ANNEXURE E

MALABAR COAL LIMITED
AND CONTROLLED ENTITIES

ACN 151 691 468

FINANCIAL REPORT
FOR THE PERIOD ENDED
30 JUNE 2012

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FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2012

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DIRECTORS' REPORT

Yours 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 period from 24 June 2011 to 30 June 2012.

Directors
The following persons were directors of Malabar Coal Limited during the whole of the period and up to the date of this report, unless otherwise stated:

Wayne Seabrook
Simon Keyser
Hans Mende (appointed 22 March 2012)
Andrew (Andy) Plummer (appointed 23 November 2012)
Mark Tzannes (Alternate Director to Hans Mende, resigned 1 May 2012)
Brian Beem (Alternate Director to Hans Mende)

Principal activities

The principal activity of the Group during the financial period was the development of an underground coal project in the Hunter Valley Region of New South Wales.

The Company was established on 24 June 2011 and there were no significant changes in the nature of the Group's principal activities occurred during the financial period.

Operating Results and Review of Operations for the Period

Operating Results

The consolidated loss of the group amounted to $255,473, after providing for income tax and eliminating non-controlling equity interests.

Review of Operations

Malabar Coal Limited's primary focus is on the development of the Project, of which it has the right to acquire up to 80%. The Project is currently in a project development phase, with coal sales not expected to commence until 2017. The primary activities conducted on the Project during the period ended 30 June 2012 are outlined below:

<u>Resource drilling</u>
Malabar commenced Phase 1 of its resource definition drilling program for the Project in February 2012. The Phase 1 program involves approximately 30 holes to be drilled. As at 30 June 2012, six holes had been completed. The Phase 1 program is currently expected to be completed by mid-2013.

<u>Environmental</u>
Baseline environmental studies have commenced and include flora and fauna surveys, soil testing, dust monitoring, subsidence assessment, surface and groundwater assessments, traffic assessments and noise assessments. These studies will form part of the Environmental Impact Statement for the Project.

<u>Engineering and infrastructure</u>
Malabar continues to evaluate mine planning alternatives and various options for transporting coal to its customers.

Review of Operations (continued)

<u>Land</u>
Throughout the 2012 financial year, Malabar assessed opportunities to acquire strategically important land for the Project. Since 30 June 2012, Malabar, through its 80%-owned subsidiary Spur Hill Agricultural Pty Ltd, has acquired one property, exchanged contracts to acquire another two properties and has entered into option agreements to acquire two additional properties.

Financial Position

The net assets of the consolidated group have increased by $36,307,140 in the period to 30 June 2012. This has been due to the raising of $17 million of cash through the issue of ordinary shares in July 2011 and an additional $20 million of cash through the issue of convertible preference shares in May 2012. The consolidated group's cash position was $22,425,110 at 30 June 2012.

The proceeds of the capital raisings have been used to continue resource definition drilling for the Project, conduct environmental baseline studies and technical studies for the Project and for the acquisition of land of strategic importance to the Project.

The directors believe the Group is in a strong and stable financial position to continue the development of the Project.

Significant changes in the state of affairs

Other than the items discussed in the review of operations above, there were no significant changes in the state of affairs of the Group during the year.

Events after the Reporting Period

On 29 June 2012, Spur Hill Agricultural Pty Ltd (SHA), an 80% owned subsidiary of Malabar Coal Limited, entered into a contract to purchase a property related to the Project for a total consideration of $14,000,000. A deposit of $700,000 was paid on that date and recorded under the Other Current Asset account on the statement of financial position as at 30 June 2012. Subsequently, SHA settled the contract and paid the remaining balance of $13,300,000 on 19 September 2012.

On 13 July 2012, SHA entered into a contract to purchase a property related to the Project for a total consideration of $2,700,000. A deposit of $675,000 was paid on that date. The contract has a 12 month settlement period and, as such, no settlement has been made at the date of this report.

On 25 July 2012, SHA purchased a call option to acquire a property related to the Project for a purchase price of $2,100,000. The option fee paid at that date was $120,000. As at the date of this report, the call option has not been exercised.

On 10 August 2012, SHA entered into a contract to purchase a property related to the Project for a total consideration of $4,900,000. A deposit of $1,225,000 was paid on that date. The contract has a 12 month settlement period and, as such, no settlement has been made at the date of this report.

On 19 September 2012, $3,475,000 was drawn down from a $5,350,000 loan facility with the National Australia Bank to fund the one land acquisition that had been settled to that date.

DIRECTORS' REPORT (continued)

Events after the Reporting Period (continued)

On 4 October 2012, the Company has issued 340,000 ordinary shares to Ironstone Capital Partners Pty Ltd ('Ironstone Capital') for annual management services provided in accordance with the Shareholders Agreement. Of this, 332,569 shares were for the financial period ending 30 June 2012.

