

STATEMENT OF CORPORATE GOVERNANCE

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, which comply with the Australian Stock Exchange ('ASX') Corporate Governance Council recommendations, unless otherwise stated.

The Board is committed to maintaining the highest standards of Corporate Governance. Corporate Governance is about having a set of core values and behaviours that underpin the Group's activities and ensure transparency, fair dealing and protection of the interests of stakeholders.

The Board of Directors supports the Principles of Good Corporate Governance and Best Practice Recommendations developed by the ASX Corporate Governance Council ('Council'). Whilst the Group's practices are largely consistent with the Council's guidelines, the Board considers that the implementation of some recommendations are not appropriate having regard to the nature and scale of the Group's activities. The Board uses its best endeavours to ensure exceptions to the Council's guidelines do not have a negative impact on the Group and the best interests of shareholders as a whole. When Cockatoo is not able to implement one of the Council's recommendations the Group applies the "if not, why not" explanation approach by applying practices in accordance with the spirit of the relevant principle.

The following discussion outlines the ASX Corporate Governance Council's eight principles and associated recommendations and the extent to which the Group complies with those recommendations.

Details of all of the Council's recommendations can be found on the ASX website at <http://www.asx.com.au>.

Principle 1 - Lay Solid Foundations for Management and Oversight

The Group has adopted recommendation 1.1 to disclose the functions reserved to the Board and those delegated to senior executives in the content of every new Director and senior executive appointment.

Board of Directors - Role and Responsibilities

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Group. The Board is also responsible for the overall corporate governance and management oversight of the Group, and recognises the need for the highest standards of behaviour and accountability in acting in the best interests of the Group as a whole.

The Board also ensures that the Group complies with all of its contractual, statutory and any other legal or regulatory obligations. The Board has the final responsibility for the successful operations of the Group.

Where the Board considers that particular expertise or information is required, which is not available from within their members, appropriate external advice may be taken and reviewed prior to a final decision being made by the Board.

Without intending to limit the general role of the Board, the principal functions and responsibilities of the Board include the following:

- formulation and approval of the strategic direction, objectives and goals of the Group;
- the prudential control of the Group's finances and operations and monitoring the financial performance of the Group;
- the resourcing, review and monitoring of executive management;
- ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- the identification of significant business risks and ensuring that such risks are adequately managed;
- the timeliness, accuracy and effectiveness of communications and reporting to shareholders and the market; and
- the establishment and maintenance of appropriate ethical standards.

Cockatoo has taken the appropriate measures to provide each Director and senior executive with a copy of the Group's policies which spells out the rights, duties and responsibilities that they should follow.

The Group has adopted recommendation 1.3.

STATEMENT OF CORPORATE GOVERNANCE

Principle 2 - Structure the Board to Add Value

Board of Directors - Composition, Structure and Process

The composition of the Board has been determined on the basis of providing the Group with the benefit of a broad range of technical, administrative and financial skills, combined with an appropriate level of experience at a senior corporate level. The names and further information regarding the skills, experience, qualifications and relevant expertise of the Directors are set out in the Directors' Report.

The composition of the Board is monitored constantly to ensure that it provides the Group with the appropriate levels of both expertise and experience. The Board comprises a majority of Non-executive Directors. The independence of Directors is based on their capacity to put the best interests of the Group and its shareholders ahead of all other interests.

Should a Board vacancy exist, through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board identifies a panel of candidates with appropriate expertise and experience. A selection procedure is then completed and the Board appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Independent Directors

The Board comprises a majority of Non-executive Directors. The independence of Directors is based on their capacity to put the best interests of the Company and its shareholders ahead of all other interests.

Regular assessment of independence

An independent Director, in the view of the Company, is a Non-executive Director who:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional advisor or a material consultant to the Group, or an employee materially associated with a service provider;
- is not a material supplier or customer of the Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Group other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group.

The composition of the Board is reviewed periodically with regards to the optimum number and skills of Directors required for the Board to properly perform its responsibilities and functions.

STATEMENT OF CORPORATE GOVERNANCE

Chairman and Managing Director

Since January 2005 the office of Chair has been held by Mr Norman Seckold a non-independent Director. The Company does not follow recommendation 2.2 because the Board considers that the office of Chair is best served by Mr Seckold due to his extensive experience in the industry.

The Chairman leads the Board and has responsibility for ensuring the Board receives accurate, timely and clear information to enable Directors to perform their duties as a Board.

The Company follows recommendation 2.2 by having different individuals holding the roles of Chairman and Chief Executive Officer. Mr Mark Lochtenberg is the Managing Director of the Company and performs the role of Chief Executive Officer.

