

**Malabar Coal Limited
and controlled entities
ACN 151 691 468**

For the half-year ended 31 December 2012

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DIRECTORS' REPORT

Your directors submit the financial report of the consolidated group for the half-year ended 31 December 2012.

Directors

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

Wayne Seabrook

Simon Keyser

Hans Mende

Andrew (Andy) Plummer

Brian Beem (Alternate to Hans Mende) (resigned 23 January 2013)

Aldo Dal Pozzo (Alternate to Simon Keyser) (resigned 23 January 2013)

Anthony (Tony) Galligan (appointed 23 January 2013)

Review of Operations

Malabar Coal Limited's primary focus is on the development of the Spur Hill Underground Coal Project (the "Project"), of which it has the right to acquire up to 80%. The Project is currently in a project development phase. The primary activities conducted on the Project during the six months to 31 December 2012 are outlined below:

Resource drilling

Malabar continued Phase 1 of its resource definition drilling program for the Project throughout the Period. 11 holes were completed during the six months to 31 December 2012. A total of 17 holes of the Phase 1 program have been completed to date. The Phase 1 program involves approximately 30 holes to be drilled and is currently expected to be completed in 2013.

Environment and planning

Baseline environmental studies for the Project continued throughout the Period, with a Preliminary Environmental Assessment ("PEA") submitted to the NSW Department of Planning & Infrastructure. Malabar has been informed that the Project will be required to pass through the 'Gateway' process implemented under the NSW Government's Strategic Regional Land Use Policy, which was released on 11 September 2012. Malabar has commenced preparations for this process.

Engineering and infrastructure

Malabar continues to evaluate mine planning alternatives and various options for transporting coal to its customers. Malabar has commenced discussions with various infrastructure groups including the Hunter Valley Coal Chain Coordinator ("HVCCC"), Australian Rail Track Corporation ("ARTC") and Port Waratah Coal Services ("PWCS") with regard to securing adequate infrastructure capacity for the export of product coal from the Project.

Land

In the six months to 31 December 2012, Malabar, through its 80%-owned subsidiary Spur Hill Agricultural Pty Ltd, acquired one property, exchanged contracts to acquire another two properties and has entered into option agreements to acquire two additional properties. The Company continues to assess opportunities to acquire strategically important land for the project.

DIRECTORS' REPORT

Review of Operations (continued)

Corporate

Malabar is progressing towards an IPO on the Australian Securities Exchange in early 2013.

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 4 for the half-year ended 31 December 2012.

This report is signed in accordance with a resolution of the Board of Directors.



Simon Keyser

Director

Brisbane, 15 February 2013

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

Brisbane
Rockhampton
Sydney
Melbourne
Newcastle

I declare that, to the best of my knowledge and belief, during the period ended 31 December 2012, 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.

LAWLER HACKETTS AUDIT



**Liam Murphy
Partner**

Brisbane, 15 February 2013

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**Malabar Coal Limited
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED
31 DECEMBER 2012**

	Note	Consolidated Group	
		31 December 2012	31 December 2011
		\$	\$
Revenue from continuing operations			
Interest income		252,395	-
Other income		21,808	-
Expenses			
Management fees		(270,793)	-
Legal fees		(30,152)	-
Consultant fees		(111,383)	-
Stamp duty		(418,190)	-
Interest on loan		(47,117)	-
Other expenses		(67,142)	-
Profit (loss) before income tax		<u>(670,574)</u>	-
Income tax expense		-	-
Profit (loss) for the period	2	<u>(670,574)</u>	-
Other comprehensive income		-	-
Total comprehensive income for the period		<u>(670,574)</u>	-
Profit (loss) attributable to:			
- Members of the parent entity		(658,599)	-
- Non-controlling interest		(11,975)	-
		<u>(670,574)</u>	-
Total comprehensive income attributable to:			
- Members of the parent entity		(658,599)	-
- Non-controlling interest		(11,975)	-
		<u>(670,574)</u>	-

The accompanying notes form part of these financial statements.

