

OPERATING AND FINANCIAL REVIEW

OVERVIEW

The year ended 30 June 2011 has been another significant year in the development of Cockatoo Coal Limited ('Cockatoo' or 'the Company') and its controlled entities ('Group').

The Company's results for the year were disappointingly adversely affected by severe wet weather in Queensland which ultimately resulted in the Baralaba mine being flooded in December 2010. However, the Company continued to expand its coal resources through exploration of its existing significant portfolio of projects, positioning to maximise infrastructure opportunities and by further project acquisitions. The Company is well placed to achieve its stated objectives of delivering expanded coal production from the Company's Bowen Basin projects through Wiggins Island Coal Export Terminal ('WICET') Stage 1, scheduled for 2014, and the Surat Basin projects through WICET Stages 2/3, scheduled for 2016.

During a period of significant growth and development, the Company's principal objectives have included:

- To employ a workforce of qualified professionals to grow with and deliver the Company's development plans.
- Operate the Baralaba mine as efficiently as possible in the prevailing extreme adverse weather conditions.
- Advance Bowen Basin exploration activities to increase the quantity and quality of resources and reserves to meet the requirements of an expansion of the Bowen Basin operations to utilise an increased port capacity through Stage 1 of the Wiggins Island Coal Export Terminal which is scheduled for 2014.
- Advance Surat Basin exploration activities to increase the quantity and quality of resources and reserves to meet the development requirements of the Surat Basin operations to satisfy the conditions to secure increased port capacity through Stages 2/3 of the Wiggins Island Coal Export Terminal ('WICET') which is scheduled for 2016.
- Manage the Company's tenements to meet the project development schedules.
- Ensure that the Company is positioned to secure a maximum entitlement to port and rail infrastructure capacity.
- Continue to expand the Company's operations through strategic 'right price, right fit' corporate transactions.



OPERATING AND FINANCIAL REVIEW

Since the end of the previous financial year, these principal objectives have been satisfied by major achievements including:

Corporate Highlights:

- Completion of the acquisition of interests in three coal projects located in the Surat Basin, Queensland, for \$105.5 million.
- Completion of the acquisition of a 30% interest in the Hume project from Pohang Iron and Steel Company ('POSCO') by the issue of 46,059,957 shares to POSCO for \$21.5 million.
- Korea Electric Power Corporation ('KEPCO') granted the Company a 3 year call option to purchase a 30% interest in the Bylong project.
- Completion of a \$153.3 million fully underwritten accelerated renounceable pro-rata entitlement offer and institutional share placement equity raising, by the issue of 367,529,571 shares.
- The acquisition by JFE Shoji Trade Corporation ('JFE Shoji') of the minority interest shareholding in Baralaba Coal Pty Limited ('Baralaba Coal') and Wonbindi Coal Pty Limited ('Wonbindi').
- The agreement to sell a 49% interest in the Woori project to Mitsui & Co. Ltd ('Mitsui') for \$37.25 million.
- Securing a \$50.0 million bank guarantee facility from Macquarie Bank Limited ('Macquarie') to support the development of the Company's coal assets and associated infrastructure requirements.
- Securing a \$65.0 million bank loan facility from KEB Australia Ltd ('KEBA') to support the ongoing development of the Company's coal assets, infrastructure requirements and for working capital purposes.
- A 263% increase in the number of employees from 19 to 69 as at year end together with a significant increase in the number of contractors directly engaged by the Company.



OPERATING AND FINANCIAL REVIEW

Operational Highlights:

Baralaba Mine, Queensland:

- Baralaba mine coal production was severely adversely affected by wet weather and flooding in December 2010.
- 181,081 tonnes of coal were produced at the Baralaba mine during the year.
- 74,997 tonnes of PCI coal and 187,639 tonnes of thermal coal were sold during the year.
- Production of raw coal recommenced in May 2011 and subsequent to year end, production levels have returned to normal levels following reparation of flooding of the Baralaba mine.
- Construction of a 1:1000 year flood-event levee bank, which is approximately 2.5 metres higher than the recent flood event, as part of the planned extension of operations.

Bowen Basin, Queensland:

- Despite exploration activities being hampered by wet weather for several months of the year, the Company's attributable JORC compliant resources at the Bowen Basin projects were increased by 24% to 127 million tonnes, including a 46% increase in the Measured and Indicated resource categories to 53.3 million tonnes.
- Attributable JORC compliant marketable reserves totalling 26.6 million tonnes have been defined at the Company's Bowen Basin projects.
- Core holes drilled for coal quality and washability studies in preparation for the expansion of the Company's Bowen Basin projects to utilise the 3.0 million tonnes per annum WICET Stage 1 port allocation scheduled for 2014.
- Exploration potential remains open in most directions.

Surat Basin, Queensland:

- The Company's attributable total JORC compliant resources at the Surat Basin projects (excluding Kingaroy and Ownaview) were increased by exploration and acquisitions by 107% to 863 million tonnes, including a 453% increase in the Measured and Indicated resource categories to 465.9 million tonnes.
- The acquisitions of the Collingwood and Taroom projects added 218 million tonnes to the Company's attributable total JORC compliant resources.
- The Company's attributable JORC compliant resources in the Surat Basin projects (excluding Ownaview) now approximate 1.1 billion tonnes.
- JORC recoverable reserves totalling 64.3 million tonnes (unwashed 26.5% ash product), and JORC marketable reserves totalling 40.6 million tonnes (washed 9.5% ash product), have been defined at the Woori project.
- Exploration potential remains open in most directions.

Sydney Basin, NSW:

- The Company diversified its geographic and project activities by the acquisition of a 30% interest in the Hume project and a 3 year call option for a 30% interest in the Bylong project, both located in the Sydney Basin.
- The acquisition of the Hume project added 34.5 million tonnes to the Company's inventory of attributable JORC compliant resources.
- The Hume project development team was established and initiated liaison with the community, government and stakeholders.
- Geological modelling of historic data has been prepared and exploration drilling activities commenced at the Hume project to validate historical drilling and confirm coking coal quality characteristics.
- As manager, the Hume project development team was established, a technical and sustainable development office, field offices, core sheds and site accommodation have been established.
- Exploration drilling was commenced and Phase 2 exploration plans have been submitted to the NSW Government for approval together with lease renewal applications.

OPERATING AND FINANCIAL REVIEW

Infrastructure:

- The Company was selected as a 3.0 million tonnes per annum WICET Stage 1 user.
- Expression of interest was lodged to participate in the development of WICET Stages 2/3.
- Financial close for WICET is expected in the September quarter.
- The Company has executed initial Agreements with WICET which leads to the eventual completion of financial close, along with other interested industry participants, to support the development of WICET Stages 2/3.
- Discussions advanced with both Queensland Rail and Surat Basin Rail for future capacity to Gladstone.
- Queensland Co-ordinator General approved the Surat Basin Rail EIS, permitting project development.

