BRIDGE STREET
CAPITAL PARTNERS

Dr Chris Baker
November 2024

Malabar Resources Ltd

(Unlisted. Market value A$1.14bn at A$1.90/share*)

Quarterly and AGM update

INVESTMENT SUMMARY

- Malabar's Maxwell project is characterised by scalable semisoft metallurgical and thermal production, low forecast cash costs, low capital intensity, ready access to world class transport infrastructure and access to a skilled workforce in the Hunter Valley.
- With a combined resource of over 1.4 billion tonnes and with prospective sales of 5.5-6.5mtpa ultimately of semi-soft coking coal (with by-product thermal coal), we believe it is appropriate to classify this as a Tier 1 project.
- A decision was taken earlier in the year to expand Maxwell's Woodlands Hill longwall to maximise productivity. This was funded by an equity raise of A$180m (at $1.80/share) in February. The first full year of production is scheduled for 2028.
- As the Maxwell longwall approaches full production, Malabar's P/E for 2027e is forecast at 5.1x (at a $1.90 share price), and EV/EBITDA of around 3.9x, declining to 3.1x and 2.8x respectively in 2028 at full production, under our assumptions.
- These metrics combined with a 68% discount to our NAV_8 estimate (A$5.95/share) for the company confirms that Malabar remains inexpensive.
- *Malabar Resources is an Unlisted Public Company. It operates a low-volume financial market for its ordinary shares for the purposes of connecting potential buyers and sellers. The last trade was 100,000 shares at $1.90/share (in August 2024), a price we've adopted for this report.

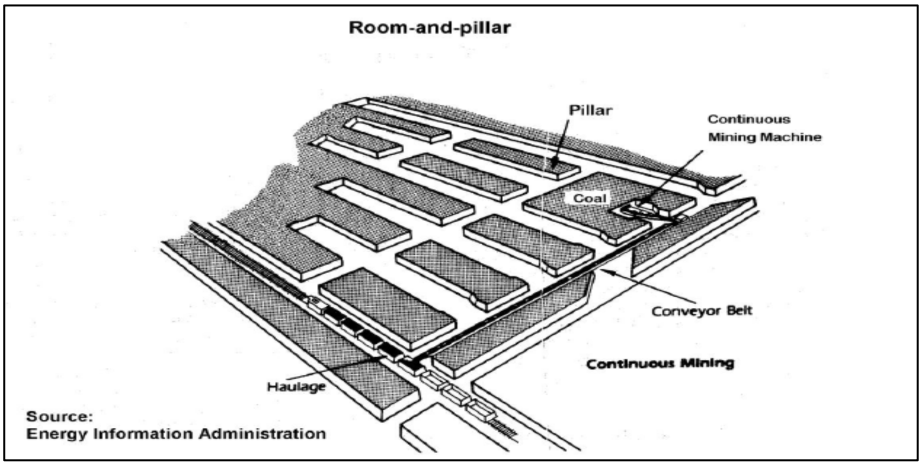
QUARTERLY SUMMARY

Malabar has provided a quarterly update on development at the Maxwell thermal/semisoft coking coal project. Malabar's Maxwell and Spur Hill projects are located in the Upper Hunter coalfield of NSW and represent two of the last semi-soft coking coal-dominated deposits of size in the area. With a low operating cost structure, long mine life and with expansion options, we judge the project to be truly Tier 1 in status. The project is fully permitted for coal sales of 5.5-6.5mtpa. The current Whynot bord and pillar operation is targeting a rate of some 600-650,000 product tonnes per year. The ramp up of the main Maxwell/Woodlands Seam longwall operation is scheduled to commence in late 2025 ramping up to full production from 2027.

