MALABAR COAL

Malabar Coal Limited

ABN 29 151 691 468

Interim Financial Report for half-year ended 31December 2018

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 half year ended 31 December 2018.

DIRECTORS

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

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

OPERATING AND FINANCIAL REVIEW

The consolidated profit after tax for the half year ended 31 December 2018 of the Group amounted to $444,004 (31 December 2017: loss of $1,494,253).

REVIEW OF OPERATIONS

In the period ended 31 December 2018, the Group has made substantial progress on the following projects:

- Advancing the Maxwell Underground Project ("Maxwell Project"), including:
  - Submitting a Scoping Report to the NSW Department of Planning and Environment for the Maxwell Underground Project;
  - Applying for a Gateway Certificate for the Maxwell Project;
  - Submitting a project application to the Commonwealth under the EPBC Act;
  - Receiving the Planning Secretary's Environmental Assessment Requirements;
  - Receiving the Gateway Certificate for the Maxwell Project; and
  - Preparing the EIS and Development Application.
- Advanced rehabilitation of the Drayton Open-cut Mine that ceased operation under previous ownership in 2016;
- Announced the intention to develop a c. 25MW solar farm on rehabilitated land within the old Drayton open cut mine adjacent to the Maxwell Underground Project;
- Entered into a bond guarantee and off-take arrangement with future customers, and;
- Completed a selective capital reduction to the value of $50million.

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.

Malabar received the Gateway Certificate for the Maxwell Underground Project on 20 December 2018. We are currently preparing the EIS to support a Development Application to be submitted in 2019.

DIRECTORS' REPORT

Drayton Mine Rehabilitation

Malabar formally took control of the former Drayton Open-Cut Mine on 26 February 2018 and commenced rehabilitation in March 2018. There are around 30 people currently on site working on those rehabilitation and environmental tasks.

The total rehabilitation completed during the period exceeded 90 hectares which was in excess of the 82.5 hectares required.

Maxwell Solar Project

Malabar submitted a Scoping Report to the NSW Department of Planning and Environment (DPE) on 19 December 2018 for the Maxwell Solar Project. The DPE provided the Secretary's Environmental Assessment Requirements on 8 March 2018 which provide the criteria for the Environmental Impact Statement (EIS).

Malabar expects to lodge the EIS and DA in the first half of 2019.

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:

- Completed the field work for a 2D seismic program;
- On-going engineering work in relation to the integration with the Maxwell Project; and
- Ongoing agricultural activities in relation to Merton Vineyard and properties under management. We are very proud of the results of the Merton Vineyard which provides fruit to a number of well-known wine-makers in the lower Hunter Valley, and importantly to the Small Forest winemaker that operates from our on-site winery and cellar door. (see www.smallforest.com.au)

Bond guarantee

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

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

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

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 employee share option plan have either been exercised or have expired which concludes the share option plan. Refer to note 19 for additional details.

DIRECTORS' REPORT

FINANCIAL POSITION

The net assets of the Group have decreased by $49,289,994 during the period, from $110,114,456 at 30 June 2018 to $60,824,462 at 31 December 2018 due to the capital reduction discussed above.

The Group's cash position decreased from $30,011,994 at 30 June 2018 to $28,389,844 as at 31 December 2018.

DIVIDENDS

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

EVENTS AFTER THE FINANCIAL YEAR END

In accordance with the terms of issue of the Redeemable Converting Shares (RCS), the balance of the RCS 76,767,798 held converted into fully paid Ordinary Shares in Malabar on a one for one basis on 28 February 2019.
The DPE provided the Secretary's Environmental Assessment Requirements on 8 March 2018 which provide the criteria for the Environmental Impact Statement (EIS).
Malabar has entered into negotiations to obtain a $9 million facility. The real property of the Group will be used as security for this facility.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.
The Company was not a party to any such proceedings during the financial year.

NON-AUDIT SERVICES

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 6. This Directors' Report, is signed in accordance with a resolution of the Board of Directors.