CORPORATE ACTIVITIES

Completion of the Acquisition of Interests in Development and Exploration Projects

On 24 December 2010, agreements were completed for the acquisition of development and exploration assets located in Queensland and NSW were completed. The projects acquired are:

- A 51% interest in the Collingwood project - an export grade thermal coal project in the Surat Basin with Mitsui holding the remaining 49% interest.
- A 51% interest in the Taroom project - an export grade thermal coal project in the Surat Basin with Mitsui holding the remaining 49% interest.

- A 51% interest in the Ownaview project - an export grade thermal coal project in the Surat Basin with Mitsui holding the remaining 49% interest. As part of a call option with KEPCO over a 30% interest in the Bylong project, the Company intends to transfer ownership of the 51% interest in Ownaview to KEPCO subject to satisfaction of certain conditions precedent.
- A 30% interest in the Hume project - an export grade metallurgical/thermal coal project in the Sydney Basin with POSCO holding the remaining 70% interest.
- A 30% call option over the Bylong project - an export grade thermal coal project in the northwest Sydney Basin owned by KEPCO.

A summary of the transaction structure is:

- Cockatoo acquired 100% of Anglo Coal (Taroom) Pty Ltd which owns 51% of the Taroom, Collingwood and Ownaview assets for \$105.5 million. As part of the call option with KEPCO over a 30% interest in the Bylong project described below, the Company intends to transfer ownership of the 51% interest in Ownaview to KEPCO subject to satisfaction of certain conditions precedent.
- POSCO acquired 100% of Anglo Coal (Sutton Forrest) Pty Ltd which owns 100% of the Hume project and transferred a 30% interest to Cockatoo for \$21.5 million.
- KEPCO acquired 100% of Anglo Coal (Bylong) Pty Ltd which owns 100% of the Bylong project and granted a 3 year call option for a 30% interest to Cockatoo. The 3 year call option has no up-front cost and entitles Cockatoo to acquire a 30% interest in Bylong for \$157.1 million plus an amount to repay KEPCO for 30% of the exploration and development expenditure incurred during the option period (grossed up to include interest at 10% p.a.).

The Company has been appointed as manager of all the Collingwood, Taroom, Hume and Bylong projects.

OPERATING AND FINANCIAL REVIEW

Capital Management

Equity Issues

During the year, the Company successfully completed a \$153.3 million fully underwritten accelerated renounceable pro-rata entitlement offer and institutional share placement equity raising comprising:

- the issue of 241,003,571 new fully paid ordinary shares on the basis of a 2-for-5 accelerated renounceable pro-rata entitlement offer ('Entitlement Offer') at an issue price of \$0.40 per new share to raise \$96.4 million; and
- the issue of 126,526,000 new fully paid ordinary shares on the basis of an institutional share placement ('Institutional Placement') at an issue price of \$0.45 per share which was determined via an institutional bookbuild to raise \$56.9 million.

On 17 September 2010, the Company successfully completed the institutional component of the Entitlement Offer ('Institutional Entitlement Offer') and the Institutional Placement. Under the Institutional Entitlement Offer, new shares equivalent in number to entitlements not taken up by shareholders were sold by way of an accelerated bookbuild process, resulting in a clearing price of \$0.45 per new share, representing a 12.5% premium to the underwritten issue price for the Entitlement Offer. Therefore institutional shareholders who elected not to take up their entitlements received \$0.05 for each new share not taken up (less any applicable withholding tax).

On 15 October 2010, the Company successfully completed the retail component of the Entitlement Offer ('Retail Entitlement Offer'). Under the Retail Entitlement Offer, new shares equivalent in number to entitlements not taken up by shareholders were sold by way of a bookbuild process, resulting in a clearing price of \$0.51 per new share, representing a 27.5% premium to the underwritten issue price for the Entitlement Offer. Therefore shareholders who did not take up their entitlements received \$0.11 for each new share not taken up (less any applicable withholding tax).

The Company also issued 46,059,957 new fully paid ordinary shares to POSCO for consideration of \$21.5 million to fund Cockatoo's purchase of its 30% interest in the Hume project.

Bank Guarantee Facility

On 9 May 2011, the Company entered into a \$50.0 million bank guarantee facility with a 31 December 2013 maturity date with Macquarie to support the development of the Company's coal assets and associated infrastructure requirements.

As part of the facility fee, the Company issued Macquarie 20,833,333 options, each to acquire one fully paid ordinary share in the Company at \$0.64 per share at any time up to 31 December 2013. Any proceeds from the exercise of the options will first be applied to repay any outstanding Facility amount.

A first ranking fixed and floating charge has been granted to Macquarie Bank in respect of the bank guarantee facility.

Bank Loan Facility

On 27 July 2011, the Company entered into a \$65.0 million loan agreement with KEBA, a wholly owned subsidiary of Korea Exchange Bank. The facility is to support the ongoing development of the Company's coal assets, infrastructure requirements and for working capital purposes.

The loan agreement, which has a 30 December 2011 maturity, is secured by a guarantee to KEBA from SK Networks Co., Ltd, the ultimate parent entity of SK Networks Resources Australia Pty Ltd, a shareholder of the Company. The Company has indemnified SK Networks Co. Ltd for any losses which may be incurred in relation to the facility and have granted a second ranking fixed and floating charge over the Company's assets and undertaking.

OPERATING AND FINANCIAL REVIEW

Sale of 49% of the Woori Project to Mitsui

On 8 July 2011, the Company reached an agreement with Mitsui for the sale of a 49% participating interest in the Woori project in the Surat Basin for \$37.25 million, representing \$0.90 per Measured Resource tonne defined at the Woori project. Completion of the agreement is subject to a number of conditions precedent.

Mitsui currently own 49% of the Collingwood and Taroom projects, and this transaction for the Woori project will equalise the ownership of these three most significant projects in the Surat Basin. The overall scope of the consolidated North Surat JV is to work on the completion of a feasibility study which will assess the three projects and determine the optimum development program and schedule in accordance with available infrastructure, on or before 31 December 2013.

The combination of three world class assets of Collingwood, Taroom and Woori into a single joint venture will allow Cockatoo and Mitsui to have a strong presence in the development of the Surat Basin province. As a frontrunner in the development of coal mines in the Surat Basin, the North Surat JV holds the Company's two development projects which are closest to the Surat Basin Rail corridor, and the large defined resources hold significant opportunity to maximise economies of scale.

Baralaba and Wonbindi Projects - Minority Interests

On 19 October 2010, orders were made by consent in the Supreme Court of New South Wales dismissing the proceedings commenced by Republic Coal Pty Ltd ('Republic') in April 2009 against Cockatoo, Baralaba Coal, Cockatoo Coal Marketing Company Pty Ltd, Norman Seckold, Mark Lochtenberg and Peter Nightingale. It was a condition of the settlement that the terms be kept confidential.