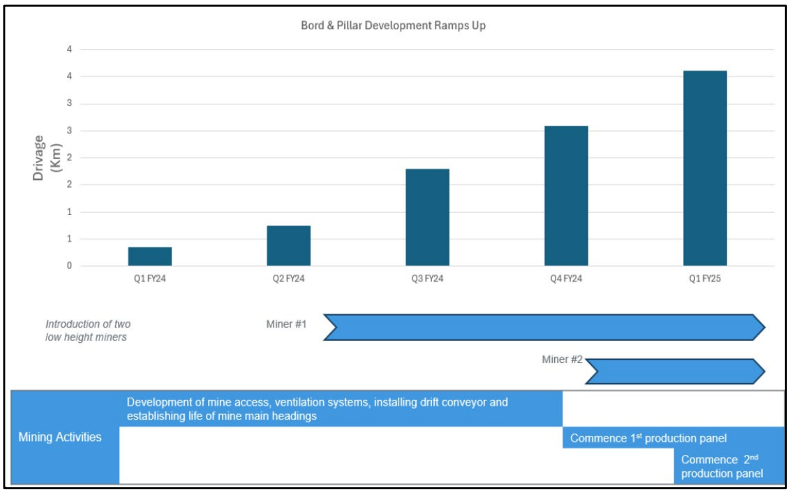
The Whynot bord and pillar mine

- **Production (ROM) in the September quarter has been around 30,000 tonnes per month** from a two low height continuous "place change" miner units.

- The diagram below shows the traditional method of bord (or room) and pillar mining. Miners extract coal along roadways, with the coal between the bords acting as pillars holding up the roof. The outer pillars are then mined, leaving the roof to collapse in a controlled way as the miners retreat towards the exit.



- The ramp up has been slower than expected with supply chain, training and roof stability issues. These have been resolved and we understand the ramp up to full production (around 45kt/month) is underway. The following chart illustrates a ramp-up of mine development, moving toward **full capacity in the current quarter.**



- **Thermal coal sales of washed coal were approximately 70kt** in the September quarter at **an average price of US$155/t, an 11% premium to the Newcastle benchmark**, driven by higher energy content for the Whynot washed product (around 6300-6500kcal/kg). This takes total production for FY24 to around 140kt.

- **Coal sales have delivered revenue of around A$16m for the quarter**, excluding the impact state royalties (just under 10%).

- We understand **the Maxwell coal washery is performing in line with expectations**, and provides a useful basis for a transition to full utilisation as the longwall moves into full production.

- As shown in the 2023/24 accounts the Whynot operation, where around 77kt were sold since the mine's start in March 2023 and first sales in June 2023, appears to have been largely cashflow breakeven. Much of the modest capex for mine development was largely spent at the end of 2023/24.

	Note	2024	2023
		$'000	$'000
Cash flows from operating activities			
Receipts from customers		16,938	4,335
Payment to suppliers and employees		(16,596)	(2,632)
Interest received		4,558	5,390
Interest paid		(1,151)	(1,542)
Net cash provided by operating activities	10	3,749	5,551

Source: Malabar annual report 2024

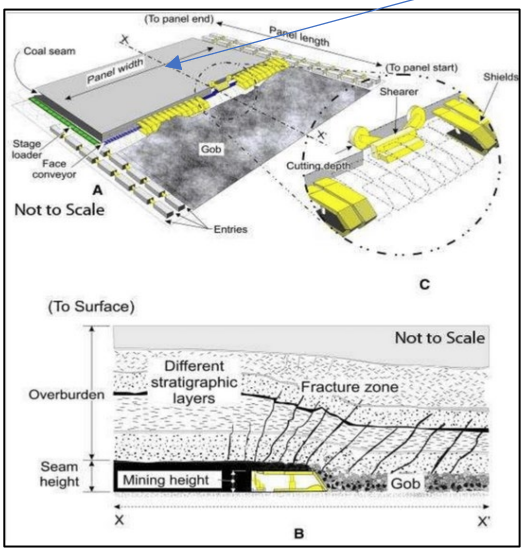
- Malabar is not yet discussing operating costs of the Whynot mine in its quarterly reports, but continues to guide to ca. A$120/t. Based on our estimates **we estimate the operation remains roughly cashflow breakeven at current production rates** but should generate modest cashflow and profits at full production rates. This will be assisted by a buoyant thermal coal price and weak currency.

- **The Whynot operation has brought Malabar to early coal production** and has enabled training of the workforce with commissioning of the washery/coal loading/transport systems to port prior to the commencement of the main longwall operation late next year. It represents a very small proportion of the value of the project.