Malabar Coal Limited
and Controlled Entities
ACN 151 691 468

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

		Consolidated Group	
	Note	31 December 2012	30 June 2012
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		3,897,305	22,425,110
Trade and other receivables		56,468	99,348
Other financial assets		221,705	11,271
Other assets	5	3,075,332	708,524
TOTAL CURRENT ASSETS		<u>7,250,810</u>	<u>23,244,253</u>
NON-CURRENT ASSETS			
Trade and other receivables		35	35
Property, plant and equipment	6	14,713,792	1,082
Capitalised exploration and evaluation costs	7	27,841,556	13,580,269
Deferred tax assets		330,000	330,000
TOTAL NON-CURRENT ASSETS		<u>42,885,383</u>	<u>13,911,386</u>
TOTAL ASSETS		<u>50,136,193</u>	<u>37,155,639</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		527,020	265,554
TOTAL CURRENT LIABILITIES		<u>527,020</u>	<u>265,554</u>
NON-CURRENT LIABILITIES			
Trade and other payables	8	10,226,814	582,945
Borrowing	9	3,475,000	-
TOTAL NON-CURRENT LIABILITIES		<u>13,701,814</u>	<u>582,945</u>
TOTAL LIABILITIES		<u>14,228,834</u>	<u>848,499</u>
NET ASSETS		<u>35,907,359</u>	<u>36,307,140</u>
EQUITY			
Issued capital	10	36,570,002	36,230,002
Reserves	11	263,362	332,569
Retained earnings (accumulated losses)		(914,072)	(255,473)
Parent interest		35,919,292	36,307,098
Non-controlling interest		(11,933)	42
TOTAL EQUITY		<u>35,907,359</u>	<u>36,307,140</u>

The accompanying notes form part of these financial statements.

**Malabar Coal Limited
and Controlled Entities
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2012**

Consolidated Group	Ordinary Share Capital	Reserves	Retained Earnings (Accumulated Losses)	Total Parent Entity Interest	Total Non- controlling Interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 24 June 2011	-	-	-	-	-	-
Comprehensive income						
Profit for the period	-	-	-	-	-	-
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the half year	-	-	-	-	-	-
Transactions with owners, in their capacity as owners, and other transfers						
Shares issued during the period	-	-	-	-	-	-
Total transactions with owners and other transfers	-	-	-	-	-	-
Balance at 31 December 2011	-	-	-	-	-	-
Balance at 1 July 2012	36,230,002	332,569	(255,473)	36,307,098	42	36,307,140
Comprehensive income						
Profit (loss) for the period	-	-	(658,599)	(658,599)	(11,975)	(670,574)
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the half year	-	-	(658,599)	(658,599)	(11,975)	(670,574)
Transactions with owners, in their capacity as owners, and other transfers						
Shares issued during the period	340,000	(332,569)	-	7,431	-	7,431
Shared based payments	-	263,362	-	263,362	-	263,362
Total transactions with owners and other transfers	340,000	(69,207)	-	270,793	-	270,793
Balance at 31 December 2012	36,570,002	263,362	(914,072)	35,919,292	(11,933)	35,907,359

The accompanying notes form part of these financial statements.

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Malabar Coal Limited
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED
31 DECEMBER 2012

	Consolidated Group	
	31 December 2012	31 December 2011
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	21,808	-
Payments to suppliers and employees	(694,984)	-
Interest received	252,395	-
Finance costs	(78,206)	-
Net cash (used in)/provided by operating activities	<u>(498,987)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for additions of property, plant and equipment	(14,012,710)	-
Pre-payments of land acquisitions	(2,243,577)	-
Payments for options of land acquisitions	(420,001)	-
Payments for exploration expenditures	(4,827,530)	-
Net cash (used in)/provided by investing activities	<u>(21,503,818)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	3,475,000	-
Net cash (used in)/provided by financing activities	<u>3,475,000</u>	<u>-</u>
Net decrease in cash held	(18,527,805)	-
Cash and cash equivalents at beginning of period	<u>22,425,110</u>	<u>-</u>
Cash and cash equivalents at end of period	<u><u>3,897,305</u></u>	<u><u>-</u></u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Malabar Coal Limited is an unlisted public company incorporated and domiciled in Australia. The company was incorporated on 24 June 2011. Any comparative information presented is for that period.

