

QUARTERLY REPORT

June 2015 Quarterly Report

HIGHLIGHTS

- **Aggressive cost reduction program in response to falls in the benchmark PCI price**
- **Completed opening of the new Outrigger pit**
- **Strong productivity and efficiency gains achieved**
- **Construction of the new train load out facility and balloon loop > 75% complete**
- **A company record for 365 days Recordable Injury Free**
- **Baralaba Expansion Prescribed Project declaration granted 2 year extension**

Corporate strategy and operating environment

Global market conditions continued to deteriorate during the Quarter with metallurgical coal under sustained pressure, which has driven benchmark prices significantly below consensus price expectations. This has reinforced both the need and urgency for Cockatoo Coal to push ahead with the strategic review and cost reduction program announced by the Chairman at the Annual General Meeting. Cockatoo Coal responded quickly to external market pressures targeting production cost savings to offset weak benchmark coal prices, conserve cash reserves and minimise losses.

During the Quarter all parts of the business operations have been subject to systematic review to reduce the production cost per tonne and position the company to take advantage of the opportunities that will become available with the planned ramp up in output from 1mtpa to 3.5mtpa by 2017.

Coal prices for metallurgical coal were at 10-year lows during the June 2015 quarter and have further weakened in the current quarter. The benchmark PCI coal price has declined by around 25% since the corporate restructuring commenced and since the equity raising earlier this year. Weak growth in Asian steel production has led to an oversupply in the seaborne metallurgical coal market. In addition, new quality restrictions imposed on certain coal imports into China have impacted seaborne imports. The weakening of the Australian dollar has provided some relief to the low coal prices which are denominated in United States dollars. In general however, the operating environment for Cockatoo remains adverse, with the future direction of coal prices unclear.



Operations

Safety

Cockatoo's strong performance in the areas of Health & Safety continued during the quarter. A company record was achieved during the month of May when Cockatoo Coal marked operations for 365 days Recordable Injury Free.

The company recorded an LTI in June, but our priority continues on developing an extremely safe, but efficient operation. Cockatoo's twelve month rolling TRIFR is 2.47 compared to the 2014 financial year Queensland Open Cut Mines average of 13.3.

Baralaba Mine

Pre-strip and ramp construction completed the opening of the new Outrigger pit (Baralaba North Mine). This resulted in 17:1 strip ratio during the mine start-up. We estimate the strip ratio to average 9:1 for fiscal year 2016. Operations are also on target for 80kt coal for the month of July with more steady state mining ahead now that the Outrigger pit is established. In pit dumping which is also planned to start during the next quarter, should also directly reduce the cost of moving overburden.

Productivity per person has been improved with Liebherr 996 excavator rates achieving best in class for utilisation. This, along with Cat 793 truck efficiencies, has allowed the revised mining plan to be achievable and avoided the added cost of a second hired fleet which unfortunately also led to the retrenchment of some valued employees. The restructured team is committed to maintaining a best practice, lean operation capable of mining at the 1mtpa mining rate and supporting the future production ramp-up to 3.5mtpa.

Key mining initiatives deployed in the last quarter:

- Re-optimised mine plan which allowed Cockatoo to reduce mining equipment requirements, specifically removing the need for the 2nd digger and trucking fleet with associated workforce reductions.
- Re-focused mine plan on the highest quality, ULV PCI coal, which Baralaba can sell to market on a raw crushed basis.
- Fuel and coal haulage optimisation also occurred.
- Targeted cost cutting.

Table 1 – Baralaba Production Statistics

| Total Baralaba Complex | June 2015 Qtr | Previous Qtr |
|-------------------------------------|---------------|--------------|
| ROM coal production (tonnes) | 182,871 | 131,487 |
| Overburden Removed (bcm) | 3,158,198 | 2,679,373 |
| Coal stocks at Quarter end (tonnes) | 271,715 | 164,542 |
| Total coal sales (tonnes) | 75,274 | 139,038 |

Development Update

The Company continued development of Stage 2 works for the Baralaba Expansion project during the quarter. Construction at the new train load out facility and balloon loop was more than 75% complete at the end of the quarter.

A total of \$22.9 million was spent on development during the June 2015 quarter.



Figure 1 – New track laying to join Cockatoo’s new Train Load Out into the existing rail network.



Figure 2 – Train Load Out Development In Progress

Granted extension to Prescribed Project declaration

Cockatoo Coal's Baralaba Expansion Project has been granted an extension to its existing 'prescribed project' declaration, recognising the continued economic and social significance of the project to the local region and Queensland. The prescribed project declaration enables the project benefits from timely decision making for approvals for construction, maintenance and operation. The declaration covers the Baralaba Expansion Project and supporting infrastructure.

The extension of this declaration was made by the Queensland Minister for State Development and Natural Resources and Mines, Dr Anthony Lynham on 28 July 2015 in accordance with part 5A of the Queensland *State Development and Public Works Organisation Act 1971*.

Approvals Update

The approvals timeline for the Baralaba Expansion project remains on target for the scheduled increase in production from 1Mtpa to 3.5Mtpa. The key remaining step ahead of finalising the Environmental Authority (EA) is a single objection currently before the Queensland Land Court. Once satisfactorily completed we anticipate final approval to allow mining to expand to 3.5mtpa.



Corporate

Restructure of Management

Consistent with the operational review, new Chief Executive Officer Peter Kane and General Manager – Baralaba Brian Wyatt conducted a thorough review of executive and corporate head office requirements. This brought significant redundancies and re-assignment of executive roles including the Chief Financial Officer, Chief Operating Officer and Company Secretary. Other executive staff have been reduced as the Company concentrates on the timely and low cost development of the Baralaba Expansion.

Exploration

Cockatoo continued to minimise expenditure on exploration as it focused on the development of its core asset at Baralaba. A total of \$0.25 million was spent on exploration and evaluation activities not relating to Baralaba during the June 2015 quarter.

The Company continued managing the JOGMEC farm-in of the Dingo West project during the quarter which is 100% funded by JOGMEC.

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