Wayne Seabrook
Director
Dated: 14 March 2019

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

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2018, there have been:

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

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

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

PKF

PKF BRISBANE AUDIT

LIAM MURPHY
PARTNER

BRISBANE
DATE: 14 MARCH 2019

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Note	31 December 2018	31 December 2017
		$	$
Continuing operations			
Revenue			
Wayleave income		550,410	-
Share in profits from associates	13	1,264,974	-
Interest income		969,771	724
Other income		287,194	74,413
Total income		3,072,349	75,137
Expenses			
Legal and professional fees		228,106	222,068
Consultants		33,058	823,763
Finance costs	4	1,393,067	317,394
Employee benefits expense		21,038	3,821
Directors fees		57,500	41,179
Depreciation and amortisation		786,668	27,990
Share-based payments – employee share options	18	-	1,035
Other expenses		108,908	132,140
Total expenses		2,628,345	1,569,390
Profit (loss) before income tax		444,004	(1,494,253)
Income tax expense		-	-
Profit (loss) for the period		444,004	(1,494,253)
Other comprehensive income		-	-
Total comprehensive income for the period		444,004	(1,494,253)
Profit (loss) attributable to members of the parent entity		444,004	(1,494,253)
Total comprehensive profit (loss) attributable to members of the parent entity		444,004	(1,494,253)
Earnings per share			
From continuing operations:			
- Basic earnings per share (cents)	7	0.13	(0.83)
- Diluted earnings per share (cents)	7	0.13	(0.83)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	31 December 2018 $	30 June 2018 $
ASSETS			
Current Assets			
Cash and cash equivalents		28,389,844	30,011,994
Financial Assets	8	-	56,434,501
Trade and other receivables	9	570,087	3,685,662
Other assets	10	646,865	748,212
Total Current Assets		29,606,796	90,880,369
Non-Current Assets			
Property, plant and equipment	11	35,423,613	36,020,946
Intangible assets		3,400,600	3,400,600
Capitalised exploration and evaluation costs	12	40,194,141	34,706,791
Investments in associates	13	15,902,112	15,901,138
Other assets	10	95,686	95,686
Total Non-Current Assets		95,016,152	90,125,161
Total Assets		124,622,948	181,005,530
LIABILITIES			
Current Liabilities			
Trade and other payables	14	3,815,575	5,536,021
Provisions	15	4,365,796	9,737,938
Borrowings	16	7,140,000	7,140,000
Total Current Liabilities		15,321,371	22,413,959
Non-Current Liabilities			
Provisions	15	48,477,115	48,477,115
Total Non-Current Liabilities		48,477,115	48,477,115
Total Liabilities		63,798,486	70,891,074
Net Assets		**60,824,462**	**110,114,456**
EQUITY			
Share capital	17	93,060,087	142,749,021
Reserves	19	7,888,459	7,933,523
Retained earnings (accumulated losses)		(40,124,084)	(40,568,088)
Total Equity		**60,824,462**	**110,114,456**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	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		-	-	(1,494,253)	(1,494,253)
Transactions with owners in their capacity as owners:					
Share-based payments – employee share options	18	-	1,035	-	1,035
Balance at 31 December 2017		**62,185,206**	**7,932,488**	**(41,284,547)**	**28,833,147**
Total comprehensive income for the period		-	-	716,459	716,459
Share-based payments – employee share options	18	-	1,035	-	1,035
Shares issued	17	80,563,815	-	-	80,563,815
Balance at 30 June 2018		**142,749,021**	**7,933,523**	**(40,568,088)**	**110,114,456**
Total comprehensive income for the period		-	-	444,004	444,004
Transactions with owners in their capacity as owners:					
Shares redeemed	17	(49,999,998)	-	-	(49,999,998)
Share options exercised	18	266,000	-	-	266,000
Reserves transferred to issued capital upon exercise of options	19	45,064	(45,064)	-	-
Balance at 31 December 2018		**93,060,087**	**7,888,459**	**(40,124,084)**	**60,824,462**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Note	31 December 2018	31 December 2017
		$	$
Cash flows from operating activities			
Receipts from customers		3,936,853	74,413
Payment to suppliers and employees		(6,633,582)	(1,252,165)
Interest received		1,301,691	724
Interest paid		(246,449)	(132,778)
Net cash (used in)/provided by operating activities		(1,641,487)	(1,309,806)
Cash flows from investing activities			
Payments on purchase of Drayton tenements		(2,268,481)	(134,239)
Proceeds /(Payments) for investment in short term deposits		56,434,501	(605,146)
Payments for property, plant and equipment		(189,335)	(22,110)
Payments for exploration expenditure	13	(5,487,350)	-
Dividend received from associate		1,264,000	-
Net cash (used in)/provided by investing activities		49,753,335	(761,495)
Cash flows from financing activities			
Proceeds from borrowings from related parties		-	1,500,000
Proceeds from options exercised	18	266,000	-
Payments for redemption of share capital	17	(49,999,998)	-
Net cash (used in)/provided by financing activities		(49,733,998)	1,500,000
Net decrease in cash held		(1,622,150)	(571,301)
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		**28,389,844**	1,402,635