Subsequently, on 20 October 2010, the Company was pleased that JFE Shoji had acquired all of the issued shares in Republic.

Republic holds a 37.5% interest in Baralaba Coal, the holder of the Company's operating Baralaba mine, and a 20% interest in Wonbindi, the holder of the Company's Wonbindi and Baralaba North projects. The Company holds the remaining 62.5% interest in Baralaba Coal and 80% interest in Wonbindi. There is no change in this ownership structure of Baralaba Coal or Wonbindi as a result of JFE Shoji acquiring all of the issued shares in Republic.



OPERATING AND FINANCIAL REVIEW

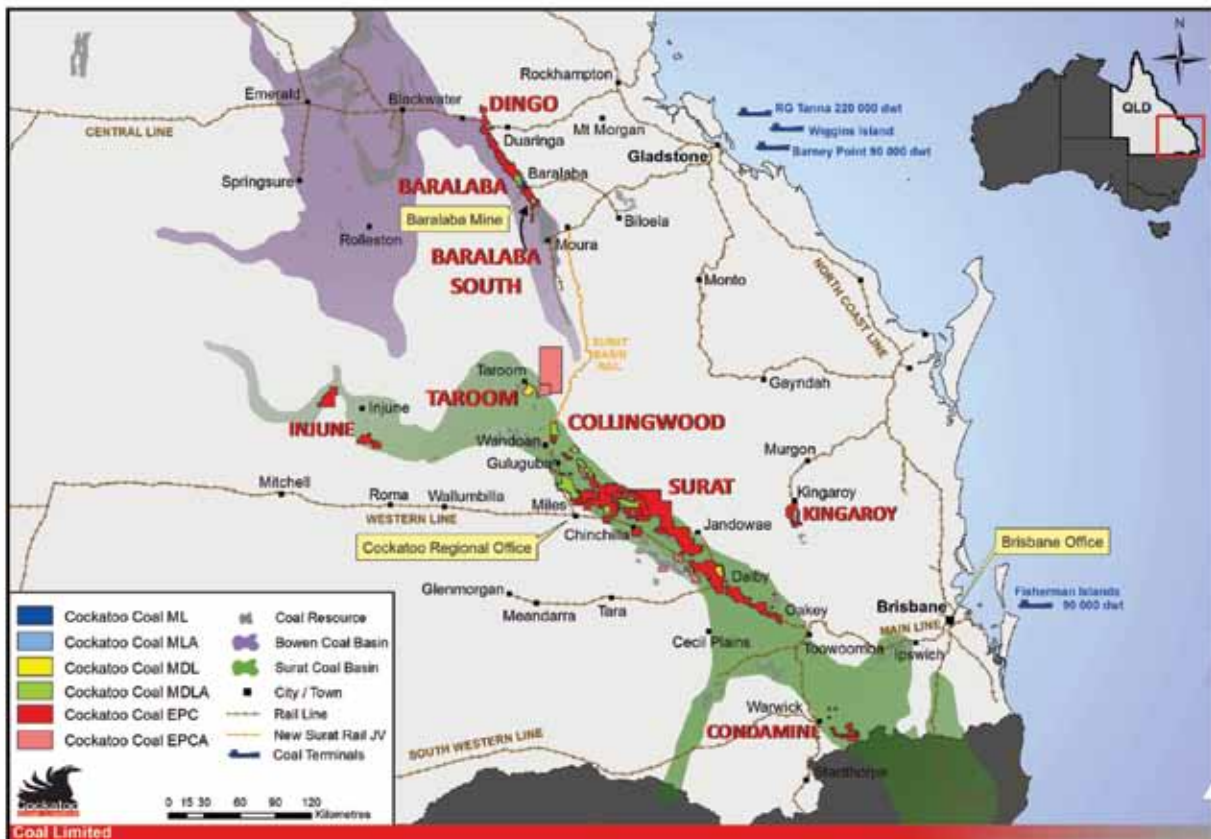
OPERATING ACTIVITIES

The Company is a coal mining, exploration and development company with projects in the Bowen and Surat Basins in Queensland and the Sydney Basin in New South Wales. As detailed below, the Company has a significant tenement portfolio with an interest in projects which have reported a total of 74.1 million tonnes of JORC compliant marketable reserves and 1,630 million tonnes of JORC compliant resources.

The Company's lead project is an operating mine and contiguous tenements located in the Bowen Basin, with a focus on ultra low volatile ('ULV') PCI and thermal coal products. The Company also has an extensive tenement portfolio in the Surat Basin with a focus on thermal coal and during the year acquired an interest in the Sydney Basin focused on export grade metallurgical/thermal coal.

As part of the ongoing development of the Company's projects, the following changes to the Company's tenements have occurred during the period under review:

- ML 80157 and EPCs 2107 and 2143 were granted.
- MLAs 80169 and 80170, MDLAs 451 and 452 and EPCAs 2207, 2231 and 2473 were lodged.
- MDLs 158 and 275, EPC 640 and AUTH 349 were acquired.
- MDL 138 was sold for a future royalty.



■ Queensland projects and tenements

OPERATING AND FINANCIAL REVIEW

A summary of the Company's projects' currently defined and reported coal reserves and resources, by project on a 100% basis, based on drilling for which details of drill hole co-ordinates and cumulative thickness of coal have been reported by the Company and are included on the Company's website is as follows:

| Project | Ownership (%) | Tenement | Depth of Resource (m) | JORC Classification | | | | |
|---------------------------|---------------|--------------------------|-----------------------|---------------------|---------------|----------------|---------------|--------------|
| | | | | Reserves | Resources | | | |
| | | | | Marketable (Mt) | Measured (Mt) | Indicated (Mt) | Inferred (Mt) | Total (Mt) |
| Baralaba Mine | 62.5 | MDL 184 (MLA 80169) | < 200 | 1.3 | 0 | 2.9 | 10 | 13 |
| | | ML 80157 | < 200 | | 1.8 | 3.1 | 2 | 7 |
| | | ML 5605 | < 100 | | 2.9 | 5.3 | 2 | 10 |
| Baralaba North | 80.0 | MDLA 416 (MLA 80170) | < 200 | 6.4 | 0 | 9.4 | 37 | 46 |
| Baralaba South | 80.0 | EPC 1047 | < 200 | 0 | 0 | 0 | 25 | 25 |
| | | MDL 352 EPC 1047 | < 175 | 25.8 | 0 | 44.7 | 19 | 64 |
| Bowen Basin Total | | | | 33.5 | 4.7 | 65.4 | 95 | 165 |
| Woori | 100.0 | MDL 187 MLAs 50247/50248 | < 110 | 40.6 | 84.3 | 0 | 0 | 84 |
| Collingwood | 51.0 | EPC 640 MDLA 452 | < 150 | 0 | 79.7 | 80.3 | 69 | 229 |
| Taroom | 51.0 | MDLs 158 and 275 | < 150 | 0 | 36.4 | 89.0 | 73 | 198 |
| Tin Hut Creek | 100.0 | EPCs 1134/813 MDLA 430 | < 150 | 0 | 0 | 206.6 | 137 | 344 |
| Bottle Tree | 100.0 | EPC 813 MDLA 433 | < 125 | 0 | 0 | 29.5 | 6 | 35 |
| Krugers | 100.0 | EPCs 796/1041 MDLA 441 | < 150 | 0 | 0 | 0 | 105 | 105 |
| Davies Road | 100.0 | EPCs 1041/813 MDLA 437 | < 150 | 0 | 0 | 0 | 76 | 76 |
| Kingaroy | 100.0 | EPC 882 | < 150 | 0 | 35.5 | 87.4 | 85 | 208 |
| | | EPC 882 | 150-300 | 0 | 0 | 40.9 | 29 | 70 |
| Surat Basin Total | | | | 40.6 | 235.9 | 533.7 | 580 | 1,350 |
| Hume | 30.0 | AUTH 349 | < 200 | 0 | 0 | 115.0 | 0 | 115 |
| Sydney Basin Total | | | | 0 | 0 | 115.0 | 0 | 115 |
| Group Total | | | | 74.1 | 240.6 | 714.1 | 675 | 1,630 |