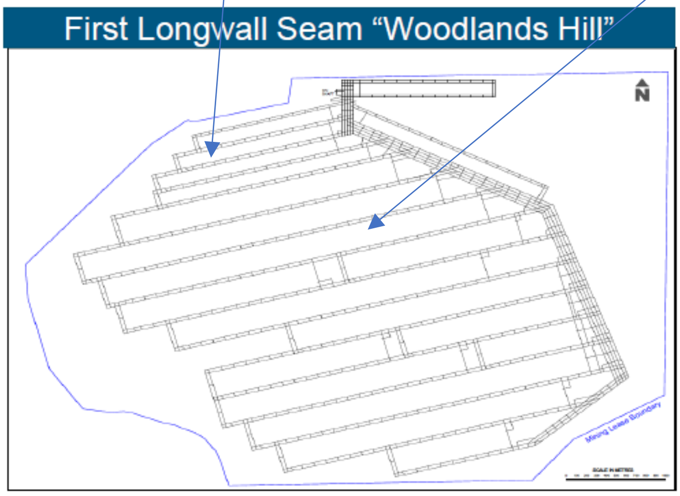
The Maxwell Longwall operation

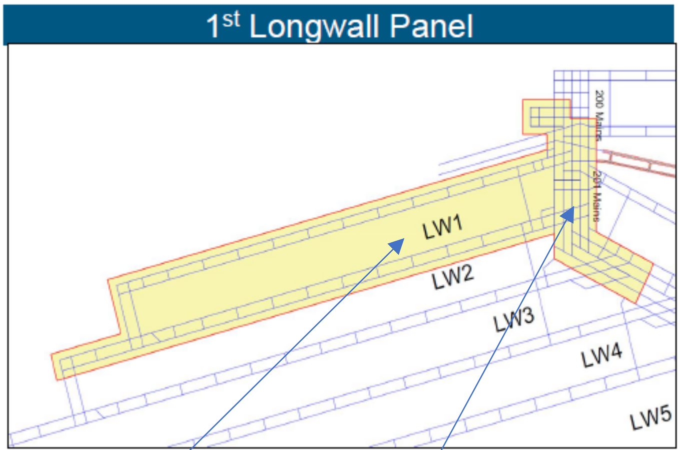
- Longwall mining is the commonest method of coal extraction in Australia, and in most first world countries. It has the advantage of a high level of mechanisation, relatively low labour input, and high overall recovery of coal.

- The following chart is included for those readers unfamiliar with the longwall mining process. At the Maxwell mine the first four longwall panels will have a width of around 145m, eventually expanding to around 300m for the life of the mine.

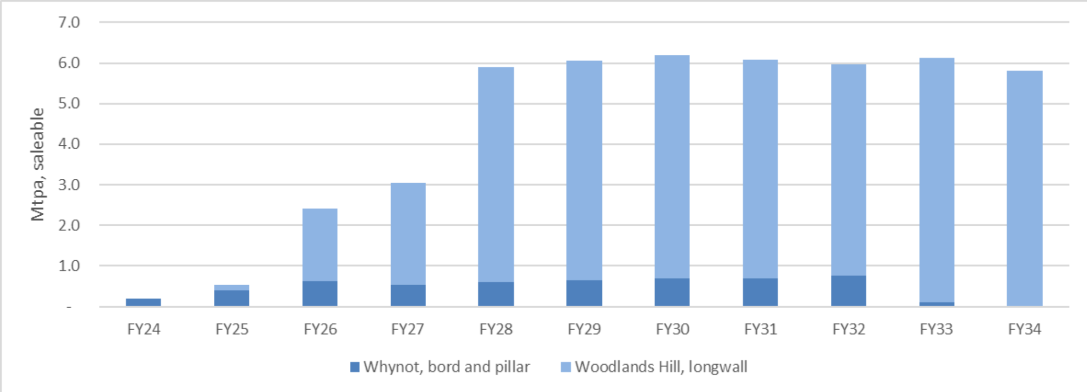


- Construction of the infrastructure required for the longwall mine is now well advanced. At quarter's end the access drifts were some 90% complete. **At the AGM it was noted that the underground drift had now intersected the Woodland Hill seam.**
- The longwall supports (or chocks or shields) have been delivered to site in readiness for a 'mini-build' on surface early in the first half of CY25, prior to transporting to the first face. 72 supports will be required for the narrower (and shorter) panels, expanding to 146 supports for the 300m panels.





