



Welcome back, David Lennox Thursday 8 Dec, 11

Cockatoo Coal Limited 07 Dec 11

COK AUD \$0.39

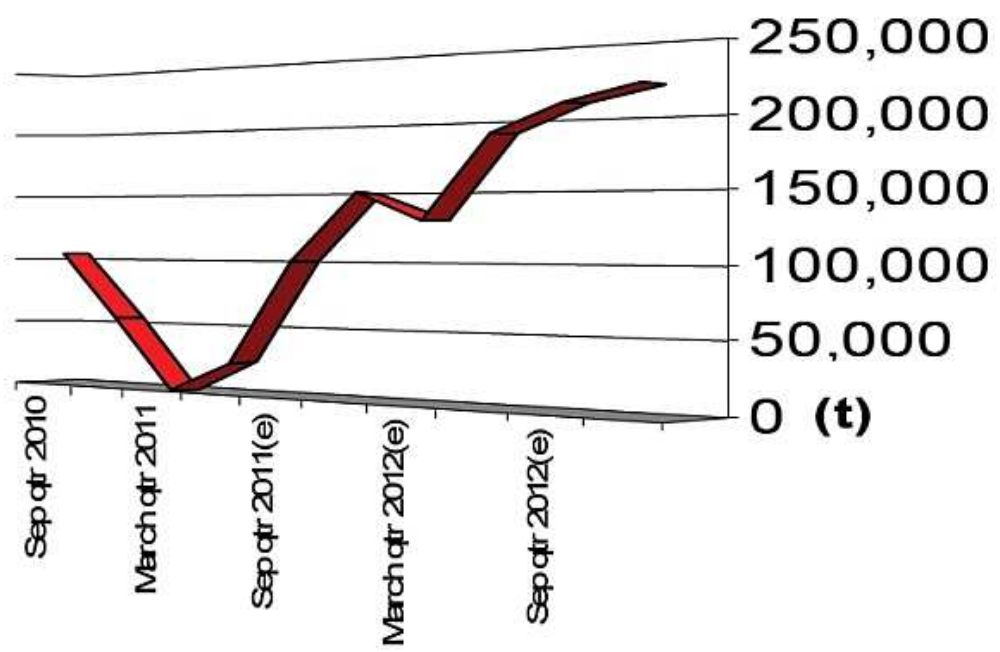
**Baralaba production returns to pre flood levels**

Production from Cockatoo Coal’s Baralaba mine (Cockatoo’s interest 62.5%) continues to improve as the last of any lingering effects from the December 2010 water inundation vanish. The presence of water did not dampen the drive by the company to upgrade its Bowen Basin coal resource during the September quarter. On the corporate front, an old partner buys into Woori.

For the September 2011 Quarter coal production has all but returned to normal pre-flood levels. The following table shows the production numbers for the past three quarters.

	March 2011 Quarter	June 2011 Quarter	September 2011 Quarter	YTD 2011
ROM coal (tonnes)	0	22,909	104,296	127,205
Overburden (bcm)	304,279	1,015,704	2,879,799	3,895,503

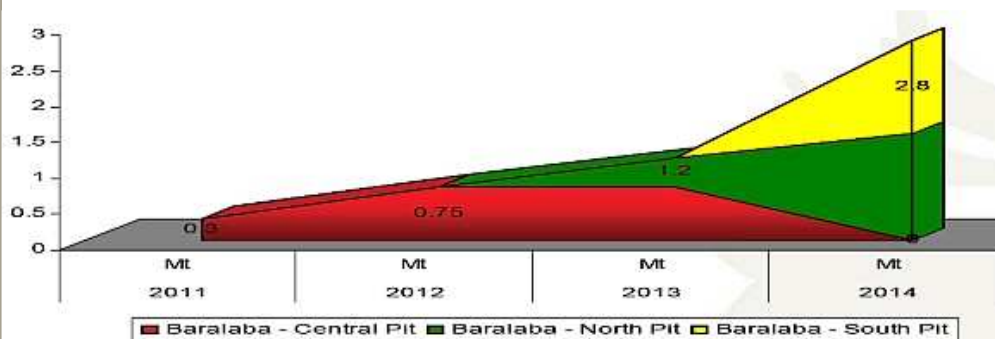
Coal production for the quarter was steady, rising only 0.4% on the previous corresponding quarter, to 104,296 run-of-mine tonnes. The Baralaba mine is now fully operational with coal extraction fully focused on the Baralaba Central Pit 2. Production levels are now stable compared to the flood effected December 2010 to the June 2011 Quarters. With operations now stable, going forward the company will look to increase production from the Baralaba mine. The following chart shows the company’s 12 month out per quarter forecast coal production levels.



Annual production is expected to reach 750,000 tonnes in the 2012 calendar year. The split between pulverised coal injection (PCI) and thermal coal production is expected to be 70% and 30% respectively. The better the portion of PCI in the production mix, the higher revenue will be generated, as PCI commands a premium price to thermal. At the time of writing, the 2012 forecast consensus premium between the PCI price and the thermal price was around US\$74 per tonne.

**Cockatoo Coal's Baralaba mine will generate a comfortable operating margin based on a forecast gross operating cost of US\$115 per tonne free on board, and the forecast prices for its products in calendar 2012.**

Overburden removal continues to rise, with some 3.9 million tonnes removed from the Baralaba site during the September quarter. The rise is a function of the company's continued drive to open new mineralised zones around the current mine. Getting access to new coal seams within the Baralaba mine region will continue to drive upgrades to the company's mineral resource estimate and growth profile. The following figure shows the company's planned growth profile out to 2014 for the Baralaba operations only.