OPERATING AND FINANCIAL REVIEW

BOWEN BASIN PROJECTS

The Company's Bowen Basin Projects comprise:

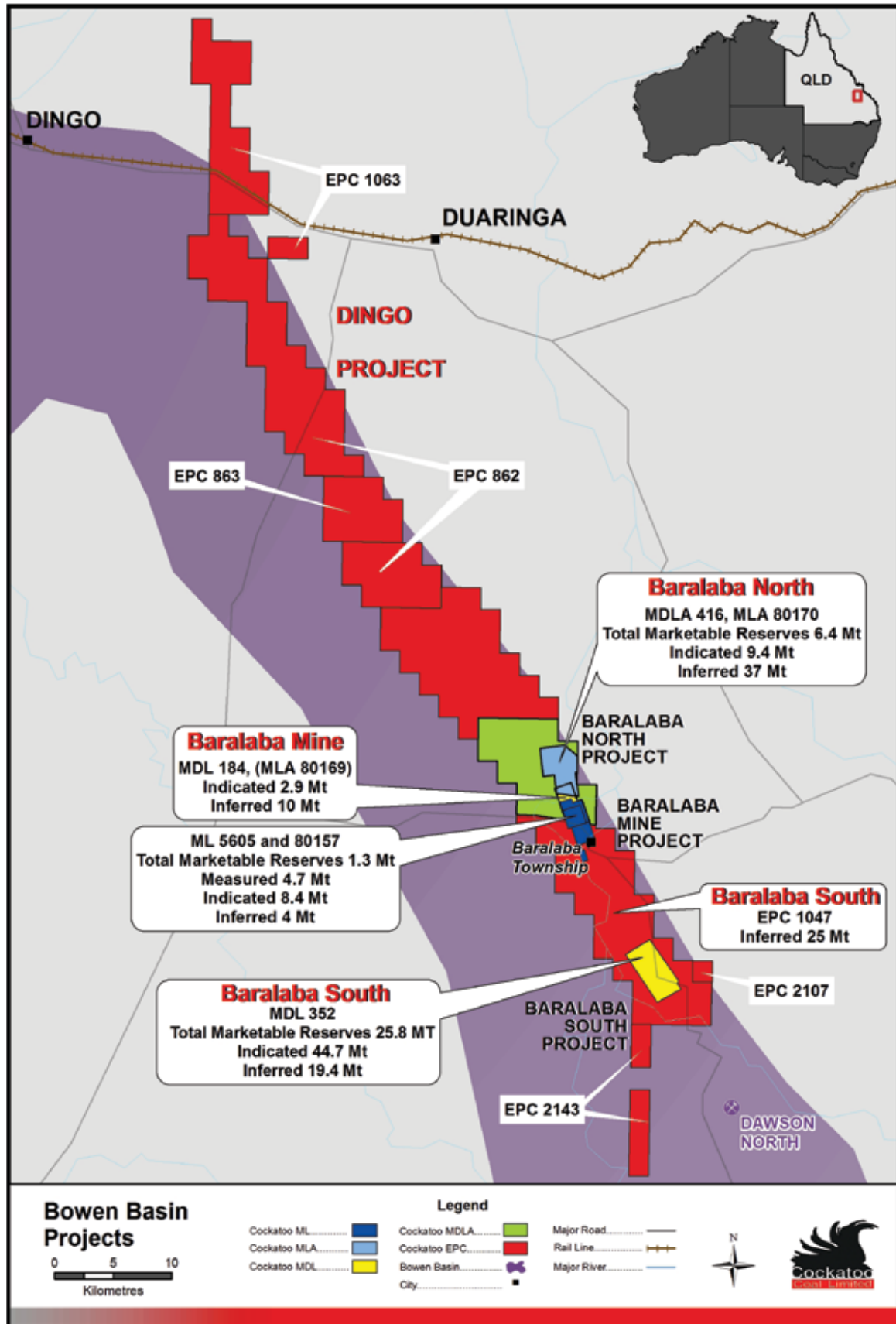
- Baralaba mine (MLs 5580, 5581, 5590, 5605 and 80157, MDL 184 and MLA 80169) which is held by the Company's 62.5% owned subsidiary, Baralaba Coal.
- Baralaba South project (MDL 352 and EPCs 1047, 2107 and 2143 to the south of the Baralaba Township) which is held by the Company's 80% owned subsidiary, Wonbindi.
- Baralaba North project (MLA 80170, MDLA 416 and EPC 1047 to the north of the Baralaba mine) which is held by the Company's 80% owned subsidiary, Wonbindi.
- Dingo project (EPCs 862, 863 and 1063) which is currently owned 49% by the Company's 100% owned subsidiary, Independent Coal Pty Limited and which is subject to a Joint Venture Farmout agreement.

The Company's Bowen Basin projects extend from the Dingo project in the north to the Wonbindi project in the south and have contiguous target areas covering an area of approximately 56,320 hectares with Permian age, Rangal Coal Measures sub-cropping over a strike length of approximately 92 kilometres. Production at the Baralaba mine has demonstrated that the seams of the Rangal Coal Measures in this area have PCI and thermal coal properties. The seams mined at the Baralaba mine have been intersected in the Baralaba South and Baralaba North target areas.

The southern boundary of the Company's Bowen Basin projects is 30 kilometres north of the Moura railway and 180 kilometres from the coal port of Gladstone. The northern tip of the Company's Bowen Basin projects is bisected by the Blackwater railway and is 225 kilometres from the coal port of Gladstone.



OPERATING AND FINANCIAL REVIEW



■ Bowen Basin project areas

OPERATING AND FINANCIAL REVIEW

Baralaba Mine

The Baralaba mine is located near the town of Baralaba in the south eastern limb of the Bowen Basin, Queensland which comprises the Rangal Coal Measures.

