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**Malabar Coal Limited
and controlled entities
ABN 29 151 691 468**

**Interim Financial Report
For the half-year ended 31 December 2014**

This interim financial report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.2A.3.

The information contained in this report is to be read in conjunction with Malabar Coal Limited's 2014 Annual Report and any announcements made to the market by Malabar Coal Limited during the half-year period ending 31 December 2014.

**Malabar Coal Limited
and Controlled Entities
ABN 29 151 691 468**

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated group, consisting of Malabar Coal Limited ('the Company' or 'Malabar') and its controlled entities ('the Group') for the half-year ended 31 December 2014.

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	Non-Executive Chairman	
Graeme Booth	Managing Director	(Appointed 29 August 2014)
Hans Mende	Non-Executive Director	
Andrew (Andy) Plummer	Non-Executive Director	
Simon Keyser	Non-Executive Director	
Anthony (Tony) Galligan	Non-Executive Director	
Grant Polwarth	Alternate to Hans Mende	(Resigned 19 August 2014)
Nicole Hollows	Alternate to Hans Mende	(Appointed 19 August 2014)

Operating Results

The consolidated loss after tax for the half-year ended 31 December 2014 of the Group amounted to \$31,472,146 (31 December 2013: \$574,775), after the elimination of non-controlling equity interests. The loss for the period includes an impairment charge of \$32,973,695 in relation to the impairment of capitalised exploration and evaluation expenditure, land and buildings and water access licences recognised during the period.

Review of Operations

Malabar Coal Limited's primary focus is on the development of the Spur Hill Underground Coking Coal Project (the 'Project'), of which it has the right to acquire up to 80%. The primary activities conducted on the Project during the six months to 31 December 2014 are outlined below:

Environmental and Project Approvals

The Project achieved a number of project approval milestones during the six months to 31 December 2014 including:

- ***Preliminary Environmental Assessment and receipt of Environmental Assessment Requirements***
The Project lodged its Preliminary Environmental Assessment ('PEA') in April of the previous financial year. The NSW Department of Planning & Environment subsequently issued its Environmental Assessment Requirements ('EARs') on 23 July 2014. The EARs determine the scope for the preparation of the Environmental Impact Statement (EIS) and take into account the conditions attached to the Gateway Certificate, the EPBC referral determination and input from federal and state agencies, and the local shire council. Malabar is comfortable with the EARs which are consistent with our expectations.
- ***EPBC Referral***
The Project submitted its EPBC referral to the federal Department of the Environment in June 2014. The referral was subsequently determined on 7 July 2014 as a 'controlled action' with water being the relevant controlling provision.
- ***Mining Lease Applications submitted***
In the first quarter of this financial year Mining Lease Applications ('MLAs') were submitted for the Project covering the proposed underground mining area. The approval process for the MLAs runs in parallel with the assessment of the EIS and Development Application ('DA'). A mining lease will only be granted once development consent is obtained.

DIRECTORS' REPORT

Review of Operations (continued)

A summary of the recent permitting milestones is outlined below:

Recent Permitting Milestones	
• Gateway Certificate received	20 March 2014
• Preliminary Environmental Assessment submitted	24 April 2014
• EPBC Referral submitted (& subsequently determined)	6 June 2014
• Environmental Assessment Requirements (EAR's) issued	23 July 2014
• Mining Lease Applications (MLA's) advertised	12 September 2014

EIS studies advanced during the six months to 31 December 2014 include:

- Surface and Groundwater assessments;
- Noise assessment;
- Air quality assessment;
- Subsidence assessment;
- Aboriginal cultural heritage assessment;
- Non-Aboriginal cultural heritage assessment;
- Aquatic fauna assessment;
- Terrestrial flora and fauna assessments;
- Geomorphology assessment;
- Environmental risk assessment;
- Transport assessment;
- Soils and agricultural impact assessments; and,
- Social Impact assessment.

Community and Landholder Consultation

Three Community Consultative Committee ('CCC') meetings for the Project were held in the first six months of this financial year. Further CCC meetings will be held at regular intervals on an ongoing basis. In addition, Malabar produces and distributes Community Information Newsletters on ongoing and regular basis.

