assets	12,131,149	-	-	-	12,131,149	2.5%
Financial Liabilities						
Borrowings	16,140,000	-	-	-	16,140,000	4.2%

24. Financial Instruments (continued)

		Fixed Interest maturing in				
	Floating Interest Rate	1 year or less	Over 1 year, less than 5	Non-Interest bearing	Total	Floating 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%

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 2019			
Interest bearing cash	13,059,144	130,591	(130,591)
Financial assets	12,131,149	121,311	(121,311)
Borrowings	16,140,000	(161,400)	161,400
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

25. Fair value measurement

Fair value hierarchy

The Group complies with AASB 7 Financial Instruments Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's financial instruments consist mainly of cash at banks, financial assets, accounts receivable and payable, deferred consideration and borrowings. All financial instruments currently held are measured using Level 3 measurement hierarchy. The fair values of the financial assets and financial liabilities recorded in the financial statements materially approximates their respective fair values, determined in accordance with the accounting policies noted in these financial statements.

The totals for each category of financial instruments, measured in accordance with IFRS 9 as detailed in the accounting policies to these financial statements, are as follows:

	Note	30 June 2019	30 June 2018	
		$	$	**Measurement**
Financial assets				
Cash and cash equivalents	8	13,059,144	30,011,994	Amortised cost
Financial assets	9	12,131,149	56,434,501	Amortised cost
Trade and other receivables	11	1,441,199	3,685,662	Amortised cost
Total financial assets		**26,631,492**	**90,132,157**	
Financial liabilities				
Trade and other payables	16	3,245,790	5,536,021	Amortised cost
Contingent Consideration	17	5,891,000	5,891,000	FVTPL
Borrowings	18	16,140,000	7,140,000	Amortised cost
Total financial liabilities		**25,276,790**	**18,567,021**	

Valuation techniques used to measure Level 3 Fair values

Deferred consideration in relation to the SHUT acquisition which concluded in 2015 includes milestone payments, participating option payments for land purchases and royalties on the coal sales.

The fair value is calculated using a discounted cashflow model and included the milestone payments and participating option payments discounted at 9%. The royalties on coal sales were not included in the calculation as the actual production of coal could not be reasonably assessed at this point.

25. Fair value measurement (continued)

Reconciliation of Level 3 fair value measurements of financial instruments

	30 June 2019	30 June 2018
	$	$
Opening balance	5,891,000	9,619,000
Movement during the year	-	-
Vendor royalties (change in estimate)	-	(3,728,000)
Balance at the end of the year	**5,891,000**	**5,891,000**

ACCOUNTING POLICY

Initial measurement of financial instruments

All financial instruments are initially measured at fair value net of transaction costs.

Subsequent measurement

Financial assets

Financial assets are subsequently measured at fair value (either through OCI, or profit or loss) or amortised cost. Classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Impairment

The Group recognises a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Group uses the simplified approach for assessing impairment. The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times.

This approach is applicable to:

- trade receivables that result from transactions within the scope of AASB 15: *Revenue from Contracts with Customers* and that contain a significant financing component; and lease receivables.

Recognition of expected credit losses in financial statements

At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

Assets measured at fair value through other comprehensive income are recognised at fair value, with changes in fair value recognised in other comprehensive income. Amounts in relation to change in credit risk are transferred from other comprehensive income to profit or loss at every reporting period.

For financial assets that are unrecognised (e.g. loan commitments yet to be drawn, financial guarantees), a provision for loss allowance is created in the statement of financial position to recognise the loss allowance.

26. Lease Commitments

	30 June 2019	30 June 2018
	$	$
a) Operating Lease Commitments		
Payable – minimum lease payments:		
- not later than 12 months	179,391	270,139
- between 12 months and 5 years	468,990	633,377
- later than 5 years	-	-
	648,381	**903,516**

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.

ACCOUNTING POLICY

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.

b) Capital Commitments

The Group had no capital commitments for property, plant and equipment as at 30 June 2019 (2018: $nil).

27. Contingent Liabilities and Contingencies

27.1. Guarantees

The Group has as part of its facilities a corporate 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 (AUD $78,425,780, converted at A$1 = USD$0.7013) USD $55million over all the assets of the Group and its guarantors, mortgages over all real property holdings, 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.

27. Contingent Liabilities and Contingencies (continued)

27.2. Deferred consideration

Spur Hill Project (EL 7249)

Deferred consideration in relation to the SHUT acquisition which concluded in 2015 includes milestone payments, participating option payments for land purchases and royalties on the coal sales.

The fair value is calculated using a discounted cashflow model and included the milestone payments and participating option payments discounted at 9%. The royalties on coal sales were not included in the calculation as the actual production of coal could not be reasonably assessed at this point.

Maxwell Underground Project (EL5460)

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.

The fair value is calculated using a discounted cashflow model, the forecast coal production which commences in 2021 and discounted at the weighted average cost of capital of 9% which has resulted in a deferred consideration fair value of $11,326,143.

27.3. Litigation

A number of former employees of the Drayton Mine have issued subpoenas or claims in relation to workers compensation against the Group. The Group has not raised any provisions for these as it believes any adverse outcomes would not be material based on the information currently available to the Group.

28. Events After the Reporting Period

Maxwell Project

The Environmental Impact Statement (EIS) for the Maxwell Project was submitted to the NSW Government and released to the public on 14 August 2019 and was on public display until 24 September 2019.

Performance Rights

In terms of the Long-Term Incentive Share Plan that was approved by the Board in June 2019, Malabar awarded 1,300,000 performance rights (“Rights”) to key management. The Rights were granted at zero cost and included vesting conditions attached to each individual offer. On vesting, the Right can then be exercised. The holder will be allocated one ordinary share for each Right that is vested and exercised.

Grant date	Vesting	Expiry date	Number of Rights
29 July 2019	Subject to achieving specific Project milestones	29 July 2029	500,000
2 September 2019		2 September 2029	800,000
Total			**1,300,000**

Other than the matters mentioned above, there are no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group.

29. Company details

The registered office and principal place of business of the Company as at 30 June 2019 was:

Level 26, 259 George Street
Sydney, NSW, 2000
Tel.: 02 8248 1272
Website: https://malabarcoal.com.au/

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 12 to 46, 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 2019 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: 26 September 2019

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 2019, 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 2019 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

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audit or otherwise appears to be materially misstated. If, based on the work we 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 BRISBANE AUDIT

LIAM MURPHY
PARTNER

26 SEPTEMBER 2019
BRISBANE

Malabar Coal Limited and controlled entities

Annual Financial Report for the year ended 30 June 2019