The Baralaba mine is an open-pit operation, managed by the Company and operated by contractors providing blasting, mining and haulage services. The Company undertakes its own coal preparation services. PCI coal for steel making and thermal coal are produced from multiple seams forming the well known Rangal Coal Measures. All the coal sold is exported from the port of Gladstone.

Baralaba Mine Production

Coal production for the year ended 30 June 2011 was adversely affected by severe wet weather in Queensland, culminating in flood water levels in the Baralaba region reaching record levels, equivalent to the 1:100 year flood design levels at the mine, and the Baralaba mine was flooded in late December 2010. Prior to this, coal production was reduced as a result of access for both road transport of product stocks and personnel entry to the Baralaba mine being restricted by flooding along the Dawson River.

No Company or contract personnel associated with the mine were injured as a result of the flooding and all Baralaba mine's key capital assets, including offices, workshop and coal processing equipment at Baralaba mine remained undamaged and on high ground.

Operating activities during the second half of the financial year were focused on dewatering the Baralaba mine in accordance with relevant Queensland state environmental regulations and pre-stripping an area of low strip (<10:1) ratio PCI coal adjacent to the main pit known as the Eastern Syncline. Overburden material being removed from the Eastern Syncline has been utilised in the construction of a levee bank equivalent to a 1:1000 year flood design, which is approximately 2.5 metres higher than the December 2010 flood event, as part of the mining lease requirements for the Baralaba complex's planned extension of operations.

Coal production recommenced in May 2011 and has now returned to normal planned production capacity of approximately 50,000 tonnes per month.

During the year, mining lease ML 80157 was granted, enabling mining at the Baralaba mine to continue north from the current operations in ML 5605. Mining in ML 80157 is expected to continue for approximately 24 months during which time the engineering works necessary to optimise mining beyond an Anabranche to the Dawson River, which is immediately north of the ML 80157 boundary, will be investigated.



OPERATING AND FINANCIAL REVIEW

A further mining lease application, MLA 80169, was made over the existing MDL 184 tenement. This mining lease application and adjacent MLAs, together with the grant of ML 80157 and the operating mine within ML 5605, map out the future expansion plans of the Baralaba mine and Baralaba North projects. The Company continues to assess the development options of the area of MDL 184 between ML 80157 and MLA 80169, which is coincident with the Dawson River Anabranch.

Coal production for the year ended 30 June 2011 was as follows:

| | September 2010 Quarter | December 2010 Quarter | March 2011 Quarter | June 2011 Quarter | Year Ended 30 June 2011 |
|-------------------|---------------------------|--------------------------|-----------------------|----------------------|----------------------------|
| ROM coal (tonnes) | 103,885 | 54,287 | 0 | 22,909 | 181,081 |
| Overburden (bcm) | 1,144,382 | 747,780 | 304,279 | 1,015,704 | 3,212,145 |

Baralaba Mine Coal Sales and Marketing

| Shipments | September 2010 Quarter | December 2010 Quarter | March 2011 Quarter | June 2011 Quarter | Year Ended 30 June 2011 |
|------------------|---------------------------|--------------------------|-----------------------|----------------------|----------------------------|
| PCI (tonnes) | 34,249 | 21,248 | 19,500 | 0 | 74,997 |
| Thermal (tonnes) | 60,038 | 98,016 | 0 | 29,585 | 187,639 |
| Totals | 94,287 | 119,264 | 19,500 | 29,585 | 262,636 |

As detailed above, shipment volumes were constrained during the year due to the effect of flooding on production levels and also due to local flooding restricting access to the Baralaba mine and transportation of coal from the mine.



OPERATING AND FINANCIAL REVIEW

Bowen Basin Exploration, Resources and Reserves

Despite exploration activities at the Bowen Basin projects being restricted by adverse weather conditions, exploration drilling has continued with four drill rigs now operating in the Baralaba mine and Baralaba North project areas, focussing on core drilling for raw coal quality and washability test work, to systematically advance the geological and coal quality understanding, exploration and mine development potential of the Baralaba mine and Baralaba North projects.

The culmination of these exploration activities is as follows:

- The Company's attributable JORC compliant resources at the Bowen Basin projects were increased by 24% to 127 million tonnes, including a 46% increase in the Measured and Indicated resource categories to 53.3 million tonnes.
- Attributable JORC compliant marketable reserves totalling 26.6 million tonnes have been defined at the Company's Bowen Basin projects.
- Sufficient reserves have been defined for the Company's WICET Stage 1 coal export allocation of 3.0 million tonnes per annum.
- Newly defined Measured and Indicated resources are expected to further contribute to additional marketable reserves following mine planning evaluation of the results.
- The continuation of the coal quality coring program, laboratory analysis and interpretation of existing data has led to refinement in the geological models and enabled the upgrade of JORC Resource classifications.

The fault-bound structural domains are comprised of JORC Measured, Indicated and Inferred categories depending on the number of Points of Observation (drill holes) within each area and the probability of economically viable development. Drilling activities and coal quality analytical efforts have focused on the distinct structural domains and as such upgrades in the JORC Resource categories have occurred within these defined areas.

The known coal deposits at the Baralaba North and Baralaba South projects remain open to the north, east and west, while the Baralaba South project also remains open to the south, emphasising the excellent growth potential of the Company's Bowen Basin projects.

Conceptual mine planning over the Baralaba mine and Baralaba South projects will be further refined following the upgraded resources. The Company envisages future production from the Baralaba mine, Baralaba North and Baralaba South project areas, subject to rail and port upgrades, as a key step in the realisation of the Company's strategic goals.

Future activities, designed for the expansion of the Company's Bowen Basin projects to utilise the Company's WICET Stage 1 coal export allocation of 3.0 million tonnes per annum, will focus on:

- Core drilling for raw coal quality and washability data in the MLA 80170 area of the Baralaba North project.
- Additional open holes for structure and cored holes for raw coal quality and washability data within MDLA 416 and EPC 1047.
- Additional open holes and coal quality core drilling in the Baralaba South project area.

Drill hole co-ordinates, coal qualities and cumulative thickness of coal have been reported by the Company and are available on the Company's website.

Dingo Project

The Dingo project is held by the Company's 100% owned subsidiary, Independent Coal Pty Limited and is subject to a joint venture farmout agreement. Limited exploration activities were undertaken during the year and at 30 June 2011, the Company's joint venture partner had earned a 51% interest in the Dingo project by the minimum cumulative expenditure of \$4.0 million.

OPERATING AND FINANCIAL REVIEW

SURAT BASIN PROJECTS

The Company's Surat Basin projects cover an area of approximately 4,000 km². The Juandah and Taroom Coal Measures of the Walloon Sub-Group both sub-crop within the Surat project area. The Woori, Tin Hut Creek and Davies Road projects are located in the Juandah Coal Measures and the Taroom, Collingwood, Bottle Tree and Krugers projects are located within the Taroom Coal Measures.