A Community Information Session held on the EL on 8 October 2014 was well attended by the local community with a number of subject specialists and senior company executives on hand to answer questions.

In addition, senior Malabar executives continually interact with the community on an informal basis through various activities including attending and sponsoring sporting and community events.

Access agreements are in place covering the proposed underground mining area as set out in the MLAs. Malabar is in regular dialogue with landholders on the EL in accordance with our Landholder Liaison Program.

Mine Design and Infrastructure

During the six months to 31 December 2014, Malabar advanced further studies to support the EIS and DA, including:

- Analyses of transport options and design;
- Design of coal handling and preparation facilities;
- Geotechnical assessment of the mine infrastructure area; and
- Design of mine surface infrastructure.

Strategic Land Transactions

During the quarter the Project secured an easement over a property and entered into an agreement to lease another property. These additional land tenures provide options for transportation of the coal from the surface infrastructure to the main rail line.

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DIRECTORS' REPORT

Review of Operations (continued)

Resource Definition

During the six months to 31 December 2014 the Project focus has been on EIS preparation and completion. Exploration activities consequently consisted of drilling two further boreholes to gather geological and groundwater data and further field mapping and coal analyses.

Total Resources for the Spur Hill Project are 625.9 million tonnes including 394.4 million tonnes of Indicated Resources. Please see Table 1 for further details.

Further exploration and technical studies are expected to progressively convert an increasing proportion of the remaining Resources to Reserves.

Table 1: Reserves and Resources as at November 2013

100% BASIS	RESERVES		RESOURCES				Total Mt
	Western (Underground) Zone		Western (Underground) Zone			Eastern Zone	
Seam	Probable Coal Reserve (Mt)	Probable Marketable Coal Reserve (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)	Inferred (Mt)	
WL2			0.0	46.8	46.8	0.0	46.8
WL1			0.0	22.0	22.0	0.0	22.0
Whybrow			58.5	1.2	59.7	1.8	61.5
Redbank Creek Upper			0.0	0.0	0.0	3.8	3.8
Redbank Creek Middle			0.0	0.0	0.0	3.7	3.7
Redbank Creek Lower			51.3	0.7	52.0	6.2	58.2
Wambo			38.1	4.3	42.4	16.0	58.4
Whynot	78	59	104.5	5.3	109.8	23.0	132.8
Glen Munro			14.7	0.5	15.2	1.6	16.8
Arrowfield			14.6	0.0	14.6	0.0	14.6
Bowfield	13	10	34.0	2.5	36.5	21.7	58.2
Warkworth			78.7	26.6	105.3	23.4	128.7
Mount Arthur			0.0	9.3	9.3	11.1	20.4
Total	91	69	394.4	119.2	513.6	112.3	625.9

- The Resources and Reserves Estimates have been prepared in accord with the JORC Code 2012
- The Reserves Estimate has been prepared by MineCraft Consulting Pty Ltd
- The Resources Estimate has been prepared by Geological and Mining Services Australia Pty Ltd
- The Resources in the above Table are inclusive of Reserves
- The Probable Marketable Coal Reserve is derived from the Probable Coal Reserve based on an average yield of 76% from the Whynot seam and 79% from the Bowfield seam. These average yields are derived from laboratory yields ranging from 80% to 85% adjusted for mining dilution and moisture adjustments

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DIRECTORS' REPORT

Financial Position

The current poor general coal market environment has negatively impacted the Malabar share price. The Board does not believe that the currently depressed share price reflects the longer term value of the Project. Nonetheless, the directors have prudently and responsibly determined that the Group should undertake a comprehensive review of impairment across its assets.

Non-cash provisions for impairment of land and buildings and water access licences (which are strategically associated with the Project) totalling \$11,571,848 were taken during the period ending 31 December 2014. In addition a non-cash provision for impairment of \$21,401,846 was taken against the carrying value of capitalised exploration and evaluation during the same period. In future periods these provisions may be reduced or reversed as the fundamental value of the Project is recognised by the market.