The Managing Director is responsible and accountable to the Board for the Group's management.

Board nominations

Having regard to the current membership of the Board and the size, organisational complexity and scope of operations of the Group, a Nomination Committee has not been established.

The Remuneration Committee has a documented charter, approved by the Board, which outlines the committee's responsibilities, composition, frequency of meetings, authority and the charter review process. The committee comprises a minimum of three members, of which a majority are Non-executive Directors. The Chairperson may not be the Chairperson of the Board.

Board remuneration

During the year, the composition of the Remuneration Committee was:

- J. Gillis Broinowski (Chairman);
- Mark H. Lochtenberg; and
- Lindsay R. Flint.

Details of these Director's qualifications and attendance at Remuneration Committee meetings are set out in the Directors' Report.

The Remuneration Committee advises the Board on remuneration policies and practices generally, reviews and makes specific recommendations on the remuneration packages and other terms of employment of its Directors and senior executives and makes recommendations to the Board with respect to the following:

- executive remuneration and incentive policy;
- the remuneration of the Managing Director and any other executive Directors, the Company Secretary and all senior executives reporting directly to the Managing Director;
- an executive incentive plan and an equity based incentive plan;
- the remuneration of Non-executive Directors;
- superannuation arrangements;
- recruitment, retention, performance measurement and termination policies and procedures for Non-executive Directors, the Managing Director and any other executive Directors, the Company Secretary and all senior executives reporting directly to the Managing Director; and
- the disclosure of remuneration in the Company's public materials including ASX filings and the Annual Report.

Remuneration of Non-executive Directors is determined by the Board, upon the recommendation of the Remuneration Committee, within the maximum amount approved by shareholders from time to time. The Remuneration Committee reviews and establishes the level of remuneration for Non-executive Directors. The level of Director remuneration is to be set so as to attract the best candidates for the Board while maintaining a level commensurate with boards of similar size and type. There are no schemes for retirement benefits, other than superannuation, for Non-executive Directors.

For details on the amount of remuneration for each Director, refer to the Key Management Personnel note to the financial statements and the Remuneration Report in the Directors' Report. The Remuneration Report outlines the Group's remuneration policy, remuneration structure and amounts paid to Directors and senior executives.

STATEMENT OF CORPORATE GOVERNANCE

Performance review and evaluation

It is the policy of the Board to ensure that the Directors and executives of the Company are equipped with the knowledge and information they need to discharge their responsibilities effectively, and that individual and collective performance is regularly and fairly reviewed. Although the Group is not of a size to warrant the development of formal processes for evaluating the performance of its Board, individual Directors and executives, there is on-going monitoring by the Chairman and the Board. The Chairman also speaks to Directors individually regarding their role as a Director.

Induction and education

The Company has the policy to provide each new Director or officer with a copy of the following documents:

- the Audit Committee Charter;
- the Remuneration Committee Charter;
- the Code of Conduct;
- the Continuous Disclosure Policy; and
- the Share Trading Policy.

Skills knowledge and experience

Directors are appointed based on the specific corporate and governance skills and experience required by the Company. The Board consists of a relevant blend of personal experience in accounting and finance, law, financial and investment markets, financial management and public company administration, and, Director-level business or corporate experience required by the Company.

Professional advice

Each Director has the right to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, but such approval is not unreasonably withheld. A copy of the advice received by the Director is made available to all other members of the Board.

Terms of appointment as a Director

Directors, other than the Managing Director, are subject to re-election by the shareholders at least every three years.

Principle 3 - Promote Ethical and Responsible Decision Making

Code of Conduct and Ethical Standards

The Group has adopted recommendation 3.1 by establishing a formal code of conduct that guides compliance with all levels of legal and other obligations to stakeholders. The Code is focused on ensuring that all Directors, executives, and employees act with the utmost integrity and objectivity in carrying out their duties and responsibilities, striving at all times to enhance the reputation and performance of the Group.

The code of conduct outlines:

- the practices necessary to maintain confidence in the Group's integrity;
- the practices necessary to take into account legal obligations and reasonable expectations of stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Access to Company Information and Confidentiality

All Directors have the right of access to all relevant Company books and to the Company's executive management. In accordance with legal requirements and agreed ethical standards, Directors and executives of the Company have agreed to keep confidential information received in the course of exercising their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

STATEMENT OF CORPORATE GOVERNANCE

Share Dealings and Disclosures

The Group adopted recommendation 3.2 establishing a policy relating to the trading of company securities and has adopted the requirements of ASX Listing Rule 12.12 which restricts Directors and employees from trading in the Company shares. The Board restricts Directors, executives and employees from acting on material information until it has been released to the market. Share trading by Directors, executives or employees is not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the Corporations Act prohibits the purchase or sale of securities whilst a person is in possession of inside information.

