

COCKATOO COAL LIMITED
and its controlled entities

A.B.N. 13 112 682 158

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2014

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OPERATING AND FINANCIAL REVIEW

Corporate and Financial Summary

Successful \$156.9m equity raising, cornerstoned by Noble Group, SK Networks and Harum Energy

Repayment of \$100 million Korean Exchange Bank of Australia ('KEBA') loan facility

Restructure of Board and Senior Management

Fully underwritten \$255 million project finance facility from ANZ secured for the development of the Baralaba Expansion project, subject to certain conditions precedent

\$34.5 million guarantee facility from ANZ

Agreement to release \$37.0 million in restricted cash with the support of major shareholders, subject to shareholder approval

Takeover of Blackwood Corporation, positioning Cockatoo as the largest tenement holder in Queensland with over 2 billion tonnes of JORC compliant resources

Sale of 30% interest in Hume project

Acquisition of Baralaba minority interests

\$152 million impairment of non-core assets and investments

Operating Summary

Baralaba Expansion project declared a 'Prescribed Project' by the Queensland Government

Commenced development of the Baralaba Expansion Project

Grant of Mining Leases (ML80169 and ML80170) to mine at 1 million tonnes per annum

First coal extracted from Baralaba North operations in May 2014

Commissioning of new mining fleet and transition to Owner/Operator model

ROM coal production from Baralaba Complex in June 2014 quarter of 230,943 tonnes

Annual coal production from Baralaba Complex of 688,431 tonnes

Annual coal sales of 748,368 tonnes

EIS and Mining Lease Application's on schedule to obtain 3.5 million tonne approvals

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Overview

During the Year ended 30 June 2014 ('Period'), Cockatoo Coal Limited ('Cockatoo' or the 'Company') and its controlled entities ('the Group') completed various activities aimed at strengthening its funding position and operational capabilities to facilitate improved performance of the Baralaba mine complex and to begin development of the Baralaba Expansion project.

The initial phase of the Baralaba Expansion project is the development of the Baralaba North mine. The Baralaba North mine achieved 'first coal' in May 2014 and is now operating at an annualised production rate of 1 million tonnes per annum. This counter-cyclical development continues to be the focus of the Company, with methodical and efficient management resulting in the Baralaba North mine being delivered on time, and approximately 6% under budget to date. The Baralaba mine complex continues to operate as one of the lowest cost mines in Australia for Ultra-Low Volatile Pulverized Injection Coal (PCI), and the Company continues to focus on the optimisation of operating costs in this difficult market.

The Company has aligned the development of the Baralaba Expansion project with contractual infrastructure arrangements at the Wiggins Island Coal Export Terminal (WICET). Cockatoo remains on schedule to meet these commitments. Port and rail infrastructure access to allow Cockatoo to expand the Baralaba mine complex to 3.5 million tonnes per annum has been secured. The Company continues its disciplined approach to obtain the 3.5 million tonnes per annum mining leases, having submitted its Voluntary Environmental Impact Statement (EIS) and Mining Lease Application (MLA) under new Government legislation, aimed at accelerating the approvals process. The Company remains confident that these approvals will be granted in due course.

Whilst the Company's core focus remains the mining operations at Baralaba and the development of the Baralaba Expansion project, the Company has continued to significantly expand its coal reserves and resources across the Group through cost effective exploration and evaluation studies, as well as through the acquisition of Blackwood Corporation Limited ('Blackwood Corporation'). The Company's pipeline of quality coal projects are in various stages of progression and are positioned to take advantage of new and upgraded infrastructure when it becomes available for use and market conditions improve.

Corporate and Financial Review

Cockatoo underwent a major recapitalisation and restructure throughout the Period, emerging with an improved platform to begin development of the Baralaba Expansion project. Despite weaker coal prices and a resilient Australian Dollar, the Company was able to successfully attract new investment to pay down existing debt and fund the initial capital requirements to transition mining to Baralaba North.

Recapitalisation

Cockatoo successfully completed a \$156.9m equity raising in December 2013, comprising of three placements to:

- SK Networks Co., Ltd ('SKN') of 1,000 million Shares at \$0.05 per Share to raise A\$50 million
- Noble Group Limited ('Noble') of 866 million Shares at \$0.05 per Share to raise A\$43.3 million
- Institutional and Sophisticated investors including Harum Energy Australia Limited ('Harum') of 1,333.3 million Shares at \$0.045 per Share to raise A\$60 million; and
- Existing shareholders under a Share Purchase Plan of 80.5 million Shares at \$0.045 per Share to raise A\$3.6 million

The proceeds of the Equity Raising were utilised for Corporate activities, including repayment of the remaining \$95 million Korean Exchange Bank of Australia ('KEBA') loan facility, as well as the provision of funding for the Baralaba Expansion project.

ANZ Finance facilities

The Company also announced the execution of a credit approved commitment letter with Australia and New Zealand Banking Group Limited ('ANZ') for a fully underwritten \$255 million senior secured project finance package (the 'Facilities') comprising of:

- \$180 million Project Finance Facility
- \$20 million Cost Overrun Facility; and
- \$55 million Letter of Credit/Environmental Bonding Facility

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The Facilities have a seven-year tenor and, in conjunction with the Equity Raising, will provide funding for the Baralaba Expansion. The Facilities remain subject to the parties entering into definitive documentation, and drawdown is conditional upon:

- granting of regulatory approvals to increase production to 3.5 million tonnes per annum at the Baralaba North mine;
- entering into off-take agreements covering at least 75% of forecast production for three years from the Baralaba North mine;
- the required equity component of the project development costs having been spent; and
- other conditions precedent typical of a project financing of this nature.

The Company also executed a \$34.5 million non-cash backed guarantee facility agreement with ANZ, for the purpose of the Queensland Government's environmental bonding requirements for the Company's 1.0 million tonne per annum coal mining operation at Baralaba. This facility will be replaced with the ANZ senior secured project finance facility described above when available. The guarantee facility was fully drawn at 30 June 2014.

Takeover of Blackwood Corporation

Cockatoo launched friendly takeover offer for Blackwood Corporation during the period, obtaining control on 19 December 2013 and acquiring a 100% interest on 22 April 2014. The takeover formed part of the broader recapitalisation of the Company, and has expanded the Group's Queensland coal interests.

Restructure of Board and Senior Management

During the Period, Cockatoo restructured its Board of Directors and Senior Management, whilst also relocating the head office to Brisbane, Queensland. The Company appointed Mr Peter Richards as Non-Executive Chairman of the Board, as well as Messrs Tim Gazzard, Henry Cho and Rod Ruston as Non-Executive Directors. Biographies of the Directors and Senior Management of the Company can be found in the Directors Report. During the Period, Messrs Mark Lochtenberg, Peter Nightingale, Gillis Broinowski, Paul Chappell, Lindsay Flint, Soo-Cheol Shin and Hyunsoo (Hans) Kim resigned as Directors of the Company. The Board expresses its sincere appreciation to the Directors for their contributions to the Company.

Agreement to release \$37.0 million in restricted cash

Subsequent to year end the Company entered into an agreement with its major shareholders, Noble Group Limited ('Noble') and SK Networks Co., Ltd ('SKN'), and Australia and New Zealand Banking Group Limited ('ANZ') to release \$37.0 million in restricted cash. Under the arrangements, Noble and SKN will each procure a bank guarantee in favour of ANZ as replacement security (currently cash backed) for guarantees issued under the ANZ guarantee facility.

The arrangements are subject to an independent expert's opinion which will be used to obtain the approval of the Company's shareholders in a General Meeting which is scheduled to be held in October 2014. An initial cash release of \$18.5 million occurred on 1 September 2014. If the arrangements are not subsequently approved by shareholders, the Company is required to repay the \$18.5 million within 3 months of the General Meeting.

Sale of Hume Coal Pty Ltd

During the period, Cockatoo completed the sale of its 30% shareholding in Hume Coal Pty Limited for approximately \$10 million of cash and the cancellation of POSCO Australia Pty Ltd's (POSA) 134,807,307 shares held in the Company. The cancellation of POSA's existing shareholding under the transaction was effected by way of a selective capital reduction and \$5 million of the cash proceeds was used to repay the loan owing to KEBA. In addition, the Company received a non-binding Letter of Intent from POSA's parent company, POSCO, for the procurement of 1.0 million tonnes per annum of metallurgical coal from the Baralaba Expansion project.

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Acquisition of Baralaba Minority Interests

Subsequent to year end the Company entered into an agreement to acquire JS Baralaba Wonbindi Pty Ltd's (a subsidiary of JFE Shoji Corporation) minority interest in Baralaba Coal Pty Ltd and Wonbindi Coal Pty Limited for \$1. As part of the arrangements, the JFE Shoji shareholder loans will remain in place and accrued interest will be capitalised. The JFE Shoji shareholder loans will be repaid from Baralaba and Wonbindi cashflows after debt service (including project finance) on an equal dollar per dollar basis with the existing shareholder loans that the Company has advanced to Baralaba and Wonbindi.

Impairment of Group Assets

The corporate transactions that took place during the half year have enabled the Group to focus on the delivery of its core business, namely the expansion of PCI producing assets at Baralaba, whilst accumulating a portfolio of Queensland coal assets with various development timelines. As part of the recapitalisation, an independent valuation of Cockatoo and its assets was completed by Grant Thornton Corporate Finance ('Independent Expert') for the benefit of shareholders voting on the transaction.

In the opinion of the Independent Expert, certain assets held by Cockatoo had a fair value less than the current book value. Following a review of the valuations and expected development plans for those assets, the Directors of Cockatoo decided that it was appropriate to write down the book value of those assets to the level determined by the Independent Expert. Of the total impairment loss of \$152.0 million, \$141.5 million related to Surat Basin assets. The remainder of the impairment was recorded against the Dingo project and other investments. Whilst the headline loss for the year is disappointing, it is an opportunity for the Company to rebuild through the achievement of milestones through the development of the 3.5 million tonne per annum PCI coal mine at Baralaba North.

The Directors remain confident in the quality of the Group's project portfolio, inclusive of certain assets that were impaired throughout the period, and plan on the orderly and prudent development of these projects when market conditions improve, and related port/rail infrastructure is available for use. Cockatoo has optimised the expenditure profile of its portfolio through a series of negotiations with Government, allowing a platform for the review and rationalisation of the non-core assets held by the Group and the Company.

Operations & Development – Baralaba

Cockatoo's flagship asset is the Baralaba Complex which comprises the Baralaba Central mine and, following development activities during the year, the Baralaba North mine.

The Baralaba Complex is located near the town of Baralaba in the south eastern limb of the Bowen Basin, Queensland. The main geological sequence targeted within the project is the Rangal Coal Measures, with a terraced open-cut, truck & shovel operation being utilised at present. High quality, Ultra-Low Volatile PCI coal used for steel making purposes is produced from multiple seams within the mine, with export occurring through the Port of Gladstone.

Operations

Mining operations continued at the Baralaba Complex throughout the year with production steadily increasing to an annualised rate of 1 million tonnes per annum in line with current Government authorised limits and well ahead of schedule. The production profile of the Central pit was relatively stable during the year, with minor adverse impacts from weather. The planned wind down of operations within the Baralaba Central mine commenced subsequent to year end, and with the Baralaba North mine now being the predominant coal mine at the Baralaba Complex.

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Coal production for the year ended 30 June 2014 was as follows:

	September 2013 Quarter	December 2013 Quarter	March 2014 Quarter	June 2014 Quarter	Year Ended 30 June 2014
ROM coal (tonnes)	198,897	136,564	119,906	230,943	686,310
Overburden (bcm)	1,722,954	1,127,312	901,528	3,904,481	7,656,275

The high strip ratio recorded in the June 2014 quarter was due to initial pre-stripping of the Outrigger Pit at Baralaba North. The inherent strip ratio of the Outrigger Pit is 8.79.

Baralaba Mine Complex Coal Sales and Marketing

Tonnes of coal sold during the year ended 30 June 2014 was as follows:

Shipments	September 2013 Quarter	December 2013 Quarter	March 2014 Quarter	June 2014 Quarter	Year Ended 30 June 2014
PCI (tonnes)	59,755	231,459	65,025	103,767	460,006
Thermal (tonnes)	75,308	77,000	94,585	43,639	290,532

Mining Fleet

The commissioning of the new Liebherr 996 excavator occurred during the year, with the new machine commencing operations in April 2014. The excavator is the sixth largest in the world, and is capable of digging at three times the rate of Cockatoo's current fleet. The Liebherr 996 has an improved fuel efficiency rate than its predecessors, operating at a lower cost per cubic metre mined. Four new Caterpillar 793D dump trucks were also commissioned on site in April 2014, adding to the Cockatoo fleet on site.

Commencement of coal mining at Baralaba North

Cockatoo commenced coal mining operations at Baralaba North on 9 May 2014, with Deputy Premier, Minister for State Development, Infrastructure & Planning, and Local Member for the seat of Callide, the Hon. Jeff Seeney MP performing a ceremonial first dig alongside company representatives. The opening of Baralaba North mine provides immediate access to 100% PCI coal for the next 2 years, providing sufficient time for the completion of the coal handling and processing plant currently scheduled in 2016.

Human Resources

Operations at Baralaba have also transitioned from a contractor mining operation to Cockatoo becoming the mine operator, resulting in a significant increase in direct employees of the Company. As evidence of Cockatoo's desire to source and domicile workers local to the Baralaba project, over 70% of the operations employees reside in the Baralaba township area. It remains Cockatoo's strategy to employ locally as operations continue expand towards 3.5 million tonnes per annum. 207 people are currently employed across the Group's business, with 65% of staff being based at the Baralaba operations.

Prescribed Project

During the year the Baralaba Expansion project was declared a "Prescribed Project" by the Queensland Government, allowing the Queensland Co-ordinator General, if necessary, to become involved in the approvals processes for the construction, maintenance and operation of the project to ensure timely decision making. The declaration covers the Baralaba Expansion Project and all supporting infrastructure.

Development activities

Major Civil works were completed throughout the Period at Baralaba North, with the construction of the flood levy surrounding the project finalised, approximately 6% under budget. The Train Load Out, Stockyard and Balloon Loop civil/structural/mechanical/electrical packages were all released to the contractor market for competitive tender throughout the Period. The TLO is a critical piece of infrastructure for the Baralaba Expansion due to constraints at the existing load out facility, capping exports at 1 million tonnes per annum. The new TLO will be able to handle in excess of 3.5 million tonnes per annum, aligning with Cockatoo's export capacity at Gladstone. Construction of the next phase of the Baralaba Expansion project is expected to commence imminently.

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Approvals

Cockatoo was granted Mining Lease 80200 at Baralaba North on 27 February 2014 by the Department of Mines and Natural Resources. This infrastructure mining lease allowed the connection of the Baralaba Central and Baralaba North mines, assisting with heavy vehicle flow for construction and allowing a corridor for coal transportation. The mining lease was granted in a record 4 months from date of application, showcasing the Queensland Government's improved efficiencies in responding to statutory timeframes.

Cockatoo also announced that it had lodged its Voluntary Environmental Impact Statement ('EIS') for Baralaba North during the Period, with the Public Submission Period closing in July 2014. The EIS commenced the processes to obtain an Environmental Authority from the Queensland Government to mine within Baralaba North at 3.5 million tonnes per annum, an increase from the current authorisation of 1 million tonnes per annum. The EIS was prepared by Cockatoo, and was extensively peer reviewed before submission to allow DEHP to conduct its own reviews more efficiently. The EIS was also prepared under the Greentape Reduction measures implemented by the Queensland Government. The Company is currently working through the submissions received on the EIS. In parallel with the EIS, Cockatoo's 3.5 million tonnes per annum Mining Lease Application (MLA) at Baralaba North was also submitted. The Public Response Period for the MLA is now closed and no submissions were received.

Baralaba Exploration

During the Period, the Company continued exploration and development drilling activities at its Bowen Basin projects with various programs focussed on open hole chip drilling, coal quality coring, and geotechnical drilling at the Baralaba projects to advance the necessary knowledge base for mine planning and operations. It is expected that the exploration activities at Baralaba will result in an upgrade in JORC compliant Marketable Reserves and Resources.

Environment, Communities, Health & Safety

Community Consultation

Cockatoo has conducted a number of community consultation days during the year, offering an opportunity for Baralaba locals to receive information about Cockatoo's plans and activities, whilst also providing a forum for the community to give feedback to the senior management of the Company. These forums have so far proven to be successful, allowing the Company to actively address community issues in a timely and appropriate manner.

Community Funding

Noble Group, a major shareholder of Cockatoo, announced during the Period the investment of a Baralaba Community Fund aimed at improving the local amenity within the Baralaba region. Noble has agreed to commit \$375,000 towards the Baralaba community, primarily to promote improvements in education, health and infrastructure resources within the town.

Environmental

Cockatoo is pleased to advise that it recorded no significant environmental breaches at Baralaba throughout the Period. Cockatoo performs monitoring of water quality, noise emissions and dust emissions pertaining to the Baralaba operations, allowing for appropriate management of these areas. The Company also communicates these findings with community stakeholders.

Health & Safety

Health & Safety performance remains a key focus of the Company. The Company is pleased to report a 34.7% decrease in the Total Recordable Injury Statistics (TRIFR) versus the same period last year Financial Year. The Company's aim is to operate a harm free workplace. The TRIFR has been improved despite the Company approximately doubling the man hours worked on site, throughout the construction period of Baralaba North.

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Exploration Projects

Project Pipeline

Cockatoo's pipeline of development projects cover an area of approximately 8,300km², predominantly within the Bowen, Surat and Northern Galilee Basins. The Company has decided to restrict expenditure on these projects to the minimum required to keep them in good standing with the Government authorities. This strategy is likely to persist throughout the 2015 financial year.

Surat Basin Projects

Cockatoo's extensive Surat Basin holdings are strategically positioned in the North and Central parts of the coal basin, targeting the Juandah and Taroom Coal Measures of the Walloon Sub-Group. The potential for development of a significant export coal industry from the Surat will be governed by accessible infrastructure, such as the Surat Basin Rail project, connecting the region to the Port of Gladstone by developing a new rail freight corridor from Wandoan north to the existing Moura-Gladstone rail system.

The Company's Surat Basin projects have now been advanced to a stage where no further substantial field activities are planned for these projects until there is further clarity regarding the development progress of the Surat Basin Rail, as well as other major coal mine developments within the region. The exploration potential for future resource and reserve delineation remains at most of these projects.