The Group's cash position reduced from \$6,194,615 at 30 June 2014 to \$3,150,994 at 31 December 2014, predominantly due to the investment in exploration and evaluation expenditure during the period.

Malabar's principal asset is its participating interest in the Project. Expenditure on the Project during the financial period, which was sole funded by Malabar, totalled \$2,853,483. This expenditure increased Malabar's participating interest in the Project by 1.63%, from 35.76% at 30 June 2014, to 37.39% as at 31 December 2014.

Future Developments, Prospects and Business Strategies

The key objective of the Group is the development of the Project. Malabar is currently undertaking work in preparation for an Environmental Impact Statement ('EIS') which will accompany a Development Application ('DA') under the EP&A Act approval process.

The material business risks which relate to the development of the Project are the timing of the permitting process and the nature and form of the funding required for the Project development.

The directors note that the approval processes for new coal mines has become politicised in New South Wales. Nonetheless the Board is comfortable that the underground nature of our Project mitigates the key concerns of dust and visual amenity which are material considerations for open cut operations.

In the current market environment the Board is cognisant of the funding challenges being faced by the junior resources and coal sector. The Board believes the Company to be well placed with key shareholder support anticipated to be forthcoming when funding is required. Consistent with the fiduciary responsibilities of the Board the Group is investigating longer term financing options for the Project Development. At the appropriate juncture, Malabar may seek a strategic partner for the Project as is common in Australian coal development projects.

The directors and management periodically review the mine engineering design and associated capex and opex for optimisation opportunities. Such a review is currently underway. Any consequent material changes in the Project plan and economic fundamentals will be communicated to the market once agreed by the Board. If the Project plan is optimised and revised then such revisions will be input into the final EIS and DA studies and submission as required.

If compelling opportunities present themselves Malabar may also seek to acquire other coal assets as part of the Company's strategy of becoming a large-scale coal developer and producer.

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 7 for the half-year ended 31 December 2014.

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



Graeme Booth

Managing Director

Sydney, 12 March 2015

COMPETENT PERSON'S STATEMENTS

The information in this Report that relates to JORC Mineral Resources for the Spur Hill Underground Coking Coal Project is based on information compiled by Mr Darryl Stevenson. Mr Darryl Stevenson is the Principal Geologist and employee of Geological and Mining Services Australia Pty Ltd, an independent consultancy group specialising in mineral resource estimation, evaluation and exploration. Mr Darryl Stevenson is a Member of The Australasian Institute of Mining and Metallurgy. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". The relationship between the Estimator and the Project owner is that of independent consultant. Mr Darryl Stevenson consents to the inclusion in this Report of the matters based on his information in the form and context in which it appears.

The information in this Report that relates to JORC Mineral Reserves for the Spur Hill Underground Coking Coal Project is based on a Reserves Estimate that has been prepared by Mr Jeremy Busfield, Principal Mining Consultant of MineCraft Consulting Pty Ltd. Mr Busfield holds a Bachelor of Mining Engineering degree from the University of Queensland, is a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy (AusIMM) and is a Registered Professional Engineer of Queensland (Mining) (RPEQ 10285). Mr Busfield has worked in various planning, operational and consulting roles for the underground coal industry for 27 years and as such qualifies as Competent Person under the JORC Code 2012. The relationship between the Estimator and the Project owner is that of independent consultant. Mr Busfield consents to the inclusion in this Report of the matters based on his information and in the form and context in which it appears.

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

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2014, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

PKF HACKETTS AUDIT



Liam Murphy
Partner

Brisbane, 12 March 2015

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**Malabar Coal Limited
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