Restricted Persons can only trade the Company's securities during specific trading windows. All periods outside the specific trading windows are closed periods where Restricted Persons are prohibited from trading in the Company's securities unless in special circumstances and with the approval of the Chairman.

Trading windows are the 60 days from the first trading day after each of the following:

- the day half year results are announced;
- the day full year results are announced; and
- the day of the Annual General Meeting.

Conflict of Interest

To ensure that Directors are at all times acting in the best interests of the Company, Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot, or is unwilling to remove a conflict of interest then the Director must, as required by the Corporations Act, absent himself from the room when Board discussion and/or voting occurs on matters about which the conflict relates.



STATEMENT OF CORPORATE GOVERNANCE

Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company as defined in the Corporations Act or the ASX Listing Rules. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction. The Company also discloses related party transactions in its financial report as required under relevant Accounting Standards.

Board Diversity

The Group does not have a diversity policy set in place and has not implemented recommendations 3.2, 3.3 and 3.4 for the year ended 30 June 2011. However, the Company does take into account the gender, age, ethnicity and cultural background of potential Board members.

Publicly Available Information

The Group has adopted recommendation 3.5 by making publicly available on the Group's website, www.cockatoocoal.com.au, the code of conduct and share trading policy under the corporate governance section.

Principle 4 - Safeguard Integrity in Financial Reporting

Audit and Risk Committee

The Audit Committee has a documented charter, approved by the Board. The committee comprises a minimum of three members, of which a majority are Non-executive Directors. The Company has departed from recommendation 3.4 that the Audit Committee be made up entirely of Non-executive Directors as the Company believes the function of the Audit Committee is enhanced by the presence of an Executive Director. The Chairperson may not be the Chairperson of the Board.

During the year, the composition of the Audit Committee was:

- Paul G. Chappell (Chairman);
- Peter J. Nightingale; and
- Robert A. Yeates.

Details of these Director's qualifications and attendance at Audit Committee meetings are set out in the Directors' Report.

The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group. The Audit Committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the Group operates.

The Managing Director and CFO state in writing to the Board that the financial records of the Group for the financial year have been properly maintained, the Group's financial reports for the financial year ended 30 June 2011 comply with accounting standards and present a true and fair view of the Group's financial condition and operational results. This statement is required annually.

The main responsibilities of the Audit Committee are to:

- review, assess and approve the annual, half year and concise financial reports and other financial information distributed externally;
- assess corporate risk assessment processes;
- assess whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence;
- each reporting period, ensure that the external auditor provides an independence declaration in relation to the audit or review;
- provide advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- assess the adequacy of the internal control framework and the Group's code of ethical standards;
- organise, review and report on any special reviews or investigations deemed necessary by the Board; and
- address any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

STATEMENT OF CORPORATE GOVERNANCE

The Audit Committee reviews the performance of the external auditors on an annual basis and members of the Audit Committee normally meet with them during the year to:

- discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half year and preliminary final reports prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results;
- review the draft annual and half year financial reports, and recommend Board approval of the financial reports; and
- review the results and findings of the audit, the adequacy of accounting and financial controls and to monitor the implementation of any recommendations made.

Principle 5 - Make Timely and Balanced Disclosure

The Group has adopted recommendation 5.1 by putting in place a continuous Disclosure Policy.

Continuous Disclosure to the ASX

The Board has a Continuous Disclosure Policy and has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules, the Company will notify the ASX promptly of information:

- concerning the Company, that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Principle 6 - Respect the Rights of Shareholders

Communications

The Group has adopted recommendation 6.1 by establishing a formal Shareholders Communication Policy that has been in place for this reporting period and made publicly available on the Group's website.

The information indicated in recommendation 6.2 is adopted by the Group and described under the heading "Communication to the Market and Shareholders" below.

Communication to the Market and Shareholders

The Board recognises its duty to ensure that its shareholders are informed of all major developments affecting the Group's state of affairs and has adopted a Shareholder Communication Policy. The policy provides that information will be communicated to shareholders and the market through:

- the Annual Report which is distributed to shareholders (usually with the Notice of Annual General Meeting);
- the Annual General Meeting and other general meetings called to obtain shareholder approvals as appropriate;
- the half-yearly Directors' and financial reports;
- quarterly activities and cash flow reports; and
- other announcements released to the ASX as required under the continuous disclosure requirements of the ASX Listing Rules and other information that may be mailed to shareholders.