Cockatoo's holds a 51% interest in the Northern Surat Joint Venture (with 49% partner MCH Surat Basin Investments Pty Ltd, a subsidiary of Mitsui Coal Holdings Pty Ltd) consisting of the Taroom, Collingwood and Woori Projects. These Cockatoo projects are the most progressed within this region, with studies having been performed previously to a pre-feasibility study level. The three projects contain over 300 million tonnes of JORC compliant Marketable Reserves, as well as over 700 million tonnes of JORC compliant Resources. These long life, low strip ratio assets present future development opportunities for the Company.

Complimentary to these projects are the Central Surat assets, 100% owned by Cockatoo, consisting of over 700 million tonnes of defined JORC compliant Resources within the project leases of Tin Hut Creek, Davies Road, Bushranger, Krugers and Bottle Tree. A review of these projects is being undertaken and these projects will likely progress when the fundamentals of the Australian coal market improve and the necessary rail and port infrastructure is available.

Galilee Basin Projects

Cockatoo holds the strategically located South Pentland project in the Northern Galilee Basin. The South Pentland project is located approximately 270km west of Townsville, and straddles the existing Mt Isa to Townsville Rail system, terminating at the Port of Townsville. The Project currently consists of 322 million tonnes of JORC Inferred Resource of ultra-low sulphur thermal coal. Although study and exploration costs have been significantly reduced, Cockatoo continues to investigate alternatives to utilise existing infrastructure to progress development at the project. Cockatoo continues to be represented in the region via memberships of the Mt Isa to Townsville Economic Zone (MITEZ), as well as representation on the North Queensland Resources Supply Chain Steering Committee, commissioned by the Federal and State Governments to oversee the long term planning of the supply chain corridor. In addition, a Memorandum of Understanding between the Company, Queensland Rail and the Port of Townsville exists, allowing joint investigation of supply chain solutions to support a coal export terminal.

In addition to South Pentland, Cockatoo also possesses the unexplored North Hughenden project, providing an additional Galilee Basin opportunity that could potentially utilise similar infrastructure to the South Pentland project.

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Other Projects

In addition to the pipeline projects above, Cockatoo possesses a number of greenfield exploration projects throughout Queensland, including Calen, South Rolleston, Dingo West, Capella, Bymount, Injune and Kingaroy. These assets continue to be assessed for rationalisation and/or development opportunities.

A summary of the Company's projects' currently defined and reported JORC compliant 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 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	MLs 5605 and 80157	<200	1.0	4.3	8.4	4	17
	62.5	ML 80169 and MDL 184	<200	3.4	8.5	2.2	8	19
Baralaba North	80.0	ML 80170, MDL 416 and EPC 1047	<200	28.6	16.9	21.2	16	54
Baralaba South	80.0	MDL 352 and EPC 1047 (MLA 80193)	<200	37.0	35.5	17.2	114	167
	80.0	EPC 1047	<200	0	0	0	25	25
Lochinvar	80.0	EPC 1047	<200	0	0	4.0	60	64
		Bowen Basin Total		70.0	65.2	53.0	227	346
Collingwood	51.0	EPC 640 (MLAs 55011, 55012, 55015 and 55016)	<150	98.5	79.7	80.3	69	229
Taroom	51.0	MDLs 158 and 275 (MLA 55006)	<150	161.7	158.1	149.3	126	433
Woori	51.0	MDL 187 (MLAs 50247 and 50248)	<110	40.6	84.3	0	0	84
Tin Hut Creek	100.0	MDL 430	<150	0	0	206.6	137	344
Bottle Tree	100.0	MDL 433	<125	0	0	29.5	6	36
Krugers	100.0	EPCs 796 and 1041 (MDLA 441)	<150	0	0	33.2	130	163
Davies Road	100.0	EPCs 813 and 1041 (MDLA 437)	<150	0	0	14.4	35	49
Bushranger	100.0	EPC 813 (MDLA 451)	<150	0	0	18.8	126	145
Broadmere (formerly BWD Taroom)	100.0	EPC 1465	<150	0	0	0	52	52
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		300.8	357.6	660.4	795	1,813
South Pentland	100.0	EPC 1762 & 1486	200-600	0	0	0	322	322
		Galilee Basin Total		0	0	0	322	322
		Group Total		370.8	422.8	713.4	1,344	2,481

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Infrastructure Development

Port Arrangements

Cockatoo currently utilises the RG Tanna Coal Terminal at Gladstone to load its coal for export to the Asian region, with a long term contracted export capacity of 500,000 tonnes per annum, currently augmented to approximately 1 million tonnes per annum under short term arrangements. Cockatoo also possesses an equity interest in the Wiggins Island Coal Export Terminal ('WICET') and has a 3 million tonnes per annum take or pay agreement with WICET. WICET construction is approximately 90% complete, and forecast construction costs remain within WICET's secured financing envelope. Cockatoo continues to develop the Baralaba Expansion to align with current WICET construction and commissioning timelines, and has adjusted its schedule accordingly during the year.

Rail Arrangements

Rail contracts for both below rail access and above rail haulage are currently in place with Aurizon, satisfying the current production profile of the Baralaba Coal Mine, as well as aligning with future tonnage increases planned as the Baralaba Expansion continues. Cockatoo continues to negotiate with Aurizon to achieve mutually beneficial outcomes on take-or-pay obligations for rail haulage in line with WICET commitments.

Future Projects

Cockatoo continues to investigate additional rail and port opportunities for its Galilee and Surat Basin projects, ensuring that the Company is well positioned for future development of projects located within these basins.

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Competent Persons Statement

The information in this Report that relates to Cockatoo's Exploration Results, Mineral Resources and Ore Reserves is based on information compiled by Dr Oliver Holm, Mr Mark Winsley, Mr Lyon Barrett and Mr Lyndon Pass, who are all members of the Australasian Institute of Mining and Metallurgy (AusIMM)

Information was extracted from the reports detailed below, which are available to view at Cockatoo's website <http://www.cockatoocoal.com.au> and on Cockatoo's company announcement platform at <http://www.asx.com.au>

- 'Bowen Basin Projects Resource and Reserve Updated', released to ASX on 5 April 2013; and
- 'Surat Basin Projects Drilling and Resource Update', released to ASX on 16 January 2013
- 'Maiden JORC Resources at South Pentland & Taroom Projects', released to the ASX by Blackwood Corporation on 12 September 2013

Information pertaining to Cockatoo's projects was compiled by Dr Oliver Holm, geologist, who is a Member of the Australasian Institute of Mining and Metallurgy. Dr Holm was a full time employee of the company at the time of these publications, and 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'. Dr 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

Mr Winsley was the General Manager – QLD Exploration for Blackwood Corporation Limited at the time of resource publication and held shares in Blackwood. 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'. Mr Winsley consented to the inclusion in the report of the matters based on the information in the form and context in which it appears. Mr Winsley signed off as competent person for the validity of field data for Blackwood's South Pentland and Taroom projects

Mr Barrett is engaged as Principal Resource Geologist/Director of Measured Resources Pty Ltd and 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'. Mr Barrett consented to the inclusion in the report of the matters based on the information in the form and context in which it appears. Mr Barrett signed off as competent person for the resource estimate for Blackwood's South Pentland project

Mr Pass is engaged as Principal Geologist/Director of Encompass Mining Pty Ltd and 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'. Mr Pass consented to the inclusion in the report of the matters based on the information in the form and context in which it appears. Mr Pass signed off as competent person for the resource estimate Blackwood's Taroom project

The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and, in the case of the estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have no materially modified from the original market announcement.

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STATEMENT OF CORPORATE GOVERNANCE

This statement outlines the main Corporate Governance practices that were in place throughout the financial year 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 Company'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 Company and the best interests of shareholders as a whole. When the Company is not able to implement one of the Council's recommendations the Company 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 Company 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

Board of Directors

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

The Board also ensures that the Company 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 Company.

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 Company;
- the prudential control of the Company's finances and operations and monitoring the financial performance of the Company;
- 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.

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The Company has followed Recommendation 1.1 by establishing the functions reserved to the Board and those delegated to senior executives as disclosed above.

The Company has followed Recommendation 1.2 by evaluating the performance of senior executives. The Managing Director reviews the performance of direct reports and provides a report to the Remuneration Committee for their consideration and recommendations to the Board. In addition, the Company's senior executives are subject to performance evaluations on a face to face basis with the Board from time to time and the performance evaluation of the Managing Director is conducted by the Remuneration Committee.

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

The Company has followed Recommendation 1.3 by conducting the evaluations of senior executives in accordance with the process described above.

Principle 2 – Structure the Board to add value

Board of Directors – Composition, Structure and Process

The Company has followed Recommendations 2.2 and 2.3 as disclosed below.

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.

Independent Directors

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 Company, or an employee materially associated with a service provider;
- is not a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company 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 Company; 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 Company.

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The Board composition was altered during the year as a result of the recapitalisation transactions. The Board is currently comprised of 3 independent directors out of a total of 7 and therefore Recommendation 2.1 is not followed. However, the Board considers that the current number of directors is appropriate given the size and stage of development of the Company, the Board composition appropriately reflects the new shareholding structure, and the ability of the Board to function is not compromised.

Chairperson and Managing Director

During the year the Peter Richards was appointed Chair of the Company. As a result the Company now complies with Recommendation 2.2. 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 Managing Director is responsible and accountable to the Board for the Company's management. Andrew C. Lawson is the Managing Director of the Company and performs the role of Chief Executive Officer. Therefore, the Company follows Recommendation 2.3.

Board nominations

Having regard to the current membership of the Board and the size, organisational complexity and scope of operation of the Company, the function of a Nomination Committee is fulfilled by the full Board and a Nomination Committee has not been established. Therefore Recommendation 2.4 has not been followed.

Performance review and evaluation

The Company has followed Recommendations 2.5 and 2.6 by disclosing the process for evaluating the performance of the Board, and disclosure requirements under Principle 2 below.

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. Performance of the Board, committees and individual Directors and executives is monitored on an ongoing basis 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;
- the Share Trading Policy and
- the Shareholders Communication Policy.

Access to information

Each director has access to Board papers and all relevant documentation.

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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

Board members, with the approval of the Chairman, may seek from time to time external professional advice.

Term of appointment as a Director

The Constitution of the Company provides that a Director, other than the Managing Director, may not retain office for more than three calendar years or beyond the third Annual General Meeting following his or her election, whichever is longer, without submitting himself or herself for re-election. One third of the Directors (excluding the Managing Director) must retire each year and are eligible for re-election. The Directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

Remuneration

The remuneration of the Directors is determined by the Board as a whole based on recommendations from the Remuneration Committee, with the Director to whom a particular decision relates being absent from the meeting during the time that the remuneration level is discussed and decided upon.

For details on the amount of remuneration and any amount of equity based executive remuneration payment for each Director, refer to the Key Management Personnel note to the financial statements and the Remuneration Report in the Directors' Report.

Internal controls

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The system of internal control adopted by the Company seeks to provide an appropriate division of responsibility and careful selection and training of personnel relative to the level of activities and size of the Company.

Principle 3 – Promote ethical and responsible decision making

Code of Conduct and Ethical Standards

All Directors, executives and employees act with the utmost integrity and objectivity in carrying out their duties and responsibilities, endeavouring at all times to enhance the reputation and performance of the Company. Every employee has direct access to a Director to whom they may refer any ethical issues that may arise from their employment. The Company has followed Recommendation 3.1 and has adopted a formal Code of Conduct.

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.

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Share Dealings and Disclosures

The Company has adopted a policy relating to the trading of Company securities. The Board restricts Directors, executives and employees from acting on material information until it has been released to the market. Executives, employees and Directors should consult with the Chairman prior to dealing in securities in the Company or other companies with which the Company has a relationship.

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.

The trading windows for restricted persons are 60 days after the release of the half year results, the full year results or the holding of the Annual General Meeting. Restricted persons are prohibited from trading in the Company's securities outside these trading windows unless in special circumstances and with the approval of the Chairman.

Conflicts 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.

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 statements as required under relevant accounting standards.

Diversity

The Company's Board does take into account the gender, age, ethnicity and cultural background of potential Board members. Although the Company has established a Diversity Policy, it does not contain measurable objectives for achieving diversity. This is because the size and nature of the Company is such that the adoption of measurable objectives would not add to the function already provided by the Board and Executive Management in operating under the Diversity Policy. Recommendations 3.2 and 3.3 have therefore not been followed. The Company advises that 24% of the Company's employees are females, none of whom are classified as key management personnel.

Publicly Available Information

The Company has adopted Recommendation 3.5 by making publicly available on the Group's website, www.cockatoocoal.com.au, the Code of Conduct, Diversity Policy and Share Trading Policy under the corporate governance section.

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Principle 4 – Safeguard Integrity in Financial Reporting

Audit Committee

The Company has followed Recommendations 4.1, 4.2, 4.3 and 4.4 as disclosed below.

The Company has formed an Audit Committee which has a documented charter approved by the Board which is available on the Company's website. The Audit Committee comprises a minimum of three members who should be Non-executive Directors and a majority of Independent Directors. The Chairperson may not be the Chairperson of the Board.

At the end of the year, the composition of the Audit Committee was:

- Robert A. Yeates (Chairman);
- Peter Richards; and
- Henry Cho.

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

The Audit 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 2014 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.

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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 Company has followed Recommendations 5.1 and 5.2 and has adopted a formal Continuous Disclosure Policy that has been in place for this reporting period and made publicly available on the Company's website.

Continuous Disclosure to the ASX

The Board has designated the Managing Director, CFO and Company Secretary as being responsible for overseeing and co-ordinating disclosure of information to the ASX as well as communicating with the ASX. Accordingly 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.

Announcements are made in a timely manner, are factual and do not omit material information in order to avoid the emergence of a false market in the Company's securities.

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Principle 6 – Respect the Rights of Shareholders

Communications

The Company has followed Recommendations 6.1 and 6.2 and has adopted a Shareholders Communication Policy that is made publicly available on the Company's website.

Communication to the market and shareholders

The Board recognises its duty to ensure that its shareholders are informed of all major developments affecting the Company's state of affairs. The Board considers 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 financial statements;
- 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 or made available through the Company's website.

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

Principle 7 – Recognise and Manage Risk

The Company has followed Recommendation 7.1 and has designed policies for the oversight and management of material business risks as disclosed below.

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.

Management are responsible for the overall design and implementation of the risk management and internal control system. The effectiveness of the risk management and internal control system and any significant breaches are reported to the Board as required under Recommendation 7.2.

The principles incorporated in the Company's Audit Committee Charter are set out below.

Internal control and risk management

The primary vehicle for managing corporate risks is the Audit Committee in consultation with the full Board. The Audit Committee and Board review systems of external and internal controls and areas of significant operational, financial and property risk and ensure 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.

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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 Company has followed Recommendation 7.3. The Board has determined that the Managing Director and the CFO are the appropriate persons to make the CEO and CFO declarations as required under section 295A of the Corporations Act. The Board is also satisfied that the internal control system is operating effectively in all material respects.

The Company has followed Recommendation 7.4 by disclosing the information above.

Principle 8 – Remunerate Fairly and Responsibly

The Company has followed Recommendations 8.1, 8.2, 8.3 and 8.4 as disclosed below.

The Company has formed a Remuneration Committee which has a documented charter approved by the Board which is available on the Company's website. The Remuneration Committee comprises a minimum of three members who should be a majority of Independent Directors. The Chairperson may not be the Chairperson of the Board. The functions and responsibilities listed below were carried out by the Remuneration Committee.

At the end of the year, the composition of the Remuneration Committee was:

- Rod Ruston (Chairman);
- Peter Richards; and
- Rob A. Yeates.

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

Remuneration Committee Charter and Responsibilities

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 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.

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Remuneration Policy

Remuneration of Directors, senior executives and statutory officers is determined by the Board, upon the recommendation of the Remuneration Committee. All salaries of Directors and statutory officers are disclosed in the Annual Report each year and the Directors' remuneration is adopted by shareholders at the Annual General Meeting. Consultants are engaged as required pursuant to service agreements. Remuneration levels are set so as to attract the best candidates while maintaining a level of remuneration commensurate with Company's of similar size and type. There are no schemes for retirement benefits, other than superannuation.

The Company 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 Company.

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 as required by law.

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 Company's executive share option plan.

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 Company's remuneration policy, remuneration structure and amounts paid to Directors and senior executives.

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DIRECTORS' REPORT

The Directors present their report together with the financial report of the Cockatoo Coal Limited Group ('Group'), being Cockatoo Coal Limited ('Cockatoo' or 'the Company') and its controlled entities, for the year ended 30 June 2014 and the auditor's report thereon:

Directors

The names and particulars of the Directors of the Company at any time during or since the end of the financial year are:

Peter Ian Richards – Independent Chairman

BCom

Director since 15 January 2014.

Peter Richards has over 30 years of experience in the mining services and industrial sectors with global companies including BP plc, Wesfarmers, Dyno Nobel Limited and, most recently, Norfolk Group Limited where he served as Managing Director. In his time at Dyno Nobel, where he was Managing Director and CEO, Peter held a number of senior executive positions in both North America and Asia Pacific.

Mr Richards currently serves as a Director with several ASX-listed companies, namely Sedgman Limited, Emeco Holdings Limited, Bradken Limited, and as Chairman of NSL Consolidated Limited. He has a Bachelor of Commerce, Accounting and Economics, from the University of WA.

Andrew Canfield Lawson - Managing Director

BEc, LLB, MSc (Management)

Director since 24 April 2012.

Andrew Lawson has 13 years of experience in the coal sector as a member of Glencore International's coal division, based variously in Australia, Singapore and the USA, during which time he was actively involved in acquisitions, investment, operations and marketing.

Mr Lawson has a Masters of Science in Management from Stanford Graduate School of Business, California, USA and also has a Bachelor of Laws and a Bachelor of Economics from Sydney University.

Hyeondong (Henry) Cho – Non-executive Director

BEc

Director since 19 December 2013.

Henry Cho is the Head of Resources Development for SK Networks Co., Ltd and has more than 25 years' experience in investing in and administration of coal projects in Australia, Indonesia, and China.

Mr Cho has been responsible for SK Group's investments in various mining projects, including coal, iron ore, copper, lead/zinc and uranium in Australia, China, Indonesia, Brazil, Kazakhstan, Turkey, Mexico and Colombia. Mr Cho holds a Bachelor of Economics from Seoul National University.

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DIRECTORS' REPORT

Timothy James Gazzard – Non-executive Director

BEng (Mining), Grad Dip App Fin, MBA

Director since 19 December 2013.

Tim Gazzard is an Executive Director with Noble International Pte Ltd and is Global Head of Noble Group's metallurgical coal business. Mr Gazzard joined Noble in 2009 working in roles across Europe, China and, more recently, Indonesia. Prior to this he worked with Barclays Capital in Investment Banking and Thiess as a Mining Engineer in Australia, Indonesia and Peru.