On 23 November 2012, SHA entered into a put and call option deed to acquire a property related to the Project. The option fee paid by SHA for the call option over the land was $260,000. The purchase price of the land is $1,575,000 with a further payment of $600,000 contingent upon a Mining Lease being granted for the Project. The settlement date is 1 July 2013 and, as at the date of this report, no options have been exercised over this property.

Other than the above, no other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

a) The Group's operations in future financial years, or
b) The results of those operations in future financial years, or
c) The Group's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

Likely developments, future prospects and business strategies of the operations of the Group and the expected results of those operations in future financial years have not been included in this report because the directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the Group.

Dividends

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

Environmental Issues

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

Information on the Directors

Hans Mende	Age 68. MBA
Role	Non-executive Director
Experience	Hans has been President of AMCI since he co-founded the company in 1986. Prior to founding AMCI, Hans was with the Thyssen Group, in various senior executive positions including President of Thyssen Carbometal Inc. from 1968 to 1986. Hans has served as a director of Alpha Natural Resources (Inc) USA (ANR) and as Chairman of the Board of Directors of ANR Holdings from 2003 to 2005. Hans is currently a member of the board of directors of the publicly traded MMX Mineracao in Brazil. He was most recently a Non-Executive Director of Whitehaven Coal Limited.
Special Responsibilities	NIL
Interest in Shares and Options (direct and indirect)	Ordinary Shares – 2,787,500 Convertible Preference Shares – 2,000,000

DIRECTORS' REPORT (continued)

Information on the Directors (continued)

Wayne Seabrook	Age 52. B.Eng (Chem - 1st Hons)
Role	Non-executive Chairman
Experience	Wayne has more than 30 years of resources sector and corporate finance experience. He has broad project development experience from previous roles with Alcoa, Macraes Mining, Minproc Engineers, & Barclay-Mowlem. Wayne has also held senior corporate finance roles with Macquarie Bank, Challenger and Wilson HTM. He has managed transactions for many coal companies including; Felix Resources, Whitehaven Coal, Excel Coal, Cleveland-Cliffs, and AMCI. Wayne was a founding director of ASX-listed Apollo Gas and ASX-listed Titan Energy Services Ltd. He is a director of XLX Pty Ltd and Ironstone Capital Partners Pty Ltd. As Non-Executive Chairman Wayne will be 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 shareholder communication and arranging Board performance evaluation. Wayne holds a Bachelor of Engineering (Chemistry – 1st Hons) from the University of Canterbury, New Zealand and a Graduate Diploma from FINSIA. He is a fellow of FINSIA and a member of AUSIMM.
Special Responsibilities	Member of Occupational Health, Safety & Environment Committee and Audit Committee
Interest in Shares and Options (direct and indirect)	Ordinary Shares – 1,000,000 Convertible Preference Shares – 197,500

Andy Plummer	Age 62 BSc Mining Eng
Role	Non-executive Director
Experience	Andy has over 35 years' experience in the investment banking and mining industries. He holds a BSc Mining Engineering from the Colorado School of Mines, USA. He was most recently an Executive Director of Whitehaven Coal Limited and King Island Scheelite Limited and prior to that was an Executive Director of Excel Coal Limited. During his tenure at both Whitehaven and Excel he was responsible for business development activities. He has worked in the Australian banking and finance industry since 1985 with Eureka Capital Partners, Resource Finance Corporation and Westpac. Prior to that, he was employed in a variety of management and technical positions with ARCO Coal, Utah International and Consolidation Coal. He is currently the Chairman of Ranamok Glass Prize Ltd.
Special Responsibilities	Chairman of the Remuneration & Nominations Committee and member of Occupational Health, Safety & Environment Committee
Interest in Shares and Options (direct and indirect)	Ordinary Shares – 2,000,000 Convertible Preference Shares – 1,000,000

DIRECTORS' REPORT (continued)

Information on the Directors (continued)

Simon Keyser	Age 44. B.Bus, ACA
Role	Non-executive Director
Experience	Simon has over 20 years of finance sector experience, specialising in the resources and energy sectors. Simon held senior investment banking positions with Chase Securities (now J.P. Morgan Chase) and was head of Wilson HTM's corporate finance division. Simon has managed transactions for many coal and energy companies including Felix Resources, Excel Coal, Whitehaven Coal, Austral Coal and Arrow Energy. Simon is currently a director of XLX Pty Ltd, Ironstone Capital Partners Pty Ltd, G&S Engineering Pty Ltd and ASX-listed Titan Energy Services Ltd. Simon holds a Bachelor of Business from the Queensland University of Technology, Graduate Diploma from FINSIA and is a Chartered Accountant.
Special Responsibilities	Member of Remuneration & Nominations Committee and Chairman of the Audit Committee
Interest in Shares and Options (direct and indirect)	Ordinary Shares – 1,000,000 Convertible Preference Shares – 197,500

Chief Executive Officers

The Chief Executive Officer is Peter Doyle - BSc BE (Mining) MEngSci MBA (Exec) Coal Mine Managers Certificate.