	Note	Consolidated Group	
		31 December 2014	31 December 2013
		\$	\$
Revenue from continuing operations			
Interest income		80,089	210,916
Other income		49,457	23,954
Expenses			
Share based payments – employee share options		(35,381)	(80,623)
Legal and professional fees		(219,563)	(82,184)
Consultants		(202,596)	(75,845)
Finance costs		(181,996)	(197,237)
Employee benefits expense		(92,307)	(84,835)
Directors' fees		(140,924)	(142,072)
Option fee expense		-	(131,045)
Impairment	9	(32,973,695)	-
Other expenses		(96,156)	(81,189)
Profit (loss) before income tax		<u>(33,813,072)</u>	<u>(640,160)</u>
Income tax expense		-	-
Profit (loss) for the period	2	<u><u>(33,813,072)</u></u>	<u><u>(640,160)</u></u>
Other comprehensive income		-	-
Total comprehensive income for the period		<u><u>(33,813,072)</u></u>	<u><u>(640,160)</u></u>
Profit (loss) attributable to:			
- Members of the parent entity		(31,472,146)	(574,775)
- Non-controlling interest		(2,340,926)	(65,385)
		<u><u>(33,813,072)</u></u>	<u><u>(640,160)</u></u>
Total comprehensive income attributable to:			
- Members of the parent entity		(31,472,146)	(574,775)
- Non-controlling interest		(2,340,926)	(65,385)
		<u><u>(33,813,072)</u></u>	<u><u>(640,160)</u></u>
Earnings per share			
From continuing operations:			
- basic earnings per share (cents)		(36.62)	(0.68)
- diluted earnings per share (cents)		(36.62)	(0.68)

The accompanying notes form part of these financial statements.

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**Malabar Coal Limited
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014**

	Note	Consolidated Group	
		31 December 2014	30 June 2014
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		3,150,994	6,194,615
Trade and other receivables		616,818	895,291
Other assets	5	263,565	78,381
TOTAL CURRENT ASSETS		<u>4,031,377</u>	<u>7,168,287</u>
NON-CURRENT ASSETS			
Property, plant and equipment	6	10,476,253	21,247,354
Intangible assets	7	2,965,600	3,709,100
Capitalised exploration and evaluation costs	8	20,000,000	39,260,564
Other assets	5	39,516	37,793
TOTAL NON-CURRENT ASSETS		<u>33,481,369</u>	<u>64,254,811</u>
TOTAL ASSETS		<u><u>37,512,746</u></u>	<u><u>71,423,098</u></u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	10	451,743	482,143
TOTAL CURRENT LIABILITIES		<u>451,743</u>	<u>482,143</u>
NON-CURRENT LIABILITIES			
Trade and other payables	10	12,467,104	12,569,365
Borrowings	11	6,200,000	6,200,000
TOTAL NON-CURRENT LIABILITIES		<u>18,667,104</u>	<u>18,769,365</u>
TOTAL LIABILITIES		<u>19,118,847</u>	<u>19,251,508</u>
NET ASSETS		<u>18,393,899</u>	<u>52,171,590</u>
EQUITY			
Issued capital	12	54,317,581	54,317,581
Reserves		212,500	177,119
Retained earnings (accumulated losses)		(33,645,774)	(2,173,628)
Parent interest		20,884,307	52,321,072
Non-controlling interest		(2,490,408)	(149,482)
TOTAL EQUITY		<u>18,393,899</u>	<u>52,171,590</u>

The accompanying notes form part of these financial statements.

**Malabar Coal Limited
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

Consolidated Group	Ordinary Share Capital	Reserves	Retained Earnings (Accumulated Losses)	Total Parent Entity Interest	Total Non- controlling Interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2013	54,317,581	37,820	(895,445)	53,459,956	(55,076)	53,404,880
Comprehensive income						
Profit (loss) for the period	-	-	(574,775)	(574,775)	(65,385)	(640,160)
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the half year	-	-	(574,775)	(574,775)	(65,385)	(640,160)
Transactions with owners, in their capacity as owners, and other transfers						
Shares issued during the period	-	-	-	-	-	-
Shared based payments	-	80,623	-	80,623	-	80,623
Total transactions with owners and other transfers	-	80,623	-	80,623	-	80,623
Balance at 31 December 2013	54,317,581	118,443	(1,470,220)	52,965,804	(120,461)	52,845,343
Balance at 1 July 2014	54,317,581	177,119	(2,173,628)	52,321,072	(149,482)	52,171,590
Comprehensive income						
Profit (loss) for the period	-	-	(31,472,146)	(31,472,146)	(2,340,926)	(33,813,072)
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the half year	-	-	(31,472,146)	(31,472,146)	(2,340,926)	(33,813,072)
Transactions with owners, in their capacity as owners, and other transfers						
Shares issued during the period	-	-	-	-	-	-
Shared based payments	-	35,381	-	35,381	-	35,381
Total transactions with owners and other transfers	-	35,381	-	35,381	-	35,381
Balance at 31 December 2014	54,317,581	212,500	(33,645,774)	20,884,307	(2,490,408)	(18,393,899)

The accompanying notes form part of these financial statements.