Mr Gazzard has 15 years' experience in commodities across all aspects of the supply chain including mining, asset development, logistics, marketing, financing and M&A. Mr Gazzard graduated from the University of Queensland with a Bachelor in Mining Engineering and also holds a Graduate Diploma in Applied Finance and an MBA from London Business School.

Rodney John Ruston – Independent Director

BEng, MBA

Director since 15 January 2014.

Rod Ruston is an Australian mining engineer with nearly 40 years' experience in the resources industry, where he has had a wide range of roles including managing coal mining companies in Australia, building a heavy minerals (titanium) business in South Africa and leading a heavy construction and mining contractor in the Alberta oil sands in Canada.

He is currently CEO of County Coal Ltd, an ASX listed company that is working to build a coal business sourcing coal from the Powder River Basin in Wyoming, USA for sale to Asian markets. Rod is also on the board of AngloGold Ashanti, one of the world's largest gold miners, where he is Chairman of the Risk and Information Integrity Committee. Rod has a Bachelor of Engineering from the University of New South Wales and a Masters of Business Administration from The University of Wollongong.

Robert Ainslie Yeates – Independent Director

BEng [Hons], PhD, MBA

Director since 25 July 2005.

Dr Yeates began his career with Peko Wallsend working in a variety of roles including mining engineering, project management, general mine management and marketing. He became General Manager Marketing for Oakbridge Pty Limited in 1989 following a merger with the Peko Wallsend coal businesses and went on to become Managing Director of Oakbridge, which was the largest coal mining company in NSW at that time, operating the Bulga Open Cut, South Bulga, Ellalong, Gretley, Baal Bone and Clarence coal mines.

Dr Yeates has gained operating, business development and infrastructure experience as a director of Port Waratah Coal Services (Newcastle Port), Port Kembla Coal Terminal, Great Northern Mining Corporation NL and Cyprus Australia Coal and for the past 15 years has been principal of his own mine management consultancy, providing a wide range of technical, management and strategic planning services to the mining industry. He is also the former CEO of NCIG, which constructed and is operating the new coal export facility in Newcastle.

Dr Yeates is a graduate of the University of NSW, completing a Bachelor of Engineering (Honours 1) in 1971 and a PhD in 1977 and then an MBA in 1986 from Newcastle University.

Rob Yeates and Associates Pty Ltd has entered into a consultancy agreement with the Company, which may be terminated with one month's written notice, to provide consultancy services to the Group as required from time to time by the Group. These services will be carried out by, amongst others, Rob Yeates.

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Kenneth Scott Andrew Thompson - Non-executive Director

BEng (Mining) [Hons], MBA, MAusIMM

Director since 27 November 2009.

Scott Thompson is a Director of Harum Energy Australia Pty Limited and has 18 years of coal industry experience. Prior to joining the Tanito Coal Group in 2003, he worked with various international mining organisations including Anglo American and PT Adaro Indonesia. Mr Thompson holds a B.Eng (Hons) in Mining Engineering and an MBA from the University of Cape Town.

William James Randall, Alternate Director for Tim Gazzard

BBus

Alternate Director since 22 January 2014.

Mr Randall's career started with Noble Group in Australia in February 1997, transferring to Asia in 1999 where he established Noble's coal operations, mining and supply chain management businesses. He served as a Director of Noble Energy Inc before being appointed Global Head of Coal & Coke in 2006, and a member of the Noble Group internal management Board in 2008. He was appointed an Executive Director of Noble Group Ltd and Head of Hard Commodities in 2012, prior to which he was Head of Energy Coal & Carbon Complex.

John Gillis Broinowski, AM - Independent, Non-executive Director

Director from 25 July 2005 to 19 December 2013.

Gillis Broinowski is a Fellow of the Institute of Company Directors and formerly a director of the NSW Division of the Australian Institute of Company Directors. He is currently Managing Director of Vielun Pty Limited, Chairman of VLP Products Pty Limited and Chancellor Hattersley Lloyd Pty Limited, Chairman of The Thalidomide Foundation and director of the Stanford Australia Foundation. Former President and director of the Foundation for National Parks & Wildlife and former President and Director of the NSW Chamber of Commerce & Industry (Australian Business Limited, Chamber of Manufactures of NSW).

Mr Broinowski has had in excess of 25 years experience in the resources industry and is a former director of Peko Wallsend Operations Limited, Newcastle Wallsend Coal Co. Limited, Robe River Limited and former executive Chairman of Simsmetal Limited.

Paul Gregory Chappell - Independent, Non-executive Director

Director from 19 December 2005 to 19 December 2013.

Paul Chappell has had many years experience in the coal industry and in trading international commodities. He has particularly focused on solid fuels and has extensive experience in Asian, Latin American and European coal markets.

Mr Chappell is a graduate of the University of Newcastle, completing a Bachelor of Commerce in 1982, is a Fellow of the Australian Society of Certified Practising Accountants and a member of the Australian Institute of Company Directors. He began his career working in a financial capacity for a coal service company in Australia but soon progressed to trading by taking up the post of Country Manager, Brazil for three years for an international company trading raw materials.

He joined SSM Coal B.V., now Oxbow Carbon & Minerals LLC, in 1991 and spent 11 years with the company in Sydney. In 2002, he transferred to the company's head office in The Netherlands and was Director Commercial Operations Asia. He retained this role and relocated to Australia in October 2007. Since 2009 he has been the principal of Sydney based consulting firm Peragis Pty Limited where he specialises in the coal industry, international commodity marketing and international business development.

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DIRECTORS' REPORT

Lindsay Ross Flint - Independent, Non-executive Director

Director from 25 July 2005 to 19 December 2013.

Lindsay Flint is a graduate of the University of Queensland, completing a Bachelor of Engineering (Chemical) in 1967 and a PhD in 1971. He began his career in engineering research in the field of mineral processing and subsequently joined the coal industry with technical and then marketing roles.

For more than 20 years, he carried various portfolios of responsibilities in Shell's international coal business working in Australia and the UK. These provided a broad exposure to coal sourcing and transportation from Australia, South Africa, China, Canada and the Americas and to markets in Asia, Europe, the Middle East and Latin America. As General Manager Marketing, he was responsible for Shell Coal's global sales and distribution until Shell divested its coal interests to Anglo American in 2000. He continued with Anglo Coal Australia as General Manager Marketing for the following 2 years and has since maintained an active coal industry involvement as a contractor.

Hyunsoo (Hans) Kim - Non-executive Director

Director since 24 October 2012 to 19 December 2013.

Mr Kim graduated from Seoul National University with a bachelor's degree in economics in 1991 and then earned an MBA degree from Duke University in 2002.

In 1994, Mr. Kim joined SK Energy Co. Ltd., the largest energy and petrochemical company in Korea. He had initially worked for the Corporate Planning Division, where he participated in the activities such as strategic planning and corporate restructuring for the entire SK Group. Mr. Kim was then assigned to the Office of the Board of Directors of SK Energy in 2004 and contributed to the significant improvement in corporate governance of the company.

Mr. Kim joined Coal & Mineral Resources Division in early 2008 and is currently the Managing Director of SK Networks Resources Australia Pty Ltd., a subsidiary of SK Networks Co. Ltd. During the restructuring of the resources business within the SK Group in early 2011, SK Networks acquired SK Energy's Coal & Mineral Resources Division. Mr. Kim is also currently a director of Callabonna Resources Ltd.

Mark Hamish Lochtenberg - Executive Chairman

Managing Director from 28 January 2005 to 24 April 2012 and Executive Chairman from 24 April 2012 to 19 December 2013.

Mark Lochtenberg graduated with a Bachelor of Law (Hons) degree from Liverpool University, U.K. and has been actively involved in the coal industry for more than 20 years.

Mr Lochtenberg was the co-head of Glencore International AG's worldwide coal division following his heading up of the coal trading desk of Glencore's Australian coal trading operations. During that time, he was actively involved in purchasing, managing and aggregating the coal project portfolio which became Xstrata Coal.

Prior to this Mr Lochtenberg had established a coal 'swaps' market for Bain Refco (Deutsche Bank) after having served as coal marketing manager for Peko Wallsend Limited.

Mr Lochtenberg is a director of ATEC Rail Group Limited ('ATEC').

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DIRECTORS' REPORT

Peter James Nightingale - Executive Director and Chief Financial Officer

Director from 28 January 2005 to 19 December 2013 and Chief Financial Officer from 28 January 2005 to 28 February 2014.

Peter Nightingale graduated with a Bachelor of Economics degree from the University of Sydney and is a member of the Institute of Chartered Accountants in Australia. He has worked as a chartered accountant in both Australia and the USA.

As a director or Company Secretary Mr Nightingale has, for more than 25 years, been responsible for the financial control, administration, secretarial and in-house legal functions of a number of private and public listed companies in Australia, the USA and Europe including Bolnisi Gold NL, Callabonna Uranium Limited, Mogul Mining N.L., Pangea Resources Limited, Perseverance Corporation Limited, Timberline Minerals Inc., Valdora Minerals N.L. and Sumatra Copper & Gold plc. Mr Nightingale is currently a director of Augur Resources Ltd, Planet Gas Limited and unlisted public company Nickel Mines Limited.

Soo-Cheol Shin - Non-executive Director

Director from 26 March 2012 to 14 August 2013.

Soo-Cheol Shin has a degree in public administration from the Hankuk University of Foreign Studies and has over 20 years' experience working internationally with Korean based steel manufacturer POSCO.

Currently he is Managing Director of POSCO Australia Pty Ltd which is a 100% subsidiary of POSCO.

COCKATOO COAL LIMITED
and its controlled entities
DIRECTORS' REPORT

Senior Management

The names and particulars of the Senior Management of the Company at the end of the financial year are:

David Smith - Chief Financial Officer

CA, BCom, Grad Dip Fin & Inv, Grad Dip Adv Acctg, GAICD

Chief Financial Officer since 1 March 2014.

Mr Smith has more than 18 years financial and project development expertise. Mr Smith's most recent role was as CFO of Blackwood Corporation Limited, being responsible for completing the successful takeover offer from Cockatoo Coal Limited. Previously, he served as General Manager – Finance at Aston Resources, where his experience included the successful completion of Australia's largest coal IPO, equity sell downs, refinancing of debt and culminated in the merger with Whitehaven Coal in 2012. Mr Smith has also held various roles in ASX & NYSE listed companies, including as CFO and Company Secretary

David Vink - Chief Operating Officer

BEng (Mining) [Hons], MBA, MAusIMM

Chief Operating Officer since 1 March 2014.

Mr Vink is a mining executive with over 22 years experience in developing and operating large scale open cut and underground mines. Mr Vink's career within Mining Engineering and technical services has spanned blue chip mining organisations such as Xstrata, Rio Tinto and BHP Billiton, following which he moved into various operational & technical roles throughout Theiss' Australian coal operations, managing over \$500m per annum of operating expenditure and over 1,000 employees.

Todd Harrington - Chief Development Officer

BSc (Geology) [Hons], MBA, MAusIMM, GAICD

Chief Development Officer since 1 January 2014.

Mr Harrington has over 18 years operational, technical & managerial experience, most recently serving as CEO of Blackwood Corporation, an ASX listed Queensland coal explorer. His tenor at Blackwood culminated in the successful takeover offer by Cockatoo Coal. Mr Harrington previously served as the Head of Xstrata Coal Queensland's Geological Services division, delivering 5 currently operating coal mines from greenfield exploration through to production. Mr Harrington has extensive global M&A experience, having performed asset development for Blackwood, as well as Xstrata's global coal and iron ore projects

James Rodgers - Chief Commercial Officer

MBA, Adv Dip Mgmt

Chief Commercial Officer since 1 January 2014.

Mr Rodgers has over 20 years of international M&A and management experience in a variety of industries, including mining & natural resources, transportation & logistics, manufacturing & professional services and hospitality, being variously based throughout Canada, Japan & Australia. Mr Rodgers has served as a commercial executive for many years with Cockatoo, prior to which he was a Senior Manager within Mitsui & Co across their Japanese and Canadian divisions.

Lee James O'Dwyer - Company Secretary

CA, CSA, BCom, BBusMan.

Company Secretary since 1 November 2011.

Mr O'Dwyer is a member of the Institute of Chartered Accountants in Australia and is an associate member of the Governance Institute of Australia. He has experience working as a Chartered Accountant in both Australia and in North America with a focus on the mining sector. He has previously provided financial reporting, company secretarial and administration services to a range of publicly listed companies in Australia.

COCKATOO COAL LIMITED
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DIRECTORS' REPORT

Directors' Meetings

The number of Directors' meetings held and number of meetings attended by each of the Directors of the Company, while they were a Director, during the year are:

Director	Board meetings		Audit Committee meetings		Remuneration Committee meetings	
	Held	Attended	Held	Attended	Held	Attended
Peter Richards	10	10	1	1	2	2
Andrew C. Lawson	18	18	-	-	-	-
Henry Cho	10	10	1	1	-	-
Tim Gazzard	8	8	-	-	-	-
Rod Ruston	10	8	-	-	2	2
K. Scott A. Thompson	18	15	1	1	-	-
Robert A. Yeates	18	18	2	2	2	2
William J. Randall (alternate Director)	9	2	-	-	-	-
Mark H. Lochtenberg	8	8	-	-	-	-
Peter J. Nightingale	8	8	-	-	-	-
J. Gillis Broinowski	8	8	-	-	1	1
Paul G. Chappell	8	6	1	1	-	-
Lindsay R. Flint	8	7	-	-	2	1
Hyunsoo (Hans) Kim	8	7	-	-	2	2
Soo-Cheol Shin	1	-	-	-	-	-

Unissued shares under option

At the date of this report, unissued ordinary shares of the Company under option are:

Number of options	Exercise price	Expiry date
150,000,000	\$0.125	15 October 2014
50,000,000	\$0.0593	15 April 2015
5,000,000	\$0.70	30 September 2015

Details of options issued by the Company are set out in the capital and reserves note to the financial report. The names of persons who currently hold options are entered in the register of options kept by the Company pursuant to the Corporations Act 2001. This register may be inspected free of charge.

The persons entitled to exercise the options do not have, by virtue of the options, the right to participate in a share issue of any other body corporate.

Shares issued on exercise of options

During the financial year no ordinary shares were issued as a result of the exercise of options.

COCKATOO COAL LIMITED
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DIRECTORS' REPORT

Remuneration Report – Audited

The policy of Directors is to ensure remuneration properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and the senior executives for the Group that are named in this report.

The remuneration of executive management is made up of fixed remuneration, short term incentive payments payable in either cash and/or shares and equity based remuneration when invited to participate by the Board in the executive share option plan of the Group. Non-executive directors do not receive performance based remuneration. The remuneration 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. Options issued in the current and prior periods as remuneration were subject to service conditions due to the nature of the Company's operations. No options were issued under the share option plan of the Group in the current or prior year. During the year, nominee Directors of major shareholders Noble Group, SK Networks and Harum Energy, elected not to receive director fees.

During the year ended 30 June 2014, shares were issued to employees including the Chief Operating Officer and Chief Commercial Officer as remuneration under the Share Bonus Award Plan. Shares issued under this plan were based on the achievement of certain key performance objectives and Board discretion.

Total fees for all Non-executive Directors, last voted upon by shareholders at the 2008 Annual General Meeting, are not to exceed \$250,000 per annum.

With the recapitalisation of the Company, the structure of the Board and executive management has changed. The Remuneration Committee and newly appointed Board are currently reviewing the remuneration policies and structure for the Board and executive management. Remuneration for key management personnel are competitively set to attract and retain appropriately qualified and experienced directors and executives. The intended remuneration structure will include a mix of fixed and variable compensation, and short and long term performance based incentives which will be paid from a mix of cash and equity. A new long term incentive scheme will be proposed under the changes and will be subject to shareholder approval.

Director and Executive Changes

Hak Hee Lee resigned as a director and Hans Kim was appointed as a director on 24 October 2012.

J.O. Chang resigned as a director on 30 October 2012.

Mark Lochtenberg, Paul Chappell, Lindsay Flint, Gillis Broinowski, Hans Kim resigned as a director on 19 December 2013.

Henry Cho and Tim Gazzard were appointed as directors on 19 December 2013.

Peter Nightingale resigned as a director on 19 December 2013 and resigned as chief financial officer on 28 February 2014.

Peter Richards and Rod Ruston were appointed as directors on 15 January 2014.

Todd Harrington was appointed as chief development officer on 1 January 2014.

James Rodgers was appointed as chief commercial officer on 1 January 2014.

Lee O'Dwyer was appointed as Company Secretary on 1 November 2011 and became an employee of the Company on 1 January 2014.

Luca Rocchi resigned as chief operating officer on 28 February 2014.

David Vink was appointed as chief operating officer on 1 March 2014.

David Smith was appointed as chief financial officer on 1 March 2014.