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These consolidated interim 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 interim financial statements were authorised for issue on 14 March 2019 by the Directors of the company.

1. Summary of significant accounting policies

a. Basis of preparation

The half-year financial report is a general-purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Malabar Coal Limited and its controlled entities (referred to as the "Consolidated Group" or "Group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2018 together with any public announcements made during the half-year.

b. Accounting policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except for those as described in note 1(c) below.

c. 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.*

The impact of the adoption of these standards and the respective accounting policies are disclosed in Note 2.

d. 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.

1. Summary of significant accounting policies (continued)

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 $819,837. 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.

2. Changes in accounting policies

This note describes the nature and effect of the adoption of AASB 9: *Financial Instruments* and AASB 15: *Revenue from Contracts with Customers* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

No restatement of prior period figures was required as a result of the changes in the Group's accounting policies.

a. AASB 9: Financial Instruments – accounting policy

Financial Instruments

Initial recognition and measurement

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

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified at fair value through profit or loss, in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Classification and subsequent measurement

Financial liabilities

Financial liabilities are subsequently measured at:

- amortised cost; or
- fair value through profit or loss.

A financial liability is measured at fair value through profit or loss if the financial liability is:

- a contingent consideration of an acquirer in a business combination to which AASB 3: *Business Combinations* applies;
- held for trading; or
- initially designated as at fair value through profit or loss.

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

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period.

2. Changes in accounting policies (continued)

a. AASB 9: Financial Instruments – accounting policy (continued)

The effective interest rate is the internal rate of return of the financial asset or liability; that is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

The change in fair value of the financial liability attributable to changes in the issuer's credit risk is taken to other comprehensive income and are not subsequently reclassified to profit or loss. Instead, they are transferred to retained earnings upon derecognition of the financial liability.

If taking the change in credit risk in other comprehensive income enlarges or creates an accounting mismatch, then these gains or losses should be taken to profit or loss rather than other comprehensive income.

A financial liability cannot be reclassified.

Financial assets

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

Measurement is on the basis of the two primary criteria:

- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset is subsequently measured at amortised cost if it meets the following conditions:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset is subsequently measured at fair value through other comprehensive income if it meets the following conditions:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates; and
- the business model for managing the financial asset comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The initial designation of the financial instruments to measure at fair value through profit or loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

Equity instruments

At initial recognition, as long as the equity instrument is not held for trading or not a contingent consideration recognised by an acquirer in a business combination to which AASB 3: *Business Combinations* applies, the Group may make an irrevocable election to measure any subsequent changes in fair value of the equity instrument in other comprehensive income, while the dividend revenue received on underlying equity instruments investment will still be recognised in profit or loss.

2. Changes in accounting policies (continued)

a. AASB 9: Financial Instruments – accounting policy (continued)

Impairment

The Group recognises a loss allowance for expected credit losses on:

- financial assets that are measured at amortised cost or fair value through other comprehensive income;
- lease receivables;
- loan commitments that are not measured at fair value through profit or loss; and

Loss allowance is not recognised for:

- financial assets measured at fair value through profit or loss; or
- equity instruments measured at fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Group uses the following approaches to impairment, as applicable under AASB 9: *Financial Instruments*:

- the general approach;
- the simplified approach;

General approach

Under the general approach, at each reporting period, the Group assesses whether the financial instruments are credit-impaired, and if:

- the credit risk of the financial instrument has increased significantly since initial recognition, the Group measures the loss allowance of the financial instruments at an amount equal to the lifetime expected credit losses; or
- there is no significant increase in credit risk since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Simplified approach

The simplified approach does not required 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.