- Three sets of mine development equipment are being delivered to site with the first and second sets due this month and the third by mid next year.
- Commissioning of the drift conveyor and construction of the main ventilation shaft commenced in the September quarter.
- **At the AGM the company confirmed first development coal is expected by the end of CY24. First longwall coal is scheduled for the end of CY25 a little later than we had forecast. We have therefore edged back our production estimates in line with this guidance.**
- **At the recent AGM, the company confirmed that the capex remains in line with earlier guidance and the project is fully funded.**



Maxwell Production Profile (Mtpa, saleable)	FY24	FY25	FY26	FY27	FY28
Whynot, bord and pillar	0.2	0.4	0.6	0.5	0.6
Woodlands Hill, longwall	-	0.1	1.8	2.5	5.3
Cash costs (A$/t FOB, excluding royalties)					
Whynot, bord and pillar	200	120	120	120	120
Woodlands Hill, longwall	-	120	80	80	60

BSCP estimates

MANAGEMENT AND PERSONNEL

- We were a little disappointed to learn that James Johnson, GM of the Maxwell Underground mine has decided to step down after five busy years at Malabar. Mr Johnson was a highly regarded member of the team.
- He is to be replaced by Rob Hayes as Acting General Manager. Mr Hayes has been with the Maxwell Mine since it was acquired by Malabar in early 2018. He has over 35 years of experience in the coal mining industry. He has worked in Queensland and NSW in technical and operation roles including establishing new operations and expanding existing mines from 3Mtpa to over 20Mtpa. He holds a Bachelor of Engineering (Mining) from the University of Queensland, and industry-recognised qualifications including Mining Engineering Manager and Certificates of Competency for NSW Coal. He is also is a director of the Hunter Valley Coal Chain Committee.
- While disappointing to lose key senior personnel, the timing of a change in management is reasonable, prior to the start of installation of the longwall and nearly 12 months from first production late next year.
- Malabar has been actively recruiting mining personnel for the Maxwell underground. The response has been described as "overwhelming", attracting high quality candidates from several underground mines in the Hunter moving towards closure. This is a significant positive and represents a major improvement from previous years where labour availability has been tight.

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FINANCIAL SUMMARY

BRIDGE STREET
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+61 (0) 2 9002 5414
info@bridgestreetcapital.com.au
LEVEL 14, 234 GEORGE STREET
SYDNEY NSW 2000
BRIDGESTREETCAPITAL.COM.AU

FINANCIAL SUMMARY 2018 Malabar Resources Limited

Share Price	A$/sh	1.90
Shares on Issue	m	602
Market Cap (A$m)	A$m	1,144
Net Cash (A$m)	A$m	139
Enterprise Value (A$m)	A$m	1,005

Profit & Loss	Units	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Sales and Other Income	A$m	7	28	119	472	581
Expenses	A$m	(3)	(19)	(77)	(266)	(323)
EBITDA	A$m	**5**	**8**	**42**	**206**	**259**
D&A	A$m	(1)	(5)	(4)	(17)	(21)
EBIT	A$m	**4**	**4**	**38**	**189**	**237**
Interest	A$m	3	(4)	(21)	(18)	(14)
Tax	A$m	9	1	(5)	-	-
NPAT	A$m	**16**	**1**	**12**	**171**	**223**

Cashflow	Units	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Cash From Operations	A$m	2	0	42	206	259
Interest	A$m	4	4	35	28	23
Tax	A$m	-	-	-	-	-
Working Capital	A$m	-	(30)	(50)	(50)	(50)
Net Cash From Operations	A$m	**6**	**(26)**	**27**	**184**	**231**
Capex	A$m	(136)	(118)	(174)	(134)	(129)
Exploration	A$m	(1)	(1)	(1)	(1)	(1)
Acquisitions / Investments	A$m	3	-	-	-	-
Free Cash Flow	A$m	**(128)**	**(145)**	**(148)**	**49**	**101**
Borrowings	A$m	23	101	125	(55)	(43)
Equity	A$m	242	180	-	-	-
Dividend	A$m	(11)	3	-	-	(108)
Other	A$m	(13)	114	-	-	-
Net Increase / (Decrease) in Cash	A$m	**114**	**(25)**	**(23)**	**(6)**	**(50)**

Balance Sheet	Units	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Cash	A$m	143	94	71	65	15
Receivables	A$m	3	7	9	38	47
Inventory	A$m	7	11	11	47	58
PP&E	A$m	297	548	720	838	946
Other	A$m	43	132	132	132	132
Assets	A$m	**492**	**793**	**944**	**1,120**	**1,199**
Creditors	A$m	18	-	9	38	47
Borrowings	A$m	52	153	277	222	180
Other	A$m	65	105	125	125	125
Liabilities	A$m	**135**	**258**	**412**	**386**	**352**
Net Assets	A$m	**358**	**535**	**532**	**734**	**847**