As detailed above, the Company has reached an agreement with Mitsui for the sale, subject to a number of conditions precedent, of a 49% participating interest in the Woori project from the Company's wholly owned subsidiary, Surat Coal Pty Ltd. Mitsui also currently own 49% of the Collingwood and Taroom projects and, together with the Woori project, will form the North Surat Joint Venture. The consolidation of the Collingwood, Taroom and Woori projects into one joint venture activity to be managed by Cockatoo will facilitate the orderly development of these projects.

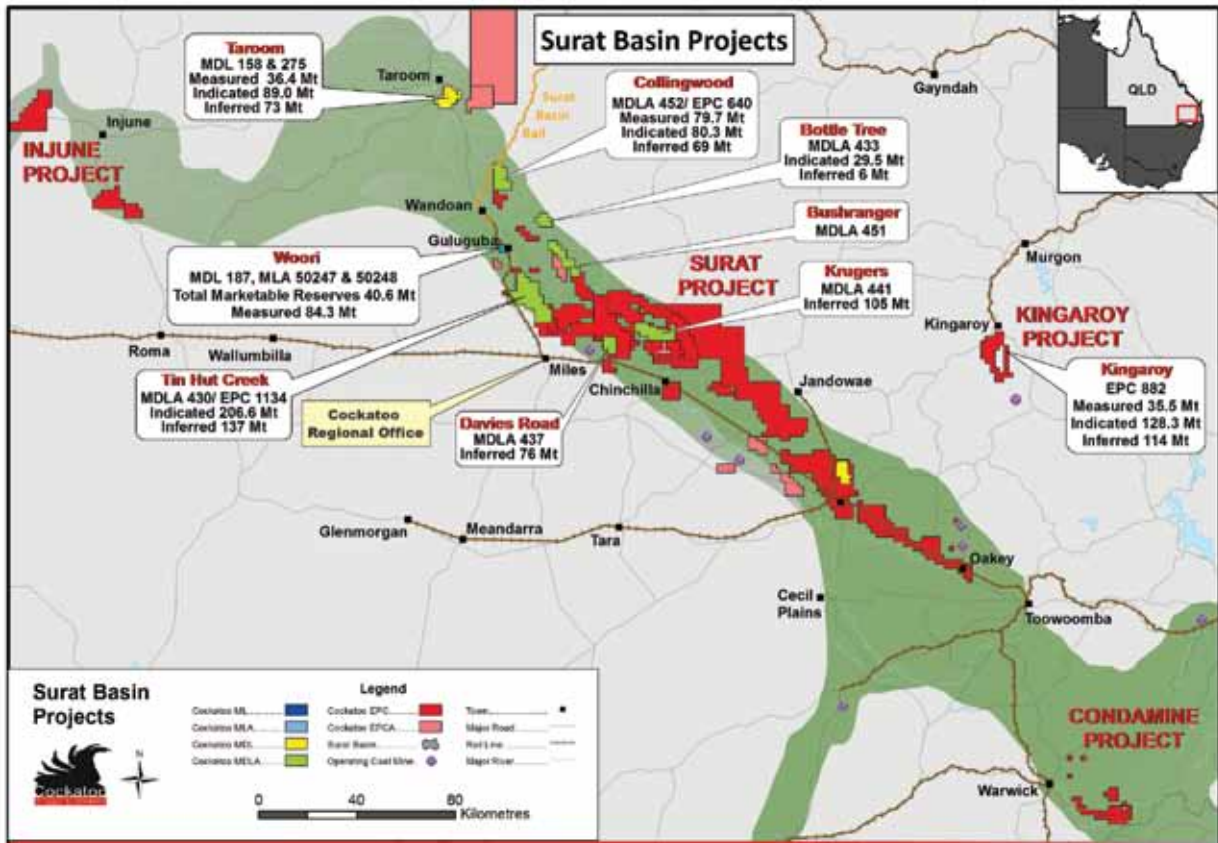
The Company holds a 100% interest in all other Surat Basin projects which comprise:

- Woori project (MDL 187 and MLAs 50247 and 50248).

- The Surat project (EPCs 796, 813, 1041, 1134, 1135, 1136, 1170, 1278, 1322 and 1950, MDLAs 430, 433, 437, 441 and 451 and EPCAs 1593, 1967, 2092, 2207, 2231 and 2473).
- Collingwood project (EPC 640 and MDLA 452).
- Taroom project (MDLs 158 and 275).
- Kingaroy project (EPC 882).
- Condamine project (EPCs 963 and 1130).
- Injune project (EPCs 1017 and 1018).

All projects, other than the Woori project, have not been fully explored and have further significant resource potential.

The Surat Basin is a well established energy province, with existing power developments, regional centres and service industries and existing infrastructure. The potential for development of a significant export coal industry from the Surat will be enhanced by the planned development of the Surat Basin Railway, connecting the region to the port of Gladstone by developing a new rail freight corridor from Wandoan northwards to the existing Moura-Gladstone rail line, joining at the township of Banana.



■ Surat Basin project areas

OPERATING AND FINANCIAL REVIEW

The construction of the Surat Basin Railway project will be the single biggest economic injection ever for the Darling Downs, which encompasses the Surat Basin, and will open up the production and export of thermal coal from the coal rich Surat Basin.

In anticipation of the development of both new rail and port infrastructure to facilitate coal exports, the Company has pursued a strategy to be a significant early mover in the development of the Surat Basin coal industry. This strategy has been implemented by securing highly prospective exploration tracts by either acquisition or direct lodgement of application for exploration areas with the Queensland Government and embarking on an aggressive drilling program to fast track the definition and upgrading of resources.

Acquisition of the Collingwood and Taroom Projects

As detailed above and consistent with the Company's Surat Basin development strategy, on 24 December 2010 the Company completed the acquisition of 51% the Collingwood, Taroom and Ownaview projects. As part of the Bylong call option with KEPCO described above, the Company intends to transfer ownership of the 51% interest in Ownaview to KEPCO subject to satisfaction of certain conditions precedent.

The Collingwood and Taroom projects comprise a high quality, export thermal coal resource with low ash/sulphur content and high calorific values. The location of these assets in the northern Surat Basin is highly complementary to the Company's existing strategic position in the emerging Surat Basin region.

Collingwood is located 22 kilometres north of the township of Wandoan, the location from which the proposed Surat Basin Railway will connect the Surat Basin to Queensland Rail's existing Gladstone to Moura rail network. Taroom is located 7 kilometres south of the township of Taroom and approximately 50 kilometres north of Wandoan.