These general purpose interim financial statements for the half-year reporting period ended 31 December 2012 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: 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 the 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 2012, together with any public announcements made during the following half-year.

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.

Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the 30 June 2012 annual report.

New and Revised Accounting Requirements Applicable to the Current Half-year Reporting Period

There have been no new or revised accounting requirements applicable to the current half year reporting period of the Group.

NOTE 2: LOSS FOR THE PERIOD

	Consolidated Group	
	31 December 2012	31 December 2011
	\$	\$
The following expense items are relevant in explaining the financial performance for the interim period:		
Share based payments	270,793	-
Stamp duty on on transfers of interest in project tenements	418,190	-
Consultant fees	111,383	-

NOTE 3: DIVIDENDS

No dividend has been paid during the half-year ended 31 December 2012, and none is proposed.

NOTE 4: OPERATING SEGMENT

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

**Malabar Coal Limited
and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 5: OTHER ASSETS

	31 December 2012	30 June 2012
	\$	\$
Prepayment on purchases of land	1,900,000	700,000
Call options acquired	420,001	-
Stamp duty prepaid	343,577	-
Deferred capital raising costs	403,230	-
Others	8,524	8,524
	<u>3,075,332</u>	<u>708,524</u>

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

Building, plant and equipment - at cost	284,247	1,283
Less: accumulated depreciation	<u>(2,430)</u>	<u>(201)</u>
	<u>281,817</u>	<u>1,082</u>
Land - at cost	14,431,975	-
	<u>14,713,792</u>	<u>1,082</u>

NOTE 7: CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

At cost

Mining information	377,782	377,782
Exploration licences	25,636,233	12,615,181
Exploration and evaluation expenditures	1,827,541	587,306
	<u>27,841,556</u>	<u>13,580,269</u>

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

Opening balance	13,580,269	-
Mining information	-	377,782
Exploration licence	-	232,651
Increase in participants interest in exploration licence during the period	13,021,052	12,382,530
Expenditures incurred during the period	1,240,235	587,306
	<u>27,841,556</u>	<u>13,580,269</u>

**Malabar Coal Limited
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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 8: TRADE AND OTHER PAYABLES

	31 December 2012	30 June 2012
	\$	\$
Other creditors	6,387	4,324
Loan payable Spur Hill Agricultural to Spur Hill Joint Venture (1)	10,220,427	578,621
	<u>10,226,814</u>	<u>582,945</u>

(1) As at 31 December 2012, one of the Company's subsidiaries, Spur Hill Agricultural Pty Ltd, had borrowed \$14,128,858 from the Spur Hill Joint Venture to purchase land and options.

The Malabar Group has a 27.7% interest in the Spur Hill Joint Venture. The remaining 72.3% interest in the Spur Hill Joint Venture is held by a third party external to the Group, Spur Hill Unit Trust. In accordance with AASB 11: Joint Arrangements, the Group has incorporated the Joint Venture's assets and liabilities in proportion to its ownership interest in the Joint Venture. The loan payable disclosed above represents the loan payable by Spur Hill Agricultural to the Spur Hill Joint Venture after elimination on consolidation of the portion of the loan that relates to Malabar Group's 27.7% interest in the Joint Venture.

NOTE 9: BORROWINGS

On 19 September 2012, \$3,475,000 was drawn down from a \$5,350,000 revolving bill facility with the National Australia Bank to fund the land acquisition that was settled on that date.