The Group actively promotes communication with shareholders through a variety of measures, including the use of the Group's website and email. The Group's reports and ASX announcements are made available on the Group's website and on the ASX website, www.asx.com.au, under ASX code COK. The Group also maintains an email list for the distribution of the Group's announcements via email.

STATEMENT OF CORPORATE GOVERNANCE

Principle 7 - Recognise and Manage Risk

The Board is responsible for the identification, monitoring and management of significant business risks and the implementation of appropriate levels of internal control, recognising however that no cost effective internal control system will preclude all errors and irregularities. The Board regularly reviews and monitors areas of significant business risk.

Due to the size of the Group recommendation 7.2 is not relevant for Cockatoo because the Board has the oversight function of risk management and internal control systems. Therefore, the risk management functions and oversight of material business risks are performed directly by the Board and not by Management. The paragraph below contemplates the principles incorporated in the Group's Audit and Risk Committee Charter.

Internal Control and Risk Management

The primary vehicle for managing corporate risks is the Audit Committee appointed by the Board (currently performed by the Board). The Committee/Board reviews systems of external and internal controls and areas of significant operational, financial and property risk and ensures arrangements are in place to contain such risks to acceptable levels.

The Group ensures that appropriate insurance policies are kept current to cover all potential risks and maintaining Directors' and officers' professional indemnity insurance.

Internal Audit Function

The internal audit function is carried out by the Board. The Group does not have an internal audit department nor has an internal auditor. The size of the Group does not warrant the need or the cost of appointing an internal auditor.

CEO and CFO Declarations

The Group has adopted and complied with recommendation 7.3.

The Board has determined that the Managing Director and the CFO are the appropriate persons to make the chief executive and CFO declarations in respect of the year ended 30 June 2011, as required under section 295A of the Corporations Act and recommended by the ASX Corporate Governance Council. The Board is also satisfied that the internal control system is operating effectively in all material respects.

The Group has adopted and complied with recommendation 7.4:

- the Board conducted its evaluations regarding internal control and risk management;
- the Board has received the assurance from the Managing Director and CFO;
- the Group does not have a written policy on risks oversight management of business material risks because the number of people engaged in the Group's operations is minimal; and
- independent professional advice - subject to prior consultation with the Chairman, each Director has the right to seek independent legal and other professional advice at the Group's expense concerning any aspect of the Group's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

STATEMENT OF CORPORATE GOVERNANCE

Principle 8 - Remunerate Fairly and Responsibly

During the financial year ended 30 June 2011 the functions and responsibilities listed below were carried out by the Remuneration Committee.

Remuneration Committee Charter and Responsibilities

The Group has established a Remuneration Committee charter. The role and responsibility of the Committee/Board is to review and make recommendations in respect of:

- executive remuneration policy;
- Executive Director and senior management remuneration;
- executive incentive plan;
- Non-executive Directors remuneration;
- performance measurement policies and procedures;
- termination policies and procedures;
- equity based plans; and
- required remuneration and remuneration benefits public disclosure.

Composition of the Remuneration Committee

The Group endeavours for the Remuneration Committee to be structured so that is made up of:

- a majority of independent Directors;
- an independent Chairperson, who is not Chairperson of the Board; and
- at least three members.

Remuneration Policy

The Directors remuneration is adopted by shareholders at the Annual General Meeting. The salary and emoluments paid to officers are approved by the Board. Consultants are engaged as required pursuant to service agreements. The Group ensure that fees, salaries and emoluments are in line with general standards for publicly listed companies of the size and type of the Group. All salaries of Directors and statutory officers are disclosed in the Annual Report of the Group each year.

In line with recommendation 8.3, the Group has a policy to remunerate its Directors and officers based on a fixed and incentive component salary packages to reflect the short and long term objectives of the Group.

The salary component of the Managing Director's remuneration is made up of:

- fixed remuneration;
- equity based remuneration when invited to participate by the Board in the executive share option plan of the Group;
- superannuation payment at the rate and in the manner as required by law; and
- termination payment.

The salary component of Non-executive Directors is made up of:

- fixed remuneration; and
- equity based remuneration when invited to participate by the Board in the executive share option plan of the Group.

The Group has adopted recommendation 8.4 as follows.

- the Group discloses the names of Directors in the Remuneration Committee and the attendance of each Director to the Remuneration Committee meetings, within its Directors' Reports;
- the Group does not provide any schemes for retirement benefits other than superannuation; and
- the Group has made publicly available a summary of the Remuneration Committee charter on the Group's website.