2. Changes in accounting policies (continued)

b. AASB 15: Revenue from Contracts with Customers

Recognition and measurement

The core principle of AASB 15 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:

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. 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.

Contracts costs

The incremental costs of obtaining a contract must be recognised as an asset if the entity expects to recover those costs. However, those incremental costs are limited to the costs that the entity would not have incurred if the contract had not been successfully obtained (e.g. 'success fees' paid to agents). A practical expedient is available, allowing the incremental costs of obtaining a contract to be expensed if the associated amortisation period would be 12 months or less.

Costs incurred to fulfil a contract are recognised as an asset if and only if all of the following criteria are met:

- the costs relate directly to a contract (or a specific anticipated contract);
- the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future; and
- the costs are expected to be recovered.

These include costs such as direct labour, direct materials, and the allocation of overheads that relate directly to the contract. The asset recognised in respect of the costs to obtain or fulfil a contract is amortised on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates.

Revenue generated by the group is disaggregated as follows:

– Wayleave income – revenue recognised over time

– Other income – revenue recognised at a point in time

Wayleave income

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 30 days.

Other income

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.

3. Initial application of new standards

a. AASB 9: Financial Instruments

The Group has adopted AASB 9 with a date of initial application of 1 January 2018. As a result, the Group has changed its financial instruments accounting policies as follows.

There were no financial assets/liabilities which the Group had previously designated as fair value through profit or loss under AASB 139: *Financial Instruments: Recognition and Measurement* that were subject to reclassification/elected reclassification upon the application of AASB 9. There were no financial assets/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.

The Group applied AASB 9 and the related consequential amendments to other Standards. New requirements were introduced for the classification and measurement of financial assets and financial liabilities and impairment.

The date of initial application was 1 July 2018. The Group has applied AASB 9 to instruments that have not been derecognised as at 1 July 2018, and has not applied AASB 9 to instruments that have already been derecognised as at 1 July 2018. Comparative amounts in relation to instruments that have not been derecognised as at 1 July 2018 have been restated where appropriate.

Financial assets in terms of AASB 9 needs to be measured subsequently at either amortised cost or fair value.

– debt investments that are held within a business model whose goal is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost;
– debt investments that are held within a business model whose goal is both to collect contractual cash flows and to sell it, and that have contractual cash flows that are purely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income; and
– all other debt investments and equity investments are measured at fair value through profit or loss.

The Group may make irrevocable election at initial recognition of a financial asset:

– the Group may choose to present subsequent changes in fair value of an equity investment, that is not held for trading and not a contingent consideration in a business combination, in other comprehensive income; and
– the Group may choose to present a debt investment that meets the amortised cost or fair value through other comprehensive income criteria as measured at fair value through profit of loss if this choice significantly reduces an accounting mismatch.

When an equity investment at fair value through other comprehensive income has a gain or loss previously recognised in other comprehensive income it is not reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to impairment.

The directors of the Group determined the existing financial assets as at 1 July 2018 based on the facts and circumstances that were present, and determined that the initial application of AASB 9 had the following effects:

– Financial assets as held-to-maturity and loans and receivables that were measured at amortised cost continue to be measured at amortised cost under AASB 9, as they are held to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.
– Financial assets measured at fair value through profit or loss (under AASB 139) are still measured as such under AASB 9.

3. Initial application of new standards

a. AASB 9: Financial Instruments (continued)

Impairment

As per AASB 9, an expected credit loss model is applied and not an incurred credit loss model as per AASB 139. To reflect changes in credit risk, this expected credit loss model requires the group to account for expected credit loss since initial recognition.

AASB 9 also determines that a loss allowance for expected credit loss be recognised on debt investments subsequently measured at amortised cost or at fair value through other comprehensive income, lease receivables and loan commitments as the impairment provision would apply to them.

If the credit risk on a financial instrument did not show significant change since initial recognition, an expected credit loss amount equal to 12-month expected credit losses is used. However, a loss allowance is recognised at an amount equal to the lifetime expected credit loss if the credit risk on that financial instrument has increased significantly since initial recognition, or if the instrument is an acquired credit-impaired financial asset.

A general approach is followed in relation to trade receivables, as the loss allowance is measured at lifetime expected credit loss.

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 31 December 2017 or 31 December 2018 financial half-year periods.