Security on the facility consists of general security agreements, real property mortgages and water allocation licence mortgage over the assets of the subsidiary company Spur Hill Agriculture Pty Ltd.

Malabar Coal Limited has guaranteed and indemnified the facility.

NOTE 10: EQUITY SECURITIES ISSUED

	31 December 2012	30 June 2012
	\$	\$
Fully paid ordinary shares	17,340,002	17,000,002
Fully paid converting preference shares	20,000,000	20,000,000
Capital raising cost	(770,000)	(770,000)
	<u>36,570,002</u>	<u>36,230,002</u>

Issues of ordinary share capital during the half-year:

Date	Details	Number of shares	\$
30 June 2012	Balance	17,850,000	17,000,002
4 October 2012	Shares issued	340,000	340,000
31 December 2012	Balance	<u>18,190,000</u>	<u>17,340,002</u>

On 4 October 2012, the Company issued 340,000 ordinary shares to Ironstone Capital Partners Pty Ltd ("Ironstone Capital") for annual management services provided in accordance with the Shareholders Agreement.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 10: EQUITY SECURITIES ISSUED (continued)

Issues of preference share capital during the half-year:

Date	Details	Number of shares	\$
30 June 2012	Balance	20,000,000	20,000,000
31 December 2012	Balance	20,000,000	20,000,000

NOTE 11: RESERVES

At 30 June 2012, the balance represents 332,569 ordinary shares reserves as a share based payment to Ironstone Capital for the services provided in accordance with the Shareholders Agreement. The value of the service could not be reliably determined by Ironstone Capital, as a result the fair value of the share based payments has been determined by the directors on their assessment as to the fair value of the Company at 30 June 2012. Subsequently, on 4 October 2012 the board has resolved the issuance of the 340,000 ordinary shares in settlement of the liability at that time, resulting in this balance being transferred to share capital.

Pursuant to the Shareholders Agreement, 162,569 ordinary shares were reserved for the period ended 31 December 2012 as a share based payment to Ironstone Capital. A fair value of \$1.62 per share has been determined by the directors based upon fair value of the Company at 31 December 2012 discounted by 27.5% for the additional risks associated with an illiquid asset. The reserve balance is therefore \$263,362.

NOTE 12: RELATED PARTY TRANSACTIONS

a. 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 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.

The Company has an investment management arrangement with ironstone Capital for the provision of corporate advisory and investment management services, on commercial, arms-length terms. This investment management arrangement terminates upon an IPO.

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:

- 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. Malabar transferred the share reserves balance of \$332,569 to the share capital and issued 7,431 shares for the financial period ended 31 December 2012. The share based payments of 7,431 shares was recognised in the profit and loss at \$7,431 for the period. The fair value of the shares has been determined by the directors as to the fair value of the Company at 30 June 2012;

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 12: RELATED PARTY TRANSACTIONS (continued)

a. Transactions with related parties (continued)

- Pursuant to the Shareholders Agreement, Malabar reserved 162,569 ordinary shares to Ironstone Capital for the period ended 31 December 2012. The fair value of the shares has been determined by the directors based upon fair value of the Company at 31 December 2012 discounted by 27.5% for the additional risks associated with an illiquid asset. The share based payments of 162,569 shares was recognised in the profit and loss at \$263,362 for the period and a reserve balance of \$263,362 was recognised in equity at 31 December 2012; and
- During the period, Ironstone Capital has seconded its staff to the Project to assist with Project-based activities such as land acquisitions, community, government and landowner liaison, financial modelling, commercial negotiations with third parties. 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 \$182,813 was paid to Ironstone Capital for this work during the period. An additional \$28,535 was paid to Ironstone Capital for other work performed by Ironstone Capital consultants, such as accounting and engineering. Work performed by Simon Keyser and Wayne Seabrook was not charged to the company.