COCKATOO COAL LIMITED
and its controlled entities
DIRECTORS' REPORT

Remuneration Report – Audited (Con't)

Details of the nature and amount of each major element of the remuneration of each Director of the Company and Group are:

		Primary fees	STI cash bonus	STI share bonus	Superannuation	Long service leave	Fair value of options	Termination payments	Total	Options as % of remuneration	Proportion of remuneration performance related
	Year	\$	\$	\$	\$	\$	\$	\$	\$		
Executive Directors											
Andrew C. Lawson	2014	466,625	-	-	25,000	-	49,991	-	541,616	9%	-
(Managing Director and Chief Executive Officer)	2013	465,500	-	-	25,000	-	183,546	-	674,046	27%	-
Mark H. Lichtenberg	2014	225,000	-	-	8,887	60,058	-	256,758	550,703	-	-
(Executive Chairman)	2013	465,500	-	-	25,000	-	-	-	490,500	-	-
Peter J. Nightingale	2014	200,000	-	-	-	-	-	150,000	350,000	-	-
(Chief Financial Officer)	2013	300,000	-	-	-	-	-	-	300,000	-	-
Non-executive Directors											
Peter Richards	2014	64,073	-	-	5,927	-	-	-	70,000	-	-
(Chairman)	2013	-	-	-	-	-	-	-	-	-	-
Henry Cho	2014	-	-	-	-	-	-	-	-	-	-
	2013	-	-	-	-	-	-	-	-	-	-
Tim Gazzard	2014	-	-	-	-	-	-	-	-	-	-
	2013	-	-	-	-	-	-	-	-	-	-
Rod Ruston	2014	30,756	-	-	2,845	-	-	-	33,601	-	-
	2013	-	-	-	-	-	-	-	-	-	-
K. Scott A. Thompson	2014	15,000	-	-	-	-	-	-	15,000	-	-
	2013	30,000	-	-	-	-	-	-	30,000	-	-
Robert A. Yeates	2014	45,188	-	-	4,180	-	-	-	49,369	-	-
	2013	30,000	-	-	-	-	-	-	30,000	-	-
William Randall	2014	-	-	-	-	-	-	-	-	-	-
	2013	-	-	-	-	-	-	-	-	-	-

COCKATOO COAL LIMITED
and its controlled entities
DIRECTORS' REPORT

Remuneration Report – Audited (Con't)

		Primary fees	STI cash bonus	STI share bonus	Superannuation	Long service leave	Fair value of options	Termination payments	Total	Options as % of remuneration	Proportion of remuneration performance related
	Year	\$	\$	\$	\$	\$	\$	\$	\$		
Non-executive Directors											
J. Gillis Broinowski	2014	15,000	-	-	-	-	-	-	15,000	-	-
	2013	30,000	-	-	-	-	-	-	30,000	-	-
Joo-Ok Chang	2014	-	-	-	-	-	-	-	-	-	-
	2013	10,000	-	-	-	-	-	-	10,000	-	-
Paul G. Chappell	2014	15,000	-	-	-	-	-	-	15,000	-	-
	2013	30,000	-	-	-	-	-	-	30,000	-	-
Lindsay R. Flint	2014	13,761	-	-	1,239	-	-	-	15,000	-	-
	2013	30,000	-	-	-	-	-	-	30,000	-	-
Hyunsoo (Hans) Kim	2014	15,000	-	-	-	-	-	-	15,000	-	-
	2013	20,000	-	-	-	-	-	-	20,000	-	-
Hak Hee Lee	2014	-	-	-	-	-	-	-	-	-	-
	2013	10,000	-	-	-	-	-	-	10,000	-	-
Soo-Cheol Shin	2014	-	-	-	-	-	-	-	-	-	-
	2013	30,000	-	-	-	-	-	-	30,000	-	-
Executives											
Todd Harrington	2014	216,105	-	-	8,895	-	-	-	225,000	-	-
	2013	-	-	-	-	-	-	-	-	-	-
Lee O'Dwyer	2014	115,000	-	-	10,638	-	-	-	125,638	-	-
	2013	-	-	-	-	-	-	-	-	-	-
James Rodgers	2014	160,000	-	25,536	14,800	-	-	-	200,336	-	-
	2013	-	-	-	-	-	-	-	-	-	-
David Smith	2014	130,050	-	-	8,333	-	-	-	138,383	-	-
	2013	-	-	-	-	-	-	-	-	-	-
David Vink	2014	140,186	-	-	11,557	-	-	-	151,743	-	-
	2013	-	-	-	-	-	-	-	-	-	-
Luca Rocchi	2014	264,458	-	59,400	69,371	-	-	450,000	843,229	-	7%
	2013	473,385	29,415	15,055	42,991	-	-	-	560,846	-	8%

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DIRECTORS' REPORT

Remuneration Report – Audited (Con't)

Termination payments

Termination payments made to Mark Lochtenberg and Peter Nightingale were mutually agreed and determined by reference to industry standard termination amounts. The termination payment to Luca Rocchi was paid in reference to a termination clause in his employment agreement.

Options granted as compensation

No options that were granted as compensation to key management personnel during the current and prior reporting period. Details on options that vested during the current and prior reporting periods are as follows:

	Options granted during the year	Grant date	Fair value at grant date	Exercise price	Expiry date	Options vested during the year	Financial year in which options vest
Andrew C. Lawson	1,666,667	3 February 2012	\$167,631	\$0.70	30 September 2015	-	2012
Andrew C. Lawson	1,666,667	3 February 2012	\$167,631	\$0.70	30 September 2015	-	2013
Andrew C. Lawson	1,666,666	3 February 2012	\$167,630	\$0.70	30 September 2015	1,666,667	2014

No options have been granted to key management personnel subsequent to year end. During the year ended 30 June 2013, 1,000,000 options held by Peter Doyle lapsed following his resignation as Chief Operating Officer. There were no other options exercised, forfeited or lapsed unexercised during the year ended 30 June 2014 or 30 June 2013.

In the event that the employment or office of the option holder is terminated, any options which have not reached their vesting date will lapse and any options which have reached their vesting date may be exercised within two months from the date of termination. Vesting conditions relate solely to service periods. The options were provided at no cost to the recipients.

The fair values of options at grant date were determined based on the Black-Scholes formula, taking into account the terms and conditions upon which the options were granted and is allocated to each reporting period evenly over the period from grant date to vesting date.

Ordinary shares granted as compensation

During the year the Company granted Luca Rocchi 1,650,000 and James Rodgers 709,333 ordinary shares as remuneration. The fair value of each ordinary share on issue date was \$0.036. During the prior year the Company granted Luca Rochhi with 557,609 ordinary shares as remuneration. The fair value on issue date was \$0.027. The ordinary shares granted as compensation have no vesting conditions and are based on a performance period of 12 months or less. No shares were granted to Directors or other executives during the reporting period as compensation in 2013 or 2014.

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DIRECTORS' REPORT

Remuneration Report – Audited (Con't)

Movement in ordinary shares

At the date of this report, the beneficial interests of each Director and executive of the Company in the issued share capital of the Company are:

Key management personnel	Held at 1 July 2013 [^]	Purchased	Granted as Remuneration	Sold	Held at 30 June 2014*
Peter Richards	-	-	-	-	-
Mark H. Lochtenberg	40,109,094	-	-	-	40,109,094
Andrew C. Lawson	4,145,504	67,000,000	-	-	71,145,504
Peter J. Nightingale	14,550,910	-	-	-	14,550,910
J. Gillis Broinowski	2,413,636	-	-	-	2,413,636
Paul G. Chappell	1,222,636	-	-	-	1,222,636
Henry Cho	-	-	-	-	-
Lindsay R. Flint	863,636	-	-	-	863,636
Tim Gazzard	-	-	-	-	-
Hyunsoo (Hans) Kim	-	-	-	-	-
Rod Ruston	16,000	-	-	-	16,000
Soo-Cheol Shin	-	-	-	-	-
K. Scott A. Thompson	-	-	-	-	-
Robert A. Yeates	1,180,303	-	-	-	1,180,303
Joo-Ok Chang	-	-	-	-	-
Hak Hee Lee	-	-	-	-	-
David Vink	1,111,111	-	-	-	1,111,111
Todd Harrington	4,000,000	-	-	-	4,000,000
James Rodgers	337,306	-	709,333	-	1,046,639
David Smith	2,000,000	-	-	-	2,000,000
Lee O'Dwyer	229,622	-	-	-	229,622
Luca Rocchi	593,609	-	1,650,000	-	2,243,609

* Number of shares held at date of resignation as a Director or executive.

[^] Number of shares held at date of appointment as a Director or executive.

COCKATOO COAL LIMITED
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DIRECTORS' REPORT

Remuneration Report – Audited (Con't)

Movement in options

At the date of this report, the beneficial interests of each Director and executive of the Company in options over the unissued share capital of the Company are:

Key management personnel	Held at 1 July 2013 [^]	Granted	Expired/ Cancelled	Held at 30 June 2014*
Peter Richards	-	-	-	-
Mark H. Lochtenberg	5,000,000	-	5,000,000	-
Andrew C. Lawson	5,000,000	-	-	5,000,000
Peter J. Nightingale	3,000,000	-	3,000,000	-
J. Gillis Broinowski	500,000	-	500,000	-
Paul G. Chappell	-	-	-	-
Henry Cho	-	-	-	-
Lindsay R. Flint	500,000	-	500,000	-
Tim Gazzard	-	-	-	-
Hyunsoo (Hans) Kim	-	-	-	-
Rod Ruston	-	-	-	-
Soo-Cheol Shin	-	-	-	-
K. Scott A. Thompson	-	-	-	-
Robert A. Yeates	500,000	-	500,000	-
David Vink	-	-	-	-
Todd Harrington	-	-	-	-
James Rodgers	-	-	-	-
David Smith	-	-	-	-
Lee O'Dwyer	-	-	-	-
Luca Rocchi	-	-	-	-

* Number of options held at date of resignation as a Director or executive.

[^] Number of options held at date of appointment as a Director or executive.

COCKATOO COAL LIMITED
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DIRECTORS' REPORT

Remuneration Report – Audited (Con't)

Consequences of performance on shareholders' wealth

In considering the Group's performance and benefits for shareholders' wealth, the Remuneration Committee have regard to the following financial and share price information in respect of the current financial year and the previous four financial periods.

	2014	2013	2012	2011	2010
Net profit/(loss) after tax attributable to equity holders of the parent	(\$182,278,983)	(\$28,403,165)	\$16,161,840	(\$12,603,632)	\$3,517,569
Dividends paid	-	-	-	-	-
Change in share price	\$0.00	(\$0.17)	(\$0.18)	(\$0.02)	(\$0.04)

The overall level of key management personnel's compensation has been determined based on market conditions and status of the Group's projects.

Related party transaction

During the year ended 30 June 2014, Peter J. Nightingale had an interest in an entity, Mining Services Trust, which provided administrative services, including rental accommodation, administrative staff, services and supplies to the Group. Fees accrued by Mining Services Trust during the year, which were in the ordinary course of business, amounted to \$1,673,450. The balance outstanding at 30 June 2014 was \$9,960.

During the year ended 30 June 2014, the Company sold coal and received coal sale prepayments from Noble Resources International Pte Ltd, a related party of a significant shareholder who has appointed Tim Gazzard as a nominee Director of the Company. The total value of coal sold to Noble International Pte Ltd during the year was \$6,989,792 and the value of coal sale prepayments at 30 June 2014 is \$11,161,251. The Company also entered into coal marketing arrangements with Noble Resources International Pte Ltd. The total amount of marketing fees incurred but which remain unpaid at 30 June 2014 is \$257,615.

During the year ended 30 June 2014 the Company entered into coal marketing arrangements with SK Networks Co., Ltd, a significant shareholder who has appointed Henry Cho as a nominee Director of the Company. The total amount of marketing fees incurred but which remain unpaid at 30 June 2014 is \$75,000.

Subsequent to year end the Company also entered into an agreement with SK Networks Co., Ltd ('SKN') and a related party of a significant shareholder, Noble Group Limited to release \$37.0 million in restricted cash. The Company also entered into coal offtake arrangements with Noble International Pte Ltd and SK Networks Co., Ltd. The arrangements are subject to an independent experts' opinion which will be used to obtain the approval of the Company's shareholders in a General Meeting.

COCKATOO COAL LIMITED
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DIRECTORS' REPORT

Principal Activities

The Group is involved in the acquisition, exploration, development, production and operation of coal mining projects and no significant change in the nature of those activities occurred during the year.

Financial Result and Operating and Financial Review

The operating loss of the Group for the financial year ended 30 June 2014 after income tax was \$191,682,789 (2013 - \$32,524,776) which included impairment losses of \$152,041,746 (2013: \$12,820,724).

A review of the Group's operations for the year is set out in the Operating and Financial Review.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 30 June 2014. No dividends have been paid or declared during the current or previous financial years.

Employees

The Group has 207 employees (2013 - 101 employees). There was a significant increase during the period following transition of mining operations at Baralaba from a contractor operation to owner-operator.

State of Affairs

In the opinion of the Directors, significant changes in the state of affairs of the Group that occurred during the year ended 30 June 2014 were as follows:

- Issue of 50 million options to SK Networks Co., Ltd as compensation for extending the guarantee that supports the KEB Australia Ltd loan.
- Repayment of \$100 million of the KEB Australia Ltd loan.
- Completion of the sale of the Company's 30% interest in Hume Coal Pty Limited for \$9.74 million and the cancellation of 134,807,307 Cockatoo Coal Limited shares held by POSCO Australia Pty Limited.
- Issue of 384,550,538 ordinary shares as consideration for the 100% acquisition of Blackwood Corporation Limited.
- Issue of 1,866,031,245 ordinary shares to SK Networks Resources Australia Pty Ltd and Maylion Pty Ltd at \$0.05 per share for cash totalling \$93,301,562.
- Issue of 1,333,333,334 ordinary shares to various institutional and sophisticated investors including Harum Energy Australia Limited at \$0.045 per share for cash totalling \$60,000,000.
- Execution of Commitment Letter with ANZ for a fully underwritten \$255 million project finance facility.
- Commencement of the development of the Baralaba Expansion project.
- Transition of mining operations from contractor to owner-operator.

Environmental Regulations

The Group's operations are subject to significant environmental regulations under both Commonwealth and State legislation in relation to its activities. The Board of Directors monitors compliance with environmental regulations through regular reporting from management under the Group's risk management and internal control system. The Directors are not aware of any significant breaches of these regulations during the period covered by this report.

COCKATOO COAL LIMITED
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DIRECTORS' REPORT

Impact of Legislation and Other External Requirements

There were no environmental or other legislative requirements during the year that have significantly impacted the results or operations of the Group.

Events Subsequent to Balance Date

Subsequent to year end the Company entered into an agreement to acquire JS Baralaba Wonbindi Pty Ltd's (a subsidiary of JFE Shoji Corporation) minority interest in Baralaba Coal Pty Ltd and Wonbindi Coal Pty Limited for \$1. As part of the arrangements, the JFE Shoji shareholder loans will remain in place and accrued interest will be capitalised. The JFE Shoji shareholder loans will be repaid from Baralaba and Wonbindi cashflows after debt service (including project finance) on an equal dollar per dollar basis with the existing shareholder loans that the Company has advanced to Baralaba and Wonbindi.

The Company also entered into an agreement with its major shareholders, Noble Group Limited ('Noble') and SK Networks Co., Ltd ('SKN'), and Australia and New Zealand Banking Group Limited ('ANZ') to release \$37.0 million in restricted cash. Under the arrangements, Noble and SKN will each procure a bank guarantee in favour of ANZ as replacement security (currently cash backed) for guarantees issued under the ANZ guarantee facility.

The arrangements are subject to an independent expert's opinion which will be used to obtain the approval of the Company's shareholders in a General Meeting which is scheduled to be held in October 2014. An initial cash release of \$18.5 million occurred on 1 September 2014. If the arrangements are not subsequently approved by shareholders, the Company is required to repay the \$18.5 million within 3 months of the General Meeting.

Likely Developments

The Group will focus on the expansion of the Baralaba mining operations to 3.5 million tonnes per annum including progressing associated governmental approvals and finalising funding requirements.

Further information about likely developments in the operations of the Group and the expected results of those operations in subsequent years has not been included in this report because disclosure of this information would be likely to result in unreasonable prejudice to the Group.

Indemnification of Officers and Auditors

During or since the end of the financial year, the Group has not indemnified or made a relevant agreement to indemnify an officer or auditor of the Group against a liability incurred by such an officer or auditor. In addition, the Group has not paid or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an auditor. Since the end of the previous financial year the Company has paid insurance premiums of \$60,099 in respect of directors' and officers' liability and legal expenses, for current and former directors and officers of the Group.

COCKATOO COAL LIMITED
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DIRECTORS' REPORT

Non-audit Services

During the financial year KPMG, the Group's auditor, performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below:

	2014
Statutory audit:	
Auditors of the Group	
- audit and review of financial reports	205,300
- audit of subsidiary entities	32,500
	<u>237,800</u>
Services other than statutory audit	
- audit of joint venture financial statements	6,630
- long service leave audit	2,000
- due diligence services	57,500
	<u>66,130</u>

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 38 and forms part of the Directors' Report for the year ended 30 June 2014.

Signed at Brisbane this 1st day of September 2014
in accordance with a resolution of the Board of Directors:



Peter Richards
Chairman



Andrew C. Lawson
Managing Director



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Cockatoo Coal Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2014 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Simon Crane
Partner

Adam Twemlow
Partner

Brisbane

1 September 2014

COCKATOO COAL LIMITED
and its controlled entities

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014**

	Notes	2014 \$	2013 \$
Coal sales revenue		81,532,272	66,109,877
Cost of sales		(92,175,069)	(63,498,121)
Gross profit/(loss)		(10,642,797)	2,611,756
Other income	4	5,876,996	9,403,485
Gain on sale of associate	31	1,043,475	-
Gain on sale of assets		4,672	10,167
Administration costs		(18,282,638)	(15,707,791)
Impairment losses	7	(152,041,746)	(12,820,724)
Share based remuneration	23	(392,624)	(341,709)
Travel expenses		(430,671)	(368,378)
Legal fees		(562,137)	(572,006)
Provision expense – infrastructure security	20	(3,699,543)	-
Marketing fee - termination	14	(3,072,404)	-
Other expenses	5	(1,078,115)	(1,178,263)
Results from operating activities		(183,277,532)	(18,963,463)
Finance income	6	1,521,937	4,231,518
Finance expense	6	(9,564,194)	(23,298,790)
Net finance income/(cost)		(8,042,257)	(19,067,272)
Share of profit/(loss) in equity accounted investees	14	-	19,959
Profit/(loss) before income tax		(191,319,789)	(38,010,776)
Income tax benefit/(expense)	8	(363,000)	5,486,000
Profit/(loss) for the year		(191,682,789)	(32,524,776)
Other comprehensive income for the year			
Total items that will not be reclassified to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss:			
Net change in the fair value of available-for-sale financial assets	13	(104,000)	(5,200,000)
Net change in the fair value of available-for-sale financial assets transferred to the profit and loss	13	-	-
Total items that may be reclassified subsequently to profit or loss		(104,000)	(5,200,000)
Other comprehensive income for the period		(104,000)	(5,200,000)
Total comprehensive income/(loss) for the year		(191,786,789)	(37,724,776)

COCKATOO COAL LIMITED
and its controlled entities

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014**

Profit/(loss) for the period attributable to:

Equity holders of the Company	(182,278,983)	(28,403,165)
Non-controlling interest	(9,403,806)	(4,121,611)
Profit/(loss) for the period	(191,682,789)	(32,524,776)

Total comprehensive profit/(loss) for the period attributable to:

Equity holders of the Company	(182,382,983)	(33,603,165)
Non-controlling interest	(9,403,806)	(4,121,611)
Total comprehensive income/(loss) for the year	(191,786,789)	(37,724,776)

Basic earnings/(loss) per share attributable to ordinary equity holders	9	(6.48) cents	(2.79) cents
Diluted earnings/(loss) per share attributable to ordinary equity holders	9	(6.48) cents	(2.79) cents