Peter has over 25 years experience in the coal sector including specific expertise in coal mine approvals. He holds a Bachelor of Science and Bachelor of Engineering from the University of Sydney and an MBA from the Australian Graduate School of Management. Peter's work history includes the position of Project Manager at Excel Coal where he managed the approval process and pre-development activities for the large greenfield Wilpinjong Coal Mine, expansion design and approvals for the Wambo Coal Mine, and the Wambo Coal Terminal. More recently, Peter was Peabody Energy Australia's General Manager for Corporate & Operations Support responsible for front-end activities for its NSW coal assets.

Company Secretary

The Company Secretary is Ian Morgan - BBus, MComLaw, Grad Dip App Fin, CA, ACIS, ACSA, MAICD, FFin.

Ian is a Chartered Accountant and Chartered Company Secretary, with over 30 years of experience. He provides secretarial and advisory services to a range of companies, and is company secretary of other publicly listed companies. Ian holds a Bachelor of Business from the NSW Institute of Technology and a Master of Commercial Law from Macquarie University.

Meetings of Directors

During the financial period, there were 5 meetings of directors. Attendances by each director during the period were as follows:

	Directors' Meeting	
	Number eligible to attend	**Number attended**
Wayne Seabrook	5	5
Simon Keyser	5	5
Hans Mende	2	0

DIRECTORS' REPORT (continued)

Indemnifying Officers or Auditor

During or since the end of the financial period, the Group paid insurance premiums of $9,699 to insure directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company.

Options

There have been no unissued shares or interests under option of any controlled entity within the Group during or since the end of the reporting period.

Proceedings on Behalf of Company

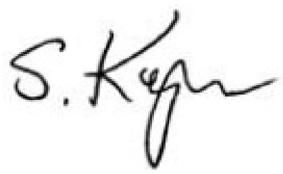
No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the period.

Auditor's Independence Declaration

The lead auditor's independence declaration for the period ended 30 June 2012 has been received and can be found on page 8 of the financial report.

Signed in accordance with a resolution of the Board of Directors:



Simon Keyser, Director
Date: 7 December 2012

AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 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 period ended 30 June 2012 there have been:

1. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

Lawler Hacketts

Lawler Hacketts Audit

Liam Murphy
Partner
Brisbane, 7 December 2012

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 24 JUNE 2011 TO 30 JUNE 2012

	Note	30 June 2012 $
Revenue from continuing operations		
Interest income		370,915
Expenses		
Management fees		332,569
Legal fees		210,901
Other expenses		82,918
Total expenses		626,388
Profit (loss) before income tax		(255,473)
Income tax expense	3	-
Profit (loss) for the period		(255,473)
Other comprehensive income		-
Total comprehensive income for the period		(255,473)
Profit (loss) attributable to:		
- Members of the parent entity		(255,473)
- Non-controlling interest		-
		(255,473)
Total comprehensive income attributable to:		
- Members of the parent entity		(255,473)
- Non-controlling interest		-
		(255,473)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	30 June 2012 $
ASSETS		
Current Assets		
Cash and cash equivalents	6	22,425,110
Trade and other receivables		99,348
Other financial assets		11,271
Other current assets	7	708,524
Total Current Assets		23,244,253
Non-Current Assets		
Trade and other receivables		35
Property, plant and equipment		1,082
Capitalised exploration and evaluation costs	8	13,580,269
Deferred tax assets		330,000
Total Non-Current Assets		13,911,386
Total Assets		37,155,639
LIABILITIES		
Current Liabilities		
Trade and other payables		265,554
Total Current Liabilities		265,554
Non-Current Liabilities		
Trade and other payables		582,945
Total Non-Current Liabilities		582,945
Total Liabilities		848,499
Net Assets		**36,307,140**
Equity		
Share capital	9	36,230,002
Reserve	10	332,569
Retained earnings (accumulated losses)		(255,473)
Parent interest		36,307,098
Non-controlling interest		42
Total Equity		**36,307,140**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 24 JUNE 2011 TO 30 JUNE 2012

	Contributed Equity $	Reserve $	Retained Earnings (Accumulated Losses) $	Parent Interest $	Non-controlling Interest $	Total $
Balance as at 24 June 2011	-	-	-	-	-	-
Total comprehensive income for the period	-	-	(225,473)	(225,473)	-	(225,473)
Transactions with owners in their capacity as owners:						
Share contributions, net of transaction costs	36,230,002	-	-	36,230,002	-	36,230,042
Shared-based payments	-	332,569	-	332,569	-	332,569
Non-controlling interest portion from acquisitions	-	-	-	-	42	42
Balance at 30 June 2012	36,230,002	332,569	(225,473)	36,307,098	42	36,307,140