Other Related Party Transactions

- During the period ended 31 December 2012, Malabar paid XLX Pty Ltd \$14,800 under a lease agreement for office space on Level 25, 259 George Street, Sydney. The rent charged to Malabar is on a pass through cost basis. XLX Pty Ltd is part-owned by Malabar Directors, Wayne Seabrook, Simon Keyser and Andy Plummer.
- On 1 December 2012, Malabar entered into a new lease agreement with XLX Pty Ltd for office space on Level 26, 259 George Street, Sydney. The lease at this premises amounted to \$133,777 per annum for 5-year term. The total rent paid to XLX Pty Ltd during the period was \$11,148.
- Malabar entered into a consultancy arrangement with IHM Corporate Services Pty Ltd (an entity associated with Ian Morgan, the company secretary). The total fees paid to IHM Corporate Services Pty Ltd during the period were \$11,363.
- Issue of 3,395,000 converting preference shares to certain investors which include Wayne Seabrook, Simon Keyser, Hans Mende and Andy Plummer, Directors of the Company. These converting preference shares were acquired on the same terms as third party investors.

b. Transactions with key management personnel

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
- Aldo Dal Pozzo, Alternate to Simon Keyser (resigned on 23 January 2013)
- Brian Beem, Alternate Director to Hans Mende (resigned on 23 January 2013)
- Peter Doyle, Chief Executive Officer
- Ian Morgan, Company Secretary

No remuneration was paid to KMP of the company and the Group during the period, other than the \$11,363 paid to IHM Corporate Services Pty Ltd noted in Note 12 (a) above, and \$131,226 paid to Peter Doyle by the Spur Hill Joint Venture.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 13: CAPITAL AND LEASING COMMITMENTS

a. Operating Lease Commitments

	31 December 2012
	\$
Non-cancellable operating leases contracted for but not recognised in the financial statements	
Payable – minimum lease payments:	
- not later than 12 months	122,629
- between 12 months and 5 years	546,256
	668,885

The property lease in a non-cancellable lease with 5-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require 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:

- Properties	5,700,000
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On 13 July 2012, Spur Hill Agricultural Pty Ltd (SHA), entered into a contract to purchase a property related to the Project for a total consideration of \$2,700,000. A prepayment of \$675,000 was paid on that date and recorded under Other Current Asset account on the statement of financial position as at 31 December 2012.

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 prepayment of \$1,225,000 was paid on that date and recorded under Other Current Asset account on the statement of financial position as at 31 December 2012.

c. Other Commitments

Project Commitments

The Group has entered into various contracts in relation to its participation in the Spur Hill Joint Venture. The Farm in Agreement provides for the Group to make payments to the other Joint Venture participant based on the achievement of Project milestones. On achievement of each of the following four Milestones, SH2 is obliged to pay the other participant \$2.5 million in exchange for a 2.5% Participating Interest:

- i. Proved JORC Reserves of at least 80 million tonnes;
- ii. submission of an environmental assessment for the Project;
- iii. completion of a detailed feasibility study into the development of the Project; and
- iv. grant of a Mining Lease.

As the Project develops, the Group will be required to make further contributions to the Project Joint Venture to continue to keep the Project viable. The Group may make discretionary prepayments of contributions to the Project to increase its participating interest.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 14: CONTINGENCIES AND EVENTS AFTER THE END OF THE INTERIM PERIOD

At the board meeting on the 23 January 2013 the board resolved the following:

1. Issue a total of 192,822 shares to Ironstone Capital under the shareholders agreement. This is for the pro-rata management fee through to 31 January 2013 and includes the 162,569 shares reserved as at 31 December 2012 (refer Note 11). The 192,822 shares will be cancelled if the proposed IPO does not go ahead.
2. Issue of 200,000 options to directors under an employee share option plan. The options have a value of \$85,346 and will be expensed as share based payments over their vesting periods.
3. Issue of 250,000 options to management under an employee share option plan. The options have a value of \$106,750 and will be expensed as share based payments over their vesting periods.