Liquidity & Leverage	Units	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Borrowings	A$m	52	153	277	222	180
Net Debt / (Cash)	A$m	(91)	59	206	158	165
Gearing: Net Debt / (Net Debt + Equity)	%	-34%	10%	28%	18%	16%
Net Debt / EBITDA	x	(19.2)x	6.9x	4.9x	0.8x	0.6x
EBIT Interest Cover	x	n/a	n/a	1.8x	10.8x	17.0x

Per Share Data	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Shares Out (m)	502	602	602	602	602
EPS (¢)	3.3¢	0.3¢	2.0¢	28.5¢	37.1¢
Dividend (¢)	-	-	-	-	18.0¢
Payout Ratio (%)	0%	0%	0%	0%	49%
Book Value (A$/share)	0.71	0.89	0.88	1.22	1.41
Operating Cash Flow (A$/sha	0.01	(0.04)	0.04	0.31	0.38
Free Cash Flow (A$/share)	(0.25)	(0.24)	(0.25)	0.08	0.17
EBITDA (A$/share)	0.01	0.01	0.07	0.34	0.43

Valuation Metrics	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
P/E (x)	57.3x	-	-	6.7x	5.1x
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	9.5%
EV / Sales	137.8x	36.2x	8.5x	2.1x	1.7x
EV / EBITDA	212.4x	118.9x	24.1x	4.9x	3.9x
EV / EBIT	266.4x	258.5x	26.4x	5.3x	4.2x
FCF Yield (%)	-13.4%	-12.7%	-12.9%	4.3%	8.8%

Operating Metrics (%)	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
EBITDA Margin	n/a	30%	35%	44%	44%
EBIT Margin	n/a	14%	32%	40%	41%
Net Profit Margin	n/a	5%	10%	36%	38%
ROIC	n/a	1%	5%	21%	23%
Return on Assets	n/a	0%	1%	15%	19%
Return on Equity	n/a	0%	2%	23%	26%
Effective Tax Rate	n/a	-633%	30%	0%	0%

Key Assumptions	Jun-23	Jun-24e	Jun-25e	Jun-26e	Jun-27e
Semi-Soft Coking Coal (US$/t	140	150	150	140	140
Thermal Coal (US$/t)	140	143	143	132	121
AUDUSD	0.70	0.67	0.67	0.70	0.70
Coal Sold (mt)	-	0.2	0.5	2.4	3.0

Valuation	A$m	Equity	Risk	A$m	A$/share
Maxwell Mine	3,545	100%	100%	3,545	5.86
Spur Hill	893	100%	25%	223	0.37
Other Assets	138	100%	100%	138	0.23
Corporate Costs	(88)	100%	100%	(88)	(0.14)
Net Cash (Debt)	(206)	100%	100%	(206)	(0.34)
Total	**4,282**			**3,612**	**5.95**
WACC					**8.0%**
FPO Shares					602
Options					-
Performance Rights					2
Fully Diluted SOI					**605**

COMMODITY UPDATE

As we draw to the end of 2024, we have adjusted our commodity and currency forecasts to align with current spot prices. We have edged up our assumptions for thermal coal pricing with a 'stronger for longer' thesis taking current prices into 2025.

		2024	2025	2026	2027	2028
Semi-Soft Coking Coal	US$/t	150	150	140	140	140
Thermal Coal (Realised)	US$/t	143	143	132	121	99
Thermal Coal (Benchmark NEWC6000)	US$/t	130	130	120	110	90
AUDUSD	:	0.67	0.67	0.70	0.70	0.70

At the time of writing hard coking coal was trading at just over US$200/t. Semisoft coal prices were hovering around the US$140/t (FOB) level almost at parity with thermal coal around US$143/t (6000 kcal/kg, FOB Newc) reflecting the low demand for semisoft furnace feed. Note, Maxwell thermal coal is currently achieving a 10-12% pricing premium to benchmark pricing with its higher energy content. An average price of US$155/t (ca.A$230/t) was reported for the quarter. The A$/US$ has traded in a 0.64-0.69 range over the past 2 years and at current levels is providing significant benefit to Australian producers.

Metallurgical Coal

Metallurgical coal prices fell sharply in the September quarter as falling Chinese steel prices squeezed input costs. The benchmark price for hard coking coal has fallen from US$250-260 a tonne earlier in 2024 to around US$200-220 a tonne currently.