It is the growth in coal production from just the Baralaba operations that has been the main near-term driver of shareholder value. We are of the opinion however, the new projects currently underdevelopment in the Surat Basin, will as these come on stream add significantly to the company's future coal production profile and hence the company's value.

Woori will be the first of the Surat Basin assets to come on stream in 2016.

The company is targeting to produce 2.8 million tonnes of coal in calendar year 2014 and 9.9 million tonnes by 2016. Importantly, the quantity of PCI coal in the production mix will steadily improve to peak at 90% in calendar year 2014.

In support of current mining at Baralaba, the company's joint ore reserve code (JORC) mineral resource estimate stands at 168 million tonnes of ore. The following table shows the current mineral resource estimate and classifications for the Bowen Basin (the table is on a 100% basis with Cockatoo's project ownership interest shown in the second column from the left).

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	MLs 5605 and 80157	<200	1.2**	4.7	8.4	4	17*
	62.5	MDL 184 (MLA 80169)	<200	0	2.7	1.9	12	17
Baralaba North	80.0	MDLA 416 (MLA 80170)	<200	6.4	7.4	15.5	23	46
Baralaba South	80.0	EPC 1047	<200	0	0	0	25	25*
	80.0	MDL 352/EPC 1047	<175	25.8	0	44.7	19	64*
<b>Bowen Basin Total</b>				<b>33.4</b>	<b>14.8</b>	<b>70.5</b>	<b>83</b>	<b>168</b>

With the potential for further exploration success in the Bowen Basin, we are of the opinion future upgrades to the company's JORC resource for Baralaba will be forthcoming. In the September quarter some 96 holes were drilled totalling 12,723 meters (Baralaba North 52 holes totalling 7,224 metres, Baralaba 21 holes totalling 1,935 metres and Baralaba South 23 holes totalling 3,564 metres). It is the ability of the company to continually expand its resource base that will drive help drive future shareholder value.

Development of the company's coal assets in the Surat Basin continues to gather pace. In FAT-MIN-289 we reviewed the sale of the 49% of the Woori project, which is the most advanced project in the Basin, to Mitsui. The joint venture will take Woori through to full production, which is anticipated to be 2016.

The projects the company has in the Surat Basin continue to reveal the extent of the prospective nature of the region for coal. Following on from recent infill drilling activities at the Collingwood and Taroom projects, the mineral resource estimate has been upgraded for the Surat Basin. The following figure shows the current mineral resource estimate and classifications for the Surat Basin (the table is on a 100% basis with Cockatoo's project ownership interest shown in the second column from the left).

Project	Ownership (%)	Tenement	Depth of Resource (m)	JORC Classification				
				Reserves	Resources			
				Marketable (Mt)	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)
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	158.1	149.3	126	433
Tin Hut Creek	100.0	EPCs 1134/813 MDLA 430	<150	0	0	208.6	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	78	76*
Kingaroy	100.0	EPC 882	<150	0	35.5	87.4	85	208*
		EPC 882	150-300	0	0	40.9	29	70*
		<b>Surat Basin Total</b>		<b>40.6</b>	<b>357.6</b>	<b>594.0</b>	<b>633</b>	<b>1,584</b>

The upgrade lifted the known resource by a further 17% on the previous number, to 1.58 million tonnes. The drill programme not only increased the resource size but also allowed for upgrades to the classifications within the resource. Measured rose 129% on the prior release, to 357.6 million tonnes and indicated rose by 15% on the prior release, to 594 million tonnes. The mineable confidence in the resource has improved as a result of the upgrade of the classifications.

At 30 September 2011, the company had cash resources of A\$12.2 million. The cash position will be boosted with the completion of Woori sale to Mitsui Coal for A\$37.3 million. With cashflow returning to normal operational levels and its current cash position, places the company in a sound financial position to undertake all its current activities.

To aid in future development funding of activities in the Baralaba and Wonbindi projects in the Bowen Basin, the company has revised a working agreement with partner JFE Shoji. The revised agreement will require JFE Shoji to fund capital costs to their full equity interest of 37.5% in the Baralaba and 20% in the Wonbindi projects. JFE Shoji will also assist in the marketing of coal produced from the Bowen Basin. The revised agreement is beneficial to Cockatoo as it will defray that portion of development costs of each of the projects and provide marketing support in the Japanese and Asian markets.



Prices are coiling within a broader triangle formation, which is suggestive of an explosive breakout at hand. A sustained break above the congestion of the downtrend line and 200 day moving average at the 43 cents region would confirm of a bullish breakout. Should this scenario unfold, we would expect further gains to come over the medium term.



With reference to the weekly chart, a close above the technically important 200 week moving average at \$48 cents would signal broader term momentum to have rotated to the upside.

In summary, we continue to support the approach Cockatoo Coal is taking to build value for its shareholders. The company's alliance with major companies such as Mitsui should act as a catalyst in driving the company towards becoming a premier medium sized coal exporter.

**Management has been steadily unlocking the value in the company's coal assets with an eye to the long-term. We continue to recommend Cockatoo Coal as a buy for Members who hold no exposure to the stock.**

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