Classification and measurement of financial liabilities

AASB 9 determines that the measurement of financial liabilities and also the classification relates to changes in the fair value designated as fair value through profit or loss attributable to changes in the credit risk.

AASB 9 further states that the movement in the fair value of financial liabilities that is attributable to changes in the credit risk of that liability needs to be shown in other comprehensive income unless the effect of the recognition constitutes accounting mismatch in profit or loss. Changes in fair value in relation to the financial liability's credit risk are transferred to retained earnings when the financial liability is derecognised and not reclassified through profit or loss. AASB 139 requires the fair value amount of the change of the financial liability designated as at fair value through profit or loss to be presented in profit or loss.

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

3. Initial application of new standards

a. AASB 9: Financial Instruments (continued)

	Financial instrument category	
	AASB 139 Original	**AASB 9 New**
Financial liabilities		
Current and non-current		
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.

b. AASB 15: Revenue from Contracts with Customers

The Group has adopted AASB 15: *Revenue from Contracts with Customers* with an initial application date of 1 January 2018.

No adjustments were required to the profit of loss and other comprehensive income in relation to AASB 15 coming into effect.

4. Profit /(Loss) for the period

	31 December 2018 $	31 December 2017 $
Profit /(Loss) before income tax from continuing operations includes the following:		
Facility fees	1,118,353	65,002
Interest expense	274,714	252,392
Total Finance costs	1,393,067	317,394

Malabar entered into a facility agreement during the period and was required to pay an issuance fee in relation to the guarantee that was provided. Refer to note 20(b)(ii) for more details.

5. Dividends

No dividend has been paid during the half-year ended 31 December 2018, and none is proposed.

6. Operating Segments

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

7. Earnings per share

Earnings per share relates to continuing operations attributable to ordinary equity holders of the Company.

	31 December 2018 Cents	31 December 2017 Cents
(a) Basic earnings per share		
Total basic earnings per share attributable to the ordinary equity holders of the company	0.13	(0.83)
(b) Diluted earnings per share		
Total diluted earnings per share attributable to the ordinary equity holders of the company	0.13	(0.83)
(c) Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Profit (loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share	444,004	(1,494,253)
Diluted earnings per share		
Profit (loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	444,004	(1,494,253)

7. Earnings per share (continued)

	31 December 2018	31 December 2017
(d) Weighted average number of shares used as the denominator		
	#	#
Weighted average number of ordinary and convertible redeemable shares used as the denominator in calculating basic earnings per share	352,362,725	215,413,722
Adjustments for calculation of diluted earnings per share:		-
Weighted average number of ordinary, convertible redeemable shares and potential ordinary share used as the denominator in calculating diluted earnings per share	352,362,725	215,413,722

8. Financial assets

	31 December 2018	30 June 2018
	$	$
Short term deposit	-	56,434,501

The short-term deposit which was previously held as security for bank facilities was withdrawn from short term deposits as the respective bank facilities were cancelled in the period.

9. Trade and other receivables

	31 December 2018	30 June 2018
	$	$
CURRENT:		
Trade receivables	85,389	188,388
Port and rail costs recoverable	276,776	1,316,162
Wayleave income	-	1,234,557
Other receivables	207,922	946,555
	570,087	3,685,662

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

At 30 June 2018 the wayleave income receivable was greater than 90 days. The individual customer's processes for setting up new suppliers caused a delay in this money being received. This process has since been resolved and all wayleave income is received within 30 days.

10. Other assets

	31 December 2018	30 June 2018
	$	$
CURRENT:		
Interest receivable & or prepaid and borrowing costs	91,725	227,175
Prepayments	555,140	521,037
	646,865	748,212
NON-CURRENT:		
Security bond	95,686	95,686
	95,686	95,686

11. Property, plant and Property, plant and equipment

NON-CURRENT:	Note	31 December 2018	30 June 2018
		$	$
Land - at cost		32,562,316	32,562,316
Less: impairment		(9,407,066)	(9,407,066)
Total land		23,155,250	23,155,250
Buildings - at cost		2,276,073	2,276,073
Less: accumulated depreciation		(192,113)	(181,003)
Less: impairment		(1,421,282)	(1,421,282)
Total buildings		662,678	673,788
Total land and buildings		23,817,928	23,829,038
Plant and Equipment		12,578,797	12,413,745
Less: accumulated depreciation		(973,112)	(221,837)
Total Plant and Equipment		11,605,685	12,191,908
Total property, plant and equipment		35,423,613	36,020,946