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED
31 DECEMBER 2014**

	Consolidated Group	
	31 December 2014	31 December 2013
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	48,616	35,200
Payments to suppliers and employees	(505,196)	(545,864)
Interest received	80,089	210,916
Finance costs	(367,181)	(378,752)
Net cash (used in)/provided by operating activities	<u>(743,672)</u>	<u>(678,500)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for additions of property, plant and equipment	(56,406)	(6,229,905)
Payments for additions of intangible assets	-	(1,159,100)
Payments for exploration expenditures	(2,243,543)	(3,506,180)
Net cash (used in)/provided by investing activities	<u>(2,299,949)</u>	<u>(10,895,185)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	-	2,725,000
Net cash (used in)/provided by financing activities	<u>-</u>	<u>2,725,000</u>
Net decrease in cash held	(3,043,621)	(8,848,685)
Cash and cash equivalents at beginning of period	<u>6,194,615</u>	<u>17,831,143</u>
Cash and cash equivalents at end of period	<u><u>3,150,994</u></u>	<u><u>8,982,458</u></u>

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

These consolidated interim financial statements and notes represent those of Malabar Coal Limited (the Company) and Controlled Entities (the Group).

Malabar Coal Limited is a public company incorporated and domiciled in Australia.

The financial statements were authorised for issue on 12 March 2015 by the directors of the Company.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

These general purpose interim financial statements for half-year reporting period ended 31 December 2014 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

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 2014, together with any public announcements made during the following half-year.

b) Accounting Policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2014 annual financial report for the financial year ended 30 June 2014.

c) Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the 30 June 2014 annual report, except as noted below:

i. Exploration and evaluation expenditure

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The Directors acknowledge that to continue the development and commercial exploitation of the tenement, the budgeted cash flows from operating and investing activities for the future will necessitate further capital raisings and a renegotiation of the current loan facility.

In the current market environment the directors are cognisant of the funding challenges being faced by the junior resources and coal sector. The directors believe the Group to be well placed with key shareholder support anticipated to be forthcoming when funding is required. Consistent with the fiduciary responsibilities of the Board the Group is investigating longer term financing options for the Project development. At the appropriate juncture, Malabar may seek a strategic partner for the Project as is common in Australian coal development projects.

Recognising the growing level of uncertainty around future funding requirements directors authorised the recognition of an impairment charge for its capitalised exploration and evaluation expenditure of \$21,401,846, effectively adjusting the carrying value to a recoverable amount of \$20,000,000 (30 June 2014: \$39,260,564). The recoverable amount of capitalised exploration and evaluation expenditure was determined using life-of-mine value in use calculations, which was then discounted by over 90% to reflect the current stage of Project development and prevailing risk factors and thereafter adjusted for the current percentage interest in the Project.

Life-of-mine value in use calculations are based on pre-feasibility capital and operating cost estimates utilising mine plans and JORC reserve and resource statements. Key assumptions contained in cash flow projections are based on external sources of information where available, or reflect past experience and include forecast semi-soft coking and export thermal coal prices and foreign exchange rates (based on external economic forecasters), discount rates, JORC reserve and resource statements and operating and capital cost estimates.

**Malabar Coal Limited
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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Critical Accounting Estimates and Judgments (continued)

The Directors believe that the assumptions used in the determination of the recoverable value of exploration and evaluation expenditure are conservative and supported by the life-of-mine value in use calculations for the Project. Accordingly, the Directors are of the opinion that the exploration and evaluation expenditure is recoverable for the amount stated in the financial report.