Surat Basin Exploration, Resources and Reserves

Despite exploration activities in the Surat Basin projects being restricted by adverse weather conditions, exploration drilling has continued with three drill rigs now operating in the Surat Basin projects carrying out shallow open hole drilling, and coal quality coring for raw coal and washability data to provide essential information for prefeasibility studies including mine planning, geotechnical and overburden characterisation test work. In addition, drilling has been undertaken on the Collingwood, Taroom, Tin Hut Creek and Krugers projects to expand the resource boundaries through exploratory open hole drilling.

Mining planning and environmental studies, aimed at rapidly progressing feasibility studies and government development approvals, were initiated. Major contractors for planning and development studies were appointed, while at the same time the Company has been rapidly building up the in-house project management team for the Surat Basin projects.

During the year, drilling at the Collingwood project intersected a seam, typically 6 to 7 metres in thickness and close to surface, which was not previously identified during earlier historic drilling. The seam, which has vertical strip ratios of less than 2:1, has been cored and sampled for coal quality analysis.

Drilling at the Taroom project has cumulative down hole coal intercepts of up to 14.7 metres with an average thickness of 10.0 metres.

The strike length of the Tin Hut Creek project was extended by 6.0 kilometres to 13.5 kilometres from northwest to the southeast with drilling returning cumulative down hole coal intercepts of up to 12.1 metres with an average thickness of 9.1 metres.

Drilling during the year at the Krugers project returned cumulative down hole coal intercepts of up to 11.9 metres with an average thickness of 8.4 metres.

Drill hole co-ordinates, coal qualities and cumulative thickness of coal have been reported by the Company and are available on the Company's website.

OPERATING AND FINANCIAL REVIEW

The culmination of these exploration activities is as follows:

- The Company's attributable total JORC compliant resources at the Surat Basin projects (excluding Kingaroy and Ownaview) were increased by exploration and acquisitions by 107% to 863 million tonnes, including a 453% increase in the Measured and Indicated resource categories to 465.9 million tonnes.
- The acquisitions of the Collingwood and Taroom projects added 218 million tonnes to the Company's attributable total JORC compliant resources.
- The Company's attributable JORC compliant resources in the Surat Basin projects (excluding Ownaview) now approximate 1.1 billion tonnes.
- JORC run of mine reserves totalling 64.3 million tonnes (unwashed 26.5% ash product), alternatively JORC marketable reserves totalling 40.6 million tonnes (washed 9.5% ash product), have been defined at the Woori project.

The Proven Run of Mine Reserves estimate is based on a Woori project prefeasibility study with mining pit shells that accommodate surface infrastructure and

waste dumping requirements and maximise the extraction of the 84.3 million tonnes of Measured Resource.

It is possible that the 64.3 million tonnes of ROM coal, with 26.5% ash (air dried), could be sold unwashed. Alternatively, The Minserve Group Pty Ltd has reported a JORC Proven Marketable Reserve estimate of 40.6 million tonnes of washed coal with an ash content of 9.5% (air dried).

Further optimisation of the development of the Company's Surat Basin projects is likely as the viability of all of the projects is enhanced by their collective location, coal quantity and quality.

Future activities, designed for the evaluation and development of the Company's Surat Basin projects to coincide with the completion of the Surat Basin Railway to deliver coal to WICET Stages 2/3, currently scheduled for 2016, will focus on:

- Drilling activities that will provide essential information for prefeasibility studies including mine planning, geotechnical and overburden characterisation testwork.
- Upgrading resources to JORC compliant marketable reserves to support the future production growth of the Company's export thermal coal assets, subject to rail and port upgrades.



OPERATING AND FINANCIAL REVIEW

Other Surat Basin Projects

The Company holds a 100% interest in the Kingaroy project and the Taabinga coal deposit therein, the Condamine and Injune projects.

The Kingaroy project tenement, EPC 882, is situated south of Kingaroy in, the South Burnett Region. The northern area of EPC 882, described as Taabinga, has a JORC compliant resource totalling 278 million tonnes. The three main seams present at Taabinga are the Kunioon, Swain and Goodger seams.

The Kingaroy project is strategically located 25 kilometres from the Tarong power station, one of the largest power stations in Queensland. Tarong Energy Corporation has announced that it will develop the Kunioon coal deposit (MDL 201) acquired by Tarong Energy Corporation in February 2008 for \$152 million, for future supply to Tarong power station. The Kunioon deposit is encircled by the Company's Kingaroy project and potential synergies with Tarong Energy are being evaluated by the Company.

No field exploration work was undertaken at the Kingaroy, Condamine, or Injune projects during the year.

SYDNEY BASIN PROJECTS

The Company has an interest in the following Sydney Basin projects:

- Hume project (Auth 349) - 30% interest.
- Bylong project (Auths 287 and 342) - 30% call option.

The Company has been appointed as the manager of the Hume and Bylong projects and during the year established full project teams to undertake exploration, evaluation and development activities.

Hume Project

The Hume project is located in the southwest portion of the Southern Coalfield of NSW, approximately 160 kilometres from Sydney and 75 kilometres from Port Kembla. The project, which is located in an established coal field which has existing rail infrastructure providing access to Port Kembla, has a 115.0 million tonne JORC compliant Resource allowing both coking and thermal coal production. The coking coal exhibits strong metallurgical properties of very low phosphorus, high CSN, and good fluidity.

Subsequent to the acquisition of the Hume project on 24 December 2010, the Company's focus was to establish a dedicated project team and to initiate liaison with the community, government and relevant stakeholders.

Geological modelling of historic data has been completed and exploration drilling activities at the Hume project were commenced with the objective of validating historical drilling and confirm coking coal quality characteristics of the Wongawilli coal seam. The extent and quality of the underlying Tongarra Seam is also being investigated.

During the year, exploration drilling was commenced, returning cumulative down hole coal intercepts of up to 9.0 metres with an average thickness of 5.4 metres.

Bylong Project

The Bylong project is located in the Western Coalfield of the Sydney Basin in NSW, approximately 300 kilometres northwest of Sydney and 200 kilometres west of Newcastle. The Bylong project has a 423.0 million tonne JORC compliant Resource comprising a high quality export thermal coal with low ash/sulphur content and high calorific values. Bylong is located in an established coal field which has existing rail infrastructure providing access to the port of Newcastle.