COCKATOO COAL LIMITED
and its controlled entities

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

	Notes	Attributable to equity holders of the Company				Total	Non-controlling interest	Total equity
		Share capital	Option premium reserve	Fair value reserve	Accumulated losses			
		\$	\$		\$	\$	\$	\$
For the year ended 30 June 2014								
Balance at 1 July 2013		339,007,453	9,603,242	104,000	(83,744,759)	264,969,936	(13,037,207)	251,932,729
Total comprehensive income for the period								
Loss		-	-	-	(182,278,983)	(182,278,983)	(9,403,806)	(191,682,789)
Net change in fair value of available-for-sale financial assets		-	-	(104,000)	-	(104,000)	-	(104,000)
Other comprehensive income		-	-	-	-	-	-	-
Transactions with owners, recorded directly in equity								
<i>Contributions by and distributions to owners</i>								
Issue of shares	21	157,265,355	-	-	-	157,265,355	-	157,265,355
Costs of issue	21	(6,310,582)	-	-	-	(6,310,582)	-	(6,310,582)
Acquisition of controlled entity	22	14,717,127	-	-	280,344	14,997,471	-	14,997,471
Cancellation of shares	31	(8,762,475)	-	-	-	(8,762,475)	-	(8,762,475)
Issue of options	21	-	1,589,032	-	-	1,589,032	-	1,589,032
Expiry of options	21	-	(3,603,720)	-	3,603,720	-	-	-
Balance at 30 June 2014		495,916,878	7,588,554	-	(262,139,678)	241,365,754	(22,441,013)	218,924,741
For the year ended 30 June 2013								
Balance at 1 July 2012		338,889,880	4,460,342	5,304,000	(55,726,338)	292,927,884	(8,915,596)	284,012,288
Total comprehensive income for the period								
Loss		-	-	-	(28,403,165)	(28,403,165)	(4,121,611)	(32,524,776)
Net change in fair value of available-for-sale financial assets		-	-	(5,200,000)	-	(5,200,000)	-	(5,200,000)
Other comprehensive income		-	-	-	-	-	-	-
Transactions with owners, recorded directly in equity								
<i>Contributions by and distributions to owners</i>								
Issue of shares	21	117,573	-	-	-	117,573	-	117,573
Issue of options	21	-	5,527,644	-	-	5,527,644	-	5,527,644
Expiry of options	21	-	(384,744)	-	384,744	-	-	-
Balance at 30 June 2013		339,007,453	9,603,242	104,000	(83,744,759)	264,969,936	(13,037,207)	251,932,729

COCKATOO COAL LIMITED
and its controlled entities

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Notes	2014 \$	2013 \$
Current assets			
Cash and cash equivalents	24	1,407,237	12,688,886
Trade and other receivables	10	10,732,875	5,333,874
Inventories	11	13,158,151	20,407,948
Assets held for sale	31	-	18,000,000
Other	12	1,100,410	1,948,920
Total current assets		26,398,673	58,379,628
Non-current assets			
Term deposits	24	45,740,642	35,000,000
Investments	13	-	5,600,002
Exploration and evaluation expenditure	15	71,066,144	233,153,212
Property, plant and equipment	16	195,686,106	63,387,729
Intangible assets	17	408,996	246,398
Other	12	10,396,537	16,669,218
Total non-current assets		323,298,425	354,056,559
Total assets		349,697,098	412,436,187
Current liabilities			
Trade and other payables	18	40,578,017	16,775,397
Revenue received in advance – coal sales		11,161,251	-
Borrowings	19	1,218,534	100,423,227
Employee benefits		1,290,828	653,364
Provisions	20	3,699,543	-
Total current liabilities		57,948,173	117,851,988
Non-current liabilities			
Borrowings	19	64,025,928	39,566,086
Employee benefits		86,863	96,192
Deferred tax liability	8	400,000	37,000
Provisions	20	7,221,181	2,952,192
Other		1,090,212	-
Total non-current liabilities		72,824,184	42,651,470
Total liabilities		130,772,357	160,503,458
Net assets		218,924,741	251,932,729
Equity			
Share capital	21	495,916,878	339,007,453
Option premium reserve	21	7,588,554	9,603,242
Fair value reserve	21	-	104,000
Accumulated losses		(262,139,678)	(83,744,759)
Total equity attributable to equity holders of the Company		241,365,754	264,969,936
Non-controlling interest		(22,441,013)	(13,037,207)
Total equity		218,924,741	251,932,729

COCKATOO COAL LIMITED
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 \$	2013 \$
Cash flows from operating activities			
Cash receipts from customers		96,497,178	83,434,977
Payments for production		(100,328,368)	(70,777,398)
Cash payments in the course of operations		(14,631,139)	(16,095,309)
Receipts/(payments) from project management		(452,674)	2,030,775
Cash used in operations		(18,915,003)	(1,406,955)
 Borrowing costs paid		(5,130,731)	(17,054,075)
Interest received		1,493,478	4,342,124
Net cash used in operating activities	24	(22,552,256)	(14,118,906)
 Cash flows from investing activities			
Payments for exploration and evaluation		(8,798,486)	(36,316,598)
Payments for mining development		(47,597,717)	(13,897,537)
Payments for investment in associate		-	(1,732,478)
Payments for infrastructure investments		-	-
Payments for property, plant and equipment		(7,792,812)	(7,433,347)
Proceeds from the sale of property, plant and equipment		33,047	32,000
Proceeds from the sale of the Woori project		-	294,000
Cash acquired from the acquisition of subsidiary		6,385,713	-
Proceeds from the sale of investments		9,715,263	3,159,500
Government contribution to bridge upgrade		-	4,000,000
Payments for security deposits		(7,231,682)	(7,914,196)
Refund of security deposits		2,649,368	17,870,814
Loans (to)/from other entities		1,745,045	(44,789)
Net cash used in investing activities		(50,892,261)	(41,982,631)
 Cash flows from financing activities			
Proceeds from issue of shares	21	156,922,722	-
Cost of issuing shares	21	(6,310,584)	-
Proceeds from borrowings		20,763,544	12,096,682
Repayment of borrowings	19	(108,951,815)	(52,311,621)
Net cash from/(used in) financing activities		62,423,867	(40,214,939)
 Net decrease in cash and cash equivalents and term deposits		(11,020,650)	(96,316,476)
Cash and cash equivalents at the beginning of the financial year		12,688,886	109,366,922
Effect of exchange rate adjustments on cash held		(260,999)	(361,560)
Cash and cash equivalents at the end of the financial year	24	1,407,237	12,688,886

COCKATOO COAL LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 - REPORTING ENTITY

Cockatoo Coal Limited (the 'Company') and its controlled entities is a Group domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2014 comprises the Company and its subsidiaries (together referred to as the 'Group') and the Company's interest in associates and jointly controlled entities. The Group is a for-profit entity and primarily involved in the exploration, development and production of coal assets.

NOTE 2 - BASIS OF PREPARATION

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards ('IFRS') adopted by the International Accounting Standards Board ('IASB').

The financial report was authorised for issue by the Directors on 1 September 2014.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments and available-for-sale financial assets which are measured at fair value.

Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's and each of the entities in the Group's functional currency.

Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in the following notes:

- Note 2 – Going concern
- Note 7 – Impairment losses
- Note 12 – Other assets
- Note 13 – Investments
- Note 15 – Exploration and evaluation expenditure
- Note 16 – Property, plant and equipment
- Note 20 – Provisions
- Note 22 – Controlled entities
- Note 32 – Contingent liabilities

COCKATOO COAL LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 2 - BASIS OF PREPARATION (Con't)

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

Changes in accounting policies

AASB 10 Consolidated Financial Statements (2011)

AASB 11 Joint Arrangements

AASB 12 Disclosure of Interests in Other Entities

AASB 13 Fair Value Measurement

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

Annual Improvements to Australian Accounting Standards 2009–2011 Cycle

The nature and effects of the changes are explained below.

Consolidated financial statements

As a result of AASB 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, AASB 10 (2011) requires the Group consolidate investees that it controls on the basis of de facto circumstances. No adjustments have been made as a result of the change in accounting policy.

Joint arrangements

As a result of AASB 11, the Group has changed its accounting policy for its interests in joint arrangements. Under AASB 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification. No adjustments have been made as a result of the change in accounting policy.

Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 Financial Instruments: Disclosures. In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

Disclosure of interests in other entities

As a result of AASB 12, the Group has expanded its disclosures about its interests in subsidiaries.

COCKATOO COAL LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 2 - BASIS OF PREPARATION (Con't)

Segment information

The amendment to AASB 134 clarifies that the Group needs to disclose the measures of total assets and liabilities for a particular reportable segment only if the amounts are regularly provided to the Group's chief operating decision maker, and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. No adjustments have been made as a result of the change in accounting policy.

Deferred stripping costs

Under the Group's previous accounting policy, overburden in advance was expensed in the profit or loss statement. This methodology has been amended under AASB Interpretation ("IFRIC") 20. Production stripping costs are now capitalised as part of an asset, if it can be demonstrated that it is probable that future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of the ore body for which access has been improved. The asset is called "deferred stripping asset". The deferred stripping asset is amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied. Production stripping costs that do not satisfy the asset recognition criteria are expensed. There has been no change to the prior years' financial statements as a result of the change in account policy as the impact was not material.

Going concern

The consolidated financial statements have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

During the year the Group completed a recapitalisation of the Company and raised \$156.9 million from new and existing shareholders, repaid a \$100 million loan outstanding to KEB Australia Limited, acquired 100% of previously ASX Listed Blackwood Corporation Limited through an off-market takeover bid, and entered into a commitment letter with Australia and New Zealand Banking Group Limited ('ANZ') for a \$255 million project finance loan and guarantee facility ('ANZ facility'). Drawdown on the ANZ facility is subject to certain conditions precedent including the granting of regulatory approvals to increase production to 3.5 million tonnes per annum at Baralaba, the securing of coal offtake agreements with a term of at least 3 years for at least 75% of the scheduled production at Baralaba, and the raising of significant additional funding required to finance the further development of the Baralaba Expansion project. These transactions allowed the Group to begin development of the Baralaba Expansion project to the north of its existing coal mining operations at Baralaba.

The Company has announced subsequent to the end of the year that it has entered into agreements with its major shareholders and ANZ to release up to \$37 million in restricted term deposits. The arrangements are subject to an independent expert's opinion which will be used to obtain the approval of the Company's shareholders in a General Meeting which is scheduled to be held in October 2014. An initial cash release of \$18.5 million occurred on 1 September 2014. If the arrangements are not subsequently approved by shareholders, the Company is required to repay the \$18.5 million within 3 months of the General Meeting. The release of the restricted cash is a critical element of the Company's funding plan.

The Group recorded a loss for the year of \$191,682,789 including impairment of \$152,041,746 relating to exploration and evaluation assets in the Surat basin and other non-core assets, used \$22,552,256 of cash in operating activities, \$50,892,261 in investing activities and has accumulated losses of \$262,139,678 as at 30 June 2014. The Group has cash on hand of \$1,407,237, net assets of \$218,924,741 and net current liabilities of \$31,549,500 at 30 June 2014.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 2 - BASIS OF PREPARATION (Con't)

The conditions outlined above give rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. The directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. These cash flow projections include significant mine development payments and assume the Group obtains sufficient additional funding through the release of restricted term deposits, raising of additional equity or mezzanine funding and the utilisation of the ANZ project finance and guarantee facility.

The ongoing operation of the Group is dependent upon:

- the Group finalising arrangements with its major shareholders to release \$37 million in restricted term deposits including obtaining shareholder approval at a General Meeting in October 2014; and
- the Group raising additional equity or mezzanine funding from shareholders or other parties; and
- the Group entering into definitive documentation and satisfying conditions precedent to enable draw down of the ANZ project finance loan and guarantee facility; and
- the Group successfully completing the Baralaba Expansion project to enable the production of 3.5 million tonnes of coal per annum in accordance with the requirements of the WICET Stage 1 take or pay agreement.

In the event that the Group does not finalise arrangements to release restricted term deposits, obtain additional equity or mezzanine funding, satisfy conditions precedent to enable drawdown of the ANZ facility, and successfully complete the Baralaba Expansion project as required, it may not be able to continue its operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial report.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in Note 2, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Basis of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

COCKATOO COAL LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Investments in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see below). Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

COCKATOO COAL LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Depreciation

Depreciation is charged to the statement of comprehensive income using the reducing balance method from the date of acquisition.

Office equipment and plant and equipment are depreciated at rates between 10% and 40%, buildings are depreciated at a rate of 4%, and motor vehicles are depreciated at a rate of 22.5%. Leasehold improvements are depreciated over the life of the lease and land is not depreciated. Mining properties and development depreciation rate is applied on the basis of units of production over the life of the economically recoverable reserves. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Trade and other receivables

Trade and other receivables are stated at their amortised cost using the effective interest method less impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets and are recognised initially at fair value plus and directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised directly as a separate component of equity. When an investment is derecognised the cumulative gain or loss in equity is reclassified to profit or loss.

Cash and cash equivalents

Cash comprises cash balances and at call deposits with maturities of 3 months or less.

Term deposits

Term deposits comprise cash deposits held with an initial maturity of more than 3 months or where the use of the deposit is restricted for a period greater than 3 months.

Finance income and finance expense

Finance income and finance expense comprises interest payable on borrowings calculated using the effective interest method, interest earned, dividend income, unwind of discount on provisions and the net change in the fair value of derivative financial instruments recognised in profit or loss.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date the entity's right to receive payments is established.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Managing Director, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's results are reviewed regularly by the Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Group's primary format for segment reporting is on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30 day terms.

Share capital

Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Share based payment transactions

The fair value of options granted is measured at grant date and recognised as an expense over the period during which the Directors, officers and consultants of the Group become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes formula, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of options that vest.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Non-financial assets

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Income tax

Income tax expense for the year comprises current and deferred tax. Income tax is recognised in the profit or loss, except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly owned Australian resident entities have formed a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Cockatoo Coal Limited.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

Earnings per share

The Group presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on average costs over the relevant period of production, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Loans and borrowings

The Group initially recognises loans and borrowings at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

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NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Exploration, evaluation and development expenditure

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the statement of comprehensive income.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to mining property and development assets within property, plant and equipment.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Site restoration

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of disturbed land, and the related expense, is recognised when the land is disturbed.

Coal sales revenue

Coal sales revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Proceeds recovered for coal sales prior to the transfer of the significant risks and rewards of ownership are treated as a liability in the balance sheet at year end.

Management and consulting income

Revenue from services rendered is recognised in profit or loss in proportion to the services rendered at the reporting date. The Group is involved in managing several exploration and evaluation projects.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. The estimated useful life of software is 3 years.

Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

Investment in equity securities

The fair value of listed available-for-sale financial assets is determined by reference to their closing price at the reporting date.

Share based payment transactions

The fair value of the options granted is measured using a Black-Scholes formula, taking into account the terms and conditions upon which the options were granted. Measurement inputs include share price at grant date, exercise price of the instrument, expected volatility (based on historic share performance), risk-free interest rate (based on government bonds), and dividend yield.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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FOR THE YEAR ENDED 30 JUNE 2014

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 9 Financial Instruments (2013), AASB 9 Financial Instruments (2010) and AASB 9 Financial Instruments (2009) (together AASB 9)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets.

AASB 9 (2013) introduces new requirements for hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2017. The effective date is subject to review pending the finalisation of the outstanding phases of the standard. However, early adoption is permitted. The adoption of these standards is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities. The Group has not yet determined the impact on its hedging arrangements.

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FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	\$	\$
NOTE 4 - OTHER INCOME		
Marketing income	212,260	291,744
Management and consulting income	5,422,395	8,754,210
Other	242,341	357,531
	<u>5,876,996</u>	<u>9,403,485</u>

NOTE 5 - OTHER EXPENSES

Audit fees – KPMG audit and review of financial reports	322,750	226,700
Depreciation – non-mining costs	466,723	566,648
Net foreign exchange loss	288,642	384,915
	<u>1,078,115</u>	<u>1,178,263</u>

NOTE 6 - FINANCE INCOME AND FINANCE EXPENSE

Interest income	1,521,937	4,231,518
Interest expense	(4,511,029)	(8,466,705)
Interest expense on unwind of discount	(292,479)	(87,114)
Finance facility costs	(4,760,686)	(14,744,971)
	<u>(8,042,257)</u>	<u>(19,067,272)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 7 – IMPAIRMENT LOSSES

	2014	2013
	\$	\$
Impairment loss on other assets – refer Note 12	8,692,122	90,500
Impairment loss on exploration and evaluation assets – refer Note 15	134,188,046	-
Impairment loss on investments – refer Note 13	5,496,002	-
Impairment on equity accounted investees – refer Note 14 and Note 31	-	12,730,224
Impairment loss on land - refer Note 16	3,665,576	-
	<u>152,041,746</u>	<u>12,820,724</u>

In conjunction with the recapitalisation transactions and acquisition of Blackwood Corporation Limited, an independent valuation of the Group and its assets was completed during the year by Grant Thornton Corporate Finance (“Independent Expert”) for the benefit of shareholders voting on the transaction.

Following a review of the valuations and expected development plans for those assets, the directors of Cockatoo have decided it is appropriate to write down the book value of those assets to fair value less cost of disposal based on the valuations determined by the Independent Expert. As a result of these write-downs the Group recorded impairment in relation to its land and exploration and evaluation assets. Due to uncertainty in the timing of development of infrastructure relating to the impaired projects, the Group also recorded impairment in relation to refundable infrastructure costs which are included in other assets.

Impairment was also recorded on the Group’s investment interests in Ambre Energy Limited and ATEC Rail Group Pty Ltd. Certain assumptions are required to be made in order to assess the recoverability of investments. A key assumption is the ability to generate future cash flows. Due to the nature of these assets and the uncertainty in relation to the recoverability of these investments the Company has determined to fully impair the carrying value of its investments.

During the year ended 30 June 2013, the Company agreed to sell its 30% interest in Hume Coal Pty Limited ('Hume Coal'). A valuation of the Company’s interest in Hume Coal was performed by Lonergan Edwards & Associates Limited on 21 June 2013. At 30 June 2013 the Company impaired its interest in Hume Coal to \$18,000,000 in line with this valuation. The Company’s investment in Hume Coal was transferred to ‘Assets held for sale’ at 30 June 2013 (refer Note 31).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	\$	\$
NOTE 8 - INCOME TAX EXPENSE		
Current tax expense		
Current year	(5,674,391)	(17,835,281)
De-recognition of losses	5,674,391	17,835,281
Total income tax expense in statement of comprehensive income	-	-
Deferred tax expense		
Current year	(39,659,664)	(10,370,839)
De-recognition of temporary differences	39,659,664	15,856,839
Deferred tax benefit/(expense)	-	5,486,000
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before tax – continuing operations	(191,319,789)	(38,010,776)
Prima facie income tax expense/(benefit) at the Australian tax rate of 30% (2013 – 30%)	(57,395,936)	(11,403,233)
Increase in income tax expense due to:		
- Non-deductible expenses	8,259,011	3,938,790
- Effect of net deferred tax assets not brought to account	48,773,925	1,978,443
Income tax benefit/(expense) – current and deferred	(363,000)	5,486,000
Recognised deferred tax liabilities		
Taxable temporary differences	(400,000)	(37,000)
	(400,000)	(37,000)
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Taxable temporary differences (net)	(20,701,316)	(60,844,430)
Tax losses	110,015,443	100,112,260
Net	89,314,127	39,267,830

The recognised deferred tax liability is in relation to expected tax liabilities which will arise in the future when the Cockatoo Coal Limited tax consolidated group recovers the carrying amount of certain exploration assets. While any actual tax payable is not expected to arise until a number of years in the future (i.e. after the Cockatoo Coal Limited tax consolidated group utilises its available tax losses), the accounting standards require the recognition of the deferred tax liability in the current period.