NOTE 2: LOSS FOR THE PERIOD

	Consolidated Group	
	31 December 2014	31 December 2013
	\$	\$
The following expense items are relevant in explaining the financial performance for the interim period:		
Share based payments – employee share options	35,381	80,623
Consultant fees	202,596	75,845
Depreciation	39,600	10,138
Impairment ⁽¹⁾	32,973,695	-
Finance costs	181,996	197,237
Loss in disposal of assets	-	11,246
Option fee expense	-	131,045

⁽¹⁾ Refer to notes 6, 7, 8 and 9 for additional information on impairment.

NOTE 3: DIVIDENDS

No dividend has been paid during the half-year ended 31 December 2014, and none is proposed.

NOTE 4: OPERATING SEGMENT

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

NOTE 5: OTHER ASSETS

	31 December 2014	30 June 2014
	\$	\$
CURRENT:		
Prepaid finance costs	263,565	78,381
	263,565	78,381
NON-CURRENT:		
Security deposits	39,516	37,793
	39,516	37,793

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	
	31 December 2014	30 June 2014
	\$	\$
Land - at cost	19,046,606	19,046,606
Less: Impairment ⁽¹⁾	(9,407,066)	-
Total land	9,639,540	19,046,606
Buildings - at cost	2,255,532	2,169,149
Less: accumulated depreciation	(103,790)	(73,198)
Less: Impairment ⁽¹⁾	(1,421,282)	-
Total buildings	730,460	2,095,951
Total land and buildings	10,370,000	21,142,557
Plant and equipment	140,862	130,167
Less: accumulated depreciation	(34,609)	(25,370)
	106,253	104,797
	10,476,253	21,247,354

⁽¹⁾ Refer to note 9 for additional information on impairment.

a. Movements in Carrying Amounts

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

	Freehold Land	Buildings	Plant and Equipment	Total
	\$	\$	\$	\$
Consolidated Group:				
Balance at 1 July 2013	11,869,832	306,259	50,686	12,226,777
Additions	7,176,774	1,851,863	85,398	9,114,035
Disposals	-	-	(14,096)	(14,096)
Depreciation expense	-	(62,171)	(17,191)	(79,362)
Balance at 30 June 2014	19,046,606	2,095,951	104,797	21,247,354
Additions	-	86,383	18,714	105,097
Disposals	-	-	(8,250)	(8,250)
Depreciation expense	-	(30,592)	(9,008)	(39,600)
Impairment	(9,407,066)	(1,421,282)	-	(10,828,348)
Balance at 31 December 2014	9,639,540	730,460	106,253	10,476,253

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

NOTE 7: INTANGIBLE ASSETS

	Consolidated Group	
	31 December 2014	30 June 2014
	\$	\$
NON-CURRENT:		
Water allocation licences	2,965,600	3,709,100
	<u>2,965,600</u>	<u>3,709,100</u>
Balance at the beginning of the period	3,709,100	2,550,000
Additions	-	1,159,100
Disposals	-	-
Amortisation charge	-	-
Impairment ⁽¹⁾	(743,500)	-
	<u>2,965,600</u>	<u>3,709,100</u>

These particular water allocation licences are issued as “continuing” and as such have an indefinite useful life.

⁽¹⁾ Refer to note 9 for additional information on impairment.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

NOTE 8: CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated Group	
	31 December 2014	30 June 2014
	\$	\$
Capitalised exploration and evaluation costs consist of:		
Mining information	941,685	900,632
Exploration license	34,531,721	33,141,943
Exploration & evaluation expenditures	7,177,254	5,964,676
Provision for impairment of E&E ⁽¹⁾	(21,401,846)	-
R&D tax incentive	(1,248,814)	(746,687)
	<u>20,000,000</u>	<u>39,260,564</u>

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

Opening balance	39,260,564	31,845,354
Mining information – increase in participants interest	41,052	149,048
Exploration licence – increase in participants interest and revaluation of licence	1,389,777	5,441,504
Expenditures incurred during the period	1,212,579	2,571,345
Provision for impairment of E&E ⁽¹⁾	(21,401,846)	-
R&D tax incentive recognised during the period	(502,126)	(746,687)
	<u>20,000,000</u>	<u>39,260,564</u>