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 24 JUNE 2011 TO 30 JUNE 2012

	Note	30 June 2012 $ Inflows / (Outflows)
Cash flows from operating activities		
Payment to suppliers and employees		(147,442)
Interest received		370,915
Net cash inflow(outflow) from operating activities	13	223,473
Cash flows from investing activities		
Payments for purchase of property, plant and equipment		(1,082)
Payments for deposit of land purchase		(700,000)
Payments for exploration expenditure		(2,997,324)
Payments for acquisition of SH No. 2 Pty Ltd		(10,000,000)
Net cash inflow(outflow) from investing activities		(13,698,406)
Cash flows from financing activities		
Proceeds from share issue		35,900,043
Net cash inflow(outflow) from financing activities		35,900,043
Net increase (decrease) in cash held		22,425,110
Cash at beginning of financial period		-
Cash at the end of financial period	13	22,425,110

The accompanying notes form part of these financial statements.

These consolidated financial statements and notes represent those of Malabar Coal Limited (the "Company") and its controlled entities (the "Group"). The financial report covers the period from the incorporation of the Company on 24 June 2011 to 30 June 2012.

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 7 December 2012 by the directors of the company.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

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

a. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Malabar Coal Limited at the end of the reporting period. A controlled entity is any entity over which Malabar Coal Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the period, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 11 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Business Combinations

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

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

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

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

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

c. Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:
(i) the consideration transferred;
(ii) any non-controlling interest; and
(iii) the acquisition date fair value of any previously held equity interest;
over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interests is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Goodwill (continued)

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

d. Income Tax

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

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

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

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

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Property, Plant and Equipment

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

Plant and Equipment

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

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

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

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

Depreciation

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

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

Class of Fixed Asset	Depreciation Rate
Office equipment	50%

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Exploration and Development Expenditure

Exploration, evaluation and development expenditures incurred are capitalised in respect of each identifiable area of interest. These costs are only capitalised to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest.

Costs of site restoration are provided for over the life of the project from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with local laws and regulations and clauses of the permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

g. Leases

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Financial Instruments

Recognition and initial measurement

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

Classification and subsequent measurement

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

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

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

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

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

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

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

(ii) *Loans and receivables*

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Financial Instruments (continued)

(iii) Held-to-maturity investments

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

(iv) Available-for-sale investments

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

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

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

(v) Financial liabilities

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

Preferred shares

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

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

Impairment

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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

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

Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:
- the likelihood of the guaranteed party defaulting during the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

Derecognition

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Impairment of Assets

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

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

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

j. Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

k. Provisions

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

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

l. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Revenue and Other Income

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

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Dividend revenue is recognised when the right to receive a dividend has been established.

Interest revenue is recognised using the effective interest rate method.

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

n. Trade and Other Receivables

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

o. Trade and Other Payables

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

p. Goods and Services Tax (GST)

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates

(i) Impairment - general

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

No impairment has been recognised in respect of intangible asset at the end of the reporting period.

Key judgments

(i) Exp*loration and evaluation expenditure*

The Group has recognised exploration and evaluation expenditure of $13,580,269 including $12,615,181 in relation to the valuation of the exploration licence obtained by the Group. Exploration and evaluation costs are capitalised in accordance with the accounting policy set out in Note 1(f). Given exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable resources and the difficulty in forecasting cash flows to assess the fair value of exploration and evaluation expenditure there is uncertainty as to the carrying value of exploration and evaluation expenditure. The ultimate recovery of the carrying value of exploration and evaluation expenditure is dependent upon the successful development and commercial exploitation or, alternatively, sale of the interest in the tenement. The Directors are of the opinion that the exploration and evaluation expenditure is recoverable for the amount stated in the financial report.

r. Adoption of New Accounting Standards

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has elected to early adopt the new AASB 11 "Joint Arrangements".

Joint Arrangement

During the period, the group has entered into an 'Acquisition and Exploration Farm-in Agreement for the Spur Hill Project" and an 'Amended and Restated Joint Venture Agreement' with Spur Hill U.T. Pty Ltd (SHUT). Under the AASB 11, the joint arrangement between the Group and SHUT is classified as Joint Operation. The proportionate interests in assets, liabilities and expenses of a joint venture activity for the period ended 30 June 2012 have been incorporated in the financial statements under the appropriate headings. Details of the Joint Operation are set out in Note 12.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. New Accounting Standards for Application in Future Periods

The AASB has issued the following new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt:

- AA AASB 9: Financial Instruments (December 2010),
- AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9,
- AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112],
- AASB 10: Consolidated Financial Statements,
- AASB 12: Disclosure of Interests in Other Entities,
- AASB 127: Separate Financial Statements (August 2011),
- AASB 128: Investments in Associates and Joint Ventures (August 2011) ,
- AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards,
- AASB 13: Fair Value Measurement,
- AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13,
- AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income,
- AASB 119: Employee Benefits (September 2011), and
- AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011).