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

The Cockatoo Coal Limited tax consolidated group, Wonbindi Coal Pty Limited and Baralaba Coal Pty Ltd will be subject to the new Minerals Resource Rent Tax ('MRRT') which commenced on 1 July 2012. While the Group is still in the process of quantifying the value of the MRRT starting base assets, from the analysis carried out to date and recent and proposed changes to regulations and legislation respectively, no deferred tax assets are likely to be recognised in relation to the MRRT starting base assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	2014	2013
	\$	\$
NOTE 9 - EARNINGS PER SHARE		
Basic and diluted earnings/(loss) per share have been calculated using:		
Profit/(loss) for the year attributable to equity holders of the Company	(182,278,983)	(28,403,165)
	Number	Number
<i>Weighted average number of ordinary shares</i>		
- Issued ordinary shares at beginning of year	1,021,101,465	1,016,746,908
- Effect of shares issued in April 2014	6,382,739	-
- Effect of shares issued in March 2014	4,675,324	-
- Effect of shares issued in February 2014	22,168,485	-
- Effect of shares issued in January 2014	129,701,683	-
- Effect of shares issued in December 2013	1,747,835,589	-
- Effect of shares cancelled in August 2013	(118,556,563)	-
- Effect of shares issued in June 2013	-	83,512
Weighted average ordinary shares at the end of the year	2,813,308,722	1,016,830,420
<i>Weighted average number of ordinary shares (diluted)</i>		
- Weighted average ordinary shares at the end of the year	2,813,308,722	1,016,830,420
- Effect of share options on issue	-	-
Weighted average number of ordinary shares (diluted) at the end of the year	2,813,308,722	1,016,830,420
	2014	2013
	\$	\$
NOTE 10 - TRADE AND OTHER RECEIVABLES		
Trade receivables	8,379,856	3,463,531
GST receivable	2,076,141	936,495
Interest receivable	59,714	31,255
Other receivable	217,164	902,593
	10,732,875	5,333,874
NOTE 11 - INVENTORIES		
Work in progress – coal stock	1,502,253	7,216,458
Finished goods – coal stock	10,927,169	13,191,490
Fuel and explosives	728,729	-
	13,158,151	20,407,948

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 12 – OTHER ASSETS

	2014	2013
	\$	\$
Current		
Deferred facility fee	-	1,743,478
Prepayments	1,100,410	205,442
	<u>1,100,410</u>	<u>1,948,920</u>
Non-current		
Deferred facility fee	9,562,500	-
Security deposits	805,094	4,064,418
Refundable infrastructure expenditure	-	10,814,080
Other receivables	28,943	1,790,720
	<u>10,396,537</u>	<u>16,669,218</u>

Certain assumptions are required to be made in order to assess the recoverability of non-current assets. Key assumptions include the successful completion of certain infrastructure projects, future commodity prices and future cash flows.

Deferred facility fee

The non-current deferred facility fee relates to the Australia and New Zealand Banking Group Limited ('ANZ') project finance facility ('PFF'). This fee is will be amortised over the life of the facility commencing from first draw-down of the PFF.

During the year ended 30 June 2013 the Company entered into arrangements to extend the Loan Facility ('Loan Facility') with KEB Australia Ltd. The facility amount was \$100.0 million and was fully repaid in December 2013. The Loan Facility fee was recognised as an expense over the life of the Loan Facility.

During the year ended 30 June 2011 the Company entered into a Bank Guarantee Facility ('Facility') with Macquarie Bank Limited ('Macquarie'). The facility amount was \$55.0 million and matured on 31 December 2013. The purpose of the Facility was to support the development of the Company's coal assets and associated infrastructure requirements.

As part of the Facility fee, the Company issued to Macquarie 20,833,333 options, each to acquire one fully paid ordinary share in the Company at 64 cents per share at any time up to 31 December 2013. The fair value of options granted on 9 May 2011 to Macquarie was measured at grant date and is recognised as an expense over the Facility term. The fair value of the options was \$2,404,245 at grant date.

Refundable infrastructure expenditure

Refundable infrastructure expenditure relates to payments for WICET and is refundable upon financial close of the WICET expansion projects. \$2,419,368 was refunded during the year however impairment was recorded on the remaining balance as a result of uncertainty in the timing of development in this infrastructure, see Note 7.

Other receivables

Other receivables are amounts receivable from joint venture partners as part of normal operations and to secure future infrastructure. Most of the other receivables were repaid during the year. Impairment of \$297,400 was recorded on other receivables that relate to infrastructure as a result of uncertainty in the timing of development in this infrastructure, see Note 7.

Security deposits

Included in the above security deposits at 30 June 2014 is \$3,508,065 provided to WICET Holdings Pty Ltd as partial security required under the 'Take or Pay' agreement for Stage 1 of the Wiggins Island Coal Export Terminal. The security deposit was refunded during the year and replaced with a guarantee provided under the ANZ guarantee facility, refer Note 32.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	2014	2013
	\$	\$
NOTE 13 - INVESTMENTS		
Investments – available-for-sale	-	5,600,002

Investments - available-for-sale

During the year the Company performed an impairment test in relation to the Group's investments in available for sale assets which include investments in non-listed companies. Due to the nature of these assets and the uncertainty in relation to the recoverability of these investments the Company has determined to fully impair the carrying value of its investments. During the year the Group recorded an impairment loss of \$5,496,002 and decreased the fair value reserve by \$104,000 (30 June 2013 - \$5,200,000 decrease).

Certain assumptions are required to be made in order to assess the recoverability of investments. A key assumption is the ability to generate future cash flows.

NOTE 14 - INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

Cockatoo Coal Marketing Company Pty Limited – 50%	-	-
Investments in equity accounted investees	-	-

During the year the Company acquired a 100% interest in Cockatoo Coal Marketing Company Pty Ltd ('CCMC') for deferred cash consideration totalling \$3.4 million, refer Note 22. The fair value of consideration on acquisition is \$3,072,404. The Company previously held a 50% interest in CCMC.

During the prior year the Company entered into agreement to sell its 30% interest in Hume Coal Pty Limited. As at 30 June 2013, the Company's interest in Hume Coal were reclassified as assets held for sale, refer Note 31. A valuation of the Company's interest in Hume Coal was performed by Lonergan Edwards & Associates Limited on 21 June 2013. At 30 June 2013 the Company impaired its interest in Hume Coal to \$18,000,000 in line with this valuation.

During the year ended 30 June 2013 the Company made equity contributions of \$1,732,478 to Hume to fund its ongoing operations. During the years ended 30 June 2014 and 30 June 2013 the Company did not receive dividends from its equity accounted investees.

The Company's share of profit in equity accounted investees for the year was nil (2013 - \$19,959). The Company did not hold any investments in equity accounted investees at 30 June 2014. Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Company for the prior year is as follows:

	Reporting date	Ownership	Total assets	Total liabilities	Income	Expenses	Profit/(loss)
2013							
CCMC	30 June	50%	71,969	(108,517)	284,093	(280,297)	3,796
Hume	30 June	30%	38,854,082	(1,464,766)	88,006	(21,475)	66,531
			38,926,051	1,573,283	372,099	(301,772)	70,327

The above balances are derived from the financial statements of the equity accounted investees.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	2014	2013
	\$	\$
NOTE 15 - EXPLORATION AND EVALUATION EXPENDITURE		
Opening balance	233,153,212	196,123,216
Additions	12,074,393	37,323,996
Acquisition of controlled entity	17,617,626	-
Transferred to mining properties and development	(57,591,041)	-
Disposals	-	(294,000)
Impairment	(134,188,046)	-
Closing balance	<u>71,066,144</u>	<u>233,153,212</u>

The ultimate recoupment of these costs is dependent on the successful development and commercial exploitation, or alternatively sale of the respective areas of interest.

Mineral tenements, exploration and evaluation expenditure relate to the following projects:

Bowen Basin projects	34,899,971	82,475,180
Surat Basin projects	25,564,026	150,131,711
Galilee Basin projects	10,602,147	-
Other projects	-	546,321
	<u>71,066,144</u>	<u>233,153,212</u>

During the year exploration and evaluation costs of \$57,591,041 relating to the Baralaba Expansion Project were transferred to mining properties which is included in property, plant and equipment, see Note 16.

During the year impairment was recorded on certain non-core exploration and evaluation assets, see Note 7.

During the year ended 30 June 2013, exploration and evaluation expenditure incurred in previous years totalling \$600,000 relating to the Woori project was transferred to the North Surat Joint Venture. This resulted in the Company's joint venture partner, MCH Surat Basin Investments Pty Ltd, acquiring \$294,000 of this exploration and evaluation expenditure.

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NOTE 16 - PROPERTY, PLANT AND EQUIPMENT	2014	2013
	\$	\$
Land and buildings – cost	16,301,728	38,282,229
Accumulated depreciation	(885,170)	(835,506)
Net book value	15,416,558	37,443,723
Office equipment – cost	798,571	683,352
Accumulated depreciation	(446,742)	(342,990)
Net book value	351,829	340,362
Motor vehicles – cost	1,679,340	1,801,401
Accumulated depreciation	(973,932)	(825,670)
Net book value	705,408	975,731
Plant and equipment – cost	6,358,747	3,759,351
Accumulated depreciation	(2,297,585)	(1,408,546)
Net book value	4,061,162	2,350,805
Deferred stripping asset – cost	15,050,400	-
Accumulated depreciation	-	-
Net book value	15,050,400	-
Mining properties and development assets - cost	176,206,430	31,468,906
Accumulated depreciation	(16,105,681)	(9,191,798)
Net book value	160,100,749	22,277,108
Total property, plant and equipment	195,686,106	63,387,729

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Land and buildings

Carrying amount at beginning of year	37,443,723	31,288,792
Additions	7,319,812	6,631,014
Impairment	(3,665,576)	-
Transfer to mining properties and development	(25,296,629)	
Disposals	-	(20,507)
Depreciation	(384,772)	(455,576)
Net book value	15,416,558	37,443,723

Office equipment

Carrying amount at beginning of year	340,362	352,821
Additions	117,710	105,142
Depreciation	(106,243)	(117,601)
Net book value	351,829	340,362

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 16 - PROPERTY, PLANT AND EQUIPMENT (Con't)

	2014	2013
	\$	\$
Motor vehicles		
Carrying amount at beginning of year	975,731	1,170,780
Additions	-	146,813
Disposals	(28,375)	(27,650)
Depreciation	(241,948)	(314,212)
Net book value	<u>705,408</u>	<u>975,731</u>
Plant and equipment		
Carrying amount at beginning of year	2,350,805	2,303,774
Additions	2,599,444	510,999
Depreciation	(889,087)	(463,968)
Net book value	<u>4,061,162</u>	<u>2,350,805</u>
Deferred stripping asset		
Carrying amount at beginning of year	-	-
Additions	15,050,400	-
Depreciation	-	-
Net book value	<u>15,050,400</u>	<u>-</u>
Mining properties and development assets		
Carrying amount at beginning of year	22,277,108	15,206,662
Additions	60,050,657	11,089,586
Addition through recognition of rehabilitation provision	2,189,548	-
Transfer from exploration and evaluation expenditure	57,591,041	-
Transfer from land and buildings	25,296,629	-
Depreciation	(7,304,234)	(4,019,140)
Net book value	<u>160,100,749</u>	<u>22,277,108</u>

During the year impairment was recorded on land that related to certain non-core exploration and evaluation assets, refer Note 7.

During the year exploration and evaluation assets and land and building assets were transferred to mining properties as they relate to the Baralaba Expansion Project which begun development during the year.

During the year the Group changed its accounting policy in relation to deferred stripping costs, refer Note 2. The deferred stripping costs incurred during the year relate to the Baralaba North mine. The change in accounting policy has not impacted the prior period comparative financial information.

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NOTE 17 – INTANGIBLE ASSETS

	2014	2013
	\$	\$
Software – cost	671,115	348,964
Accumulated depreciation	(262,119)	(102,566)
Net book value	<u>408,996</u>	<u>246,398</u>

Reconciliations of the carrying amounts for each class of intangible assets:

Software

Carrying amount at beginning of year	246,398	265,550
Additions	322,268	54,149
Depreciation	(159,670)	(73,301)
Net book value	<u>408,996</u>	<u>246,398</u>

NOTE 18 - TRADE AND OTHER PAYABLES

Current

Accounts payable and accrued liabilities	31,015,517	16,775,397
ANZ project finance facility fee	9,562,500	-
	<u>40,578,017</u>	<u>16,775,397</u>

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	2014	2013
	\$	\$
NOTE 19 - BORROWINGS		
Current		
Finance lease	1,218,534	423,227
Bank loan	-	100,000,000
	1,218,534	100,423,227
Non-current		
Finance lease	970,417	321,220
Subsidiary shareholder loan	63,055,511	39,244,866
	64,025,928	39,566,086

Bank loan

During the year ended 30 June 2012 the Company entered into a \$150.0 million loan agreement with KEBA. The loan agreement was secured by a guarantee to KEBA from SK Networks Co., Ltd, matured on 28 December 2012, and incurred interest at Bank Bill Swap Rate + 1.9% per annum.

During the year ended 30 June 2013 the Company repaid \$50.0 million and extended \$100.0 million of the \$150.0 million loan with KEBA. During the year the loan was further extended to 27 December 2013. The loan was secured by a guarantee from SK Networks Co., Ltd, incurred interest at Bank Bill Swap Rate + 2.0% per annum and was repaid in full in December 2013. As consideration for the guarantee extension SK Networks Co., Ltd have been granted options over ordinary shares in the Company (refer Note 21).

Subsidiary shareholder loan

During the year ended 30 June 2012 the Company entered into revised shareholder and financing arrangements with JFE Shoji Trade Corporation ('JFE Shoji'). JFE Shoji holds a 37.5% interest in Baralaba Coal Pty Limited ('Baralaba') and a 20% interest in Wonbindi Coal Pty Limited ('Wonbindi').

Under the new arrangements, JFE Shoji shared in the funding of all Baralaba and Wonbindi expenditures on an equity share basis. The loan to Wonbindi of \$33,941,658 (2013 - \$13,597,132) and the loan to Baralaba of \$29,113,854 (2013 - \$25,647,734) are unsecured and bear interest at 8% per annum. In accordance with the loan agreement, principal repayments are due as agreed in the 'Approved Program and Budget'. At 30 June 2014, no amount of the loans have been classified as a current liability (2013 - nil).

Subsequent to year end the Company entered into an agreement to acquire JFE Shoji's interest in Baralaba and Wonbindi for \$1. As part of the arrangements, the JFE Shoji shareholder loans will remain and accrued interest will be capitalised. The JFE Shoji shareholder loans will be repaid from Baralaba and Wonbindi cashflows after debt service (including project finance) on an equal dollar per dollar basis with the existing shareholder loans that the Company has advanced to Baralaba and Wonbindi.

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	2014	2013
	\$	\$
NOTE 20 - PROVISIONS		
Current		
Infrastructure security	3,699,543	-
Non-current		
Maintenance provision	1,045,321	-
Rehabilitation provision	6,175,860	2,952,192
	7,221,181	2,952,192
Rehabilitation provision reconciliation		
Opening balance	2,952,192	2,865,078
Addition	3,031,521	-
Increase in fair value	192,147	87,114
Closing balance	6,175,860	2,952,192

The basis of accounting for rehabilitation costs is set out in Note 3, Significant Accounting Policies.

The Group is required to rehabilitate the Baralaba mine site when mining is completed. Given the long term nature of the liability, there is significant uncertainty in relation to the estimates of the provision or the costs that could be incurred. Future rehabilitation estimates have been discounted at 6.75% (2013 - 6.75%). Rehabilitation additions during the year predominantly relate to the commencement of mining at the Baralaba North mine. The rehabilitation also increased as a result of a reestimate of the Baralaba Central mine.

The Group is required to undertake maintenance on leased mining equipment in accordance with manufacturers recommendations. Maintenance costs have been provided for due to the high cost of maintenance events.

The Group has provided security to underwrite infrastructure studies relating to rail and port infrastructure necessary for the development of the Surat Basin coal projects. The Group has recorded a current provision in relation to restricted term deposit security supporting these guarantees due to uncertainty in the timing of the development of this infrastructure.

NOTE 21 - CAPITAL AND RESERVES

Dividends

There were no dividends paid or declared during the year ended 30 June 2014 or 30 June 2013.

Option premium reserve

The issue of Company options results in a credit to the option premium reserve representing the fair value of the options granted. The exercise of Company options results in a debit to the option premium reserve. During the year ended 30 June 2014, no options were exercised (2013 – nil) and 33,483,333 options expired or were cancelled (2013 – 2,200,000).

Fair value reserve

Fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

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NOTE 21 - CAPITAL AND RESERVES (Con't)

	2014	2013
	Number of shares	Number of shares
Share capital		
Ordinary shares on issue at 1 July – fully paid	1,021,101,465	1,016,746,908
Issue of shares	3,673,902,770	4,354,557
Cancellation of shares	(134,807,307)	-
Ordinary shares on issue at 30 June – fully paid	4,560,196,928	1,021,101,465

The following share issues occurred during the year ended 30 June 2014:

- In December 2013 the Company issued 80,470,063 ordinary shares pursuant to the Company's Share Purchase Plan at \$0.045 per share for cash totalling \$3,621,152.
- In December 2013 the Company issued 1,866,031,245 ordinary shares to SK Networks Resources Australia Pty Ltd and Maylion Pty Ltd at \$0.05 per share for cash totalling \$93,301,562.
- In December 2013 the Company issued 1,333,333,334 ordinary shares to various institutional and sophisticated investors including Harum Energy Australia Limited at \$0.045 per share for cash totalling \$60,000,000.
- There were no amounts unpaid on the above ordinary shares issues and issue costs totalled \$6,310,582.
- In January 2014 the Company issued 9,517,590 shares to employees of the Company as remuneration. These shares were valued at \$342,633 which is based on the share price on the date of issue.
- From January 2014 to April 2014 the Company issued 384,550,538 ordinary shares as consideration for the acquisition of a 100% interest in Blackwood Corporation Pty Limited (previously Blackwood Corporation Limited). These shares were valued at \$14,717,127 based on the share prices at the date of acceptance of the takeover offer.
- In August 2013 the Company cancelled 134,807,307 ordinary shares held by POSCO Australia Pty Limited ('POSA') following the sale of the Company's 30% interest in Hume Coal Pty Limited to POSA. These shares were valued at \$8,762,475 based on the share price at the date of cancellation.