⁽¹⁾ Refer to note 9 for additional information on impairment

NOTE 9: IMPAIRMENT

The Group assesses whether there are indicators that assets, or group of assets, may be impaired at each reporting date. The following impairment indicators were identified during the half-year:

- Carrying value of capitalised exploration and evaluation expenditure may exceed its value in use.
- The excess of the Group's net asset book value over its market capitalisation.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made. Total impairment charges recognised in the Consolidated Statement of Comprehensive Income for the half year were as follows:

	31 December 2014	31 December 2013
	\$	\$
Land and buildings	10,828,348	-
Intangible assets (water access licenses)	743,500	-
Capitalised exploration and evaluation expenditure	21,401,846	-
Impairment charge	<u>32,973,694</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

NOTE 9: IMPAIRMENT (Continued)

Land and buildings

An impairment charge of \$10,828,348 was recognised during the period to adjust the value of these properties down to their rural valuation amount, which is supported by an external valuation obtained by management during the period.

Intangible assets (water access licenses)

During the period, the Group obtained an external valuation of the water licences. Due to the current market conditions, directors determined it prudent to adjust the carrying values of these intangibles to reflect their current market values. As a result, an impairment charge of \$743,500 was recognised during the period.

Capitalised exploration and evaluation expenditure

During the half-year ended 31 December 2014, Malabar recognised an impairment charge for its capitalised exploration and evaluation expenditure of \$21,401,846 effectively adjusting the carrying value to a recoverable amount of \$20,000,000.

The recoverable amount of capitalised exploration and evaluation expenditure was determined using life-of-mine value in use calculations, which was then discounted by over 90% to reflect the current stage of Project development and prevailing risk factors and thereafter adjusted for the current percentage interest in the Project.

Life-of-mine value in use calculations are based on pre-feasibility capital and operating cost estimates utilising mine plans and JORC reserve and resource statements. Key assumptions contained in cash flow projections are based on external sources of information where available, or reflect past experience and include forecast semi-soft coking and export thermal coal prices and foreign exchange rates (based on external economic forecasters), discount rates, JORC reserve and resource statements and operating and capital cost estimates.

The nominal post-tax discount rate applied to cash flow projections was 10% (December 2013: 10%).

The directors note that this impairment assessment does not take into account the mine engineering optimisation and cost review exercises currently underway.

NOTE 10: TRADE AND OTHER PAYABLES

	Consolidated Group	
	31 December 2014	30 June 2014
	\$	\$
CURRENT:		
Trade creditors	292,860	409,435
Other creditors	158,883	72,708
	451,743	482,143
NON-CURRENT:		
Other creditors	8,333	8,007
Loan payable Spur Hill Agricultural to Spur Hill Joint Venture (1)	12,458,771	12,561,358
	12,467,104	12,569,365

(1) As at 31 December 2014, one of the Company's subsidiaries, Spur Hill Agricultural Pty Ltd, had borrowed \$19,898,769 from the Spur Hill Joint Venture, primarily to purchase land and options.

The Malabar Group has a 37.39% interest in the Spur Hill Joint venture with the right to acquire up to 80% interest. The remaining 62.61% 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

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loan that relates to Malabar Group's 37.39% interest in the Joint Venture.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

NOTE 11: BORROWINGS

	Consolidated Group	
	31 December 2014	30 June 2014
	\$	\$
NON-CURRENT:		
Revolving Bill Facility	6,200,000	6,200,000
	<u>6,200,000</u>	<u>6,200,000</u>

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. The facility has an expiry date of 28 February 2016. Malabar Coal Limited has guaranteed and indemnified the facility.