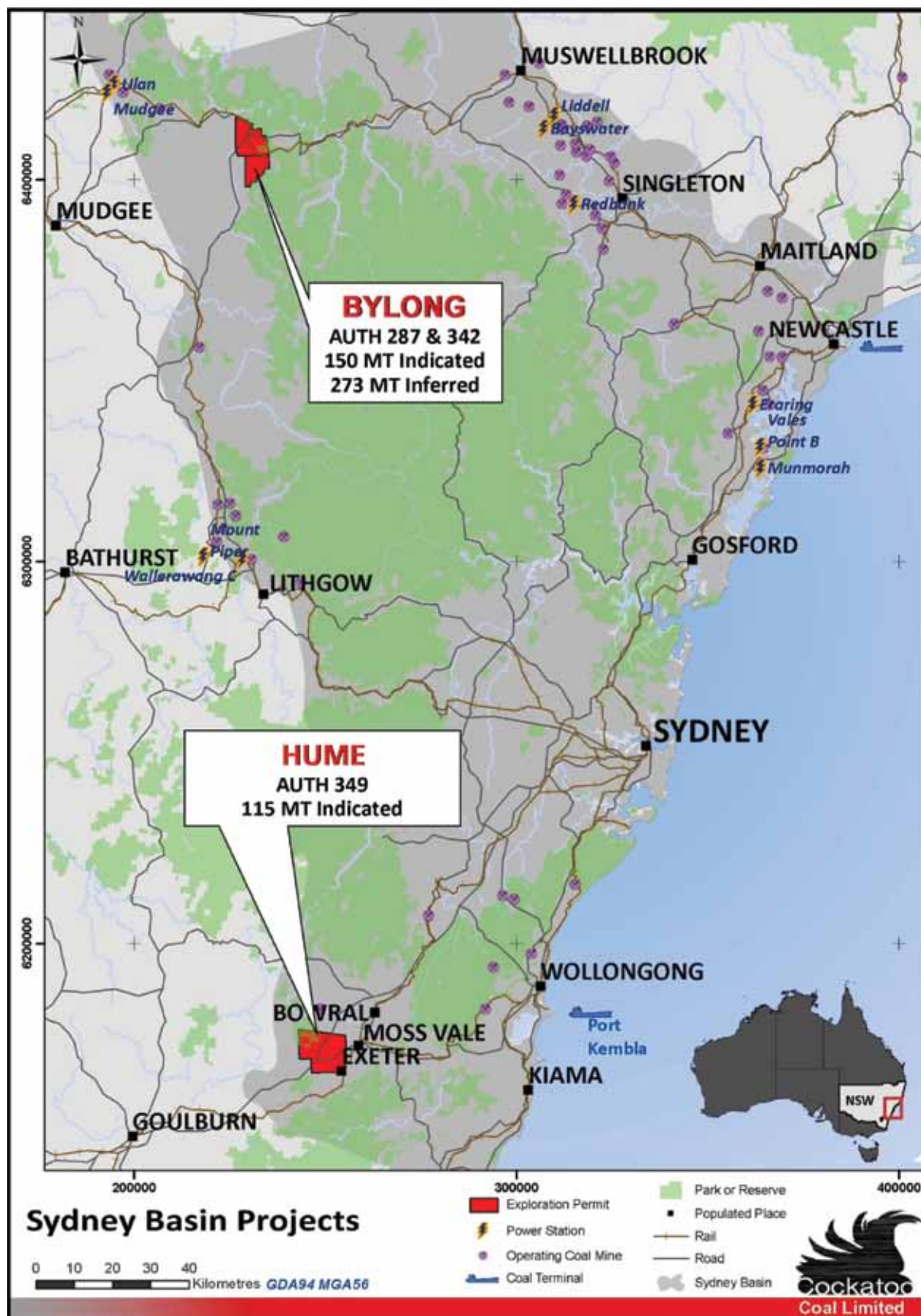
Subsequent to the acquisition of the Bylong project call option on 24 December 2010, the Company's focus was to establish a dedicated project team and to initiate liaison with the community, government and relevant stakeholders.

Detailed exploration plans for the first stage of exploration under the Company's management were developed with the goal to prove up the extent and quality of the Ulan and Coggan coal seams.

During the year, exploration drilling was commenced, returning cumulative down hole coal intercepts of up to 10.2 metres with an average thickness of 6.9 metres.

Phase 2 exploration plans have been submitted to the NSW government for approval. Lease renewal applications for A287 and A342 have been completed and submitted to the NSW government.

OPERATING AND FINANCIAL REVIEW



OPERATING AND FINANCIAL REVIEW

INFRASTRUCTURE

Wiggins Island Coal Export Terminal

During the year, the Company was selected as a 3.0 million tonne per annum Stage 1 WICET user at Gladstone, Queensland.

The Company plans to use this Stage 1 allocation, together with its existing RG Tanna port allocation at Gladstone, to expand its Bowen Basin PCI and thermal coal total sales output to 3.5 million tonnes per annum from 2014.

The Company advises that sufficient rail capacity to deliver these increased WICET Stage 1 coal volumes to Gladstone is expected to be available via the Company's existing rail access route.

A total of eight coal producers have committed to a total of 27 million tonnes per annum capacity for the Stage 1 development of WICET. All Stage 1 allocations are subject to the applicants signing Take or Pay Agreements and WICET reaching financial close. Intensive activity has continued by WICET and the Company subsequent to the end of the financial year to achieve financial close for the WICET project in 2011, launch early works construction activities; and finalise all necessary agreements and approvals with Government. This effort is expected to see financial close in the September 2011 quarter.

Each applicant, including the Company, has entered into a deed, supported by a bid bond, detailing its intention to execute a binding Take or Pay Agreement and to meet its proportionate share of WICET's ongoing project costs up to financial close.

Coal shipments through Stage 1 of WICET are expected to commence in 2014.

To support the Company's planned Surat Basin projects development, an expression of interest has been lodged to participate in Stage 2/3 of the WICET development which is expected to bring the total annual WICET export capacity up to 80.0 million tonnes from 2016. The Company has executed initial Agreements which lead to the eventual completion of financial close, along with other interested industry participants, to support the development of Stage 2/3 of the terminal by WICET.

Queensland Rail

During the year, the Company continued discussions with Queensland Rail in relation to infrastructure needed to support the development of the Company's Bowen Basin and Surat Basin project developments to the Port of Gladstone where the Company has been selected as a designated Stage 1 WICET user with an allocated port capacity of 3.0 million tonnes per annum.

The Surat Basin Railway ('SBR') is a key link to be developed that will open up the Surat Basin coalfields to the Port of Gladstone.

OPERATING AND FINANCIAL REVIEW

Negotiations to advance the SBR project and to secure rail capacity for the Company's projects continued during the year. The timing focus of all parties is to successfully align the attainment of future capacity at WICET for the Surat in a co-ordinated fashion with development of the SBR.

As previously reported, SBR advise that they have received notification from the Queensland State government that, having fulfilled a further tranche of SBR's obligations under their Exclusive Mandate, the Government are prepared to commence the declaration of the relevant State Development Area - an essential step in the securing of SBR's rail corridor.

In December 2010, the Queensland State Co-ordinator General announced that the Environmental Impact Statement and supporting reports, government approvals and evaluation of public submissions on SBR had received approval from the Department of Infrastructure and Planning, thus allowing the SBR project to proceed to the next stage of development.

OTHER

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Oliver Holm, geologist, who is a Member of the Australasian Institute of Mining and Metallurgy. Oliver Holm is a full-time employee of the Company who 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Oliver Holm has consented to the inclusion in this report of the matters based on his information in the form and context in which they appear.