During the year ended 30 June 2013:

- The Company issued 4,354,557 ordinary shares at a fair value of \$117,573 as remuneration to employees of the company. These shares were valued at \$0.027 per share which is based on the share price on the date of issue.

Options

The following options were on issue at 30 June 2014, each exercisable to acquire one fully paid ordinary share:

Grant date	Expiry date	Exercise price \$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Cancelled during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
3 February 2009	30 September 2013	\$0.40	1,300,000	-	-	1,300,000	-	-
3 February 2009	30 September 2013	\$0.50	800,000	-	-	800,000	-	-
3 February 2009	30 September 2013	\$0.60	800,000	-	-	800,000	-	-
3 February 2009	30 September 2013	\$0.70	9,500,000	-	-	9,500,000	-	-
31 December 2010	30 September 2013	\$0.60	250,000	-	-	250,000	-	-
9 May 2011	31 December 2013	\$0.64	20,833,333	-	-	20,833,333	-	-
16 April 2013	15 October 2014	\$0.125	150,000,000	-	-	-	150,000,000	150,000,000
17 October 2013	15 April 2015	\$0.0593	-	50,000,000	-	-	50,000,000	50,000,000
3 February 2012	30 September 2015	\$0.70	5,000,000	-	-	-	5,000,000	5,000,000
			188,483,333	50,000,000	-	33,483,333	205,000,000	205,000,000

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NOTE 21 - CAPITAL AND RESERVES (Con't)

The following options were on issue at 30 June 2013, each exercisable to acquire one fully paid ordinary share:

Grant date	Expiry date	Exercise price \$	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Cancelled during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
3 February 2009	30 September 2013	\$0.40	1,450,000	-	-	150,000	1,300,000	1,300,000
3 February 2009	30 September 2013	\$0.50	950,000	-	-	150,000	800,000	800,000
3 February 2009	30 September 2013	\$0.60	950,000	-	-	150,000	800,000	800,000
3 February 2009	30 September 2013	\$0.70	9,500,000	-	-	-	9,500,000	9,500,000
31 December 2010	30 September 2013	\$0.60	2,000,000	-	-	1,750,000	250,000	250,000
9 May 2011	31 December 2013	\$0.64	20,833,333	-	-	-	20,833,333	20,833,333
16 April 2013	15 October 2014	\$0.125	-	150,000,000	-	-	150,000,000	150,000,000
3 February 2012	30 September 2015	\$0.70	5,000,000	-	-	-	5,000,000	3,333,334
			40,683,333	150,000,000	-	2,200,000	188,483,333	186,816,667

During the year ended 30 June 2014, the Company issued 50,000,000 options as consideration for SK Networks, Co., Ltd providing an extension to the guarantee that supported the loan from KEB Australia Ltd. The fair value of the options issued was measured at grant date using a Black-Scholes formula taking into account the terms and conditions upon which the options were granted. The fair value is recognised as an expense over the Facility term. The fair value of the 50,000,000 options was \$1,589,032 and the Black-Scholes formula model inputs were the Company's share price of \$0.060 at the grant date, a volatility factor of 115% based on historic share price performance, a risk free interest rate of 2.64% based on government bonds, and a dividend yield of 0%.

During the year ended 30 June 2013, the Company issued 150,000,000 options in two tranches as consideration for SK Networks, Co., Ltd providing an extension to the guarantee that supports the loan from KEB Australia Ltd. The options were granted in 2 tranches and the fair value was measured at each grant date using a Black-Scholes formula taking into account the terms and conditions upon which the options were granted. The fair value is recognised as an expense over the Facility term.

The fair value of the first tranche of 90,000,000 options was \$4,110,305 and the Black-Scholes formula model inputs were the Company's share price of \$0.120 at the grant date, a volatility factor of 73.74% based on historic share price performance, a risk free interest rate of 2.67% based on government bonds, and a dividend yield of 0%.

The fair value of the second tranche of 60,000,000 options was \$1,417,338 and the Black-Scholes formula model inputs were the Company's share price of \$0.072 at the grant date, a volatility factor of 100.73% based on historic share price performance, a risk free interest rate of 2.75% based on government bonds, and a dividend yield of 0%.

The weighted average exercise price of options on issue at 30 June 2014 is \$0.1230 (30 June 2013 - \$0.2323). The weighted average remaining contractual life of options on issue at 30 June 2014 is 1.438 years (30 June 2013 – 1.162 years).

Refer to Note 23, Share Based Remuneration, for further details on options granted during the years ended 30 June 2014 and 30 June 2013.

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NOTE 22 - CONTROLLED ENTITIES

Particulars in relation to controlled entities:

	Ordinary shares – Company interest	
	2014	2013
	%	%
<i>Parent Entity</i>		
Cockatoo Coal Limited		
<i>Controlled entities</i>		
Baralaba Coal Management Company Pty Ltd	80	-
Baralaba Coal Pty Ltd	62.5	62.5
Blackwood Corporation Pty Limited	100	-
Cacatua Pastoral Pty Limited	80	100
Cockatiel Coal Pty Limited	100	100
Cockatoo Coal Marketing Company Pty Ltd	100	50
Cockatoo Coal (Taroom) Pty Limited	100	100
Corella Coal Pty Limited	100	100
Dingo Coal Pty Ltd	100	100
Drill Down Resources Pty Ltd	100	-
Independent Coal Pty Limited	100	100
Injune Coal Pty Limited	100	100
Matilda Coal Pty Ltd	100	-
SE QLD Coal Pty Ltd	100	100
SE QLD Energy Pty Ltd	100	100
Surat Coal Pty Limited	100	100
Wonbindi Coal Pty Limited	80	80

All entities are incorporated in Australia

- Blackwood Corporation Pty Limited, Cockatiel Coal Pty Limited, Cockatoo Coal (Taroom) Pty Limited, Corella Coal Pty Limited, Independent Coal Pty Limited, Injune Coal Pty Limited, SE QLD Coal Pty Ltd, SE QLD Energy Pty Ltd and Surat Coal Pty Limited, are wholly owned controlled entities.
- Independent Coal Pty Limited holds a 98% interest in Dingo Coal Pty Ltd and the remaining 2% interest is held by the Company.
- Cockatiel Coal Pty Limited holds a 62.5% interest in Baralaba Coal Pty Ltd and an 80% interest in Wonbindi Coal Pty Limited.
- Wonbindi Coal Pty Limited holds a 100% interest in Cacatua Pastoral Pty Limited and a 100% interest in Baralaba Coal Management Company Pty Ltd.
- Blackwood Corporation Pty Limited holds a 100% interest in Matilda Coal Pty Ltd and Drill Down Resources Pty Ltd.

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NOTE 22 - CONTROLLED ENTITIES (Con't)

Acquisition of controlled entities

During the year, the Company launched a friendly takeover bid for Blackwood Corporation Pty Limited ('Blackwood') (previously Blackwood Corporation Limited). On 19 December 2013, the Company gained control of Blackwood. On the date of control the Company had a 68.31% interest and on 22 April 2014 the Company obtained a 100% interest in the share capital of Blackwood. Consideration for the transaction is 2 Cockatoo shares for each Blackwood share. The fair value of consideration was calculated as \$14,997,471 on acquisition day. The 384,550,538 consideration shares issued were valued at \$14,717,127 based on the share prices at the date of acceptance of the takeover offer.

Blackwood has a 100% interest in Matilda Coal Pty Ltd and Drill Down Resources Pty Ltd and has a coal exploration tenement portfolio in Queensland with several projects being contiguous with the Company's existing projects.

For the period 19 December 2013 to 30 June 2014 the subsidiary contributed a \$613,554 loss to the Group. If the acquisition had occurred on 1 July 2013, management estimates that consolidated revenue would not have changed and consolidated loss for the period would not have been materially impacted. Management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2013.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

Fair value of net assets of entity acquired:	Pre-acquisition carrying amounts \$	Fair value adjustments \$	Recognised values on acquisition \$
Cash and cash equivalents	6,312,694	58,562	6,371,256
Other current assets	77,480	-	77,480
Property, plant and equipment	77,099	(77,099)	-
Intangible assets	27,029	(27,029)	-
Other non-current assets	240,000	-	240,000
Exploration and evaluation assets	18,671,087	(1,053,461)	17,617,626
Trade and other payables	(800,329)	(508,562)	(1,308,891)
Borrowings	(8,000,000)	-	(8,000,000)
Net identifiable assets and liabilities	16,605,060	(1,607,589)	14,997,471
Consideration paid	-		
Cash acquired	6,371,256		
Net cash inflow	6,371,256		

The values of assets and liabilities recognised on acquisition are their estimated fair values. The fair value of the exploration and evaluation assets was determined on acquisition date by reference to an independent valuation performed over Blackwood assets.

The acquisition accounting has been prepared on a provisional basis.

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NOTE 22 - CONTROLLED ENTITIES (Con't)

On 6 March 2014 the Company acquired a 100% interest in Cockatoo Coal Marketing Company Pty Ltd ('CCMC') for deferred cash consideration totalling \$3.4 million. The Company previously held a 50% interest in CCMC. The present value of the consideration on acquisition is \$3,087,097. CCMC held coal marketing rights which were terminated on acquisition to enable the Company to enter into more favourable marketing arrangements. The termination of the marketing rights was recognised as an expense in the profit or loss.

For the period 6 March 2014 to 30 June 2014 the subsidiary contributed no material profit or loss to the Group. If the acquisition had occurred on 1 July 2013, management estimates that consolidated revenue would not have changed and consolidated loss for the period would not have been materially impacted. Management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2013.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

Fair value of net assets of entity acquired:	Pre-acquisition carrying amounts \$	Fair value adjustments \$	Recognised values on acquisition \$
Cash and cash equivalents	14,457	-	14,457
Net identifiable assets and liabilities	14,457	-	14,457
Consideration paid	-		
Cash acquired	14,457		
Net cash inflow	14,457		

The values of assets and liabilities recognised on acquisition are their estimated fair values.

NOTE 23 - SHARE BASED REMUNERATION

Options

The Company has a share option program that entitles key management personnel, senior employees and consultants to be granted options in the entity. No options were issued during the current or prior years.

Shares issued as remuneration

During the year ended 30 June 2014 the Company issued 9,517,590 (2013 - 4,354,557) ordinary shares as remuneration to employees of the company. These shares were valued at \$0.036 (2013 - \$0.027) per share which is based on the share price on the date of issue and have been recognised as an expense during the year.

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NOTE 23 - SHARE BASED REMUNERATION (Con't)

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2014	2014	2013	2013
Outstanding at 1 July	\$0.66	17,650,000	\$0.65	19,850,000
Granted during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired/ Cancelled during the period	\$0.65	(12,650,000)	\$0.58	(2,200,000)
Outstanding at 30 June	\$0.70	<u>5,000,000</u>	\$0.66	<u>17,650,000</u>
Exercisable at 30 June	\$0.70	<u>5,000,000</u>	\$0.66	<u>15,983,334</u>

The options outstanding at 30 June 2014 have an exercise price of \$0.70 (30 June 2013 - range between \$0.40 and \$0.70) and a weighted average remaining contractual life of 1.25 years (2013 - 4.35 years).

Expenses arising from share based payment transactions

Expenses arising from share based payment transactions recognised during the year were as follows:

	2014	2013
	\$	\$
Share based remuneration expenses		
Share options granted in 2011	-	40,590
Share options granted in 2012	49,991	183,546
Shares granted in 2013	-	117,573
Shares granted in 2014	342,633	-
Total expense recognised as share based remuneration costs	<u>392,624</u>	<u>341,709</u>

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	2014	2013
	\$	\$
NOTE 24 - STATEMENT OF CASH FLOWS		
Reconciliation of cash and cash equivalents and restricted term deposits		
Cash and cash equivalents and term deposits at the end of the year as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:		
Bank balances	1,407,237	12,688,886
Term deposits	45,740,642	35,000,000
	<u>47,147,879</u>	<u>47,688,886</u>
Term deposits are restricted deposits held as security for guarantees issued by financial institutions on behalf of the Company, refer Note 32.		
Subsequent to the end of the year the Company entered into arrangements to release \$37.0 million of restricted cash and as at the date of this report the Company has received \$18.5 million in cash, refer Note 32.		
Reconciliation of net loss from ordinary activities after tax to net cash used in operating activities		
Profit/(loss) from ordinary activities after tax	(191,682,789)	(32,524,776)
Non-cash items		
Gain on disposal of associate	(1,043,475)	-
Depreciation and amortisation	7,224,126	4,585,788
Net foreign exchange loss	260,999	361,560
Employee benefits	628,135	34,122
Finance facility fee	(2,046,510)	6,435,140
Impairment losses	152,041,746	12,820,724
Share based remuneration	392,624	341,709
Share of (profit)/loss in associate	-	(19,959)
Changes in assets and liabilities		
Trade and other receivables	(5,399,001)	12,460,277
Inventories	7,249,797	(7,907,467)
Prepayments	(1,210,112)	(241,245)
Trade and other payables	3,755,371	(5,065,893)
Deferred tax liabilities	363,000	(5,486,000)
Provisions	6,913,833	87,114
Net cash used in operating activities	<u>(22,552,256)</u>	<u>(14,118,906)</u>

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NOTE 25 - KEY MANAGEMENT PERSONNEL DISCLOSURES

Information regarding individual key management personnel's compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report.

During the year ended 30 June 2014 compensation to key management personnel totalled \$3,354,617 (2013 - \$2,250,392), which comprised primary fees of \$2,131,202 (2013 - \$1,924,385), short-term incentive cash bonuses of nil (2013 - \$29,415), shares bonuses of \$84,936 (2013 - \$15,055), superannuation of \$171,672 (2013 - \$92,991), long service leave of \$60,058 (2013 - nil), termination payments of \$856,758 (2013 - nil) and options with a fair value of \$49,991 (2013 - \$183,546).

NOTE 26 - RELATED PARTIES

During the year ended 30 June 2014, Peter J. Nightingale had an interest in an entity, Mining Services Trust, which provided administrative services, including rental accommodation, administrative staff, services and supplies to the Group. Fees accrued by Mining Services Trust during the year, which were in the ordinary course of business, amounted to \$1,673,450 (2013 - \$1,921,244). The balance outstanding at 30 June 2014 was \$9,960 (2013 - nil).

During the year ended 30 June 2014, Robert A. Yeates had an interest in an entity, Rob Yeates and Associates Pty Limited, which renders financial, mining and geological services to the Group. Fees accrued by Rob Yeates and Associates Pty Limited during the year, which were in the ordinary course of business, amounted to nil (2013 - \$5,600). There were no amounts outstanding at 30 June 2014 (2013 - \$nil).

During the year ended 30 June 2014, the Company incurred costs for expenditure relating to activities of its associate, Hume Coal Pty Limited totalling \$547,001 (2013 - \$1,200,760). The balance outstanding at 30 June 2014 was nil (2013 - \$1,224,441).

During the year ended 30 June 2014, the Company received management and consulting income totalling \$338,287 (2013 - \$2,783,581) from its associate, Hume Coal Pty Limited. There were no amounts outstanding at 30 June 2014 (2013 - nil).

During the year ended 30 June 2014, the Company received management and consulting income totalling \$302,358 (2013 - \$1,004,135) from management of the North Surat Joint Venture (previously Taroom, Collingwood and Ownaview joint ventures). There were no amounts outstanding at 30 June 2014 (2013 - nil).

During the year ended 30 June 2014, the Company sold coal and received coal sale prepayments from Noble Resources International Pte Ltd, a related party of a significant shareholder. The total value of coal sold to Noble International Pte Ltd during the year was \$6,989,792 (2013 - nil) and the value of coal sale prepayments at 30 June 2014 is \$11,161,251 (30 June 2013 - nil).

During the year ended 30 June 2014 the Company entered into coal marketing arrangements with Noble Resources International Pte Ltd. The total amount of marketing fees incurred but which remain unpaid at 30 June 2014 is \$257,615.

During the year ended 30 June 2014 the Company entered into coal marketing arrangements with SK Networks Co., Ltd. The total amount of marketing fees incurred but which remain unpaid at 30 June 2014 is \$75,000.

Subsequent to year end the Company also entered into an agreement with its major shareholders, Noble Group Limited ('Noble') and SK Networks Co., Ltd ('SKN'), and Australia and New Zealand Banking Group Limited ('ANZ') to release \$37.0 million in restricted cash. Under the arrangements, Noble and SKN will each procure a bank guarantee in favour of ANZ as replacement security (currently cash backed) for guarantees issued under the ANZ guarantee facility. The Company also entered into coal offtake arrangements with Noble International Pte Ltd and SK Networks Co., Ltd.

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NOTE 27 - FINANCIAL INSTRUMENTS DISCLOSURE

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies are informally reviewed from time to time to reflect changes in market conditions and the Group's activities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, currency risk and interest rate risk. The summaries below present information about the Group's exposure to each of these risks, their objectives, policies and processes for measuring and managing risk, the management of capital and financial instruments.

Credit risk

Credit risk arises mainly from the risk of counterparties defaulting on the terms of their agreements. The carrying amounts of the following assets represent the Group's maximum exposure to credit risk in relation to financial assets:

		2014	2013
		\$	\$
Cash and cash equivalents and restricted term deposits	24	47,147,879	47,688,886
Trade and other receivables	10	10,732,875	5,333,874
Security deposits	12	805,093	4,064,418
Refundable infrastructure expenditure	12	-	10,814,080
Other receivables	12	28,943	1,790,720
		<u>58,714,790</u>	<u>69,691,978</u>

The Group's maximum exposure to credit risk at the reporting date by geographic region was:

Australia	54,153,730	66,228,447
Japan	4,561,060	3,463,531
	<u>58,714,790</u>	<u>69,691,978</u>

The Group mitigates credit risk on cash and cash equivalents, term deposits and security deposits by dealing with regulated banks in Australia. Credit risk of trade and other receivables is very low as it consists predominantly of coal sales receivable from a small number of customers, amounts recoverable from the Australian Taxation Authority and call deposits and related interest receivable held with regulated banks.