11. Property, plant and equipment (continued)

Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial period:

	Freehold Land	Buildings	Plant and Equipment	Total
	$	$	$	$
Consolidated Group:				
Balance at 1 July 2017	9,639,540	696,010	181,283	10,516,833
Additions	13,515,710	-	12,056,651	25,572,361
Disposals	-	-	-	-
Depreciation expense	-	(22,222)	(46,026)	(68,248)
Impairment expenses	-	-	-	-
Balance at 30 June 2018	23,155,250	673,788	12,191,908	36,020,946
Additions	-		197,663	197,663
Disposals	-		(8,328)	(8,328)
Depreciation expense	-	(11,110)	(775,558)	(786,668)
Impairment expenses	-	-	-	-
Balance at 31 December 2018	23,155,250	662,678	11,605,685	35,423,613

12. Capitalised exploration and evaluation costs

	31 December 2018	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 – EL5460 & EL7429	19,863,025	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)
	40,194,141	34,706,791

12. Capitalised exploration and evaluation costs (continued)

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

	31 December 2018	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	5,487,350	3,807,803
Reserves & resources acquired – change in measurement	-	(3,728,000)
R&D tax incentive reversed/ (recognised) during the year	-	110,000
	40,194,141	34,706,791

13. Investment in associates

Name of associate	Principal activity	Place of incorporation	Proportion of ownership interest 31 December 2018	Proportion of ownership interest 31 December 2017
			$	$
Newcastle Coal Shippers Pty Ltd ('NCS')	Investment in Port Waratah Coal Services ('PWCS')	Australia	20%	-

	31 December 2018	30 June 2018
	$	$
Opening balance investment in Newcastle Coal Shippers	15,901,138	15,902,000
Profits attributable post acquisition	1,264,974	1,262,738
Less dividends received	(1,264,000)	(1,263,600)
Carrying amount of investment	15,902,112	15,901,138

Associates have been accounted for on the equity method.

14. Trade and other payables

	31 December 2018	30 June 2018
	$	$
CURRENT:		
Trade creditors	1,474,927	1,345,011
Other creditors	609,130	191,010
Deferred consideration	1,731,518	4,000,000
	3,815,575	5,536,021

14. Trade and other payables (continued)

Deferred consideration decreased due to payments made in relation to the Drayton Mine acquisition in the prior year.

15. Provisions

CURRENT:	Employee entitlements $	Restoration provisions $	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	61,978	-	-	61,978
Reduction based on payments during the year	(6,765)	(5,427,355)	-	(5,434,120)
Closing as at 31 December 2018	111,151	4,254,645	-	4,365,796

NON-CURRENT:

	Employee entitlements $	Restoration provisions $	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)
Balance as at 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	-	-	-	-
Reduction based on payments during the year	-	-	-	-
Reallocation to current	-	-	-	-
Balance as at 31 December 2018	-	42,586,115	5,891,000	48,477,115

16. Borrowings

	31 December 2018 $	30 June 2018 $
CURRENT:		
Revolving bill facility	7,140,000	7,140,000
	7,140,000	7,140,000

The Group has a revolving bill facility of $7,140,000 which is secured by real property of Spur Hill Agricultural Pty Ltd.

In period Malabar cancelled it's $65.5 million bank facility and entered into a three-year loan facility agreement with a third party for USD $55 million, (AUD $77,925,558, converted at A$1 = USD$0.7058). 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 31 December 2018, $66,904,727 of the facility has been utitlised and has been included in the contingent liabilities note.

17. Share Capital

a) Issued share capital consists out of the following:

	31 December 2018	30 June 2018
Issued share capital consists out of the following:	**$**	**$**
183,050,000 fully paid ordinary shares (30 June 2018: 182,100,000)	63,396,206	63,130,206
76,767,798 fully paid redeemable convertible shares (30 June 2018: 177,777,896)	29,618,817	79,618,815
	93,015,023	142,749,021

b) Movements in ordinary share capital during the year

During the year 950,000 options were exercised at $0.28. Refer to note 19 for more details.