The directors anticipate that the adoption of these standards and other proposed changes to IFRS in future periods will have no material financial impact on the financial statements of the entity.

NOTE 2: PARENT ENTITY INFORMATION

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

	30 June 2012 **$**
STATEMENT OF FINANCIAL POSITION	
ASSETS	
Current assets	22,471,458
Non-current assets	13,976,298
TOTAL ASSETS	36,447,756
LIABILITIES	
Current liabilities	115,215
Non-current liabilities	-
TOTAL LIABILITIES	115,215

NOTE 2: PARENT ENTITY INFORMATION (continued)

	30 June 2012 $
EQUITY	
Issued capital	36,230,002
Reserve	332,569
Retained earnings/(accumulated losses)	(230,029)
TOTAL EQUITY	36,332,542

STATEMENT OF COMPREHENSIVE INCOME	
Total profit/(loss)	(230,029)
Total comprehensive income	(230,029)

Guarantees
Malabar Coal Limited has not entered into any guarantees in the financial period ending 30 June 2012 or the previous financial period, in relation to the debts of its subsidiaries.

Contingent liabilities
Malabar Coal Limited did not have any contingent liabilities as at 30 June 2012.

Contractual commitments
Malabar Coal Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment as at 30 June 2012.

NOTE 3: INCOME TAX EXPENSE

	30 June 2012 $
a. The components of tax expense comprise:	
Current tax	-
Deferred tax	-
	-
b. The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to income tax as follows:	
Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 30%	
– consolidated group	(76,642)
Add:	
Tax effect of:	
– Unrecognised deferred tax assets	76,642
Income tax attributable to entity	-
The applicable weighted average effective tax rates are as follows:	0%

NOTE 4: KEY MANAGEMENT PERSONNEL COMPENSATION

Management has identified the following personnel as the Key Management Personnel (KMP) of the Company and the Group during the period:

- Wayne Seabrook, Non-Executive Chairman
- Hans Mende, Non-Executive Director
- Andy Plummer, Non-Executive Director
- Simon Keyser, Non-Executive Director
- Mark Tzannes, Alternate Director to Hans Mende (resigned 1 May 2012)
- Brian Beem, Alternate Director to Hans Mende
- Peter Doyle, Chief Executive Officer
- Ian Morgan, Company Secretary

No remunerations were paid to KMP of the company and the Group during the period.

KMP Options and Rights Holdings
There no options over ordinary shares held by each KMP of the Group during the financial period.

KMP Shareholdings
The number of ordinary shares in Malabar Coal Limited held by each KMP of the Group during the financial period is as follows:

30 June 2012	Balance at Beginning of Period	Granted as Remuneration during the Period	Issued on Exercise of Options during the Period	Other Changes during the Period	Balance at End of Period
W R Seabrook*	-	-	-	1,000,000	1,000,000
S J Keyser*	-	-	-	1,000,000	1,000,000
H J Mende	-	-	-	2,787,500	2,787,500
B D Beem	-	-	-	50,000	50,000
M Tzannes	-	-	-	-	-
P Doyle	-	-	-	-	-
I Morgan	-	-	-	-	-

* Simon Keyser and Wayne Seabrook are shareholders of Ironstone Capital. As at 30 June 2012, Ironstone Capital owned 1,182,569 ordinary shares.

The number convertible preference shares in Malabar Coal Limited held by each KMP of the Group during the financial period is as follows:

30 June 2012	Balance at Beginning of Period	Granted as Remuneration during the Period	Issued on Exercise of Options during the Period	Other Changes during the Period	Balance at End of Period
W R Seabrook	-	-	-	197,500	197,500
S J Keyser	-	-	-	197,500	197,500
H J Mende	-	-	-	2,000,000	2,000,000
B D Beem	-	-	-	-	-
M Tzannes	-	-	-	-	-
P Doyle	-	-	-	100,000	100,000
I Morgan	-	-	-	-	-

Other KMP Transactions
There have been no other transactions involving equity instruments other than those described in the tables above.

NOTE 5: AUDITOR'S REMUNERATION

	30 June 2012 $
Remuneration of the auditor for:	
– auditing the financial statements	15,000
– taxation services	5,000
– due diligence services	17,500

NOTE 6: CASH AND CASH EQUIVALENTS

	30 June 2012 $
Cash at bank and on hand	18,425,110
Short-term bank deposits	4,000,000
	22,425,110

The effective interest rate on short-term bank deposits was 5.125%; these deposits have an average maturity of 52 days.

