



QUARTERLY REPORT

September 2015 Quarterly Report

Salient Points

- **Cost reduction program continuing in response to further declines in benchmark PCI prices. Cumulative cost reductions to date circa \$30 per tonne**
- **Post Quarter end – Record monthly sales of 291,994 tonnes in October**
- **Construction of the new train load out facility and balloon loop > 95% complete**
- **Commenced construction of the Dawson Highway Overpass**

Corporate strategy and operating environment

During the September Quarter Cockatoo Coal has continued its unrelenting drive to lower its cost of coal production with a view to remaining competitive in a global environment which is still facing a slow-down in demand and production of steel. In this market, the most efficient producers will be well placed as global demand recovers.

A revised and re-optimised mine plan has been developed for Baralaba, reducing overburden removed in advance and focusing the next three years of production within more efficient mining areas which allowed a significant deferral of capital expenditure. These savings and the additional revenue from non-core asset sales have materially reduced Cockatoo's expected funding requirements with the forecast cash flows covering deferred expansion costs at Baralaba.

Since April 2015 the systematic review of all operations has reduced controllable costs by circa \$30/t with the LVPCI coal price decline over the same period matching this reduction of \$30/t (including \$20/t for this quarter alone). This resulted in a lower operating cost base, however the sustained low coal price which is forecast throughout 2016, is a concern for the business and further cost reduction will need to occur.

With the lower operating cost achieved through the strategic review, Cockatoo Coal has an expectation that additional savings to average costs per tonne can be generated through improved productivity and scale efficiencies during the planned ramp up in output from 1mtpa to 3.5mtpa by 2017. Near completion of the infrastructure program from funds raised in March 2015, will ensure that the mine is in position to meet its take or pay commitments, pending receipt of the Mining Lease approval that allows the expansion, noting that full take or pay commences in mid-2016.

The weaker Australian dollar has also partially offset lower US dollar denominated coal prices.

Corporate Overheads and Management Restructure

The strategic review conducted by senior management included reductions of virtually all non-operational roles not required for the timely and low cost development of the Baralaba Expansion. This has led to some re-assignment of executive roles and significant redundancies of executive and corporate head office employees.

Operations

Safety

Cockatoo Coal's strong performance in the areas of Health & Safety continued during the Quarter.

The Company recorded MTI's in August and September, however the Company's priority continues on developing an extremely safe, but efficient operation. Cockatoo Coal's twelve month rolling TRIFR is 2.91 compared to the 2014 financial year Queensland Open Cut Mines average of 13.3. One LTI was proactively recorded and is currently being investigated by Workcover.

Baralaba Mine

During the Quarter, approximately 1.2Mbcm of inpit dumping occurred, this allowed the operation to achieve 97% of forecasted coal production even factoring in wet weather delays and periods of unplanned equipment downtime. Operations are also ramping up with the introduction of a second large excavator fleet to enable increasing coal sales targets to be met.

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-focused mine plan on the highest quality, LV PCI coal
- Commencement of productivity and utilisation improvement initiatives
- Fuel and coal haulage contract optimisation
- Continued cost cutting

Table 1 – Baralaba Production Statistics

Total Baralaba Complex	September 2015 Qtr	Previous Qtr
ROM coal production (tonnes)	219,547	182,871
Overburden Removed (bcm)	2,431,028	3,158,198
Coal stocks at Quarter end (tonnes)	378,771	271,715
Total coal sales (tonnes)	112,491	75,274

Subsequent to Quarter end, stockpiles were significantly reduced through record sales of 291,994 tonnes in October.

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. The full hearing in the Queensland Land Court has now been set down to occur on 23 November 2015, with the hearing anticipated to take 1 day. Once satisfactorily completed we anticipate final approval to allow mining to expand to 3.5mtpa.

Development Update

The Company continued development of Stage 2 works for the Baralaba Expansion project during the Quarter. Construction of the new train load out facility is more than 95% complete at the end of the Quarter.

Key components of the TLO and the % complete are given below:

- Civil Works – 99% complete;
- Rail Loop – 98% complete; and
- Mechanical and Electrical Install – 85% complete

Work also commenced during the Quarter on the Dawson Highway re-alignment adjacent to the TLO site.



Figure 1 Train Load Out Development in progress



Figure 2 Train Load out Development in Progress

Exploration

Whilst the company has taken a care and maintenance position with regards to exploration activity, it has continued managing the Dingo West exploration program with JOGMEC. Farm-In 1 finished at the end of July 2015 and the Company immediately commenced with Farm-In 2 in August 2015. The Dingo West project during the Quarter was 100% funded by JOGMEC.



Subsequent Events

ANZ Facility

On 9 October 2015 the Company announced that it had received a notice from Australia and New Zealand Banking Group Limited (ANZ) stating that the ANZ will be terminating the Company's A\$81m bank guarantee facility (LC Facility) on 15 January 2016.

On termination, all amounts under the LC Facility will become repayable. Currently \$10 million of the facility is cash backed and \$37 million is backed by LC's provided by Noble and SKN. Further, under the terms of the notice, the Company must provide ANZ with an update as to arrangements for repayment of the amounts outstanding on 16 November 2015 and 15 December 2015.

The Company is exploring options for the refinancing of the amounts outstanding under the LC Facility and will further update the market with any material developments.

Divestment of EPC882

On 20 October 2015 the Company announced the completion of the sale of the Kingaroy Tenement EPC 882 to Moreton Resources Group (ASX:MRV) for A\$300,000 (including transaction costs).

The sale of this non-core asset aligns with Cockatoo's strategy of focusing on the expansion of its flagship metallurgical coal mine at Baralaba.

For further information, contact Peter Kane on +61 (7) 3640 4700.