Date	Details	Note	#	Issue Price $	$
30 June 2018	Closing balance		182,100,000		63,130,206
	Options exercised		950,000	0.28	266,000
31 Dec 2018	Closing balance		183,050,000		63,396,206

17. Share Capital (continued)

c) Movements in redeemable converting shares during the year

A selective capital reduction of 101,010,098 shares was done on 17 December 2018 for $0.495 per redeemable converting share. The balance of redeemable converting shares will convert into fully paid ordinary shares on 28 February 2019.

30 June 2018	Closing balance	177,777,896		79,618,815
17 December 2018	Shares redeemed	(101,010,098)	0.495	(49,999,998)
31 Dec 2018	Closing balance	76,767,798		29,618,817

18. 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

b) Movement of Share Options during the year

	31 December 2018		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 31 December 2018 there are no more options exercisable.

Expenses related to share-based payments were fully taken during the year ended 30 June 2018 and therefore no expenses were recognised in the half year period ending 31 December 2018.

19. Reserves

	31 December 2018	30 June 2018
	$	$
Share based payments reserve		
Opening Balance	45,064	42,994
Share based payments – employee share options	-	2,070
Reserve 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

20. Group structure

a) Controlled entities

The below is a list of the Group's subsidiaries, all of which are incorporated in Australia and the investments are in ordinary shares.

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

20. Group structure (continued)

b) Related party transactions

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

i. Ironstone Capital provision of services to Malabar and the Spur Hill and Maxwell Projects

Ironstone Capital Partners Pty Ltd '(Ironstone Capital') is a boutique corporate advisory business partially owned by a current Director – Wayne Seabrook. Ironstone Capital provides consulting services to the Project and the Company in connection with project development and corporate activities. Ironstone Capital is paid at market related rates or less for work conducted by its executives. During the period ended 31 December 2018, a total of $117,600 accrued to Ironstone Capital.

ii. AMCI Euro Holdings B.V (AMCI)

AMCI Euro Holdings is an entity which has common significant shareholders to those in Malabar Coal Limited. 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 provided ($803,894) was paid. This transaction is a reasonable in terms of market related activity.

iii. Other Related Party Transactions

The Company has continued the consultancy arrangement with the Chairman whereby he (or his associated entity) is paid a consulting fee of $2,500 per day for any work done for the Company which is not related to his role as Chairman. In the period ended 31 December 2018, $224,833 has been paid under this agreement.

21. Contingent liabilities

Bank and Corporate 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 $77,925,558, converted at A$1 = USD$0.7058) USD $55million over all the assets of the Group and its guarantors, mortgages over all real property holdings and water licences, and, security over project accounts. The amount of any contingency is uncertain by its nature and due to the long-term nature of the arrangement.

22. Events after the interim reporting period

In accordance with the terms of issue of the Redeemable Converting Shares (RCS), the balance of the RCS 76,767,798 held converted into fully paid Ordinary Shares in Malabar on a one for one basis on 28 February 2019.

The DPE provided the Secretary's Environmental Assessment Requirements on 8 March 2018 which provide the criteria for the Environmental Impact Statement (EIS).

Malabar has entered into negotiations to obtain a $9 million facility. The real property of the Group will be used as security for this facility.

23. Company details

The registered office and principal place of business of the Company as at 31 December 2018 was:

Level 26, 259 George Street

Sydney, NSW, 2000

Tel.: 02 8248 1272

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 7 to 65, are in accordance with the *Corporations Act 2001* including:
   a. complying with Australian Accounting Standard AASB 134*: Interim Financial Reporting*; and
   b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-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.

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

Wayne Seabrook
Director
Dated: 14 March 2019

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Malabar Coal Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity, comprising the company and the entities it controlled at the half-year's end or from time to time during the financial half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Malabar Coal Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. In accordance with the *Corporations Act 2001*, we have given the directors of the company a written Auditor's Independence Declaration.

Directors' Responsibility for the Half-Year Financial Report

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

PKF Brisbane Audit
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Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Malabar Coal Limited and its controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

PKF

PKF BRISBANE AUDIT

LIAM MURPHY
PARTNER

BRISBANE
DATE: 14 MARCH 2019

Malabar Coal Limited and controlled entities

Interim Financial Report for the half-year ended 31 December 2018