Reconciliation of cash

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

Cash and cash equivalents	22,425,110
Bank overdrafts	-
	22,425,110

NOTE 7: OTHER CURRENT ASSETS

Other current assets consist of:	
Deposit for the purchase of land	700,000
Other assets	8,524
	708,524

NOTE 8: CAPITALISED EXPLORATION AND EVALUATION COSTS

Capitalised exploration and evaluation cost consist of:	
Mining information	377,782
Exploration license	12,615,181
Exploration & evaluation expenditures	587,306
	13,580,269

NOTE 9: ISSUED CAPITAL

17,850,000 fully paid ordinary shares	17,000,002
20,000,000 fully paid converting preference shares	20,000,000
Capital raising cost	(770,000)
	36,230,002

a. **Ordinary Shares**

Movement for the period:	
At the beginning of the reporting period (1 share)	1
Shares issued during the period	
– 849,999 Ordinary Shares on 19th July 2011 [1]	1
– 17,000,000 Ordinary Shares on 19th July 2011 [2]	17,000,000
At the end of the reporting period	17,000,002

[1] On 19 July 2011, the Company has issued 849,999 ordinary shares to Ironstone Capital for total consideration of $1. These shares were issued to Ironstone Capital when the Company was first established, prior to the 17,000,000 ordinary shares being issued to the ordinary shareholders in Malabar. The net tangible assets of the Company at that time was $1 and the fair value of the shares has been determined by the directors on their assessment as to the fair value of the Company at 19 July 2011.

[2] On 19 July 2011, following the above issue, the company issued 17,000,000 ordinary shares for $1.00 per share in exchange for subscription monies received following a capital raising with sophisticated investors.

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.

b. **Converting Preference Shares**

At the beginning of the reporting period	-
Issue of 20,000,000 fully paid converting preference shares	20,000,000
At the end of the reporting period	20,000,000

On 2 May 2012 the company issued 20,000,000 converting preference shares at $1 each to the sophisticated investors and/or professional investors.

The converting preference shares pay no dividend and are convertible to ordinary shares in the company on the date on which the ASX confirms the Company's ASX Listing. Pursuant to the terms of the CPS, the number of Shares in the Company into which each CPS will convert at that time will be determined by dividing the conversion value of $1.20 (being the issue price for each CPS of $1.00 multiplied by 120%) by the final price per Share under the offer.

NOTE 9: ISSUED CAPITAL (continued)

c. **Capital Management**

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

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

There are no externally imposed capital requirements.

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

NOTE 10: RESERVES

At 30 June 2012, the balance represents 332,569 ordinary shares reserve as a share based payment to Ironstone Capital under the Shareholders Agreement. The fair value has been determined by the directors as to the fair value of the Company at 30 June 2012, or $1.00 per share. The reserve balance is therefore $332,569.

NOTE 11: CONTROLLED ENTITIES

a. Controlled Entities

Listed below are companies which are subsidiaries of Malabar Coal Limited. All of the subsidiaries are incorporated in Australia.

	Owned directly or indirectly
Spur Hill No. 2 Pty Ltd (SH2)	100%
Spur Hill Management Pty Ltd (SHMgt)	80%
Spur Hill Marketing Pty Ltd (SHMkt)	80%
Spur Hill Agricultural Pty Ltd (SHA)	80%

Malabar Coal Limited acquired control of SH2, SHMgt and SHMkt on 15 July 2011 while control of SHA was acquired on 26 April 2012.

b. Acquisition of Spur Hill No. 2 Pty Ltd and Controlled Entities

On 15 July 2011, Malabar Coal Limited acquired 100% control in Spur Hill No. 2 Pty Ltd. The details of this business combination acquisition are as follows:

	$
Purchase consideration	
- Cash paid	10,000,000
Less:	
Fair value of net assets acquired:	
Investment in related entities	30
Exploration and evaluation costs	
- Mining information	377,782
- Exploration license	9,622,188
Identifiable assets acquired and liabilities assumed	10,000,000
Goodwill	-

NOTE 11: CONTROLLED ENTITIES (continued)

Upon the business combination above, the carrying value of the exploration license has been re-valued as follows:

	$
Carrying value	232,651
Revaluation from carrying value to fair value	9,389,537
Fair value	9,622,188

NOTE 12: JOINT OPERATION

During the period, the Spur Hill No. 2 Pty Ltd (SH2) has entered into an 'Acquisition and Exploration Farm-in Agreement for the Spur Hill Project" (Farm-in Agreement) and an 'Amended and Restated Joint Venture Agreement' (JV Agreement) with Spur Hill U.T. Pty Ltd (SHUT) in relation to the Spur Hill Project (the Project).

The Project is a proposed coal mine development in the Hunter Valley in New South Wales based in the area of the Tenement.