Although prices are expected to remain soft in the short-term, long-term demand for metallurgical coal will be underpinned by continued blast furnace capacity expansion in India and China. In the short term, reduced production volumes are possible if prices remain at September 2024 levels for a sustained period.

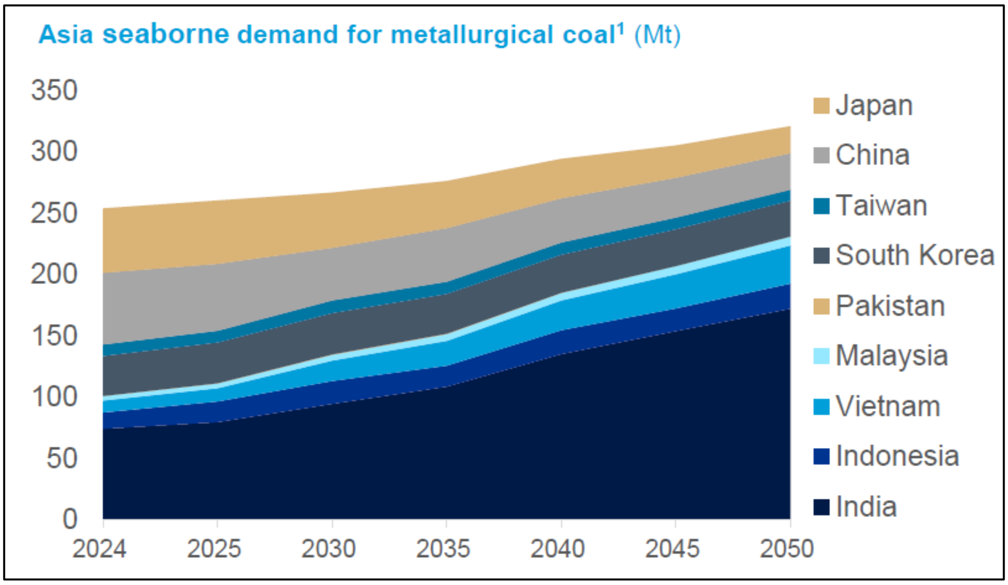
Chinese metallurgical coal imports rose 33% year-on-year in the June quarter, continuing the strong momentum from the March quarter. Most additional supply was from Mongolia and Russia. Chinese domestic metallurgical coal mine supply fell in H1 2024. This was offset by strong imports as speculation that steel production limits would be introduced in Q3 2024.

China's demand for metallurgic coal is likely to be lower in coming months due to falling steel prices and negative margins at steel mills. With Beijing's RMB10Tr pump-prime just announced, its quite possible that we will see a resurgence in the Chinese economy in general, a lift in consumer confidence and more activity in the building and construction sectors.

China's coking coal imports from Russia and Mongolia seem likely to grow strongly into 2025. Both countries accounted for ~78% (101.9 Mt) of China's coking coal imports in 2023, while YTD China has imported 89.1 Mt from both countries, with the potential to reach 120 Mt by year-end. Interestingly, following China's unofficial ban on Australian coal which was lifted in January 2023, it appears some mills prefer to maintain long-term contracts with Mongolian coal suppliers due to its quality and availability. China's influence on the seaborne metallurgical market now appears to be declining, with India likely as the dominant player going forward.

India's demand outlook remains strong with growing blast furnace capacity driving quarter-on-quarter import growth of 7% and year-on-year quarterly growth of 1%. India has a diverse supply base including key suppliers Australia (contributing around 40% of total imports), Russia and the US. India's imports of metallurgical coal are expected to steadily grow over the next few years as the nation continues to expand its blast furnace capacity in line with its 2030 production capacity target of 300 Mt. Although domestic metallurgical coal production is expected to increase, blast furnace expansion is expected to outstrip the ability of local supply to keep pace. India also announced plans to construct 30 million additional houses through the allocation of Rs 2.2 trillion (US$26.3 billion) over the next 5 years under the Housing for All scheme. The scheme is expected to increase steel demand from the December 2024 quarter.

The following demand forecasts from Wood Mackenzie illustrates a very positive Indian import outlook for metallurgical coal.