NOTE 12: EQUITY SECURITIES ISSUED

Fully paid ordinary shares	54,317,581	54,317,581
	<u>54,317,581</u>	<u>54,317,581</u>

Issues of ordinary share capital during the half-year:

Date	Details	Number of shares	\$
30 June 2014	Balance	85,000,000	54,317,581
	Shares issued	-	-
31 December 2014	Balance	<u>85,000,000</u>	<u>54,317,581</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

NOTE 13: 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 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 provision of services to Malabar and the Project

During the period Ironstone Capital has performed certain corporate activities for the Company. Ironstone Capital is paid per hour for work conducted by its executives on the Company and during the period a total of \$11,682 was paid by Malabar Coal Ltd (the Company) to Ironstone Capital.

Other Related Party Transactions

During the period ended 31 December 2014, Malabar paid XLX Pty Ltd ('XLX') \$69,564 under a lease agreement for office space on Level 26, 259 George Street, Sydney. This current lease agreement between Malabar and XLX for office space on Level 26, 259 George Street amounts to \$11,594 per month. The lease agreement is charged on a pass through cost basis from XLX to Malabar and the monthly rental is subsequently split 80/20 between the Project and Malabar. XLX is part-owned by Malabar Directors Wayne Seabrook, Simon Keyser and Andy Plummer.

The Company has entered into an appointment letter with the Chairman which includes a consultancy arrangement whereby he (or his associated entity) is paid a consulting fee of \$2,500 per day for any work done for the Company which is not related to his role as Chairman. In the period ended 31 December 2014, total payments of \$126,717 have been made under this agreement.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

NOTE 14: CAPITAL AND LEASING COMMITMENTS

	Consolidated Group	
	31 December	30 June
	2014	2014
	\$	\$
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	245,176	139,128
– between 12 months and 5 years	294,441	436,226
– later than 5 years	-	-
	539,617	575,354

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. The commitments above also include a \$100,000 agreement to lease fee relating to a property adjacent to the project area which is due on 1 July 2015.

NOTE 15: CONTINGENT LIABILITIES AND CONTINGENCIES

Estimates of the potential financial effect of contingent liabilities that may become payable:

Project Related

a.	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;	2,500,000	2,500,000
ii.	submission of an environmental assessment for the Project;	2,500,000	2,500,000
iii.	completion of a detailed feasibility study into the development of the Project;	2,500,000	2,500,000
iv.	grant of a Mining Lease.	2,500,000	2,500,000

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 accelerate its participating interest in the Project.

b.	Bonus payment to Peter Doyle upon the grant of a Mining Lease per employment contract.	500,000	500,000
c.	Payment to landholder upon the grant of a Mining Lease per contract of purchase.	600,000	600,000
Contingent Liabilities		11,100,000	11,100,000

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

NOTE 16: CONTINGENT LIABILITIES AND CONTINGENCIES (CONTINUED)

Contingencies

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 percentage Participating Interest in the event that there is no Eastern Development¹ 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 Development¹ included in the Mining Lease on or before the time of exercise of the Call Option.
- (1) As set out in the Prospectus Malabar only intends to apply for a Mining Lease for the Underground Resource Area which would exclude the Eastern Development.

NOTE 17: INTEREST IN SUBSIDIARIES

a. Information about Principal Subsidiaries

Set out below are the Group's subsidiaries at 31 December 2014. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's country of incorporation or registration is also its principal place of business.

Name of Subsidiary	Principal Place of Business	Ownership Interest Held by the Group		Proportion of Non-controlling Interests	
		At 31 December 2014	At 30 June 2014	At 31 December 2014	At 30 June 2014
Spur Hill No.2 Pty Ltd	Australia	100%	100%	0%	0%
Spur Hill Agricultural Pty Ltd	Australia	80%	80%	20%	20%
Spur Hill Management Pty Ltd	Australia	80%	80%	20%	20%
Spur Hill Marketing Pty Ltd	Australia	80%	80%	20%	20%

Subsidiaries' financial statements used in the preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

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DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 8 to 21 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: *Interim Financial Reporting*; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date and
2. Having regard to the matters referred to in Note 1, 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 directors.



Graeme Booth

Director

Sydney, 12 March 2015

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**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 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

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 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Malabar Coal Limited and its controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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 entity's financial position as at 31 December 2014 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*.

PKF HACKETTS

PKF HACKETTS AUDIT



Liam Murphy
Partner
Brisbane, 12 March 2015

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