Under the Farm-in Agreement, Malabar has the right, but no obligation, to increase its Project interest from 17.34% (as at 30 June 2012) to 80%. This is achieved by funding up to $70 million of Project expenditure and making payments to SHUT totaling $40 million.

NOTE 13: CASH FLOW INFORMATION

	30 June 2012 $
Reconciliation of Cash Flow from Operations with Profit (loss) after Income Tax	
Profit (loss) after income tax	(255,473)
Cash flows excluded from profit attributable to operating activities:	
– Share based payments	332,569
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:	
– (increase)/decrease in trade and other receivables	(99,382)
– (increase)/decrease in other financial assets	(11,271)
– (increase)/decrease in other assets	(8,524)
– increase/(decrease) in trade payables and accruals	265,554
Cash flow from operations	223,473

NOTE 14: EVENTS AFTER THE REPORTING PERIOD

On 29 June 2012, Spur Hill Agricultural Pty Ltd (SHA), an 80% owned subsidiary of Malabar Coal Limited, entered into a contract to purchase a property related to the Project for a total consideration of $14,000,000. A deposit of $700,000 was paid on that date and recorded under the Other Current Asset account on the statement of financial position as at 30 June 2012. Subsequently, SHA settled the contract and paid the remaining balance of $13,300,000 on 19 September 2012.

NOTE 14: EVENTS AFTER THE REPORTING PERIOD (continued)

On 13 July 2012, SHA entered into a contract to purchase a property related to the Project for a total consideration of $2,700,000. A deposit of $675,000 was paid on that date. The contract has a 12 month settlement period and, as such, no settlement has been made at the date of this report.

On 25 July 2012, SHA purchased a call option to acquire a property related to the Project for a purchase price of $2,100,000. The option fee paid at that date was $120,000. As at the date of this report, the call option has not been exercised.

On 10 August 2012, SHA entered into a contract to purchase a property related to the Project for a total consideration of $4,900,000. A deposit of $1,225,000 was paid on that date. The contract has a 12 month settlement period and, as such, no settlement has been made at the date of this report.

On 19 September 2012, $3,475,000 was drawn down from a $5,350,000 loan facility with the National Australia Bank to fund the one land acquisition that had been settled to that date.

On 4 October 2012, the Company has issued 340,000 ordinary shares to Ironstone Capital for annual management services provided in accordance with the Shareholders Agreement. Of this, 332,569 shares were for the financial period ending 30 June 2012.

On 23 November 2012, SHA entered into a put and call option deed to acquire a property related to the Project. The option fee paid by SHA for the call option over the land was $260,000. The purchase price of the land is $1,575,000 with a further payment of $600,000 contingent upon a Mining Lease being granted for the Project. The settlement date is 1 July 2013 and, as at the date of this report, no options have been exercised over this property.

Other than the above, no other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

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

NOTE 15: RELATED PARTY TRANSACTIONS

Related Parties

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

i. Entities exercising control over the Group

The ultimate holding entity, which exercises control over the Group is Malabar Coal Limited.

ii. Key management personnel

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

iii. Entities subject to significant influence by the Group

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

NOTE 15: RELATED PARTY TRANSACTIONS (continued)

iv. Other related parties

Other related parties include entities controlled by the ultimate holding company and entities over which key management personnel exercise significant influence.

b. Transactions with related parties

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

Relationship with Ironstone Capital

Ironstone Capital Partners Pty Ltd '(Ironstone Capital') is a boutique corporate advisory business owned by two of the Directors – Wayne Seabrook and Simon Keyser. Ironstone Capital established Malabar for the purpose of acquiring an interest in the Project.

Ironstone Capital has an investment management agreement with each of the ordinary shareholders in Malabar. Under the agreement, Ironstone Capital is responsible for managing the investment on behalf of the shareholders in return for an annual investment management fee and a performance fee. The existing investment management arrangements are expected to be terminated upon an IPO of Malabar.

Each of the following transactions with Ironstone Capital has been approved by non-related Directors and/or disclosed to ordinary shareholders at the time of investment:

- On 19 July 2011, the Company has issued 849,999 ordinary shares to Ironstone Capital for total consideration of $1. These shares were issued to Ironstone Capital when the Company was first established, prior to the 17,000,000 ordinary shares being issued to the ordinary shareholders in Malabar. The net tangible assets of the Company at that time was $1 and the fair value of the shares has been determined by the directors on their assessment as to the fair value of the Company at 19 July 2011;
- The Shareholders Agreement (for ordinary shareholders in Malabar) provides for investment management fees to be paid to Ironstone Capital equal to 340,000 ordinary shares per annum. For the financial period ending 30 June 2012, Malabar issued 332,569 ordinary shares to Ironstone Capital under this agreement. The fair value of the shares has been determined by the directors as to the fair value of the Company at 30 June 2012. The share based payments of 332,569 shares was recognised in the Income Statement as $332,569 for the period and a reserve balance of $332,569 was recognised in the equity at 30 June 2012;
- During the year Ironstone Capital has seconded its staff to the Project to assist with activities such as land acquisitions, exploration programmes and infrastructure development. Under the terms of the Acquisition and Exploration Farm-In agreement, Ironstone Capital is paid at a rate of $225/hour for work on the Project conducted by its executives. A total of $352,125 was paid to Ironstone Capital for this work. Work performed by Simon Keyser and Wayne Seabrook was not charged to the company; and
- Ironstone Capital was paid $445,000 in cash as compensation for capital raised through the issue of convertible preference shares;

Other Related Party Transactions

- During the period ended 30 June 2012, Malabar paid XLX Pty Ltd $17,876 under the lease agreement for office space on Level 25, 259 George Street, Sydney. The lease agreement between Malabar and XLX Pty Ltd for office space at these premises amounted to $2,827 per month. XLX Pty Ltd is part-owned by Malabar Directors Wayne Seabrook, Simon Keyser and Andy Plummer.

NOTE 15: RELATED PARTY TRANSACTIONS (continued)

c. Transactions with Key Management Personnel

- Refer to Note 4.

d. Amount outstanding from related parties

- At 30 June 2012 the Group has recognised a loan payable of $582,945 from the Spur Hill Joint Venture for a deposit payment in relation to the purchase of land related to the Project.

NOTE 16: FINANCIAL RISK MANAGEMENT

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

	Note	30 June 2012 $
Financial assets		
Cash and cash equivalents	6	22,425,110
Trade and other receivables		99,383
Other financial assets		11,271
Total financial assets		22,535,764
Financial liabilities		
Trade and other payables		848,499
Total financial liabilities		848,499

Financial Risk Management Policies

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

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

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

a) Credit risk

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

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

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

NOTE 16: FINANCIAL RISK MANAGEMENT (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 AA-. 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 2012 $
Cash and cash equivalents:		
– AA rated	6	22,425,110

b) Liquidity risk.

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

c) Market risk

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

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

		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
2012						
Financial assets						
Cash at bank	18,425,100	-	-	10	18,425,110	3.50%
Term deposits	-	4,000,000	-	-	4,000,000	5.13%
Receivables	-	-	-	99,383	99,383	0.00%
Other financial assets	-	-	-	11,271	11,271	0.00%
Financial Liabilities						
Payables	-	-	-	848,499	848,499	0.00%

NOTE 16: FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis

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

	Carrying Value $	+1 % interest rate $	-1 % interest rate $
30 June 2012			
Interest bearing cash	18,425,100	184,251	(184,251)

Net Fair Values of financial assets and liabilities

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

NOTE 17: CAPITAL AND LEASING COMMITMENTS

		30 June 2012 $
a.	**Operating Lease Commitments**	
	Non-cancellable operating leases contracted for but not recognised in the financial statements	
	Payable – minimum lease payments:	
	– not later than 12 months	78,036
	– between 12 months and 5 years	535,104
	– later than 5 years	55,740
		668,880

The property lease is a non-cancellable lease with a 5-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the lower of the change in the consumer price index (CPI) or 4% per annum.

b.	**Capital Commitments**	
	Commitments on the reporting date but not recognised as liability:	
	Property (1)	13,300,000

(1) On 29 June 2012, Spur Hill Agricultural Pty Ltd (SHA), entered into a contract to purchase a property related to the Project for a total consideration of $14,000,000. A deposit of $700,000 was paid on that date and recorded under the Other Current Asset account on the statement of financial position as at 30 June 2012.

NOTE 18: COMPANY DETAILS

The registered office and principal place of business of the Company as at 30 June 2012 was:

LEVEL 1, 12 CREEK STREET, BRISBANE QLD 4000

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Malabar Coal Limited, the directors of the company declare that:

1. the financial statements and notes, as set out on pages 13 to 35, are in accordance with the *Corporations Act 2001* and:
    a. comply 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
    b. give a true and fair view of the financial position as at 30 June 2012 and of the performance for the period ended on that date of the consolidated group;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

Simon Keyser, Director

Dated: 7 December 2012

lawler hacketts chartered accountants

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

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 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising the Company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' Responsibility 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 Note 1, the Directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements,* that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

lawler hacketts chartered accountants

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF MALABAR COAL LIMITED
(Continued)

Opinion

In our opinion:

a) the financial report of Malabar Coal Limited is in accordance with the *Corporations Act 2001*, including:
   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the period ended on that date; and
   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Lawler Hacketts

LAWLER HACKETTS AUDIT

Liam Murphy

Partner

Brisbane, 7 December 2012