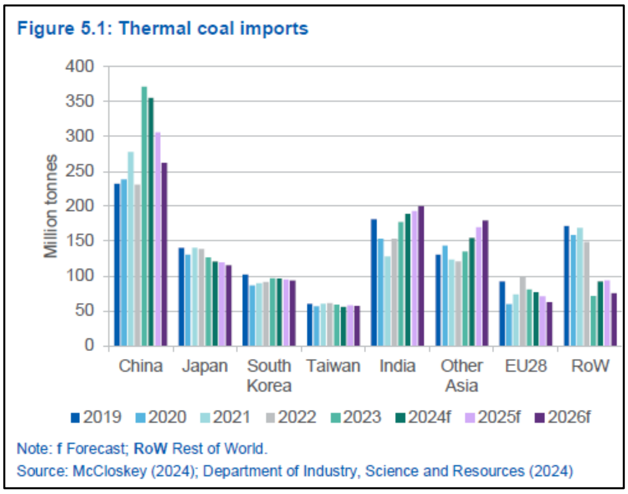


Source: Whitehaven October 2024

Thermal coal

Global imports of thermal coal are expected to fall from 1,120 Mt in 2023 to 1,045 Mt by 2026. China and Europe will likely be the largest contributors to the decline in global imports as they continue to decarbonise. India and "Other Asia" will drive demand growth.

China's seaborne imports of thermal coal were strong in H1 2024, increasing by 9% compared with H1 2023, which was already a record-breaking year. China's thermal coal imports were expected to peak in 2023 on the back of a significant roll out of renewable generation capacity and increased output from hydroelectric generation.

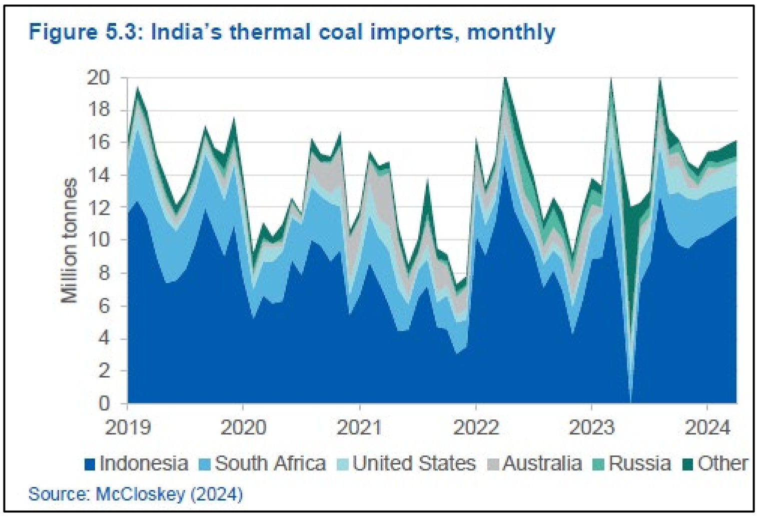


Source: Office of the Chief Economist "Resources and Energy Quarterly", September 2024

While electricity generation from hydro, wind and solar lifted in 2024, several other factors have supported higher than expected thermal coal demand. For example, China's domestic output fell in H1 2024 as mines implemented tightened safety regulations. While domestic production has since recovered, relatively high domestic prices and increased demand due to hot weather over summer have increased imports.

Demand from India remained strong in H1 2024, increasing by 13% year-on-year. An intense heat wave from March 2024 through to May 2024 placed intense pressure on India's power grid. India continued to experience intense heat through the summer months, with the number of heatwave days recorded over north-western and eastern parts of the country being double normal levels.

Increased urbanisation and industrial activity in line with economic growth have consistently increased India's demand for thermal coal. While India has increased domestic production, demand growth is expected to outpace domestic production growth over the outlook period.



Source: Office of the Chief Economist "Resources and Energy Quarterly", September 2024

Reference. The bulk of the commentary above has come from the Australian Government's Office of the Chief Economist "Resources and Energy Quarterly", September 2024

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Dr Chris Baker, an authorised representative of BSCP, certifies that the advice in this report reflects his honest view of the company. He has over 30 years investment experience in wholesale capital markets. He worked as a mining analyst for brokers BZW and UBS for 11 years and has a further 16 years' experience as a mining analyst and portfolio manager with Colonial First State and Caledonia Investments. He now provides independent financial advice on a part time basis. He may own securities in companies he recommends but will declare this when providing advice. He currently owns shares in Malabar. He is remunerated by BSCP but is not paid a specific fee for providing this report. BSCP, its directors and consultants may own shares and options in Malabar and may, from time to time, buy and sell the securities of Malabar.

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Appendix 1

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