The Group is proposing to raise further capital by issuing a prospectus and listing on the Australian Securities Exchange ("ASX") in February 2013. At the Annual General Meeting held on 7 February 2013 the members resolved the following:

1. Subdivision of 18,382,822 ordinary shares, increasing the number of ordinary shares to 40,999,979.
2. Conversion of 20,000,000 preference shares into 24,000,021 ordinary shares.
3. Issue of 20,000,000 shares at \$1 per share pursuant to a prospectus to raise \$20,000,000 less costs associated with the issue.

The Group is currently receiving quarterly transfers of interest in project tenements. Stamp duty is payable on the transfers of the tenement interest. Depending upon government policy, the group expects to pay between \$278,000 and \$4,113,000 in stamp duty on transfers of interest in tenements subsequent to 31 December 2012.

Options

The Group is a party to several put and call options in relation to land and certain assets located on or adjacent to the Project area. Fees paid for options are included in other current assets. A summary of options held or sold as at the end of the half year is as follows:

1. One of the subsidiary companies in the Group, Spur Hill Agricultural Pty Ltd, has granted a call option to a party with whom the Group is a participant in the Project Joint Venture. Under the terms of the call option the other party may exercise a right to acquire shares in Spur Hill Agricultural Pty Ltd for nominal consideration so that its shareholding proportion in Spur Hill Agricultural Pty Ltd matches its participating interest in the Project joint venture. Should the call option be exercised Spur Hill Agricultural Pty Ltd may no longer be ultimately controlled by Malabar and no longer be included in the Malabar group.
2. As part of the Farm in Agreement in relation to the Project, the Group paid \$1 for a call option granting the Group the right to acquire a 15% participating interest in the Project. The exercise price for the call option is calculated as follows:
 - a. \$2 million per Participating Interest in the event that there is no Eastern Development included in the Mining Lease (or if not granted, the Mining Lease Application) on or before the time of exercise of the Call Option; or
 - b. \$3 million per percentage Participating Interest in the event that there is an Eastern Development included in the Mining Lease on or before the time of exercise of the Call Option

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 14: CONTINGENCIES AND EVENTS AFTER THE END OF THE INTERIM PERIOD (continued)

Options (continued)

3. During the half year, one of the subsidiaries of the Group, Spur Hill Agricultural Pty Ltd, entered into a call option to acquire land buildings and water access licences. If the option is exercised, the amount outstanding is \$1,980,000.
4. During the half year, one of the subsidiaries of the Group, Spur Hill Agricultural Pty Ltd, entered into interdependent put and call options in respect of:
 - a. land located within and around the Project. The option fee paid by Spur Hill Agricultural 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 plus GST contingent upon a Mining Lease being granted for the Project within 15 years after 23 November 2012. The settlement date is 1 July 2013 and, as at the end of the half year, no options have been exercised over this property; and
 - b. plant & equipment and goodwill associated with the agricultural business conducted on the land. Subject to exercise of the option, the amount outstanding to be paid on completion on 1 July 2013 is expected to be zero.


Other than the matters noted above, the directors are not aware of any other material matter or circumstance that has occurred subsequent to the end of the half-year that has significantly affected, or may significantly affect, the operations of the Company or economic entity, the results of those operations or the state of affairs of the Company or economic entity in subsequent financial years.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 16 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory reporting requirements; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date.
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.

This declaration is made in accordance with a resolution of the Board of Directors.



Simon Keyser
Director

Brisbane, 15 February 2013

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Malabar Coal Limited ("the Company") and its controlled entities ("the consolidated entity"), which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' 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 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.

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 2012 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 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.

Independence

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

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Conclusion

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 and its controlled entities is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated Group's financial position as at 31 December 2012 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*.

LAWLER HACKETTS AUDIT



Liam Murphy
Partner

Brisbane, 15 January 2013

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