Impairment losses

Trade and other receivables totalling \$307,000 are past due at 30 June 2014. (2013 - \$nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 27 - FINANCIAL INSTRUMENTS DISCLOSURE (Con't)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	Less than one year	Between one and five years	More than five years
	\$	\$	\$	\$	\$
30 June 2014					
Trade and other payables	40,578,017	(40,578,017)	(40,578,017)	-	-
Interest bearing liabilities	65,244,462	(95,056,698)	(1,382,959)	(1,024,506)	(92,649,234)
Other liabilities	1,090,212	(1,200,000)	-	(1,200,000)	-
	<u>106,912,691</u>	<u>(136,834,715)</u>	<u>(41,960,976)</u>	<u>(2,224,506)</u>	<u>(92,649,234)</u>
30 June 2013					
Trade and other payables	16,775,397	(16,775,397)	(16,775,397)	-	-
Interest bearing liabilities	139,989,313	(156,963,590)	(104,824,663)	(52,138,927)	-
	<u>156,764,710</u>	<u>(173,738,987)</u>	<u>(121,600,060)</u>	<u>(52,138,927)</u>	<u>-</u>

Ultimate responsibility for liquidity management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate funding and monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations of expected settlement of financial assets and liabilities. For further information on the Group's ability to pay its debts as and when they fall due, refer Note 2.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 27 - FINANCIAL INSTRUMENTS DISCLOSURE (Con't)

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Sensitivity analysis

The Group is exposed to currency risk on its coal sales and cash that are denominated in United States currency. The Group's exposure to foreign currency risk was as follows, based on notional amounts.

	2014	2013
	\$	\$
USD exposure		
Cash and term deposits	10,323	66,125
Trade receivables	4,561,060	3,463,531
Group balance sheet exposure	<u>4,571,383</u>	<u>3,529,656</u>

A strengthening/(weakening) of the AUD against the USD by 10 percent at 30 June would have decreased/(increased) equity and profit/(loss) for the year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity	Profit or loss
	\$	\$
30 June 2014		
USD	415,580	415,580
30 June 2013		
USD	320,878	320,878

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2014	2013	2014	2013
AUD/USD	0.9145	1.0271	0.9419	0.9133

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 27 - FINANCIAL INSTRUMENTS DISCLOSURE (Con't)

Interest rate risk

The Group's statement of comprehensive income is affected by changes in interest rates due to the impact of such changes on interest income and expenses from cash and term deposits.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

	Notes	Carrying amount	
		2014	2013
		\$	\$
Financial assets			
Cash and cash equivalents and restricted term deposits	24	47,147,879	47,688,886
Financial liabilities			
Borrowings	19	-	(100,000,000)
		<u>47,147,879</u>	<u>(52,311,114)</u>

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit/(loss) for the period by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the comparative period.

Impact on profit/(loss) for the period	<u>471,479</u>	<u>(523,111)</u>
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Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board ensures costs are not incurred in excess of available funds and will seek to raise additional funding through issues of shares for the continuation of the Group's operation. There were no changes in the Group's approach to capital management during the year.

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements.

Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities of the Company and the Group, for the year ended 30 June 2014 and 30 June 2013, approximate their net fair values, given the short time frames to maturity and or variable interest rates.

COCKATOO COAL LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 27 - FINANCIAL INSTRUMENTS DISCLOSURE (Con't)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quotes prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
30 June 2014				
Investments - available-for-sale	-	-	-	-
30 June 2013				
Investments - available-for-sale	-	2,600,000	3,000,002	5,600,002

During the year the Company recorded impairment in relation to its available-for-sale investments.

NOTE 28 - COMMITMENTS

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by tenement licences and acquisition agreements. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report and are payable:

	Carrying amount	
	2014	2013
	\$	\$
Not later than one year	2,705,746	2,427,537
Later than one year but not later than two years	6,197,000	1,360,000
Later than two years but not later than five years	13,985,500	1,665,000
Later than five years	358,000	-
	23,246,246	5,452,537

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 28 – COMMITMENTS (Con't)

Operating lease commitments

The Company became the operator of the Baralaba mine during the year. Most of the mining equipment used on site is leased.

	Carrying amount	
	2014	2013
	\$	\$
Not later than one year	6,772,505	-
Later than one year but not later than two years	6,772,505	-
Later than two years but not later than five years	18,624,389	-
	<u>32,169,399</u>	<u>-</u>

COCKATOO COAL LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 29 - SEGMENT REPORTING

The Group has three reportable segments, as described below.

- Mining – production and sale of coal.
- Exploration and evaluation – exploration and evaluation activities of the Group.
- Other – corporate activities (including gains/losses from hedging, project management and foreign exchange).

Operating segments have been determined based on the analysis provided in the reports reviewed by the senior management team in assessing performance and determining strategy. The Group derives its revenue from the production and sale of coal and management fees as other income.

Operating Segments	Mining	Exploration and evaluation	Other	Total
	\$	\$	\$	\$
30 June 2014				
Segment revenue				
Revenues - external	81,532,272	72,626	5,804,370	87,409,268
Intersegment revenue	-	-	18,982,808	18,982,808
Gain on disposal of associate	-	-	1,043,475	1,043,475
Finance income	121,930	9,523	1,390,483	1,521,937
	81,654,202	82,149	27,221,136	108,957,488
Segment expenses	(97,842,014)	(138,257,041)	(64,541,221)	(300,240,274)
Segment result	(16,187,812)	(138,174,892)	(37,320,085)	(191,682,789)
Segment assets	224,074,556	76,974,687	48,197,856	349,697,098
Segment liabilities	(118,378,707)	(5,322)	(11,988,328)	(130,372,357)
Other material items in 2014				
Depreciation	6,757,403	-	466,723	7,224,126
Impairment losses	-	137,853,622	14,188,124	152,041,746
Finance expense	2,867,202	-	6,696,992	9,564,194

An intercompany finance charge has been included in mining segment expenses and intersegment revenue.

Major customers

Revenues from two customers of the Group amounted to more than 10% of the Group's revenues during the year ended 30 June 2014. Revenues individually from each of these companies totalled \$37,904,959 and \$25,285,419.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 29 - SEGMENT REPORTING (Con't)

Operating Segments	Mining	Exploration and evaluation	Other	Total
	\$	\$	\$	\$
30 June 2013				
Segment revenue				
Revenues - external	66,109,877	-	9,403,485	75,513,362
Intersegment revenue	-	-	14,700,337	14,700,336
Profit on sale of asset	-	-	10,167	10,167
Share of loss in associate	-	-	19,959	19,959
Finance income	320,654	82,693	3,828,172	4,231,519
	66,430,531	82,693	27,962,120	94,475,343
Segment expenses	(77,438,592)	(38,044)	(49,523,484)	(132,486,119)
Segment result	(11,008,061)	44,649	(21,561,364)	(32,524,776)
Segment assets	63,680,313	282,490,209	66,265,665	412,436,187
Segment liabilities	(41,383,181)	(18,716,904)	(100,403,373)	(160,503,458)
Other material items in 2013				
Depreciation	4,019,140	-	566,648	4,585,788
Impairment losses	-	-	12,820,724	12,820,724
Finance expense	10,934,144	-	12,364,646	23,298,790

An intercompany finance charge has been included in mining segment expenses and intersegment revenue.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 29 - SEGMENT REPORTING (Con't)

Geographical segments

Whilst coal is all produced in Australia, during the 2014 and 2013 years the Group's customers were based in Australia, Japan and Singapore. Segment revenue information is presented below based on the geographical location of customers.

	2014	2013
	\$	\$
Australia	11,391,454	8,644,213
Japan	63,151,026	57,465,664
Singapore	6,989,792	-
	<u>81,532,272</u>	<u>66,109,877</u>

NOTE 30 - PARENT ENTITY DISCLOSURES

As at, and throughout the financial year ending 30 June 2014 the parent entity of the Group was Cockatoo Coal Limited.

	Company	
	2014	2013
	\$	\$
Result of the parent entity		
Net loss	(15,440,268)	(16,312,287)
Other comprehensive income	-	-
Total comprehensive loss	<u>(15,440,268)</u>	<u>(16,312,287)</u>
Financial position of the parent entity at year end		
Current assets	10,082,971	10,248,454
Non-current assets	176,027,087	119,679,010
Total assets	<u>186,110,058</u>	<u>129,927,464</u>
Current liabilities	16,244,393	104,480,214
Non-current liabilities	1,177,075	96,192
Total liabilities	<u>17,421,468</u>	<u>104,576,406</u>
Net assets	<u>168,689,590</u>	<u>25,351,058</u>
Equity		
Share capital	495,916,877	339,007,454
Option premium reserve	7,588,554	9,603,242
Accumulated losses	(334,815,841)	(323,259,638)
Total equity	<u>168,689,590</u>	<u>25,351,058</u>

Refer to Note 32 for details of contingent liabilities of the parent entity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

	2013	2013
	\$	\$
NOTE 31 – ASSETS HELD FOR SALE		
Opening balance	18,000,000	-
Transferred from Investment in Equity Accounted Investees	-	18,000,000
Sales	(18,000,000)	-
Closing balance	-	18,000,000

During the prior year the Company entered into agreement to sell its 30% interest in Hume Coal Pty Limited to POSCO Australia Pty Ltd ('POSA') for \$9.74 million in cash and the cancellation of 134,807,307 Cockatoo Coal Limited shares held by POSA. Assets held for sale have been valued at their fair value less costs to sell. The sale was completed during the year and a gain of \$1,043,475 was recorded on sale.

NOTE 32 - CONTINGENT LIABILITIES

Guarantees

During the year the Company entered into an \$80,165,246 bank guarantee facility with ANZ to replace the existing bank guarantee facility with Macquarie Bank Limited. The Company held term deposits with ANZ totalling \$45,740,643 as security for the financial guarantees issued under the facility. At 30 June 2013 the Company held \$35,000,000 on deposit with Macquarie Bank Limited as security for guarantees on issue.

As at 30 June 2014 ANZ had provided guarantees totalling \$80,156,246. At 30 June 2013 Macquarie Bank Limited had provided guarantees totalling \$50,118,467. Details of the guarantees provided at 30 June 2014 are:

- \$3,330,000 to QR Network Pty Ltd ('QR') which forms part of the underwriting of the cost of the upgrade of the Moura-Gladstone rail line by QR to accommodate increased volumes of coal from the Surat and Moura;
- \$39,000,000 to WICET Holdings Pty Ltd under the 'Take or Pay' agreement for Stage 1 of the Wiggins Island Coal Export Terminal;
- \$369,543 to WICET Holdings Pty Ltd for Stage 2 feasibility of the Wiggins Island Coal Export Terminal project. This amount will be drawn if the development of the project does not proceed. The security deposits are refundable:
 - upon the development of the project proceeding and successful refinancing of the project, or
 - upon transfer of ownership of the development of the project, including transfer of ownership of a majority of shareholding in Gladstone Ports Corporation to a party that is not a governmental agency;
- \$34,424,603 as an environmental bond to the State of Queensland against rehabilitation and any potential loss attributable to mining operations at Baralaba;
- \$3,041,100 to Gladstone Ports Corporation as required by the port services agreement entered into for WICET Stage 1;

Provisions

As at 30 June 2014 the Company has recorded a provision of \$3,699,543 (30 June 2013 – nil) in relation to these guarantees, see Note 20.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

NOTE 32 - CONTINGENT LIABILITIES (Con't)

Infrastructure agreements

The Group has entered into agreements for port and rail services (Infrastructure Agreements) that enable the Group to export coal from its existing 1 million tonne per annum mining operation. The Infrastructure Agreements include financial commitments (rail and port charges) and will also facilitate the export of coal for the expansion of mining operations to 3.5 million tonnes per annum. Increased financial commitments are associated with the commissioning and ramp up of the Stage 1 Wiggins Island Coal Export Terminal.

NOTE 33 - SUBSEQUENT EVENTS

Subsequent to year end the Company entered into an agreement to acquire JS Baralaba Wonbindi Pty Ltd's (a subsidiary of JFE Shoji Corporation) minority interest in Baralaba Coal Pty Ltd and Wonbindi Coal Pty Limited for \$1. As part of the arrangements, the JFE Shoji shareholder loans will remain in place and accrued interest will be capitalised. The JFE Shoji shareholder loans will be repaid from Baralaba and Wonbindi cashflows after debt service (including project finance) on an equal dollar per dollar basis with the existing shareholder loans that the Company has advanced to Baralaba and Wonbindi.

The Company also entered into an agreement with its major shareholders, Noble Group Limited ('Noble') and SK Networks Co., Ltd ('SKN'), and Australia and New Zealand Banking Group Limited ('ANZ') to release \$37.0 million in restricted cash. Under the arrangements, Noble and SKN will each procure a bank guarantee in favour of ANZ as replacement security (currently cash backed) for guarantees issued under the ANZ guarantee facility.

The arrangements are subject to an independent expert's opinion which will be used to obtain the approval of the Company's shareholders in a General Meeting which is scheduled to be held in October 2014. An initial cash release of \$18.5 million occurred on 1 September 2014. If the arrangements are not subsequently approved by shareholders, the Company is required to repay the \$18.5 million within 3 months of the General Meeting.

COCKATOO COAL LIMITED
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DIRECTORS' DECLARATION

In the opinion of the Directors of Cockatoo Coal Limited ('the Company'):

1. (a) the consolidated financial statements and notes set out on pages 44 to 86, and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 28 to 34, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards, (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2;
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2014.

Signed at Brisbane this 1st day of September 2014

in accordance with a resolution of the Board of Directors:



Peter Richards
Chairman



Andrew C. Lawson
Managing Director



Independent auditor's report to the members of Cockatoo Coal Limited

Report on the financial report

We have audited the accompanying financial report of Cockatoo Coal Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2014, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Material uncertainty regarding continuation as a going concern

Without modifying our opinion, we draw attention to note 2, "Going Concern" in the financial report. The conditions disclosed in note 2, including the need to finalise arrangements to release restricted term deposits, raise additional equity or mezzanine funding, satisfying conditions precedent to enable drawdown of existing facilities and successfully completing the Baralaba Expansion project as required, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 28 to 34 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of Cockatoo Coal Limited for the year ended 30 June 2014, complies with Section 300A of the Corporations Act 2001.

KPMG

Simon Crane
Partner

Brisbane

1 September 2014

KPMG

Adam Twemlow
Partner

COCKATOO COAL LIMITED
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ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information as required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

Home Exchange

The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

Audit Committee and Remuneration Committee

As at the date of the Directors' Report, the Company has an Audit Committee and a Remuneration Committee.

Substantial Shareholdings

At 13 August 2014 the Register of Substantial Shareholders showed the following:

SK Networks Resources Australia Pty Ltd	1,055,410,765 fully paid ordinary shares
Maylion Pty Limited	866,031,245 fully paid ordinary shares
Harum Energy Australia Pty Limited	491,465,372 fully paid ordinary shares

Class of Shares and Voting Rights

The voting rights attached to ordinary shares, as set out in the Company's Constitution, are that every member in person or by proxy, attorney or representative, shall have one vote on a show of hands and one vote for each share held on a poll.

A member holding partly paid shares is entitled to a fraction of a vote equivalent to the proportion which the amount paid up bears to the issue price for the share.

Shares Subject to Escrow Restrictions

At 31 August 2014 there were no shares subject to escrow restrictions.

On Market Buy Back

There is no on market buy-back.

Options

Number of holders	Number of options	Grant date	Vesting date	Exercise price	Expiry date
1	50,000,000	17 October 2013	17 October 2013	\$0.0593	15 April 2015
1	150,000,000	16 April 2013	16 April 2013	\$0.125	15 October 2014
1	1,666,667	3 February 2012	3 February 2012	\$0.70	30 September 2015
1	1,666,667	3 February 2012	3 February 2013	\$0.70	30 September 2015
1	1,666,666	3 February 2012	3 February 2014	\$0.70	30 September 2015

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ADDITIONAL STOCK EXCHANGE INFORMATION

Distribution of Shareholders

As at 31 July 2014, the distribution of each class of equity was as follows:

Fully Paid Ordinary Shares

Range	Number of holders	Number of shares	Issued capital %
1 – 1,000	540	182,360	0.00
1,001 – 5,000	1,670	4,982,718	0.11
5,001 – 10,000	1,307	10,827,731	0.24
10,001 – 100,000	4,245	167,823,542	3.68
100,001 and over	1,916	4,376,380,577	95.97
Total	9,678	4,560,196,928	100.00

As at 31 July 2014, 4,470 shareholders held less than marketable parcels of 18,519 shares.

Twenty Largest Shareholders

As at 13 August 2014 the twenty largest quoted shareholders held 74.01% of the fully paid ordinary shares as follows:

	Name	Number	%
1	SK Networks Resources Australia Pty Ltd	1,055,410,765	23.14
2	Maylion Pty Limited	866,031,245	18.99
3	Harum Energy Australia Pty Limited	491,465,372	10.78
4	HSBC Custody Nominees (Australia) Limited	232,931,801	5.11
5	Janvel Pty Limited	189,379,520	4.15
6	HSBC Custody Nominees (Australia) Limited – A/C 3	164,946,618	3.62
7	Citicorp Nominees Pty Ltd	107,286,096	2.35
8	Kores Australia Pty Ltd	41,381,423	0.91
9	JP Morgan Nominees Australia Limited	30,520,997	0.67
10	Korea East-West Power Co. Ltd	29,881,423	0.66
11	Mr Mark Hamish Lochtenberg+Mrs Fiona Lochtenberg <The Rigi Super Fund A/C>	23,596,722	0.52
12	Oxbow Coal BV Pty Ltd	20,045,454	0.44
13	Kepco Australia Pty Ltd	20,000,000	0.44
14	Permgold Pty Ltd <The Seckold Family S/F A/C>	17,750,001	0.39
15	Rotarn Pty Ltd <Rotard Operating A/C>	17,000,000	0.37
16	De Bortoli Wines (Superannuation) Pty Limited <De Bortoli Wines PL S/F A/C>	14,313,924	0.31
17	Rosignol Pty Ltd <Nightingale Family A/C>	14,295,455	0.31
18	Blackwood Corporation Limited <Dissenters A/C>	13,796,508	0.30
19	Bolitho Mining Company Pty Ltd <BMC Employees S/F A/C>	12,968,646	0.28
20	Dr Andrew Alexander Chang	12,000,000	0.26

COCKATOO COAL LIMITED
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CORPORATE DIRECTORY

Directors:

Peter Richards (Chairman)
Andrew C. Lawson (Managing Director)
Henry Cho
Tim Gazzard
Rod Ruston
K. Scott A. Thompson
Robert A. Yeates
Will Randall (alternate for Tim Gazzard)

Company Secretary:

Lee J. O'Dwyer

Principal Place of Business and Registered Office:

Level 4, 10 Eagle Street
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AUSTRALIA
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Fax: 61-7 3640 4799
Email: info@cockatoocoal.com.au
Web: www.cockatoocoal.com.au

Auditors:

KPMG
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